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, 2023
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: 000-25426

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 No.)*
11500 North MoPac Expressway Austin, Texas	**78759**
(Address of principal executive offices)	*(Zip code)*

Registrant's telephone number, including area code: (512) 683-0100
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of exchange on which registered
Common Stock, $0.01 par value	NATI	The Nasdaq Stock Market LLC
Preferred Share Purchase Rights	N/A	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 24, 2023
Common Stock, $0.01 par value	132,797,497

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PART I - FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	June 30, 2023	December 31, 2022
Assets	**(unaudited)**	
Cash and cash equivalents	$ 139,243	$ 139,799
Accounts receivable, net	389,926	445,279
Inventories, net	401,626	388,164
Prepaid expenses and other current assets	123,949	115,677
Total current assets	1,054,744	1,088,919
Property and equipment, net	283,907	265,380
Goodwill	638,459	615,734
Intangible assets, net	192,904	200,850
Operating lease right-of-use assets	68,062	59,176
Other long-term assets	124,918	128,479
Total assets	$ 2,362,994	$ 2,358,538
Liabilities and stockholders' equity		
Accounts payable	$ 60,514	$ 54,639
Accrued compensation	49,575	71,422
Deferred revenue - current	158,247	137,208
Operating lease liabilities - current	16,608	13,834
Other taxes payable	55,622	67,615
Debt, current	25,000	25,000
Accrued expenses and other current liabilities	58,833	153,157
Total current liabilities	424,399	522,875
Deferred income taxes	5,983	1,676
Income tax payable - non-current	22,581	40,646
Deferred revenue - non-current	60,094	63,066
Operating lease liabilities - non-current	36,486	30,588
Debt, non-current	564,373	516,637
Other long-term liabilities	31,558	26,926
Total liabilities	1,145,474	1,202,414
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; 132,797,497 shares and 131,004,965 shares issued and outstanding, respectively	1,328	1,310
Additional paid-in capital	1,251,971	1,207,420
Retained deficit	(11,295)	(14,741)
Accumulated other comprehensive loss	(24,484)	(37,865)
Total stockholders’ equity	1,217,520	1,156,124
Total liabilities and stockholders’ equity	$ 2,362,994	$ 2,358,538

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net sales:				
Product	$ 379,436	$ 354,805	$ 779,835	$ 698,489
Software maintenance	37,368	40,710	73,794	82,281
Total net sales	416,804	395,515	853,629	780,770
Cost of sales:				
Product	113,625	123,307	241,181	238,332
Software maintenance	4,862	4,167	10,012	8,370
Total cost of sales	118,487	127,474	251,193	246,702
Gross profit	298,317	268,041	602,436	534,068
Operating expenses:				
Sales and marketing	123,101	124,908	240,443	245,064
Research and development	83,801	85,589	170,438	167,750
General and administrative	50,504	36,772	93,719	69,949
Total operating expenses	257,406	247,269	504,600	482,763
Operating income	40,911	20,772	97,836	51,305
Other expense	(8,500)	(3,505)	(11,519)	(3,473)
Income before income taxes	32,411	17,267	86,317	47,832
Provision for income taxes	1,919	4,833	8,896	10,162
Net income	$ 30,492	$ 12,434	$ 77,421	$ 37,670
Basic earnings per share	$ 0.23	$ 0.09	$ 0.59	$ 0.29
Weighted average shares outstanding - basic	132,369	131,973	131,850	132,039
Diluted earnings per share	$ 0.23	$ 0.09	$ 0.58	$ 0.28
Weighted average shares outstanding - diluted	134,171	132,708	133,693	132,948
Dividends declared per share	$ 0.28	$ 0.28	$ 0.56	$ 0.56

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

NATIONAL INSTRUMENTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	$ 30,492	$ 12,434	$ 77,421	$ 37,670
Other comprehensive income (loss), before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	1,227	(9,640)	6,116	8,027
Unrealized gain on derivative instruments	10,843	6,161	9,167	(13,446)
Other comprehensive income (loss), before tax	12,070	(3,479)	15,283	(5,419)
Tax expense related to items of other comprehensive income	2,286	1,507	1,902	1,930
Other comprehensive income (loss), net of tax	9,784	(4,986)	13,381	(7,349)
Comprehensive income	$ 40,276	$ 7,448	$ 90,802	$ 30,321

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

NATIONAL INSTRUMENTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2023	2022
Cash flow from operating activities:		
Net income	$ 77,421	$ 37,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,541	45,742
Stock-based compensation	30,388	40,804
Gain from equity-method investees	(5,597)	(131)
Deferred income taxes	2,488	943
Changes in operating assets and liabilities	(75,368)	(169,930)
Net cash provided by (used in) operating activities	74,873	(44,902)
Cash flow from investing activities:		
Acquisitions, net of cash received	(23,024)	(72,802)
Capital expenditures	(35,477)	(24,509)
Capitalization of internally developed software	(925)	(187)
Additions to other intangibles	(3,811)	(2,478)
Net cash used in investing activities	(63,237)	(99,976)
Cash flow from financing activities:		
Proceeds from revolving line of credit	120,000	175,000
Payments on revolving line of credit	(60,000)	—
Payments on term loan	(12,500)	—
Proceeds from issuance of common stock	17,377	17,859
Repurchase of common stock	—	(70,000)
Dividends paid	(73,975)	(74,034)
Payments for taxes related to net share settlement of equity awards	(3,076)	—
Net cash (used in) provided by financing activities	(12,174)	48,825
Effect of exchange rate changes on cash	(18)	(4,180)
Net change in cash and cash equivalents	(556)	(100,233)
Cash and cash equivalents at beginning of period	139,799	211,106
Cash and cash equivalents at end of period	$ 139,243	$ 110,873

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

NATIONAL INSTRUMENTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data and per share data)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at March 31, 2023	131,498,380	$ 1,315	$ 1,231,894	$ (4,627)	$ (34,268)	$ 1,194,314
Net income	—	—	—	30,492	—	30,492
Other comprehensive gain, net of tax	—	—	—	—	9,784	9,784
Issuance of common stock under employee plans	1,351,884	14	8,407	—	—	8,421
Payments for taxes related to net share settlement of equity awards	(52,767)	(1)	(3,075)	—	—	(3,076)
Stock-based compensation	—	—	14,745	—	—	14,745
Dividends paid (1)	—	—	—	(37,160)	—	(37,160)
Balance at June 30, 2023	132,797,497	1,328	1,251,971	(11,295)	(24,484)	1,217,520

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2022	131,004,965	1,310	1,207,420	(14,741)	(37,865)	1,156,124
Net income	—	—	—	77,421	—	77,421
Other comprehensive gain, net of tax	—	—	—	—	13,381	13,381
Issuance of common stock under employee plans	1,845,299	19	17,358	—	—	17,377
Payments for taxes related to net share settlement of equity awards	(52,767)	(1)	(3,075)	—	—	(3,076)
Stock-based compensation	—	—	30,268	—	—	30,268
Dividends paid (1)	—	—	—	(73,975)	—	(73,975)
Balance at June 30, 2023	132,797,497	$ 1,328	$ 1,251,971	$ (11,295)	$ (24,484)	$ 1,217,520

(1) Cash dividends declared per share of common stock were $0.28 for the three months ended June 30, 2023, and $0.56 for the six months ended June 30, 2023.

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

	June 30, 2022 (Unaudited)					
	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at March 31, 2022	131,876,464	$ 1,319	$ 1,152,349	$ 76,264	$ (22,494)	$ 1,207,438
Net income	—	—	—	12,434	—	12,434
Other comprehensive loss, net of tax	—	—	—	—	(4,986)	(4,986)
Issuance of common stock under employee plans	1,426,756	14	8,601	—	—	8,615
Stock-based compensation	—	—	20,609	—	—	20,609
Repurchase of common stock	(986,876)	(10)	(8,428)	(30,107)	—	(38,545)
Dividends paid (1)	—	—	—	(37,058)	—	(37,058)
Balance at June 30, 2022	132,316,344	1,323	1,173,131	21,533	(27,480)	1,168,507

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2021	132,293,898	1,323	1,129,647	112,858	(20,131)	1,223,697
Net income	—	—	—	37,670	—	37,670
Other comprehensive loss, net of tax	—	—	—	—	(7,349)	(7,349)
Issuance of common stock under employee plans	1,781,374	18	17,841	—	—	17,859
Stock-based compensation	—	—	40,664	—	—	40,664
Repurchase of common stock	(1,758,928)	(18)	(15,021)	(54,961)	—	(70,000)
Dividends paid (1)	—	—	—	(74,034)	—	(74,034)
Balance at June 30, 2022	132,316,344	$ 1,323	$ 1,173,131	$ 21,533	$ (27,480)	$ 1,168,507

(1) Cash dividends declared per share of common stock were $0.28 for the three months ended June 30, 2022, and $0.56 for the six months ended June 30, 2022.

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

Note 1 – Basis of presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2022, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 21, 2023 (the "Form 10-K"). In our opinion, the accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to state fairly our financial position at June 30, 2023 and December 31, 2022, the results of our operations and comprehensive income for the three and six months ended June 30, 2023 and 2022, our cash flows for the six months ended June 30, 2023 and 2022 and our statement of stockholders' equity for the three and six months ended June 30, 2023 and 2022. Our operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Summary of Significant Accounting Policies

There were no material changes to our significant accounting policies during the three and six months ended June 30, 2023 compared to the significant accounting policies described in our 2022 Form 10-K.

Other (Expense) Income

Other (expense) income, net consisted of the following amounts:

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2023	**2022**	**2023**	**2022**
Interest income	$ 426	$ 58	$ 751	$ 104
Interest expense	(9,741)	(2,500)	(18,088)	(3,792)
Gain (loss) from equity-method investments	819	(471)	5,597	131
Net foreign exchange gain (loss)	721	(769)	420	(1,935)
Other	(725)	177	(199)	2,019
Other expense, net	$ (8,500)	$ (3,505)	$ (11,519)	$ (3,473)

Accrued Expenses and Other Current Liabilities
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Accrued expenses and other current liabilities on our condensed consolidated balance sheet includes the following amounts (in thousands):

	As of June 30, 2023 (unaudited)	**As of December 31, 2022**
Income taxes payable - current	$ —	$ 87,186
Hedge payable - current	6,242	18,117
Accrued liabilities	31,779	26,851
Other	20,812	21,003
Total	$ 58,833	$ 153,157

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 includes time-based restricted stock units ("RSUs") and performance-based restricted stock units ("PRSUs"), 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 months ended June 30, 2023 and 2022 are as follows (in thousands):

	Three Months Ended June 30, (Unaudited)		**Six Months Ended June 30, (Unaudited)**	
	2023	**2022**	**2023**	**2022**
Weighted average shares outstanding-basic	132,369	131,973	131,850	132,039
Plus: Common share equivalents				
RSUs & PRSUs	1,802	735	1,843	909
Weighted average shares outstanding-diluted	134,171	132,708	133,693	132,948

Shares issuable upon vesting of RSU awards of 70,300 shares and 2,026,000 shares for the three months ended June 30, 2023 and 2022, respectively, and 68,600 shares and 1,324,000 shares for the six months ended June 30, 2023 and 2022, respectively, were excluded in the computations of diluted EPS because the effect of including the shares issuable upon vesting of RSU awards would have been anti-dilutive.

Note 2 - Revenue

Revenue Recognition

Revenue is recognized upon transfer of control of the promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of our products or services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Disaggregation of Revenues

We disaggregate revenue from contracts with customers based on the timing of transfer of goods or services to customers (point-in-time or over time), geographic region based primarily on the billing location of the customer and customer industry grouping.

Total net sales based on the timing of transfer of goods or services to customers and geographic region are as follows:

	Three Months Ended June 30, (Unaudited)					
	2023			2022		
(In thousands) **Net sales:**	**Point-in-Time[(1)]**	**Over Time**	**Total**	**Point-in-Time[(1)]**	**Over Time**	**Total**
Americas	$ 160,298	$ 27,210	$ 187,508	$ 134,337	$ 26,080	$ 160,417
EMEA	93,221	18,731	111,952	76,092	20,591	96,683
APAC	105,833	11,511	117,344	127,858	10,557	138,415
Total net sales[(1)]	$ 359,352	$ 57,452	$ 416,804	$ 338,287	$ 57,228	$ 395,515

(1) Net sales contains hedging gains and losses, which do not represent revenues recognized from customers.
Refer to Note 5 - Derivative instruments and hedging activities of Notes to Condensed Consolidated Financial Statements for more information on the impact of our hedging activities on our results of operations.

	Six Months Ended June 30, (Unaudited)					
	2023			2022		
(In thousands) **Net sales:**	**Point-in-Time[(1)]**	**Over Time**	**Total**	**Point-in-Time[(1)]**	**Over Time**	**Total**
Americas	$ 312,640	$ 52,854	$ 365,494	$ 267,326	$ 52,302	$ 319,628
EMEA	187,918	36,215	224,133	155,331	41,720	197,051
APAC	241,481	22,521	264,002	242,853	21,238	264,091
Total net sales[(1)]	$ 742,039	$ 111,590	$ 853,629	$ 665,510	$ 115,260	$ 780,770

(1) Net sales contains hedging gains and losses, which do not represent revenues recognized from customers.
Refer to Note 5 - Derivative instruments and hedging activities of Notes to Condensed Consolidated Financial Statements for more information on the impact of our hedging activities on our results of operations.

The industry grouping used to disaggregate net sales is determined at the customer account level. Accounts assigned to one of our three industry-specific groupings are either designated as Semiconductor and Electronics, Transportation, or Aerospace, Defense and Government ("ADG"). We are able to leverage the investments in these areas to also serve a broad base of diverse customers in the other industries we serve, which are included in our Portfolio grouping. We periodically review and update the groupings of customers assigned to a particular industry grouping to ensure that our revenue disaggregation aligns with the way we currently manage our business. As part of this process, we reclassified certain customer accounts between industry groups during the first quarter of 2023. The prior period presented below has been recast to conform to the current period presentation.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	(Unaudited)			
Industry Grouping	**2023**	**2022**	**2023**	**2022**
Portfolio	$ 134,706	$ 116,216	$ 270,615	$ 240,919
Semiconductor & Electronics	91,584	116,370	205,341	220,395
Aerospace, Defense & Government	111,895	99,521	225,010	194,024
Transportation	78,619	63,408	152,663	125,432
Total net sales	$ 416,804	$ 395,515	$ 853,629	$ 780,770

Information about Contract Balances

Amounts billed in advance of services being provided are accounted for as deferred revenue. Nearly all of our deferred revenue balance is related to extended hardware and software maintenance contracts. Payment terms and conditions vary by contract type, although payment is typically due within 30 to 90 days of contract inception. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing.

Changes in deferred revenue, current and non-current, during the six months ended June 30, 2023 were as follows:

(In thousands)		Amount
Balance as of December 31, 2022	$	200,274
Deferral of revenue billed in current period, net of recognition		88,220
Recognition of revenue deferred in prior periods		(72,909)
Acquisitions/Divestitures		2,414
Foreign currency translation impact		342
Balance as of June 30, 2023 (unaudited)	$	218,341

For the six months ended June 30, 2023, revenue recognized from performance obligations satisfied in prior periods (for example, due to changes in transaction price) was not material. Amounts recognized as revenue in excess of amounts billed are recorded as unbilled receivables. Unbilled receivables which are anticipated to be invoiced in the next twelve months are included in "Other current assets" on the condensed consolidated balance sheet. Based on the nature of our contracts with customers, we do not typically recognize unbilled receivables related to revenues recognized in excess of amounts billed. For the six months ended June 30, 2023 and December 31, 2022, the amounts recorded that were related to unbilled receivables were not material.

Unsatisfied Performance Obligations

Revenue expected to be recognized in any future period related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less and contracts where revenue is recognized as invoiced, was approximately $111 million as of June 30, 2023. Because we typically invoice customers at contract inception, this amount is included in our current and non-current deferred revenue balances and primarily relates to multi-year payments for hardware service and software service offerings. As of June 30, 2023, we expect to recognize approximately 25% of the revenue related to these unsatisfied performance obligations during the remainder of 2023, 43% during 2024, and 32% thereafter.

Assets Recognized from the Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive programs meet the requirements to be capitalized. Capitalized incremental costs related to initial contracts and renewals are amortized over the same period because the commissions paid on both the initial contract and renewals are commensurate with one another. Total capitalized costs to obtain a contract were not material during the periods presented and are included in other long-term assets on our condensed consolidated balance sheets.

Note 3 – Investments

Equity-Method Investments

The carrying value of our equity method investments was $29 million and $29 million as of June 30, 2023 and December 31, 2022, respectively. During the three months ended June 30, 2023 and 2022, net sales to our equity-method investees were approximately $0.3 million and $1.3 million, respectively. During the six months ended June 30, 2023 and 2022, net sales to our equity-method investees were approximately $0.8 million and $2.8 million, respectively. During the three and six months ended June 30, 2023 and 2022, purchases from our equity-method investees were not material.

Our proportionate share of the income/(loss) from equity-method investments is included within "Other expense." Refer to Note 17 - Acquisitions of Notes to Condensed Consolidated Financial Statements for additional discussion on a step acquisition of one of our existing equity-method investments, SET GmbH ("SET"), during the first quarter of 2023.

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)**			
Description	**June 30, 2023**	Level 1	Level 2	Level 3
Assets				
Derivatives (interest rate swaps)	4,467	—	4,467	—
Derivatives (foreign exchange contracts)	13,410	—	13,410	—
Total Assets	$ 17,877	$ —	$ 17,877	$ —
Liabilities				
Derivatives (foreign exchange contracts)	$ (6,267)	$ —	$ (6,267)	$ —
Total Liabilities	$ (6,267)	$ —	$ (6,267)	$ —

(In thousands)	Fair Value Measurements at Reporting Date Using			
Description	December 31, 2022	Level 1	Level 2	Level 3
Assets				
Derivatives (interest rate swaps)	2,299		2,299	
Derivatives (foreign exchange contracts)	10,025	—	10,025	—
Total Assets	$ 12,324	$ —	$ 12,324	$ —
Liabilities				
Derivatives (interest rate swaps)	$ (1,013)	$ —	$ (1,013)	$ —
Derivatives (foreign exchange contracts)	$ (18,313)	$ —	$ (18,313)	$ —
Total Liabilities	$ (19,326)	$ —	$ (19,326)	$ —

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.

Derivatives include foreign currency forward and interest rate swap contracts. Our derivatives are valued using an income approach (Level 2) based on the spot rate less the contract rate multiplied by the notional amount. 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 six months ended June 30, 2023. There were no transfers in or out of Level 1 or Level 2 during the six months ended June 30, 2023.

Non-financial assets such as equity-method investments, goodwill, intangible assets, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized. The amounts related to all assets and liabilities required to be measured at fair value on a nonrecurring basis were not material at June 30, 2023 and December 31, 2022.

We did not have any items that were measured at fair value on a nonrecurring basis at June 30, 2023 and December 31, 2022. The carrying value of net accounts receivable, accounts payable, and long-term debt contained in the condensed 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 direct operations in approximately 40 countries. Sales outside of the Americas accounted for approximately 55% and 59% of our net sales during the three months ended June 30, 2023 and 2022, respectively, and approximately 57% and 59% during the six months ended June 30, 2023 and 2022, 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.

The vast majority of our foreign sales are denominated in the customers' local currency. Movements in foreign currency exchange rates pose a risk to our operations and competitive position, in that exchange rate changes may affect our profitability and cash flow, and the business or pricing strategies of our non-U.S. based competitors. We use foreign currency forward contracts as hedges of forecasted sales and expenses that are denominated in foreign currencies and as hedges of foreign currency denominated financial assets or liabilities. These contracts are entered into to help protect against the risk that the eventual dollar-net-cash inflows or outflows resulting from these transactions will be adversely affected by changes in exchange rates. We designate foreign currency forward contracts as cash flow hedges of forecasted net sales 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 minimize the financial impact of fluctuations 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 net sales and forecasted expenses denominated in foreign currencies with forward contracts. For forward contracts, when the value of the dollar changes 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. We use foreign currency forward contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, Hungarian forint, British pound, Malaysian ringgit, Korean won and Chinese yuan) and limit the duration of these contracts to 40 months or less.

For foreign currency derivative instruments that are designated and qualify as a cash flow hedge, 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. Cash flows from derivative instruments are classified in the statement of cash flows in the same category as the cash flows from the hedged or economically hedged item, primarily in operating activities. Hedge effectiveness of foreign currency forwards designated as cash flow hedges is 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 designated as cash flow hedges with the following notional amounts:

(In thousands)	US Dollar Equivalent	
	As of June 30, 2023 (Unaudited)	**As of December 31, 2022**
British pound	$ 16,688	$ 13,929
Chinese yuan	94,463	73,419
Euro	130,162	109,091
Hungarian forint	8,813	19,529
Japanese yen	28,647	21,285
Korean won	20,298	14,048
Malaysian ringgit	2,941	8,856
Total forward contracts notional amount	$ 302,012	$ 260,157

The contracts in the foregoing table had contractual maturities of 18 months or less at June 30, 2023 and 12 months or less at December 31, 2022.

At June 30, 2023, we expected to reclassify $5.0 million of gains on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, $0.6 million of losses on derivative instruments from accumulated OCI to cost of sales during the next twelve months when the hedged cost of sales are incurred and $0.5 million of losses on derivative instruments from accumulated OCI to operating expenses during the next twelve months when the hedged operating expenses occur. Expected amounts are based on derivative valuations at June 30, 2023. Actual results may vary materially as a result of changes in the corresponding exchange rates subsequent to this date.

In 2022, we entered into interest rate swap agreements with an aggregate notional value of $300 million and a term of three years. The economic effect of the swap agreements is to mitigate the uncertainty of the cash flows associated with floating-rate interest payments due under our term loan and revolving credit facility (“Credit Facility") by fixing the underlying annual interest rate for a portion of our outstanding debt under the Credit Facility at 3.9%, plus a margin. We have designated these interest rate swap agreements as qualifying hedging instruments and are accounting for these as cash flow hedges pursuant to ASC 815, Derivatives and Hedging.

The fair values of these interest rate swap agreements are included in prepaid expenses and other current assets and other long-term liabilities in our condensed consolidated balance sheets at June 30, 2023 and December 31, 2022. Changes in the fair values of these interest rate swap agreements are reported in accumulated other comprehensive loss in our condensed consolidated balance sheets and an amount is reclassified out of accumulated other comprehensive loss into Other (expense) income in the same period that the corresponding interest expense is recognized.

We do not use any interest rate swap agreements for trading purposes.

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of foreign currency forward contracts that we use to hedge our foreign denominated monetary assets and liabilities to help protect against the change in value caused by a fluctuation in foreign currency exchange rates. We typically attempt to hedge up to 90% of our outstanding foreign denominated net receivables or net payables and typically limit the duration of these foreign currency forward contracts to approximately 90 days or less. The gain or loss on the derivatives as well as the offsetting gain or loss on the hedge item attributable to the hedged risk is recognized in current earnings under the line item “Other expense.” As of June 30, 2023 and December 31, 2022, we held foreign currency forward contracts that were not designated as hedging instruments with a notional amount of $341 million and $282 million, respectively.

The following tables present the fair value of derivative instruments on our Condensed Consolidated Balance Sheets at June 30, 2023 and December 31, 2022, respectively.

	Asset Derivatives		
(In thousands)		**June 30, 2023 (Unaudited)**	**December 31, 2022**
	Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments			
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$ 8,074	$ 8,968
Interest rate contracts - ST forwards	Prepaid expenses and other current assets	3,411	2,299
Interest rate contracts - LT forwards	Other long-term assets	1,056	—
Foreign exchange contracts - LT forwards	Other long-term assets	893	—
Total derivatives designated as hedging instruments		$ 13,434	$ 11,267
Derivatives not designated as hedging instruments			
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$ 4,443	$ 1,057
Total derivatives not designated as hedging instruments		$ 4,443	$ 1,057
Total derivatives		$ 17,877	$ 12,324

	Liability Derivatives		
(In thousands)		**June 30, 2023 (Unaudited)**	**December 31, 2022**
	Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments			
Foreign exchange contracts - ST forwards	Accrued expenses and other current liabilities	$ (4,202)	$ (9,940)
Foreign exchange contracts - LT forwards	Other long-term liabilities	(25)	(196)
Interest rate contracts - LT forwards	Other long-term liabilities	—	(1,013)
Total derivatives designated as hedging instruments		$ (4,227)	$ (11,149)
Derivatives not designated as hedging instruments			
Foreign exchange contracts - ST forwards	Accrued expenses and other current liabilities	$ (2,040)	$ (8,177)
Total derivatives not designated as hedging instruments		$ (2,040)	$ (8,177)
Total derivatives		$ (6,267)	$ (19,326)

The following tables present the effect of derivative instruments on our Condensed Consolidated Statements of Income for the three months ended June 30, 2023 and 2022, respectively:

June 30, 2023
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Gain or (Loss) Reclassified from Accumulated OCI into Income
Foreign exchange contracts - forwards	$ 4,682	Net sales	$ 3,646
Foreign exchange contracts - forwards	557	Cost of sales	(412)
Foreign exchange contracts - forwards	458	Operating expenses	(302)
Interest rate swap contracts - forwards	5,146	Other (expense) income	802
Total	$ 10,843		$ 3,734

June 30, 2022
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Gain or (Loss) Reclassified from Accumulated OCI into Income
Foreign exchange contracts - forwards	$ 10,252	Net sales	$ 5,055
Foreign exchange contracts - forwards	(2,446)	Cost of sales	(860)
Foreign exchange contracts - forwards	(1,645)	Operating expenses	(691)
Total	$ 6,161		$ 3,504

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
		June 30, 2023 (Unaudited)	**June 30, 2022 (Unaudited)**
Foreign exchange contracts - forwards	Other (expense) income	$ 4,176	3,590
Total		$ 4,176	$ 3,590

The following tables present the effect of derivative instruments on our Condensed Consolidated Statements of Income for the six months ended June 30, 2023 and 2022, respectively:

June 30, 2023
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Gain or (Loss) Reclassified from Accumulated OCI into Income
Foreign exchange contracts - forwards	$ 2,953	Net sales	$ 5,890
Foreign exchange contracts - forwards	1,700	Cost of sales	(972)
Foreign exchange contracts - forwards	1,334	Operating expenses	(630)
Interest rate swap contracts - forwards	3,180	Other (expense) income	1,329
Total	$ 9,167		$ 5,617

June 30, 2022
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Gain or (Loss) Reclassified from Accumulated OCI into Income
Foreign exchange contracts - forwards	$ 12,136	Net sales	$ 6,794
Foreign exchange contracts - forwards	(2,467)	Cost of sales	(1,187)
Foreign exchange contracts - forwards	(1,642)	Operating expenses	(931)
Total	$ 8,027		$ 4,676

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
		June 30, 2023 (Unaudited)	**June 30, 2022 (Unaudited)**
Foreign exchange contracts - forwards	Other (expense) income	$ 3,319	$ 2,787
Total		$ 3,319	$ 2,787

Note 6 – Inventories, net

Inventories, net consist of the following:

(In thousands)	June 30, 2023 (Unaudited)	December 31, 2022
Raw materials	$ 278,308	$ 273,311
Work-in-process	10,670	14,968
Finished goods	137,661	119,302
Total	$ 426,639	$ 407,581
Less: Inventory reserve	$ (25,013)	$ (19,417)
Total	$ 401,626	$ 388,164

Note 7 – Intangible assets, net and goodwill

Intangible assets at June 30, 2023 and December 31, 2022 are as follows:

(In thousands)	June 30, 2023 (Unaudited)			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	$ 11,399	$ (8,477)	$ 2,922	$ 18,810	$ (15,321)	$ 3,489
Acquired technology	179,519	(68,372)	111,147	167,686	(54,351)	113,335
Customer relationships	92,778	(32,904)	59,874	98,827	(33,514)	65,313
Patents	37,627	(32,080)	5,547	37,240	(31,368)	5,872
Other	25,556	(12,142)	13,414	34,078	(21,237)	12,841
Total	$ 346,879	$ (153,975)	$ 192,904	$ 356,641	$ (155,791)	$ 200,850

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, which generally range from three to six years. Acquired technology, customer relationships and other intangible assets are amortized over their useful lives, which generally range from five to ten years. Patents are amortized using the straight-line method over their estimated period of benefit, which generally range from ten to seventeen years. Total intangible assets amortization expenses were $13.7 million and $14.8 million for the three months ended June 30, 2023 and 2022, respectively, and $26.4 million and $27.2 million for the six months ended June 30, 2023 and 2022, respectively.

Goodwill

The carrying amount of goodwill as of June 30, 2023 was as follows:

(In thousands)	Amount
Balance as of December 31, 2022	$ 615,734
Acquisitions	18,651
Foreign currency translation impact	4,074
Balance as of June 30, 2023 (unaudited)	$ 638,459

Refer to Note 17 - Acquisitions of Notes to Condensed Consolidated Financial Statements for additional details on the acquisition-related amounts recorded to goodwill during the six months ended June 30, 2023.

The excess purchase price over the fair value of assets acquired is recorded as goodwill. As businesses are acquired, we assign assets acquired (including goodwill) and liabilities assumed to either our existing reporting unit or a newly identified reporting unit as of the date of the acquisition. In the event a disposal group meets the definition of a business, goodwill is allocated to the disposal group based on the relative fair value of the disposal group to the related reporting unit. As we have one operating segment comprised of components with similar economic characteristics, we allocate goodwill to one reporting unit for goodwill impairment testing. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. Our annual impairment test is performed in the fourth quarter of each year.

No impairment of goodwill was identified during the six months ended June 30, 2023 or the twelve months ended December 31, 2022.

Note 8 – Leases

We have operating leases for corporate offices, automobiles, and certain equipment. Our leases have remaining terms of 1 year to 91 years, some of which may include options to extend the leases for up to 9 years, and some of which may include options to terminate the leases within 1 year. Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

Amounts related to finance lease activities and income from leasing activities were not material for the periods presented.

The components of operating lease expense were as follows (unaudited):

	Three Months Ended		Six Months Ended	
(In thousands)	**June 30, 2023**	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Operating Lease Cost (1)	$ 7,355	$ 5,478	$ 13,669	$ 10,895

(1) Includes variable and short-term lease costs

Maturities of lease liabilities as of June 30, 2023 were as follows (unaudited):

(In thousands)	
Years ending December 31,	**Operating Leases**
2023 (Excluding the six months ended June 30, 2023)	$ 10,045
2024	15,704
2025	11,889
2026	9,808
2027	5,214
Thereafter	7,958
Total future minimum lease payments	60,618
Less imputed interest	(7,524)
Total lease liabilities	$ 53,094

As of June 30, 2023, we have additional operating leases that have not commenced, which were not material.

Note 9 – Income taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. We had a valuation allowance of $75 million and $74 million at June 30, 2023 and December 31, 2022, respectively. A majority of the valuation allowance is related to the deferred tax assets of National Instruments Hungary Kft.

We account for uncertainty in income taxes recognized in our financial statements using prescribed recognition thresholds and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on our tax returns. We had $18.3 million and $12.6 million of gross unrecognized tax benefits at June 30, 2023 and December 31, 2022, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of $2.3 million for the three months ended June 30, 2023, as a result of the tax positions taken during the current period. As of June 30, 2023, it is reasonably possible that we will recognize gross tax benefits in the amount of $0.8 million in the next twelve months due to the closing of open tax years. The nature of the uncertainty is related to deductions taken on returns that have not been examined by the applicable tax authority. Our continuing policy is to recognize interest and penalties related to income tax matters in income tax expense. During the three months ended June 30, 2023, we recognized interest expense related to uncertain tax positions of approximately $0.1 million. As of June 30, 2023, we had approximately $0.4 million accrued for interest related to uncertain tax positions. The tax years 2016 through 2023 remain open to examination by the major taxing jurisdictions to which we are subject.

Our provision for income taxes reflected an effective tax rate of 6% and 28% for the three months ended June 30, 2023 and 2022, respectively, and 10% and 21% for the six months ended June 30, 2023 and 2022, respectively. For the three and six months ended June 30, 2023, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of excess tax benefit from share-based compensation and foreign taxes less than the statutory rate, offset by the change in unrecognized tax benefits. For the three months ended June 30, 2022, our effective tax rate was higher than the U.S. federal statutory rate of 21% primarily as a result of excess tax expense from share-based compensation, offset by the deduction for foreign-derived intangible income. For the six months ended June 30, 2022, our effective tax rate was equal to the U.S. federal statutory rate of 21% primarily as a result of excess tax expense from share-based compensation, offset by the deduction for foreign-derived intangible income.

Our earnings from our operations in Hungary are subject to a statutory tax rate of 9%. In addition, our research and development activities in Hungary benefit from a tax law in Hungary that provides for an enhanced deduction for qualified research and development expenses. The tax position of our Hungarian operations resulted in income tax benefits of $4.3 million and $10.4 million for the three and six months ended June 30, 2023, respectively, and income tax benefits of $0.9 million and $2.9 million for the three and six months ended June 30, 2022, respectively.

Earnings from our operations in Malaysia are free of tax under a tax holiday effective January 1, 2013. This tax holiday expires in 2037. If we fail to satisfy the conditions of the tax holiday, this tax benefit may be terminated early. The income tax benefits of the tax holiday for the three and six months ended June 30, 2023 were approximately $1.9 million and $3.2 million, respectively. The income tax benefits of the tax holiday for the three and six months ended June 30, 2022 were approximately $0.5 million and $1.1 million, respectively. The impact of the tax holiday on a per share basis for the three and six months ended June 30, 2023 was approximately $0.01 per share and $0.02 per share, respectively. The impact of the tax holiday on a per share basis for each of the three and six months ended June 30, 2022, was approximately $0.01 per share.

No other taxing jurisdictions had a significant impact on our effective tax rate. We have not entered into any advanced pricing or other agreements with the Internal Revenue Service ("IRS") with regard to any foreign jurisdictions.

Note 10 – Comprehensive income

Our OCI is comprised of net income, foreign currency translation adjustments, and unrealized gains and losses on forward contracts. The accumulated OCI, net of tax, for the six months ended June 30, 2023 and 2022, consisted of the following:

	June 30, 2023 (Unaudited)		
(In thousands)	Currency translation adjustment	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2022	$ (38,250)	385	$ (37,865)
Current-period other comprehensive income	6,116	14,784	20,900
Reclassified from accumulated OCI into income	—	(5,617)	(5,617)
Income tax expense	—	(1,902)	(1,902)
Balance as of June 30, 2023	$ (32,134)	$ 7,650	$ (24,484)

	June 30, 2022 (Unaudited)		
(In thousands)	Currency translation adjustment	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2021	$ (23,179)	3,048	$ (20,131)
Current-period other comprehensive (loss) income	(13,446)	12,703	(743)
Reclassified from accumulated OCI into income	—	(4,676)	(4,676)
Income tax expense	—	(1,930)	(1,930)
Balance as of June 30, 2022	$ (36,625)	$ 9,145	$ (27,480)

Note 11 – Authorized shares of common and preferred stock and stock-based compensation plans

Authorized shares of common and preferred stock

The total number of shares which we are authorized to issue is 365,000,000 shares, consisting of (i) 5,000,000 shares of preferred stock, par value $0.01 per share, and (ii) 360,000,000 shares of common stock, par value $0.01 per share.

Stock-Based Compensation Plan

Our stockholders approved our 2010 Incentive Plan (the “2010 Plan”) on May 11, 2010. At the time of approval, 3,000,000 shares of our common stock were reserved for issuance under the 2010 Plan, as well as the 3,362,304 shares of common stock that were reserved but not issued under our 1994 Incentive Stock Options Plan (the "1994 Plan") and the 2005 Incentive Plan (the "2005 Plan") as of May 11, 2010, and any shares that are returned to the 1994 Plan and the 2005 Plan as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under those plans. The 2010 Plan provided for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards vest over a three, five or ten-year period, beginning on the date of grant. Vesting of ten-year awards may accelerate based on our previous year’s earnings and growth but ten-year awards cannot accelerate to vest over a period of less than five years. The 2010 Plan terminated on May 12, 2015, except with respect to the outstanding awards previously granted thereunder. There were 2,518,416 shares of common stock that were reserved but not issued under the 2010 Plan as of May 12, 2015.

Our stockholders approved our 2015 Equity Incentive Plan (the "2015 Plan") on May 12, 2015. At the time of approval, 3,000,000 shares of our common stock were reserved for issuance under the 2015 Plan, as well as the 2,518,416 shares of common stock that were reserved but not issued under the 2010 Plan as of May 12, 2015, and any shares that were returned to the 1994 Plan, 2005 Plan, and 2010 Plan as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under those plans. The 2015 Plan provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company and such awards may be subject to performance-based vesting conditions. Awards generally vest over a three, four, five or ten-year period, beginning on the date of grant. Vesting of ten-year awards may accelerate based on our previous year's earnings and growth but ten-year awards cannot accelerate to vest over a period of less than five years. The 2015 Plan terminated on May 5, 2020, except with respect to the outstanding awards previously granted thereunder. There were 567,142 shares of common stock that were reserved but not issued under the 2015 Plan as of May 5, 2020.

Our stockholders approved our 2020 Equity Incentive Plan (the "2020 Plan") on May 5, 2020. At the time of approval, 4,500,000 shares of our common stock were reserved for issuance under the 2020 Plan, as well as the 567,142 shares of common stock that were reserved but not issued under the 2015 Plan as of May 5, 2020, and any shares that were returned to the 2005 Plan, 2010 Plan, and 2015 Plan as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under those plans. The 2020 Plan provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards generally vest over a one, two, three or four-year period, beginning on the date of the grant and awards may be subject to performance-based vesting conditions. There were 1,568,571 shares of common stock that were reserved but not issued under the 2020 Plan as of May 10, 2022.

Our stockholders approved our 2022 Equity Incentive Plan (the "2022 Plan") on May 10, 2022. At the time of approval, 4,500,000 shares of our common stock were reserved for issuance under the 2022 Plan, as well as the 1,568,571 shares of common stock that were reserved but not issued under the 2020 Plan as of May 10, 2022, and any shares that were returned to the 2005 Plan, 2010 Plan, 2015 Plan and 2020 Plan as a result of the forfeiture, repurchase or termination of unissued shares subject to options or RSUs issued under those plans. The 2022 Plan provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards generally vest over a one, two, three or four-year period, beginning on the date of the grant and awards may be subject to performance-based vesting conditions. There were 5,340,243 shares available for grant under the 2022 Plan at June 30, 2023.

Performance-based stock units

During the six months ended June 30, 2023 and 2022, we granted 70,224 and 164,843 performance-based restricted stock units ("PRSUs"), respectively, to executive officers pursuant to the 2022 Plan and 2020 Plan. The PRSUs may be earned based on our total shareholder return ("TSR") compared to the TSR of the Russell 2000 Index or, for awards granted on or after March 3, 2023, the NASDAQ Composite Index (the "Index"), in each case, over a three-year performance period. For the PRSUs granted during the six months ended June 30, 2023, the three-year performance period commenced on January 1, 2023 and will end on December 31, 2025, and for the PRSUs granted during the six months ended June 30, 2022, the three year performance commenced on January 1, 2022 and will end on December 31, 2024, in each case, using the average daily closing price over a 30-day lookback. The number of awards earned could range from 0% to 200% times the target number of units granted. Additionally, for awards granted on or after March 3, 2023, the number of PRSUs that may vest pursuant to an award agreement shall not exceed 100% of the target number of PRSUs subject to such award if our absolute total shareholder return is negative during the performance period for such award.

The fair values of PRSUs are estimated using a Monte Carlo simulation. The determination of fair value of the PRSUs is based on our stock price and a number of assumptions including the expected volatility, expected dividend yield and the risk-free interest rate. The expected volatility at the date of grant was based on the historical volatilities of our stock and the companies included in the Index over the performance period. The Monte Carlo model is based on random projections of stock-price paths and must be repeated numerous times to achieve a probabilistic assessment. The key assumptions used in valuing these market-based awards are as follows:

	Six Months Ended (unaudited)	
	June 30, 2023	**June 30, 2022**
Number of simulations	100,000	100,000
Expected volatility	32.27%	37.81%
Expected life in years	2.84 years	2.95 years
Risk-free interest rate	4.45%	1.33%
Dividend yield	2.45%	2.52%

The weighted average grant date fair value of the market-based awards, as determined by the Monte Carlo valuation model, was $84.45 per share and $59.65 per share in 2023 and 2022, respectively.

Employee stock purchase plan

Our employee stock purchase plan ("ESPP") permits substantially all domestic employees and employees of designated subsidiaries to acquire our common stock at a purchase price of 85% of the lower of the market price at the beginning or the end of the purchase period. The plan has quarterly purchase periods generally beginning on February 1, May 1, August 1 and November 1 of each year. Employees may designate up to 15% of their compensation for the purchase of common stock under the ESPP. Pursuant to the terms of our merger agreement (the "Merger Agreement") with Emerson Electric Co. ("Emerson") and Emersub CXIV, Inc. ("Merger Sub"), our ESPP program was suspended indefinitely after the May 1, 2023 purchase.

On May 10, 2022, our stockholders approved an additional 3,000,000 shares for issuance under our ESPP. At June 30, 2023, we had 3,613,670 shares of common stock reserved for future issuance under the ESPP. We issued 459,420 shares under this plan in the six months ended June 30, 2023 and the weighted average purchase price was $37.82 per share. During the six months ended June 30, 2023, we did not make any changes in accounting principles or methods of estimates with respect to our ESPP.

Authorized shares of common and preferred stock

We have 5,000,000 authorized shares of preferred stock.

On January 21, 2004, our Board of Directors designated 750,000 of these shares as Series A Participating Preferred Stock in conjunction with the adoption of a Preferred Stock Rights Agreement which expired on May 10, 2014. There were no shares of Series A Preferred Stock issued and outstanding at June 30, 2023.

On January 13, 2023, our Board of Directors designated 2,000,000 of these shares as Series B Participating Preferred Stock ("Series B Preferred Stock") in conjunction with its adoption of a stockholder rights plan (the "Rights Agreement"), as previously disclosed in our Current Report on Form 8-K filed on January 13, 2023. On April 12, 2023, in connection with entering into the Merger Agreement, the stockholder rights plan was modified so that the rights thereunder will not be exercisable by virtue of the Merger Agreement or any agreement or transactions contemplated thereby, as previously disclosed in our Current Report on Form 8-K filed on April 12, 2023.

Stock repurchases and retirements

On April 21, 2010, our Board of Directors authorized a program to repurchase shares of our common stock from time to time, depending on market conditions and other factors (the "2019 Program"). Our Board of Directors has amended the 2019 Program several times over the years to increase the number of shares that may be purchased under the program. On October 23, 2019, our Board of Directors amended the 2019 Program to increase the number of shares that may be repurchased by 3,000,000 shares.

On January 19, 2022, our Board of Directors approved a new stock repurchase plan for up to $250 million of our common stock, effective immediately (the "2022 Program"). This new repurchase program is in addition to the existing 2019 Program. Under the 2022 Program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the other terms of the repurchase will depend on a variety of factors, including legal requirements, economic and market conditions, and other investment opportunities. The 2022 Program may be changed, suspended or discontinued at any time and does not have a specified expiration date.

As of June 30, 2023 and 2022, there were no shares remaining available for repurchase under the 2019 Program. As of June 30, 2023, there was $109 million available for repurchase under the 2022 Program. As of June 30, 2022, there was $191 million available for repurchase under the 2022 Program. We did not repurchase any shares of our common stock during the three and six months ended June 30, 2023 under the 2019 Program and 2022 Program. Pursuant to the Merger Agreement, we are restricted from making additional repurchases of our common stock. During the three months ended June 30, 2022, we repurchased 986,876 shares of our common stock at a weighted average price per share of $39.06 under the 2022 Program. During the six months ended June 30, 2022, we repurchased 1,758,928 shares of our common stock at a weighted average price of $39.80 under the 2019 Program and 2022 Program.

Note 12 – Segment and geographic information

We operate as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is our chief executive officer, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker evaluates our financial information and resources and assesses the performance of these resources on a consolidated basis. Since we operate as one operating segment, all required financial segment information can be found in the condensed consolidated financial statements and the notes thereto.

We sell our products in three geographic regions which consist of the Americas region, the Europe, Middle East and Africa region ("EMEA"), and the Asia-Pacific region ("APAC"). Our sales to these regions share similar economic characteristics including the nature of products and services we sell, the type and class of customers, and the methods used to distribute our products and services. Revenue from the sale of our products, which are similar in nature, and software maintenance is reflected as total net sales in our Condensed Consolidated Statements of Income. (Refer to Note 2 - Revenue of Notes to Condensed Consolidated Financial Statements for total net sales by the major geographic region in which we operate).

The following table presents summarized information for net sales by country. Revenues from external customers are generally attributed to countries based upon the customer's billing location. Net sales attributable to each individual foreign country outside the U.S. and China were not material.

(in millions)	United States	China[1]	Rest of the World	Total
Net sales:				
Three months ended June 30, 2023	$ 183	$ 59	$ 175	$ 417
Three months ended June 30, 2022	$ 153	$ 66	$ 177	$ 396
Six months ended June 30, 2023	$ 355	$ 141	$ 358	$ 854
Six months ended June 30, 2022	$ 306	$ 121	$ 354	$ 781

(1): Includes Mainland China and the Hong Kong Special Administrative Region

The following table presents summarized information for long-lived assets by country. Long-lived assets attributable to each individual country outside the U.S., Hungary and Malaysia were not material. Long-lived assets consist of property, plant, and equipment and operating lease right-of-use assets excluding intangible assets.

(in millions)	United States	Hungary	Malaysia	Rest of the World	Total
Long-lived Assets:					
June 30, 2023	$ 151	$ 59	$ 80	$ 62	$ 352
December 31, 2022	$ 124	$ 58	$ 82	$ 61	$ 325

Note 13 – Debt

The following table presents the amounts outstanding related to our borrowing arrangements discussed above as of June 30, 2023 (unaudited) and December 31, 2022, respectively (in thousands):

(in thousands)	June 30, 2023	December 31, 2022
Secured		
Term Loan	$ 481,250	$ 493,750
Revolving line of credit	110,000	50,000
Total Debt	591,250	543,750
Less: Unamortized debt issuance costs	(1,877)	(2,113)
Less: Current portion of total debt	(25,000)	(25,000)
Total Debt, non-current	$ 564,373	$ 516,637

The effective interest rate for the term loan and the revolving line of credit, both drawn under our Credit Facility, was 6.7% as of June 30, 2023. The effective interest rates for the term loan and revolving line of credit as of December 31, 2022 were 5.6% and 5.7%, respectively.

Debt Issuance Costs

Debt issuance costs of approximately $1.8 million attributable to our revolving line of credit are presented within "Other long-term assets" in our Condensed Consolidated Balance Sheet and debt issuance costs of approximately $1.9 million attributable to the term loan are presented within "Debt, non-current" as of June 30, 2023. Debt issuance costs of approximately $2.1 million attributable to our revolving line of credit are presented within "Other long-term assets" in our Condensed Consolidated Balance Sheet and debt issuance costs of approximately $2.1 million attributable to the term loan are presented within "Debt, non-current" as of December 31, 2022. These amounts are amortized to interest expense ratably over the life of the revolving line of credit and the term loan, respectively.

Credit Facility

On August 24, 2022, we amended the terms of our Credit Facility by entering into a Third Amended and Restated Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as the administrative agent, swingline lender and issuing lender (the "Administrative Agent"), Wells Fargo Securities, LLC, BofA Securities, Inc. and Citibank, N.A., as joint lead arrangers and joint bookrunners, BofA Securities, Inc. and Citibank, N.A., as syndication agents, and the lenders party thereto. The Credit Agreement amends and restates and refinances our Second Amended and Restated Credit Agreement, dated as of June 18, 2021, by and among us, the lenders from time-to-time party thereto and Wells Fargo Bank, National Association, as the administrative agent (the "Prior Credit Agreement"). All outstanding loans under the Prior Credit Agreement were repaid in full in connection with the entry into the Credit Agreement. The replacement of the Prior Credit Agreement with the Credit Agreement was treated as a debt modification and the remaining balance of unamortized debt issuance costs were allocated to the new loan facilities.

The Credit Agreement provides for a $1 billion Credit Facility consisting of (a) a secured revolving loan facility in an aggregate principal amount of up to $500 million at any time outstanding, with a sublimit of $25 million for the issuance of letters of credit and (b) a secured term loan facility in an aggregate principal amount of $500 million. Subject to the terms of the Credit Agreement, including obtaining commitments from existing lenders or new lenders, we may request additional term loans and/or additional revolving loan commitments. The Credit Facility terminates, and all revolving loans outstanding and/or outstanding term loan amounts (together with accrued interest and fees) are payable in full, on August 24, 2027, unless terminated earlier pursuant to the terms of the Credit Agreement. The term loans amortize in quarterly payments equal to 1.25% of the original principal amount of the term loans, with the remaining outstanding balance due at maturity.

The term loans and revolving loans accrue interest, at our option, at (i) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) an adjusted term SOFR for an interest period of one month plus 1.00%, plus a margin of 0.25% to 0.75%; or (ii) an adjusted term SOFR (for an interest period of one, three or six months) plus a margin of 1.25% to 1.75%, with the margin being determined based upon our consolidated total net leverage ratio. The Credit Agreement contains financial covenants requiring us to maintain a maximum consolidated total net leverage ratio of less than or equal to 3.50 to 1.00, which increases to 4.00 to 1.00 for a specified period following material acquisitions, and a minimum consolidated interest coverage ratio of greater than or equal to 3.00 to 1.00, in each case determined in accordance with the Credit Agreement.

The Credit Agreement provides for a commitment fee of 0.150% to 0.250% per annum, determined based upon our consolidated total net leverage ratio, on the average daily unused portion of the revolving committed amount, payable quarterly in arrears.

Under the circumstances described in the Credit Agreement, certain of our wholly owned domestic subsidiaries (the "Subsidiary Guarantors") are required to enter into a guaranty agreement ("Guaranty") in favor of the Administrative Agent guarantying our obligations under the Credit Agreement, among other things. As of June 30, 2023, there were no Subsidiary Guarantors, and no Guaranty had been executed. In connection with the Credit Agreement, we entered into a Second Amended and Restated Collateral Agreement (the "Collateral Agreement") pursuant to which we granted a continuing security interest on substantially all of our assets, in favor of the Administrative Agent (for the benefit of the lenders of the Credit Facility), to secure our obligations under the Credit Agreement, Subsidiary Guarantors are required to join the Collateral Agreement and make similar grants of security interests.

The Credit Agreement contains customary affirmative and negative covenants. The affirmative covenants include, among other things, delivery of financial statements, compliance certificates and notices, payment of taxes and other obligations, maintenance of existence, maintenance of properties and insurance, maintenance of books and records, and compliance with applicable laws and regulations. The negative covenants include, among other things, limitations on indebtedness, liens, mergers, consolidations, acquisitions and sales of assets, investments, changes in the nature of the business, affiliate transactions and certain restricted payments. The Credit Agreement contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and insolvency events, judgment defaults and change in control events, subject to grace periods in certain instances. Upon an event of default, the Administrative Agent and the lenders may declare all or a portion of the outstanding obligations payable by us to be immediately due and payable and exercise other rights and remedies provided for under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum interest rate equal to 2.00% above the otherwise applicable interest rate.

The proceeds of the term loans made on August 24, 2022 were used to prepay in full the revolving loans outstanding under the Prior Credit Agreement. Remaining proceeds of the term loans made on August 24, 2022 were used to pay associated costs, fees and other expenses and for other working capital and general corporate purposes. Proceeds of current and additional revolving loans under the Credit Agreement may be used for working capital and other general corporate purposes including acquisitions, share repurchases and dividend payouts. We may prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty.

Note 14 – Commitments and contingencies

We offer a standard warranty on most hardware products which is included in the terms of sale of such products. During 2022, we enhanced the service entitlements included with our standard warranty to include technical support and dependable repair and replacement coverage. Standard warranties sold with these additional entitlements are now accounted for as service-type warranties and the revenue allocated to these performance obligations is now recognized over the service duration of one or three years, and the related warranty costs are recognized as incurred. We also offer additional extensions or enhancements to the service-type warranties described above, for which the related revenue is also recognized ratably over the warranty period. The included service period for the enhanced service entitlements was three years for the vast majority of orders placed during 2022. In late 2022, we shortened the default service period for our service-type warranty entitlements to one year, with the ability to add optional, separately-priced extensions for subsequent years. Consequently, revenue deferrals related to service-type warranties are expected to decrease on a year over year basis during the remainder of 2023.

For hardware previously sold with only an assurance-type warranty, a provision is made for estimated future warranty costs at the time of the sale for the estimated costs that may be incurred. Our estimate is based on historical experience and product sales during the period. The warranty reserve as of June 30, 2023 and December 31, 2022 was $1.8 million and $1.5 million, respectively.

In the ordinary course of business, we enter into purchase orders with suppliers for the purchase of goods and services, including non-cancelable agreements for certain inventory components ("unconditional purchase obligations"). Our unconditional purchase obligations primarily consist of commitments to various suppliers for inventory components and the majority relate to amounts due within the next 12 months. As of June 30, 2023, and December 31, 2022 our future payments under unconditional purchase obligations with a remaining term in excess of one year were approximately $10.2 million and $19.4 million, respectively. As of June 30, 2023, our outstanding guarantees for payment of customs and foreign grants were not material.

Note 15 – Restructuring

2023 Restructuring

During the first quarter of 2023, we announced a workforce reduction plan (the "2023 Plan") intended to realign our investments to accelerate our growth strategy and further optimize our operations and cost structure. The 2023 Plan will result in reductions to our worldwide headcount of approximately 4% during 2023. In connection with the Plan, we incurred approximately $17.1 million of charges consisting primarily of cash termination benefits and other employee-related costs during the first half of 2023.

We expect to incur an additional $0.5 million of additional costs related to our restructuring plans during the remainder of 2023.

2022 and 2021 Restructuring

During the three and six months ended June 30, 2023, we recognized approximately $0.1 million and $0.6 million in severance-related charges for restructuring activities that were initiated in prior years, respectively. The charges related to the prior workforce reduction plans in 2021 and 2022 had been fully recognized as of June 30, 2023.

A summary of the charges in our consolidated statement of operations resulting from our restructuring activities is shown below:

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2023	2022	2023	2022
Cost of sales	$ 260	$ —	$ 1,779	$ —
Research and development	97	292	3,174	692
Sales and marketing	26	—	5,993	—
General and administrative	1,268	—	6,526	—
Total restructuring and other related costs	$ 1,651	$ 292	$ 17,472	$ 692

A summary of balance sheet activity during 2023 related to our restructuring activity is shown below:

(in thousands)		Restructuring Liability
Balance as of December 31, 2022	$	10,009
Income statement expense		17,472
Cash payments		(21,710)
Balance as of June 30, 2023	$	5,771

The restructuring liability of $5.8 million at June 30, 2023 related primarily to future severance payments is recorded in the “Accrued compensation” line item of the condensed consolidated balance sheet.

Note 16 – Litigation

We are not currently a party to any material litigation. However, in the ordinary course of our business, we have in the past, are currently and may likely become involved in various legal proceedings, claims, and regulatory, tax or government inquiries and investigations, and could incur uninsured liability in any one or more of them. We also periodically receive notifications from various third parties related to alleged infringement of patents or intellectual property rights, commercial disputes or other matters. No assurances can be given with respect to the extent or outcome of any investigation, litigation or dispute.

Note 17 – Acquisitions

SET Acquisition

On March 6, 2023, we acquired the remaining 75.1% ownership interest in one of our equity-method investments, SET, for approximately $24 million in total cash consideration, subject to certain post-closing adjustments. Of the total cash consideration, approximately $2.7 million will be held back as security for certain representations, warranties, and obligations of the sellers, payable in the first quarter of 2024. SET is a Germany-based expert in aerospace and defense test system development and an innovator in power semiconductor reliability test. This transaction was accounted for as a business combination using the acquisition method of accounting.

We recognized a gain of approximately $3 million on the remeasurement of our existing 24.9% equity-method investment to fair value on the acquisition date during the first quarter of 2023. The carrying value of the investment immediately prior to the acquisition date was approximately $3 million. The gain is presented in "Other (expense) income."

All of the acquired assets and liabilities of SET have been recorded at their respective fair values as of the acquisition date. We recognized approximately $18.7 million of goodwill and $13.5 million of other intangible assets as part of our preliminary purchase price allocation as of March 31, 2023. Transaction costs have been expensed as incurred and were not material to the periods presented. The acquisition was funded by cash on hand.

The preliminary purchase price allocation related to the acquisition was not finalized as of June 30, 2023, and is based upon a preliminary valuation which is subject to change as we obtain additional information with respect to certain intangible assets, inventory and income taxes. During the second quarter of 2023, we identified and recorded several measurement period adjustments related to the provisional amounts recorded as of March 31, 2023. The measurement period adjustments resulted in an increase in the preliminary amount of goodwill of $6.6 million and a corresponding decrease to acquired intangibles and inventory. The adjustments did not have a material impact on our net income or earnings per share.

Pro-forma results of operations have not been presented as the impact of the acquired operations was not material.

The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected growth in the scope of and market opportunities for our existing offerings related to vehicle electrification and other related applications. Goodwill is not deductible for tax purposes.

Kratzer Acquisition

On May 2, 2022, we completed the acquisition of certain assets of, and assumed certain liabilities of, the test systems business ("TS Business") of Germany-based Kratzer Automation AG (“Kratzer”). As part of this integrated transaction, we also purchased 100% of the shares in certain subsidiaries of Kratzer: Kratzer Automation S.a.r.l. ("Kratzer France"), Kratzer Automation Inc. ("Kratzer US") and Kratzer Automation (Shanghai) Co., Ltd. ("Kratzer China"). The acquisitions of Kratzer France, Kratzer US, and Kratzer China were completed on June 1, 2022, June 2, 2022, and August 26, 2022, respectively. This transaction was accounted for as a business combination using the acquisition method of accounting. Total cash consideration for the transaction was $56.3 million inclusive of $0.7 million in cash acquired. All of the acquired assets and liabilities of the TS Business have been recorded at their respective fair values as of the acquisition date. The acquisition was funded by cash on hand.

Transaction costs have been expensed as incurred. We expensed $2.2 million of transaction costs during 2022 related to the acquisition of the TS Business, which are included in selling, general and administrative expenses.

The excess of the purchase price over the net assets acquired was recorded as goodwill. The goodwill generated from the acquisition is primarily attributed to expected growth in the scope of and market opportunities for our existing offerings related to vehicle electrification test systems and other related applications. The goodwill is deductible locally and in the U.S. over 15 years for federal income tax purposes.

During the fourth quarter of 2022, we recorded measurement period adjustments to our preliminary estimate of the fair value of intangible assets acquired as a result of new information obtained on acquired customer contracts. The net decrease to the fair value of total intangible assets acquired was $10 million, with a corresponding increase to goodwill. This change to the provisional amount did not have a material impact to the income statements in the current or previous reporting periods.

Fair value of net assets acquired and liabilities assumed

The information below represents the purchase price allocation of the TS Business (in thousands):

	May 2, 2022
Consideration Transferred	**$** 56,324
Cash and cash equivalents	672
Accounts receivable	2,616
Inventories	5,130
Prepaid expenses and other current assets	1,900
Property and equipment	1,145
Goodwill	29,223
Intangible assets	25,010
Operating lease right-of-use assets	4,820
Other long-term assets	108
Accounts payable and accrued expenses	(966)
Accrued compensation	(463)
Operating lease liabilities - current	(1,050)
Other current liabilities	(8,233)
Operating lease liabilities - non-current	(3,588)
Net Assets Acquired	**$** 56,324

The purchase price allocation related to the acquisition was finalized as of June 30, 2023.

Acquired intangible assets will be amortized over their estimated useful lives on a straight-line basis. The following table summarizes the preliminary purchase price allocation and the preliminary average remaining useful lives for identifiable intangible assets acquired.

	Estimated Fair Value (in thousands)	Estimated Useful Lives (in years)
Customer relationships	$ 2,470	10
Developed software	20,830	5
Trade name contractual rights	1,710	2
Total	25,010	

Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers. The economic useful life was determined by examining the period of time over which the customer attrition curve falls below a target threshold.

Developed software represents the fair value of automation systems for performing test bench tasks and management systems for all resources and accruing data in the test field. The economic life of this software is estimated to be 5 years based on the expected future utilization of the software in its current form.

Results of operations of the business acquired have been included in our condensed consolidated financial statements subsequent to the dates of acquisition. Pro-forma results of operations have not been presented as the impact of the acquired operations was not material.

Heinzinger Acquisition

On February 28, 2022, we completed the acquisition of the systems business of Heinzinger Electronic GmbH (“Heinzinger”) for $22.5 million in total cash consideration, including a holdback amount of approximately $3.1 million that was released to Heinzinger during the first quarter of 2023. This transaction was accounted for as a business combination using the acquisition method of accounting. All of the acquired assets and liabilities of Heinzinger have been recorded at their respective fair values as of the acquisition date. We recognized approximately $13.5 million of goodwill and $7.2 million of other intangible assets as part of our purchase price allocation. Transaction costs have been expensed as incurred and were not material to the periods presented. The acquisition was funded by cash on hand.

The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected growth in the scope of and market opportunities for our existing offerings related to vehicle electrification and other related applications. Goodwill is not deductible for tax purposes.

The purchase price allocation related to the acquisition was finalized as of February 28, 2023. Pro-forma results of operations have not been presented as the impact of the acquired operations was not material.

Note 18 – Subsequent events

Dividends

On July 26, 2023, our Board of Directors declared a quarterly cash dividend of $0.28 per common share, payable on August 29, 2023, to stockholders of record on August 8, 2023.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

National Instruments Corporation and its subsidiaries (referred to as the "Company," "we," "us," "our," "National Instruments" or "NI") has made forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are subject to risks and uncertainties. Any statements contained herein regarding our future financial performance, operations, plans, investments, expected effects of investments, or other matters (including, without limitation, statements to the effect that we "believe," "expect," "plan," "intend to," "may," "could," "can," "will," "project," "predict," "anticipate," "continue," "strive to," "endeavor to," "seek to," "are committed to," "remaining committed to," "are encouraged by," "remain cautious," "remain optimistic," "estimate", "focus on"; statements of "goals," "commitments," "strategy," "opportunities" or "visions"; or other variations thereof or comparable terminology or the negative thereof) should be considered forward-looking statements. All forward-looking statements are based on current expectations and projections of future events. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, forward-looking statements are not guarantees of performance and actual results could differ materially from those projected in the forward-looking statements as a result of a number of important factors, including those set forth under the heading "Risk Factors" below and in "Part 1, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the "Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC"). Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with our business or under different assumptions or conditions. You should not place undue reliance on any of these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with the Form 10-K and the condensed consolidated financial statements and accompanying notes included in Part 1, Item 1 of this Form 10-Q.

Overview and Current Business Outlook

For more than 40 years, we have enabled engineers and scientists around the world to accelerate productivity, innovation and discovery. Our software-centric platform provides an advanced approach through integration of software and modular hardware to create automated test and automated measurement systems. We believe our long-term track record of innovation and our differentiated platform help support the success of our customers, employees, suppliers, community and stockholders. We have been profitable in every year since 1990. We sell to a large number of customers in a wide variety of industries.

The key strategies that we focus on in running our business are the following:

- **Expanding our available market opportunity**

  We strive to increase our available market by identifying new opportunities with existing customers, attracting and serving new customers, and expanding our business to market adjacencies. Our large network of existing customers provides a broad base from which to expand.

- **Maintaining a high level of customer satisfaction**

  To maintain a high level of customer satisfaction we strive to offer innovative, modular and integrated products through a global sales and support network. We strive to maintain a high degree of backward compatibility across different platforms to preserve the customer's investment in our products. In this time of intense global competition, we believe it is crucial that we continue to offer products with high quality and reliability, and that our products provide cost-effective solutions for our customers.

- **Leveraging external and internal technology**

  Our product strategy is to provide superior products by leveraging generally available technology, supporting open architectures on multiple platforms and by leveraging our core technologies across multiple products.

  We sell into test and measurement and industrial/embedded applications in a broad range of industries and are subject to the economic and industry forces that drive those markets. Examples of these types of customers include semiconductor and electronics, transportation, and aerospace, defense and government.

- **Leveraging a worldwide sales, distribution and manufacturing network**

  We distribute and sell our software and hardware products primarily through a direct sales organization. We also use independent distributors, original equipment manufacturers, value added resellers, system integrators, and consultants to market and sell our products. We continue to focus on scale and efficiency in serving our broad base of customers. This includes ongoing investment in our website, www.ni.com, for a better digital experience and significantly expanding the usage of our distributor channels. We have sales offices in the U.S. and sales offices and distributors in key international markets. Sales outside of the Americas accounted for approximately 55% and 59% of our net sales during the three months ended June 30, 2023 and 2022, respectively, and approximately 57% and 59% of our net sales during the six months ended June 30, 2023 and 2022, respectively. The vast majority of our foreign sales are denominated in the customers' local currency, which exposes us to the effects of changes in foreign currency exchange rates. We expect that a significant portion of our total revenues will continue to be derived from international sales (Refer to Note 2 - Revenue and Note 12 - Segment and geographic information of Notes to Condensed Consolidated Financial Statements for details concerning the geographic breakdown of our net sales and long-lived assets, respectively).

  We manufacture a majority of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia.

- **Delivering high quality, reliable products**

  We believe that our long-term growth and success depend on delivering high quality software and hardware products on a timely basis. Accordingly, we focus significant efforts on research and development. We focus our research and development efforts on enhancing existing products and developing new products that incorporate appropriate features and functionality to be competitive with respect to technology, price and performance. Our success also depends on our ability to obtain and maintain patents and other proprietary rights related to technologies used in our products. We have engaged in litigation when necessary, and will likely engage in future litigation to protect our intellectual property rights.

Our operating results fluctuate from period to period due to changes in global economic conditions and a number of other factors such as geopolitical instability, supply chain constraints, inflationary pressures and tightening monetary policies. As a result, we believe our historical results of operations should not be relied upon as indications of future performance. There can be no assurance that our net sales will grow, or not decline, or that we will remain profitable in future periods.

Backlog

Backlog is a measure of firm orders that have been received but have not yet been fulfilled. At June 30, 2023, our backlog was approximately $410 million compared to approximately $451 million at December 31, 2022. Our definition of backlog includes orders where the customer has specified delivery in a future period, typically within the next 12 months. We expect the majority of backlog to be recognized as revenue within 12 months. While backlog on any particular date can be an indicator of short-term revenue performance, it is not necessarily a reliable indicator of medium or long-term revenue performance.

Current business outlook

We remain focused on driving revenue growth and further improving operating profitability during the remainder of 2023, despite macroeconomic uncertainty and softening demand in certain end markets, particularly in the semiconductor and electronics end markets. We expect our customers will continue to make investments in emerging technologies related to wireless technologies, vehicle electrification, advanced driver assistance systems ("ADAS"), new space innovation, and advanced defense technology.

We continue to focus on scale and efficiency when engaging with our large number of smaller accounts we serve (the "Broad-based customers"). Our focus to streamline the process of doing business with NI means both scaling our costs and improving the experience of our Broad-based customers. This commitment and focus includes plans to continue investing in ni.com for a better digital experience and significantly expand the customer reach of our distributor channel during 2023 and beyond. We are also simplifying our product offerings for our Broad-based customers to make our products easier-to-use. We believe these actions will allow our direct sales force to accelerate our revenue growth through proactive engagements with accounts where we can deliver enterprise-level value. During the three months ended June 30, 2023, indirect sales through our distributor channels increased to approximately 19% of our total sales, compared to 14% in the same period of 2022. As of June 30, 2023 and December 31, 2022, our distributors were carrying approximately 5 to 6 weeks of our inventory. As of June 30, 2023, the amounts received from distributors that were eligible for refund or exchange under stock rotation agreements and other distributor incentive programs were not material. For the three months ended June 30, 2023, no single distributor or end customer accounted for more than 6% of our total net sales.

Additionally, we accelerated our transition to a predominantly subscription-based licensing model for the majority of our software offerings during the last 12 months. While we expect our subscription base, recurring revenue and cash flow to increase over time as a result of this licensing model transition, we anticipated and have experienced some initial headwinds to our net sales and operating profitability during the initial transition period. Revenue from software and related services declined during the first half of 2023 compared to the same period in 2022, primarily due to the licensing model transition. However, recurring revenue from software and related services has continued to grow. We expect recent additions and enhancements to our software portfolio will continue to differentiate our products and fuel demand across our end markets.

Restructuring

Refer to Note 15 - Restructuring of Notes to Condensed Consolidated Financial Statements for additional information on restructuring activities during the periods presented.

Acquisitions and divestitures

Refer to Note 1 - Basis of presentation and Note 17 - Acquisitions of Notes to Condensed Consolidated Financial Statements for additional information on our acquisitions and divestitures during the periods presented.

Strategic Review and Merger Agreement with Emerson Electric Co.

On January 13, 2023, we announced that our Board of Directors initiated a review and evaluation of strategic options, in consultation with our financial and legal advisors, with the intent to maximize shareholder value. The comprehensive review included consideration of a full range of available strategic, business and financial alternatives, including solicitation of interest from potential acquirers and other transaction partners, some of whom had already approached the Company. In connection with the review and evaluation of strategic options, our Board of Directors adopted a limited duration stockholder rights plan in order to protect the best interests of the Company and its stockholders, help ensure that all interested parties had the opportunity to participate fairly in the strategic review, and to provide our Board of Directors and stockholders time to make informed decisions. On April 12, 2023, the Company and Computershare Trust Company, N.A., as rights agent (the "Rights Agent") executed an Amendment No. 1 to the Rights Agreement (the "Rights Agreement Amendment") in connection with the execution and delivery of the Merger Agreement (as defined below).

The Rights Agreement Amendment supplements Section 1 of the Rights Agreement by adding certain new definitions and amends the definition of "Acquiring Person" in the Merger Agreement with Emerson and Merger Sub such that none of Emerson or Merger Sub, nor any of their Affiliates and Associates (in each case as defined in the Rights Agreement), shall be deemed to be an Acquiring Person to the extent that each is a Beneficial Owner (as defined in the Rights Agreement) as a result of (i) the approval, execution or delivery of the Merger Agreement, (ii) prior to the termination of the Merger Agreement, the consummation of any of the transactions provided for or entry into any agreements contemplated by the Merger Agreement (including the Merger, as defined in the Merger Agreement) in accordance with their respective provisions or (iii) the public announcement of any of the foregoing.

On April 12, 2023, we entered into the Merger Agreement, pursuant to which Emerson will acquire all of our outstanding shares (the “Merger”). The completion of the Merger is subject to the satisfaction of certain customary conditions, such as approval by our stockholders, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the receipt of certain other regulatory approvals, and the absence of any law or order by a court or other governmental entity of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the Merger. Upon the closing of the Merger, each issued and outstanding share of our common stock (subject to certain exceptions) will be converted into the right to receive cash consideration of $60 per share.

The Merger Agreement was negotiated and signed subsequent to a process that our Board of Directors undertook beginning in January 2023 to explore options to increase our value to our shareholders. As part of that process, we retained Bank of America as our financial advisor, which assisted in facilitating contact with third parties to assess the level of interest on the part of such third parties in a potential strategic corporate transaction involving us.

On June 29, 2023, our stockholders voted to adopt the proposed Merger Agreement, at a special meeting of stockholders.

For more detail about the proposed transaction with Emerson, please see our Current Report on Form 8-K filed with the SEC on April 12, 2023 and June 29, 2023 and the definitive proxy statement filed with the SEC on May 25, 2023.

Critical Accounting Estimates

In preparing our condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our net sales, operating income and net income, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We base our assumptions, judgments and estimates on historical experience and other factors that we believe to be reasonable under the circumstances. At least quarterly, we evaluate our assumptions, judgments and estimates, and make changes as deemed necessary.

These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions. For further information about our critical accounting estimates, see the discussion in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Estimates” in our Form 10-K. There have been no material changes to our critical accounting policies and estimates since the Form 10-K.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items reflected in our Condensed Consolidated Statements of Income:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2023	**2022**	**2023**	**2022**
Net sales:				
Americas	45.0 %	40.6 %	42.8 %	40.9 %
EMEA	26.9	24.4	26.3	25.2
APAC	28.2	35.0	30.9	33.8
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	28.4	32.2	29.4	31.6
Gross profit	71.6	67.8	70.6	68.4
Operating expenses:				
Sales and marketing	29.5	31.6	28.2	31.4
Research and development	20.1	21.6	20.0	21.5
General and administrative	12.1	9.3	11.0	9.0
Total operating expenses	61.8	62.5	59.1	61.8
Operating income	9.8	5.3	11.5	6.6
Other expense	(2.0)	(0.9)	(1.3)	(0.4)
Income before income taxes	7.8	4.4	10.1	6.1
Provision for income taxes	0.5	1.2	1.0	1.3
Net income	7.3 %	3.1 %	9.1 %	4.8 %

Figures may not sum due to rounding.

Results of Operations for the three and six months ended June 30, 2023 and 2022

Net Sales. The following table sets forth our net sales for the three and six months ended June 30, 2023 and 2022 along with the changes between the corresponding periods.

	Three Months Ended June 30, (Unaudited)				Six Months Ended June 30, (Unaudited)			
			Change				Change	
(In millions)	**2023**	**2022**	**Dollars**	**Percentage**	**2023**	**2022**	**Dollars**	**Percentage**
Product sales	$ 379.4	$ 354.8	24.6	7%	$ 779.8	$ 698.5	81.3	12%
Software maintenance sales	37.4	40.7	(3.3)	(8)%	73.8	82.3	(8.5)	(10)%
Total net sales	$ 416.8	$ 395.5	21.3	5%	$ 853.6	$ 780.8	72.9	9%

Figures may not sum due to rounding.

<u>*Net Sales - Summary*</u>

Net sales for the three and six months ended June 30, 2023 were up 5% percent and 9% percent, respectively, compared to the same periods in 2022.

- The increase in product sales for the three and six months ended June 30, 2023, was primarily driven by double digit revenue growth across our Transportation, ADG, and broad-based Portfolio end markets, partially offset by weaker demand for semiconductor offerings, particularly in APAC (Refer to Note 2 - Revenue of Notes to our Condensed Consolidated Financial Statements for additional information on revenue by industry grouping and geographic region. Revenue from recent acquisitions for the three and six months ended June 30, 2023 increased product sales revenue by approximately 2%, compared to the same periods in 2022. The favorable impact of price increases, partially offset by changes in foreign currency exchange rates, increased revenue by approximately 8% and 6% for the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022.

- The decrease in software maintenance sales was primarily driven by our recent shift to a predominantly subscription license model during 2022 and the effect of changes in foreign currency exchange rates on the recognition of software maintenance revenues.

Net Sales by Region

The following table sets forth our net sales by geographic region for the three and six months ended June 30, 2023 and 2022 along with the changes between the corresponding periods and the region's percentage of total net sales.

	Three Months Ended June 30, (Unaudited)				Six Months Ended June 30, (Unaudited)			
			Change				Change	
(In millions)	**2023**	**2022**	**Dollars**	**Percentage**	**2023**	**2022**	**Dollars**	**Percentage**
Americas	$187.5	$160.4	27.1	17%	$365.5	$319.6	45.9	14%
Percentage of total net sales	45.0 %	40.6 %			42.8 %	40.9 %		
EMEA	$112.0	$96.7	15.3	16%	$224.1	$197.1	27.1	14%
Percentage of total net sales	26.9 %	24.4 %			26.3 %	25.2 %		
APAC	$117.3	$138.4	(21.1)	(15)%	$264.0	$264.1	(0.1)	—%
Percentage of total net sales	28.2 %	35.0 %			30.9 %	33.8 %		

Figures may not sum due to rounding.

We expect sales outside of the Americas to continue to represent a significant portion of our net sales. We intend to continue to expand our international presence by driving growth in existing markets and continuing to increase the use of distributors to sell our products in some countries.

Almost all of the sales made by our direct sales offices in the Americas (excluding the U.S.), EMEA, and APAC are denominated in local currencies, and accordingly, the U.S. dollar equivalent of these sales is affected by changes in foreign currency exchange rates. In order to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency fluctuations between periods, we compare the percentage change in our results from period to period using constant currency disclosure. To calculate the change in constant currency, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the average rates in effect during the three and six months ended June 30, 2022). The impact of changes in foreign currency exchange rates on sales includes the net effect of related hedging activities described below.

The following tables present this information, along with the impact of changes in foreign currency exchange rates on sales denominated in local currencies, for the three and six months ended June 30, 2023.

(In millions)	Three Months Ended June 30, 2022 GAAP Net Sales	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Three Months Ended June 30, 2023 GAAP Net Sales
		Dollars	Percentage	Dollars	Percentage	
Americas	$ 160.4	27.2	16.9%	(0.1)	(0.1)%	$ 187.5
EMEA	$ 96.7	13.5	14.0%	1.8	1.8%	$ 112.0
APAC	$ 138.4	(17.0)	(12.3)%	(4.1)	(2.9)%	$ 117.3
Total net sales	$ 395.5	23.7	6.0%	(2.4)	(0.6)%	$ 416.8

(In millions)	Six Months Ended June 30, 2022 GAAP Net Sales	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Six Months Ended June 30, 2023 GAAP Net Sales
		Dollars	Percentage	Dollars	Percentage	
Americas	$ 319.6	46.4	14.5%	(0.5)	(0.2)%	$ 365.5
EMEA	$ 197.1	30.5	15.5%	(3.4)	(1.7)%	$ 224.1
APAC	$ 264.1	14.2	5.4%	(14.3)	(5.4)%	$ 264.0
Total net sales	$ 780.8	91.1	11.7%	(18.2)	(2.3)%	$ 853.6

Figures may not sum due to rounding.

We use a foreign currency cash flow hedging program to help protect against changes in U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales. We hedge portions of our forecasted net sales denominated in foreign currencies with average rate forward contracts. During the three months ended June 30, 2023 and 2022, these hedges had the effect of increasing our net sales by $3.6 million and $5.1 million, respectively. During the six months ended June 30, 2023 and 2022, these hedges had the effect of increasing our net sales by $5.9 million and $6.8 million, respectively. (Refer to Note 5 - Derivative instruments and hedging activities of Notes to Condensed Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our net sales for 2023 and 2022).

Gross Profit. Our gross profit as a percentage of sales is impacted by many factors including changes in our sales mix of revenue from hardware, software and services. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle. The following table sets forth our gross profit and gross profit as a percentage of net sales for the three and six months ended June 30, 2023 and 2022 along with the percentage changes in gross profit for the corresponding periods.

(In millions)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2023	2022	2023	2022
Gross Profit	$298.3	$268.0	$602.4	$534.1
% change compared with prior period	*11.3%*		*12.8%*	
Gross Profit as a percentage of net sales	71.6%	67.8%	70.6%	68.4%

The increases in our gross profit and gross profit as a percentage of net sales were primarily related to the following:

	Three Months Ended (Unaudited)	Six Months Ended (Unaudited)
June 30, 2022	67.8 %	68.4 %
Impact of changes in our selling price	2.7 %	2.5 %
Impact of decreases in component costs	2.9 %	2.1 %
Impact of decreases in outbound freight and other logistics	0.5 %	0.5 %
Impact of changes in foreign currency exchange rates	(0.2)%	(0.6)%
Impact of changes in sales mix related to recently acquired businesses	(0.5)%	(1.1)%
Impact of inventory write-downs and restructuring activities	(0.5)%	(0.5)%
Impact of changes in amortization of capitalized software development costs and acquired intangibles	(0.2)%	(0.3)%
Impact of changes in sales mix excluding recent acquisitions	(0.9)%	(0.4)%
June 30, 2023	71.6 %	70.6 %

To help protect against changes in our cost of sales caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows, we have a foreign currency cash flow hedging program. We hedge portions of our forecasted costs of sales denominated in foreign currencies with average rate forward contracts. During the three months ended June 30, 2023 and 2022, these hedges had the effect of increasing our cost of sales by $0.4 million and $0.9 million, respectively. During the six months ended June 30, 2023 and 2022, these hedges had the effect of increasing our cost of sales by $1.0 million and $1.2 million, respectively. (Refer to Note 5 - Derivative instruments and hedging activities of Notes to Condensed Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our cost of sales for 2023 and 2022).

Operating Expenses. The following table sets forth our operating expenses for the three and six months ended June 30, 2023 and 2022, along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

	Three Months Ended June 30, (Unaudited)			Six Months Ended June 30, (Unaudited)		
(In thousands)	2023	2022	Change	2023	2022	Change
Sales and marketing	$ 123,101	$ 124,908	(1)%	$ 240,443	$ 245,064	(2)%
Percentage of total net sales	30%	32%		28%	31%	
Research and development	$ 83,801	$ 85,589	(2)%	$ 170,438	$ 167,750	2%
Percentage of total net sales	20%	22%		20%	21%	
General and administrative	$ 50,504	$ 36,772	37%	$ 93,719	$ 69,949	34%
Percentage of total net sales	12%	9%		11%	9%	
Total operating expenses	$ 257,406	$ 247,269	4%	$ 504,600	$ 482,763	5%
Percentage of total net sales	62%	63%		59%	62%	

Operating Expenses - three months ended June 30, 2023

The year over year increase of $10 million in our operating expenses during the three months ended June 30, 2023 was primarily related to the following:

- a $15 million increase in external legal and banking fees associated with our announced merger with Emerson;
- a $5 million increase in other outside service costs, travel, and utilities spend;
- a $9 million decrease in personnel costs related to lower headcount, lower accruals for estimated attainment under our variable compensation programs and decreases in stock-based compensation expense (attributable to lower headcount and an increase in RSU forfeitures related to our restructuring programs); and
- a $1 million decrease related to changes in foreign currency exchange rates.

Sales and Marketing

The primary drivers of the decrease in sales and marketing expenses for the three months ended June 30, 2023 compared to the same period in 2022 were a decrease in variable pay, stock based compensation and outside services partially offset by additional costs related to an increase in travel during the period and equipment, building and other spend.

Research and Development

The primary drivers of the decrease in research and development expenses for the three months ended June 30, 2023 compared to the same period in 2022 were a decrease in stock based compensation and variable pay partially offset by an increase in salaries and benefits.

General and administrative

The primary drivers of the increase in general and administrative expenses for the three months ended June 30, 2023 compared to the same period in 2022 were additional third-party advisory fees associated with our announced merger with Emerson, higher outside services and an increase in severance-related costs partially offset by a decrease in stock-based compensation and equipment, building and other spend.

Operating Expenses - six months ended June 30, 2023

The year over year increase of $22 million in our operating expenses during the six months ended June 30, 2023 was primarily related to the following:

- a $16 million increase in professional fees related to our announced merger with Emerson;
- a $14 million increase in severance-related costs related to our recent voluntary and involuntary headcount reduction programs (Refer to Note 15 - Restructuring of Notes to our Condensed Consolidated Financial Statements for additional details);
- a $10 million increase in outside service costs, travel, and utilities spend, partially offset by lower advertising and trade show spend;
- a $12 million decrease in personnel costs related to lower headcount including a decrease in variable sales compensation and decreases in stock-based compensation expense (due to higher RSU forfeitures in the first half of 2023 related to our restructuring programs), partially offset by higher employee benefit costs;
- a $5 million decrease resulting from changes in foreign currency exchange rates; and
- a $1 million decrease related to the amortization of acquisition-related intangibles.

Sales and Marketing

The primary drivers of the decrease in sales and marketing expenses for the six months ended June 30, 2023 compared to the same period in 2022 were lower accruals under our variable compensation program, a decrease in stock based compensation, lower amortization of acquired intangibles, and a decrease in outside services and marketing spend, partially offset by increases in severance related costs, travel expenses, equipment, building and other spend.

Research and Development

The primary drivers of the increase in research and development expenses for the six months ended June 30, 2023 compared to the same period in 2022 were higher personnel costs and severance expenses, partially offset by the impact of changes in foreign currency exchange rates and a decrease in stock based compensation.

General and administrative

The primary drivers of the increase in general and administrative expenses for the six months ended June 30, 2023 compared to the same period in 2022 were additional costs related to our announced merger with Emerson and increases in employee benefit costs, outside services and severance related costs partially offset by a decrease in equipment and other spend and a decrease in stock based compensation.

Operating Income (loss). For the three months ended June 30, 2023 and 2022, operating income was $41 million and $21 million, respectively. As a percentage of net sales, operating income was 9.8% and 5.3% for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, operating income was $98 million and $51 million, respectively. As a percentage of net sales, operating income was 11.5% and 6.6% for the six months ended June 30, 2021 and 2022, respectively. The increase in operating income in absolute dollars for the three months ended June 30, 2023, compared to the three months ended June 30, 2022, is attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above. The increase in operating income in absolute dollars for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, is primarily attributable by the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Other (Expense) Income.

- ***Interest Income.*** For the three months ended June 30, 2023 and 2022, interest income was $0.4 million and $0.1 million, respectively. For the six months ended June 30, 2023 and 2022, interest income was $0.8 million and $0.1 million, respectively.

- ***Interest Expense.*** For the three months ended June 30, 2023 and 2022, interest expense was approximately $9.7 million and $2.5 million, respectively. For the six months ended June 30, 2023 and 2022, interest expense was approximately $18.1 million and $3.8 million, respectively. The increase in interest expense compared to 2022 was due to higher average debt outstanding and higher interest rates. Refer to Note 13 - Debt of Notes to our Condensed Consolidated Financial Statements for additional information regarding the terms of the Credit Agreement and related borrowings.

- ***Gain/Loss From Equity-Method Investments***. For the three months ended June 30, 2023 and 2022, gain from equity-method investments was approximately $0.8 million and for the three months ended June 30, 2022, loss from equity-method investments was approximately $0.5 million. For the six months ended June 30, 2023 and 2022, gain from equity-method investments was approximately $5.6 million and $0.1 million, respectively. The increase in gain for the six months ended June 30, 2023 compared to the same period in 2022 was primarily attributable to a $3.5 million gain on the remeasurement of our existing equity-method investments in SET related to our acquisition of the remaining ownership interest during the first quarter of 2023.

- ***Net Foreign Exchange Gain/Loss.*** For the three months ended June 30, 2023 and 2022, net foreign exchange gain was $0.7 million and net foreign exchange loss was $0.8 million, respectively. During the six months ended June 30, 2023 and 2022, net foreign exchange gain was $0.4 million and net foreign exchange loss was $1.9 million, respectively. Gains and losses on foreign currency are primarily due to the impact of re-measuring foreign currency monetary assets and liabilities into the functional currency of the corresponding entity. The amount of the gain or loss on foreign currency is driven by the volume of foreign currency transactions and the foreign currency exchange rates for the period. See "Results of Operations - Net Sales" above for additional discussion on the impact of foreign exchange rates on our net sales of operations for the three and six months ended June 30, 2023.

Provision for Income Taxes. For the three months ended June 30, 2023 and 2022, our provision for income taxes reflected an effective tax rate of 6% and 28%, respectively. For the six months ended June 30, 2023 and 2022, our provision for income taxes reflected an effective tax rate of 10% and 21%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	Three Months Ended June 30, 2023	**Six months ended June 30, 2023**
	(Unaudited)	**(Unaudited)**
Effective tax rate at June 30, 2022	28 %	21 %
Employee share-based compensation	(21)	(9)
Global intangible low-taxed income deferred	(7)	(10)
Profits in foreign jurisdictions with rates lower than the statutory rate	(6)	(5)
Change in intercompany prepaid tax asset	(2)	(2)
Change in state income taxes, net of federal benefit	(1)	(1)
Nondeductible officer compensation	(1)	(1)
Change in enhanced deduction for certain research and development	(1)	(1)
Nondeductible acquisition expense	(1)	(1)
Research and development tax credits	1	1
Other	1	2
Foreign-derived intangible income deduction	3	3
Change in unrecognized tax benefits	4	4
Global intangible low-taxed income inclusion ("GILTI")	9	9
Effective tax rate at June 30, 2023	6 %	10 %

Other operational metrics

We believe that the following additional unaudited operational metrics assist investors in assessing our operational performance relative to others in our industry and to our historical results. The following tables provide details with respect to the amount of GAAP charges related to certain items that were recorded in the line items indicated below.

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(In thousands)	2023	2022	2023	2022
Stock-based compensation				
Cost of sales	$ 467	$ 1,253	$ 1,429	$ 2,475
Sales and marketing	5,792	7,202	10,727	14,291
Research and development	5,146	6,271	10,264	12,359
General and administrative	3,424	5,951	7,967	11,680
Provision for income taxes	(6,020)	(1,993)	(7,821)	(4,648)
Total	$ 8,809	$ 18,684	$ 22,566	$ 36,157

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(In thousands)	2023	2022	2023	2022
Amortization of acquisition-related intangibles and fair value adjustments				
Net sales	$ —	$ 371	$ —	$ 742
Cost of sales	$ 8,402	$ 6,415	$ 15,062	$ 10,218
Sales and marketing	4,694	5,573	9,267	11,712
Research and development	—	—	—	(320)
Other expense	320	503	753	1,019
Provision for income taxes	(2,014)	(2,094)	(3,505)	(3,530)
Total	$ 11,402	$ 10,768	$ 21,577	$ 19,841

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(In thousands)	2023	2022	2023	2022
Acquisition-related transaction and integration costs, restructuring charges, and other				
Cost of sales	$ 982	$ 1,159	$ 2,502	$ 1,944
Sales and marketing	3,225	2,339	9,169	2,646
Research and development	497	487	3,735	1,102
General and administrative	16,555	1,248	24,492	3,019
Other expense	48	(265)	(2,449)	(2,132)
Provision for income taxes	(4,569)	(779)	(8,867)	(1,356)
Total	$ 16,738	$ 4,189	$ 28,582	$ 5,223

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(In thousands)	2023	2022	2023	2022
Capitalization and amortization of internally developed software costs				
Cost of sales	$ 659	$ 1,896	$ 1,390	$ 3,929
Research and development	—	—	(910)	(187)
Provision for income taxes	(153)	(436)	(132)	(843)
Total	$ 506	$ 1,460	$ 348	$ 2,899

Liquidity and Capital Resources

Overview

At June 30, 2023, we had $139 million in cash and cash equivalents. Our cash and cash equivalent balances are held in numerous financial institutions throughout the world, including substantial amounts held outside of the U.S. The following table presents the geographic distribution of our cash and cash equivalents, as of June 30, 2023:

(in millions)	Domestic	International	Total
Cash and cash equivalents	$32.0	$107.2	$139.2
	23%	*77%*	

The following table presents our working capital and cash and cash equivalents:

(In thousands)	June 30, 2023 (unaudited)	December 31, 2022	Increase/ (Decrease)
Working capital (1)	$ 630,345	$ 566,044	$ 64,301
Cash and cash equivalents	139,243	139,799	(556)

(1) Includes current assets and current liabilities inclusive of cash and current portion of long-term debt

Our principal sources of liquidity include cash, cash equivalents, cash flows generated from our operations, cash generated from issuance of common stock through our employee stock purchase plan and available borrowings under the Credit Agreement. The primary drivers of the net increase in working capital between December 31, 2022 and June 30, 2023 were:

- Cash and cash equivalents decreased by $1 million for the six-month period ended June 30, 2023. Additional analysis of the changes in our cash flows for the period ended June 30, 2023 compared to the prior year period is discussed below;

- Accounts receivable, net decreased by $55 million. Days sales outstanding increased to 73 days at June 30, 2023, compared to 69 days at December 31, 2022. The decrease in accounts receivable is primarily related to quarterly fluctuations in our net sales;

- Inventory increased by $13 million. Inventory turns on a trailing twelve month basis were 1.1 at June 30, 2023 and 1.4 at December 31, 2022. The increase in inventory was primarily driven by component purchases and our recent acquisitions.

- Prepaid and other current assets increased by $8 million, which was primarily related to changes in the fair value of our derivative contracts and timing of prepayments for freight;

- Accounts payable increased by $6 million, which was primarily related to timing of payment for invoices outstanding;

- Accrued compensation decreased by $22 million, which was primarily related to annual payments under our variable compensation programs related to 2022 attainment, partially offset by accruals related to expected payouts under our 2023 variable compensation programs;

- The current portion of deferred revenue increased by $21 million, which was primarily related to prepayments received for a significant hardware and integration services project in our Transportation end market and the timing of enterprise agreement renewals;~~.~~

- Other taxes payable decreased by $12 million, which was primarily related to the timing of payments for VAT and other indirect taxes; and

- Other current liabilities decreased by $94 million which was primarily related to a large federal tax payment during the second quarter of 2023 related to the increase in taxable income from the required capitalization and amortization of R&D costs and changes in the fair value of derivatives related to our cash flow hedging program.

Analysis of Cash Flow

The following table summarizes our cash flow results for the six months ended June 30, 2023 and 2022.

(In thousands)	Six Months Ended June 30, (unaudited) 2023	2022
Cash provided by (used in) operating activities	$ 74,873	$ (44,902)
Cash used in investing activities	(63,237)	(99,976)
Cash (used in) provided by financing activities	(12,174)	48,825
Effect of exchange rate changes on cash	(18)	(4,180)
Net change in cash and cash equivalents	(556)	(100,233)
Cash and cash equivalents at beginning of period	139,799	211,106
Cash and cash equivalents at end of period	$ 139,243	$ 110,873

Operating Activities

Cash provided by operating activities is comprised of net income adjusted for certain items and changes in working capital. Cash flows from operating activities can fluctuate significantly from period to period as working capital needs and the timing of payments for income taxes, variable pay, restructuring activities, and other items impact reported cash flows.

Cash provided by operating activities for the six months ended June 30, 2023 increased by $120 million compared to the same period in 2022. This increase was primarily due to a $93 million improvement in the amount of cash outflows for changes in operating assets and liabilities, further described below and an increase of $25 million in net income adjusted for certain non-cash operating items, including stock-based compensation, depreciation and amortization, and gains on sale of assets/businesses:

- The aggregate of changes in accounts receivable, inventory and accounts payable provided net cash of $56 million during the six months ended June 30, 2023 compared to net cash used of $103 million in the comparable period in 2022. The amount of cash flow generated from or used by the aggregate of accounts receivable, inventory and accounts payable depends upon the cash conversion cycle, which represents the number of days that elapse from the day we pay for the purchase of raw materials and components to the collection of cash from our customers and can be significantly impacted by the timing of shipments and purchases, as well as collections and payments in a period. We have significantly decreased inventory purchases compared to 2022 to match current and anticipated demand for our products.

◦ The changes in accrued compensation used cash of $24 million during the six months ended June 30, 2023 compared to $54 million during the comparable period in 2022. The year over year change is primarily related to an decrease in payments under our variable pay programs due to 2022 attainment partially offset by an increase in accruals for our severance program.

◦ The aggregate of changes in prepaid assets, deferred revenue and other assets and liabilities used cash of $108 million during the six months ended June 30, 2023 compared to $14 million in the comparable period in 2022, primarily driven by federal tax payments made during the second quarter of 2023.

Investing Activities

Cash used in investing activities decreased by $37 million for the six months ended June 30, 2023 compared to the same period in 2022. This was primarily attributable to a $50 million decrease in cash outflows related to acquisitions and equity-method investments in the six months ended June 30, 2023 partially offset by an increase of $13 million related to capital expenditures and additions to intangible assets during the six months ended June 30, 2023, compared to the same period in 2022.

Financing Activities

Cash used in financing activities increased by $61 million for the six months ended June 30, 2023 compared to the same period in 2022. This was primarily related to a $128 million decrease in net borrowings under our Credit Facility ($48 million in net borrowings during 2023 compared to $175 million net borrowings during 2022) and $3 million for employee taxes related to net share settlement of certain equity awards during 2023, partially offset by a decrease in cash outflows of $70 million related to share repurchases in the comparable period of 2022. See Note 11 – Authorized shares of common and preferred stock and stock based compensation plans and Note 13 - Debt of Notes to Condensed Consolidated Financial Statements for additional discussion about our equity compensation plans and share repurchase program.

Contractual Cash Obligations. Information related to our contractual obligations as of December 31, 2022 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations,” in Part II-Item 7 of our Form 10-K. At June 30, 2023, there were no material changes outside the ordinary course of business to our contractual obligations from those reported in our Form 10-K. Refer to Note 8 - Leases of Notes to Condensed Consolidated Financial Statements for additional information regarding our non-cancellable operating lease obligations as of June 30, 2023.

Credit Agreement. Refer to Note 13 - Debt of Notes to Condensed Consolidated Financial Statements for additional details on the Credit Facility.

Off-Balance Sheet Arrangements. We do not have any off-balance sheet debt. At June 30, 2023, we did not have any relationships with any unconsolidated entities or financial partnerships, such as entities often referred to as structured finance entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we were engaged in such relationships.

Prospective Capital Needs. We believe that our existing cash, cash equivalents, cash generated from operations and available borrowing capacity under our Credit Facility will be sufficient to cover our working capital needs, capital expenditures, interest expense, investment requirements, commitments, and payment of dividends to our stockholders. Our ability to seek additional financing by (i) issuing additional equity or debt securities or (ii) obtaining additional credit financing, including through an increase of our revolver and/or term loan commitments under our Credit Facility, is restricted by the Merger Agreement with Emerson. See the section “Strategic Review and Merger Agreement with Emerson Electric Co.” above for more information on the Merger Agreement. If the Merger is not completed, we may also seek to pursue additional financing or to raise additional funds by seeking additional credit financing, including through an increase in revolving and/or term loan commitments under our Credit Facility or selling equity or debt to the public or in private transactions from time to time. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of our existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock.

Although we believe that we can fund our operating activities for at least the next 12 months, our future capital requirements may vary materially from those now planned. We anticipate that the amount of capital we will need in the future will depend on many factors, including:

- payment of dividends to our stockholders;
- interest expense paid on our Credit Facility;
- required levels of research and development and other operating costs;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- acquisitions of other businesses, assets, products or technologies;
- restructuring activities;
- expenses related to the announced merger with Emerson;
- the overall levels of sales of our products and gross profit margins;
- the levels of inventory and accounts receivable that we maintain;
- general economic and political uncertainty and specific conditions in the markets we address, including any volatility in the industrial economy in the various geographic regions in which we do business;
- the inability of certain of our customers who depend on credit to have access to their traditional sources of credit to finance the purchase of products from us, which may lead them to reduce their level of purchases or to seek credit or other accommodations from us;
- capital improvements for facilities; and
- our relationships with suppliers and customers.

Recently Issued Accounting Pronouncements

None.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Quantitative and qualitative disclosures about market risk appear in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in Part II of our Form 10-K and there were no material changes during the six months ended June 30, 2023 to this information reported in our Form 10-K.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of June 30, 2023, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of 2023, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. ***Legal Proceedings***

We are not currently a party to any material litigation. However, in the ordinary course of our business, we have in the past, are currently and will likely become involved in various legal proceedings, claims, and regulatory, tax or government inquiries and investigations, and could incur uninsured liability in any one or more of them. We also periodically receive notifications from various third parties related to alleged infringement of patents or intellectual property rights, commercial disputes or other matters. No assurances can be given with respect to the extent or outcome of any investigation, litigation or dispute.

Item 1A. ***Risk Factors***

Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of our Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price.

The following risk factors are provided to update the risk factors previously disclosed under the heading "Risk Factors" in our Form 10-K.

Risks Related to the Merger

The Merger is subject to a number of conditions to closing, which may not be satisfied on a timely basis or at all.

The Merger is subject to several closing conditions outlined in the Merger Agreement, including the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and the receipt of certain other regulatory approvals. The Company and Emerson made required filings under the HSR Act on April 26, 2023. The waiting period under the HSR Act expired on May 26, 2023. The obligation of each party to consummate the Merger is also conditioned upon the other party's representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Merger Agreement. There can be no assurance that these conditions will be satisfied in a timely manner or at all or that the Merger will be completed.

Failure to complete the Merger could adversely affect our financial results and our future business and operations.

There is no assurance that the Merger will be completed on the terms or timeline currently contemplated, or at all. Uncertainty about the effect of the Merger on our employees, customers, and other parties may have an adverse effect on our business, financial condition and results of operations regardless of whether the Merger is completed. Additionally, if the Merger is not completed for any reason, we would be subject to a number of risks, including the following:

- The actions required to complete the Merger will require significant resources and the focus of our leadership team and employees, which may reduce our ability to prioritize and focus on other important initiatives;
- Resulting negative customer perception could adversely affect our ability to compete for, or to win, new and renewal business in the marketplace;
- Our stockholders would not realize a cash payment of approximately $8.2 billion in the aggregate;
- We may be required to pay a termination fee of $310 million if the Merger Agreement is terminated in the case of certain events described in the Merger Agreement, including if we completed a transaction based on an alternative proposal;
- The trading price of our common stock may experience increased volatility to the extent that the current market prices reflect a market assumption that the Merger will be completed; or
- We could be subject to litigation from stockholders related to the Merger Agreement.

The occurrence of any of these events individually or in combination could have a material adverse effect on our financial condition, operations or the trading price of our common stock.

The pendency of the Merger could adversely affect our business.

In connection with the Merger, some of our suppliers and customers may delay or defer sales and purchasing decisions, which could negatively impact revenues, earnings and cash flows regardless of whether the Merger is completed. We have agreed to refrain from taking certain actions with respect to our business and financial affairs during the pendency of the Merger, and such restrictions could be in place for an extended period of time if completion of the Merger is delayed and could adversely impact our financial condition, liquidity, operations or cash flows. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business before completion of the Merger or termination of the Merger Agreement. These restrictions also limit our ability to seek additional financing by issuing additional equity or debt securities or obtaining additional credit financing, including through an increase of our revolver and/or term loan commitments under our Credit Facility. The process of seeking to accomplish the Merger could also divert the focus of our management from pursuing other opportunities that could be beneficial to us.

The pursuit of the Merger and the preparation for the integration into Emerson's business have placed, and will continue to place, a significant burden on our management and internal resources. There is a significant degree of difficulty and management distraction inherent in the process of seeking to close the Merger and integrate Emerson's business, which could cause an interruption of, or loss of momentum in, the activities of our existing business, regardless of whether the Merger is eventually completed. Our management team will be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our existing businesses, service existing customers, attract new customers and develop new products, services or strategies. The Merger may also adversely impact productivity of employees due to the distractions caused by the Merger's uncertainty.

We may be unable to attract and retain key employees during the pendency of the Merger.

In connection with the Merger, our current employees and any prospective employees may experience uncertainty about their future roles following the Merger, which may adversely affect our ability to attract and retain personnel during the pendency of the Merger. Even though we have implemented a retention plan for key personnel, key employees may depart because of issues related to the uncertainty and difficulty of integration. The departure of existing key employees or the failure of potential key employees to accept employment, despite our recruiting efforts, could have a material adverse impact on our business, financial condition and operating results, regardless of whether the Merger is eventually completed.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information as of June 30, 2023 with respect to the shares of our common stock that we repurchased under our stock repurchase programs during the second quarter of 2023.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares of common stock that may yet be purchased under the plans or programs (1)
April 1, 2023 to April 30, 2023	—	$ —	—	$ 109,281,700
May 1, 2023 to May 31, 2023	—	$ —	—	$ 109,281,700
June 1, 2023 to June 30, 2023	—	$ —	—	$ 109,281,700
Total	—	$ —	—	$ 109,281,700

(1) On January 19, 2022, our Board of Directors approved a stock repurchase program for up to $250 million of our common stock. The new stock repurchase plan does not have an expiration date, but we are restricted from making additional repurchases of our common stock pursuant to the Merger Agreement with Emerson.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2023, Eric Starkloff, our President and Chief Executive Officer, had an equity trading plan in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act (“Starkloff 10b5-1 Plan”). An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future sales of the Company’s stock. The Starkloff 10b5-1 Plan was originally adopted on May 2, 2022 and expired in accordance with its terms effective April 28, 2023. The maximum number of securities to be sold under the Starkloff 10b5-1 Plan was 20,000 shares (of which 11,700 shares were sold). None of the Company’s other directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company’s securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement.

Amendment to Terms of Equity Awards

As previously disclosed, pursuant to the Merger Agreement, we may amend the terms of any equity awards that do not vest upon the closing of the transactions contemplated thereby to provide that such awards will fully vest upon the holder’s termination of employment without cause, for good reason or due to death or disability, in each case generally within 24 months following the closing (i.e., double-trigger). On July 25, 2023, we implemented the foregoing amendment.

The foregoing description of the amendment does not purport to be complete and is qualified in its entirety by reference to full text of the Notice of Amendment of LTI Awards, which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Item 6. ***Exhibits***

EXHIBITS

2.1(1)	Agreement and Plan of Merger, dated as of April 12, 2023, by and among the Company, Parent and Merger Subsidiary
3.1(2)	Certificate of Incorporation, as amended, of the Company, effective May 14, 2013
3.2(3)	Amended and Restated Bylaws of the Company, effective August 1, 2021
4.1(4)	Amendment No. 1, dated as of April 12, 2023, to that certain Rights Agreement, dated as of January 13, 2023, between the Company and Computershare Trust Company, N.A., as rights agent
10.1(5)†	Executive Employment Agreement between the Company and Thomas Benjamin, effective as of April 25, 2023
10.2*†	Notice of Amendment of LTI Awards, effective as of July 25, 2023
31.1*	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, “Financial Statements” of this Quarterly Report on Form 10-Q
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
(1)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K filed on April 12, 2023 (File No. 000-25426)
(2)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 10-K for the fiscal year ended December 31, 2013 on February 20, 2014 (File No. 000-25426)
(3)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 10-Q on August 2, 2021 (File No. 000-25426)
(4)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K filed on April 12, 2023 (File No. 000-25426)
(5)	Incorporated by reference to Exhibit 10.2 filed with the Company’s Form 10-Q on April 28, 2023 (File No. 000-25426)

*Filed herewith

**Furnished herewith

† Management Contract or Compensatory Plan or Arrangement

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 28, 2023

NATIONAL INSTRUMENTS CORPORATION
By: /s/ Daniel Berenbaum
Daniel Berenbaum
EVP, Chief Financial Officer
(Principal Financial Officer)

[Adoption Pursuant to the Terms of the Merger Agreement]
[DATE]

Notice of Amendment of LTI Awards

On April 12, 2023, National Instruments Corporation (the "**Company**") entered into an Agreement and Plan of Merger (the "**Merger Agreement**") with Emerson Electric Co. ("**Emerson**"), pursuant to which the Company will become a wholly owned subsidiary of Emerson. This notice amends the terms of all outstanding cash-based long-term incentive awards and restricted stock unit awards granted by the Company that will not be settled upon the closing (the "**Closing**") of the transactions contemplated by the Merger Agreement and applies to any cash-based long-term incentive awards or restricted stock unit awards that may be granted by the Company following the date of this notice and prior to the Closing and that will not be settled upon the Closing (such awards collectively, the "**LTI Awards**"), in each case effective upon and subject to the Closing.

Notwithstanding anything to the contrary in the equity incentive plans or applicable award agreements or otherwise, in the event of a termination of employment with the Company or its affiliates without Cause (as defined in the Company's 2022 Equity Incentive Plan), for Good Reason or due to death or Disability (as defined in the Company's 2022 Equity Incentive Plan), in each case within 24 months [(or solely with respect to prong (C) of the definition of "Good Reason," 18 months)][1] following the Closing, any outstanding and unvested LTI Awards (including Emerson restricted stock unit awards into which Company restricted stock unit awards are converted pursuant to the Merger Agreement) shall become fully vested upon such termination.

For purposes of this notice, "**Good Reason**" shall mean the applicable award holder's resignation within 30 days following the expiration of any Company cure period (as discussed below) following the occurrence of one or more of the following, without his or her written consent: (A) a material reduction by the Company in his or her base salary or wage rate or target bonus as in effect immediately prior to such reduction, other than a reduction of up to 25% that is also applied to other similarly situated employees of the Company and its affiliates; (B) the Company's relocation of the applicable holder to a facility or a location more than one hundred (100) miles from his or her then-present location; or [(C) a material diminution of the applicable holder's authority relative to his or her authority in effect immediately prior to such diminution; provided, however, that a reduction in his or her authority, duties, or responsibilities solely by virtue of the Company being acquired (including in connection with the transactions contemplated by the Merger Agreement) and made part of a larger entity (including, for the avoidance of doubt, Emerson and its subsidiaries) does not constitute "Good Reason" (for example, "Good Reason" does not exist if the applicable holder is employed by the Company with substantially the same responsibilities with respect to the Company's business that he or she had immediately prior to the Closing regardless of whether his or her title, authorities, duties, responsibilities or reporting relationship is revised to reflect his or her placement, solely by virtue of the transaction, within the overall corporate hierarchy of Emerson and its subsidiaries (and no longer to a public company) or whether he or she provides services to a subsidiary, affiliate, business unit, or otherwise of Emerson and its subsidiaries (and no longer to a public company))][2]. The applicable holder's resignation will not be deemed to be for Good Reason unless he or she has first provided the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within 30 days of the initial existence of such grounds and a reasonable cure period of not less than 30 days following the date the Company receives such notice, and such condition has not been cured during such period.

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[1] Bracketed text only to be included for employees at the Vice President level or above.
[2] Prong (C) only to be included for employees at the Vice President level or above.

Except as provided herein, the terms of the LTI Awards as set forth in the Company's equity incentive plans or applicable award agreements shall remain in full force and effect. Without limiting the generality of the foregoing, terms of this notice are in addition to, and shall not impair or reduce an award holder's rights with respect to, any termination vesting provisions otherwise applicable to an LTI Award.

This notice is binding upon any successor of the Company or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company would be obligated if no succession had taken place. The term "Company," as used in this notice, shall mean the Company as defined above and any successor or assignee to the business or assets of the Company which by reason hereof becomes bound by this notice.

* * *

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric Starkloff, certify that:

1. I have reviewed this report on Form 10-Q of National Instruments Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2023

By: /s/ Eric Starkloff
Eric Starkloff
Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Berenbaum, certify that:

1. I have reviewed this report on Form 10-Q of National Instruments Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2023

By: /s/ Daniel Berenbaum
Daniel Berenbaum
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric Starkloff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of National Instruments Corporation on Form 10-Q for the fiscal quarter ended June 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of National Instruments Corporation.

By: /s/ Eric Starkloff
Eric Starkloff
Chief Executive Officer
Date: July 28, 2023

I, Daniel Berenbaum, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of National Instruments Corporation on Form 10-Q for the fiscal quarter ended June 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of National Instruments Corporation.

By: /s/ Daniel Berenbaum
Daniel Berenbaum
Chief Financial Officer
Date: July 28, 2023