UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2021

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	Nasdaq Stock Market

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 October 28, 2021
Common Stock, $0.01 par value	131,881,802

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PART I - FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2021	December 31, 2020
Assets	**(unaudited)**	
Cash and cash equivalents	$ 230,697	$ 260,232
Short-term investments	—	59,923
Accounts receivable, net	279,196	266,869
Inventories, net	236,733	194,012
Prepaid expenses and other current assets	89,152	68,470
Total current assets	835,778	849,506
Property and equipment, net	248,712	254,399
Goodwill	480,489	467,547
Intangible assets, net	136,938	172,719
Operating lease right-of-use assets	56,644	67,674
Other long-term assets	79,850	72,643
Total assets	$ 1,838,411	$ 1,884,488
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	$ 63,568	$ 51,124
Accrued compensation	87,802	87,068
Deferred revenue - current	120,762	132,151
Operating lease liabilities - current	12,360	15,801
Other taxes payable	43,673	48,129
Debt, current	—	5,000
Other current liabilities	25,162	42,578
Total current liabilities	353,327	381,851
Deferred income taxes	26,023	25,288
Income tax payable - non-current	54,195	61,623
Deferred revenue - non-current	32,278	36,335
Operating lease liabilities - non-current	29,206	35,854
Debt, non-current	100,000	92,036
Other long-term liabilities	16,910	26,630
Total liabilities	611,939	659,617
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; 132,622,234 shares and 131,246,615 shares issued and outstanding, respectively	1,326	1,312
Additional paid-in capital	1,109,918	1,033,284
Retained earnings	132,404	211,101
Accumulated other comprehensive loss	(17,176)	(20,826)
Total stockholders’ equity	1,226,472	1,224,871
Total liabilities and stockholders’ equity	$ 1,838,411	$ 1,884,488

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales:				
Product	$ 325,724	$ 269,651	$ 927,307	$ 809,890
Software maintenance	41,438	38,473	121,733	108,944
Total net sales	367,162	308,124	1,049,040	918,834
Cost of sales:				
Product	99,072	88,370	286,485	254,236
Software maintenance	3,643	3,893	10,882	7,689
Total cost of sales	102,715	92,263	297,367	261,925
Gross profit	264,447	215,861	751,673	656,909
Operating expenses:				
Sales and marketing	117,065	109,774	345,048	330,939
Research and development	82,165	70,802	243,685	206,648
General and administrative	31,037	37,431	94,672	92,980
Total operating expenses	230,267	218,007	683,405	630,567
Gain on sale of business/assets	—	—	—	159,753
Operating income	34,180	(2,146)	68,268	186,095
Other expense	(1,820)	(2,001)	(9,851)	(2,584)
Income before income taxes	32,360	(4,147)	58,417	183,511
Provision for income taxes	5,183	475	9,438	44,588
Net income (loss)	$ 27,177	$ (4,622)	$ 48,979	$ 138,923
Basic earnings per share	$ 0.20	$ (0.04)	$ 0.37	$ 1.06
Weighted average shares outstanding - basic	133,031	131,419	132,657	131,017
Diluted earnings per share	$ 0.20	$ (0.04)	$ 0.37	$ 1.06
Weighted average shares outstanding - diluted	133,686	131,419	133,829	131,671
Dividends declared per share	$ 0.27	$ 0.26	$ 0.81	$ 0.78

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net income (loss)	$ 27,177	$ (4,622)	$ 48,979	$ 138,923
Other comprehensive (loss) income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	(5,675)	8,483	(10,585)	6,507
Unrealized loss on securities available-for-sale	(21)	(163)	(162)	(317)
Unrealized gain (loss) on derivative instruments	4,243	(9,530)	18,605	(10,128)
Other comprehensive income (loss), before tax	(1,453)	(1,210)	7,858	(3,938)
Tax expense (benefit) related to items of other comprehensive income	948	(2,335)	4,208	(2,268)
Other comprehensive (loss) income, net of tax	(2,401)	1,125	3,650	(1,670)
Comprehensive income (loss)	$ 24,776	$ (3,497)	$ 52,629	$ 137,253

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

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

	Nine Months Ended September 30,	
	2021	2020
Cash flow from operating activities:		
Net income	$ 48,979	$ 138,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Disposal gain on sale of business/assets	—	(159,753)
Depreciation and amortization	73,418	61,228
Stock-based compensation	56,064	42,556
Loss from equity-method investees	5,082	2,559
Deferred income taxes	(2,030)	(932)
Changes in operating assets and liabilities	(95,477)	24,203
Net cash provided by operating activities	86,036	108,784
Cash flow from investing activities:		
Acquisitions, net of cash received	(19,784)	(334,981)
Capital expenditures	(26,147)	(36,573)
Proceeds from sale of assets/business, net of cash divested	—	160,266
Capitalization of internally developed software	(1,246)	(2,806)
Additions to other intangibles	(2,317)	(1,045)
Payments to acquire equity-method investments	(15,753)	(7,502)
Purchases of short-term investments	—	(206,330)
Sales and maturities of short-term investments	59,714	351,597
Net cash used in investing activities	(5,533)	(77,374)
Cash flow from financing activities:		
Proceeds from revolving line of credit	100,000	20,000
Proceeds from term loan	—	70,000
Payments on term loan	(98,750)	(875)
Debt issuance costs	(1,993)	(1,480)
Proceeds from issuance of common stock	25,438	24,971
Repurchase of common stock	(25,000)	(39,244)
Dividends paid	(107,397)	(102,396)
Net cash used in financing activities	(107,702)	(29,024)
Effect of exchange rate changes on cash	(2,336)	317
Net change in cash and cash equivalents	(29,535)	2,703
Cash and cash equivalents at beginning of period	260,232	194,616
Cash and cash equivalents at end of period	$ 230,697	$ 197,319

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

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

September 30, 2021
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at June 30, 2021	132,980,932	$ 1,330	$ 1,087,622	$ 161,475	$ (14,775)	$ 1,235,652
Net income	—	—	—	27,177	—	27,177
Other comprehensive loss, net of tax	—	—	—	—	(2,401)	(2,401)
Issuance of common stock under employee plans	240,368	2	8,197	—	—	8,199
Stock-based compensation	—	—	18,814	—	—	18,814
Repurchase of common stock	(599,066)	(6)	(4,715)	(20,279)	—	(25,000)
Dividends paid (1)	—	—	—	(35,969)	—	(35,969)
Balance at September 30, 2021	132,622,234	1,326	1,109,918	132,404	(17,176)	1,226,472

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2020	131,246,615	1,312	1,033,284	211,101	(20,826)	1,224,871
Net income	—	—	—	48,979	—	48,979
Other comprehensive gain, net of tax	—	—	—	—	3,650	3,650
Issuance of common stock under employee plans	1,974,685	20	25,418	—	—	25,438
Stock-based compensation	—	—	55,931	—	—	55,931
Repurchase of common stock	(599,066)	(6)	(4,715)	(20,279)	—	(25,000)
Dividends paid (1)	—	—	—	(107,397)	—	(107,397)
Balance at September 30, 2021	132,622,234	$ 1,326	$ 1,109,918	$ 132,404	$ (17,176)	$ 1,226,472

(1) Cash dividends declared per share of common stock were $0.27 for the three months ended September 30, 2021, and $0.81 for the nine months ended September 30, 2021.

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

	September 30, 2020 (Unaudited)					
	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at June 30, 2020	131,436,108	$ 1,314	$ 993,058	$ 299,132	$ (23,865)	$ 1,269,639
Net loss	—	—	—	(4,622)	—	(4,622)
Other comprehensive gain, net of tax	—	—	—	—	1,125	1,125
Issuance of common stock under employee plans	256,034	2	7,715	—	—	7,717
Stock-based compensation	—	—	15,142	—	—	15,142
Repurchase of common stock	(446,502)	(4)	(3,259)	(12,300)	—	(15,563)
Dividends paid (1)	—	—	—	(34,240)	—	(34,240)
Balance at September 30, 2020	131,245,640	1,312	1,012,656	247,970	(22,740)	1,239,198

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2019	130,504,535	1,305	953,578	242,537	(21,070)	1,176,350
Net income	—	—	—	138,923	—	138,923
Other comprehensive loss, net of tax	—	—	—	—	(1,670)	(1,670)
Issuance of common stock under employee plans	1,855,806	18	24,953	—	—	24,971
Stock-based compensation	—	—	42,264	—	—	42,264
Repurchase of common stock	(1,114,701)	(11)	(8,139)	(31,094)	—	(39,244)
Dividends paid (1)	—	—	—	(102,396)	—	(102,396)
Balance at September 30, 2020	131,245,640	$ 1,312	$ 1,012,656	$ 247,970	$ (22,740)	$ 1,239,198

(1) Cash dividends declared per share of common stock were $0.26 for the three months ended September 30, 2020, and $0.78 for the nine months ended September 30, 2020.

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

NATIONAL INSTRUMENTS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2020, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 23, 2021 (the "Form 10-K"). In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at September 30, 2021 and December 31, 2020, the results of our operations and comprehensive income for three and nine months ended September 30, 2021 and 2020, our cash flows for the nine months ended September 30, 2021 and 2020 and our statement of stockholders' equity for the three and nine months ended September 30, 2021 and 2020. Our operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. 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.

Recently Adopted Accounting Pronouncements

Clarification of Equity Method Transition

In January 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-01, "Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815," which clarifies the interaction of the accounting for equity investments under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. We adopted ASU 2020-01 on January 1, 2021, and the new standard did not have a material impact on our consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

Although there are several other accounting pronouncements recently issued by the FASB, we do not expect the adoption of any of these accounting pronouncements had or will have a material impact on our consolidated financial statements.

Summary of Significant Accounting Policies

There were no changes in our significant accounting policies during the three and nine months ended September 30, 2021 compared to the significant accounting policies described in our Form 10-K.

Divestitures

AWR

On January 15, 2020, we completed the sale of our AWR Corporation subsidiary ("AWR") for approximately $161 million. We recognized a gain of approximately $160 million on the sale. The gain is included within "Gain on sale of business/assets" in the consolidated statements of income, which also included approximately $1 million of transaction costs.

The divestiture of AWR resulted in the derecognition of the following assets and liabilities:

(In thousands)		
Cash	$	1,027
Accounts receivable, net		7,233
Prepaid and other current assets		283
Goodwill		7,221
Other non-current assets		556
Total Assets		16,320
Deferred revenue		15,296
Other current liabilities		940
Cumulative translation adjustment		(660)
Total liabilities and stockholders' equity		15,576
Total assets divested, net (including cash)	$	744

Other (Expense) Income

Other expense, net consisted of the following amounts:

(In thousands)	**Three Months Ended September 30, (Unaudited)**		**Nine Months Ended September 30, (Unaudited)**	
	2021	**2020**	**2021**	**2020**
Interest income	$ 56	$ 414	$ 330	$ 3,724
Interest expense	(657)	(973)	(2,584)	(1,115)
Gain (loss) from equity-method investments	278	(627)	(5,082)	(2,559)
Net foreign exchange loss	(1,226)	(676)	(2,681)	(2,019)
Other	(271)	(139)	166	(615)
Other expense, net	$ (1,820)	$ (2,001)	$ (9,851)	$ (2,584)

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 restricted stock units ("RSUs"), is computed using the treasury stock method. The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and nine months ended September 30, 2021 and 2020 are as follows (in thousands):

	Three Months Ended September 30, (Unaudited)		**Nine Months Ended September 30, (Unaudited)**	
	2021	**2020**	**2021**	**2020**
Weighted average shares outstanding-basic	133,031	131,419	132,657	131,017
Plus: Common share equivalents				
RSUs	655	—	1,172	654
Weighted average shares outstanding-diluted	133,686	131,419	133,829	131,671

Shares issuable upon vesting of RSU awards of 143,000 shares and 3,490,700 shares for the three months ended September 30, 2021 and 2020, respectively, and 123,000 shares and 276,000 shares for the nine months ended September 30, 2021 and 2020, respectively, were excluded in the computations of diluted EPS because the effect of including the stock awards would have been anti-dilutive.

Other Current Liabilities

Other current liabilities on our consolidated balance sheet includes the following amounts:

(In thousands)	As of September 30, 2021 (unaudited)	As of December 31, 2020
Income taxes payable - current	$ 2,590	$ 13,72
Hedge payable - current	6,058	13,03
Other	16,514	15,82
Total	$ 25,162	$ 42,57

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) and geographic region based on the billing location of the customer. We sell our products in the following three geographic regions: the Americas; Europe, Middle East and Africa region ("EMEA"); and Asia-Pacific region ("APAC").

Total net sales based on the disaggregation criteria described above are as follows:

(In thousands)	Three Months Ended September 30, (Unaudited)					
	2021			2020		
Net sales:	**Point-in-Time[(1)]**	**Over Time**	**Total**	**Point-in-Time[(1)]**	**Over Time**	**Total**
Americas	$ 125,069	$ 23,835	$ 148,904	$ 107,808	$ 19,241	$ 127,049
EMEA	72,430	22,433	94,863	57,988	20,551	78,539
APAC	112,931	10,464	123,395	92,050	10,486	102,536
Total net sales[(1)]	$ 310,430	$ 56,732	$ 367,162	$ 257,846	$ 50,278	$ 308,124

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

(In thousands)	Nine Months Ended September 30, (Unaudited)					
	2021			2020		
Net sales:	**Point-in-Time[1]**	**Over Time**	**Total**	**Point-in-Time[1]**	**Over Time**	**Total**
Americas	$ 341,870	$ 68,436	$ 410,306	$ 316,220	$ 57,554	$ 373,774
EMEA	204,786	64,769	269,555	181,330	58,594	239,924
APAC	337,455	31,724	369,179	274,341	30,795	305,136
Total net sales[1]	$ 884,111	$ 164,929	$ 1,049,040	$ 771,891	$ 146,943	$ 918,834

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

Information about Contract Balances

Amounts collected 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, such as invoicing at the beginning of a subscription term with a portion of the revenue recognized ratably over the contract period, or to provide customers with financing, such as multi-year on-premises licenses that are invoiced annually with revenue recognized upfront.

Changes in deferred revenue, current and non-current, during the nine months ended September 30, 2021 were as follows:

(In thousands)	Amount
Balance as of December 31, 2020	$ 168,486
Deferral of revenue billed in current period, net of recognition	104,092
Recognition of revenue deferred in prior periods	(115,999)
Foreign currency translation impact	(3,539)
Balance as of September 30, 2021 (unaudited)	$ 153,040

For the nine months ended September 30, 2021, 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 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 nine months ended September 30, 2021, 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 $61 million as of September 30, 2021. Since we typically invoice customers at contract inception, this amount is included in our current and non-current deferred revenue balances. As of September 30, 2021, we expect to recognize approximately 14% of the revenue related to these unsatisfied performance obligations during the remainder of 2021, 45% during 2022, and 41% 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 consolidated balance sheets.

Note 3 – Investments

The following tables summarize unrealized gains and losses related to our short-term investments designated as available-for-sale debt securities:

(In thousands)	As of September 30, 2021 (Unaudited)			
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate bonds	$ —	$ —	$ —	$ —
Total short-term investments	$ —	$ —	$ —	$ —

(In thousands)	As of December 31, 2020			
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate bonds	$ 59,761	$ 163	$ (1)	$ 59,923
Total short-term investments	$ 59,761	$ 163	$ (1)	$ 59,923

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

(In thousands)	As of September 30, 2021 (Unaudited)	
Due in less than 1 year	Adjusted Cost	Fair Value
Corporate bonds	$ —	$ —
Total available-for-sale debt securities	$ —	$ —

Equity-Method Investments

The carrying value of our equity method investments was $33 million and $25 million as of September 30, 2021 and December 31, 2020, respectively. During the first quarter of 2021, we determined there was an other than temporary impairment for one of our equity-method investments, based on revised forecasts. We recorded a $3.5 million impairment loss related to this investment during the three months ended March 31, 2021. Our proportionate share of the income/(loss) from equity-method investments is included within "Other expense". Refer to Note 1 - Basis of Presentation of Notes to Consolidated Financial Statements for additional information on these amounts for the three and nine months ended September 30, 2021 and 2020.

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	**September 30, 2021**	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Money market funds	$ 113,553	$ 113,553	$ —	$ —
Other assets				
Derivatives	10,453	—	10,453	—
Total Assets	$ 124,006	$ 113,553	$ 10,453	$ —
Liabilities				
Derivatives	$ (7,528)	$ —	$ (7,528)	$ —
Total Liabilities	$ (7,528)	$ —	$ (7,528)	$ —

(In thousands)	**Fair Value Measurements at Reporting Date Using**			
Description	**December 31, 2020**	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Money market funds	$ 145,466	$ 145,466	$ —	$ —
Short-term investments available for sale:				
Corporate bonds	59,923	—	59,923	—
Other assets				
Derivatives	6,124	—	6,124	—
Total Assets	$ 211,513	$ 145,466	$ 66,047	$ —
Liabilities				
Derivatives	$ (19,359)	$ —	$ (19,359)	$ —
Total Liabilities	$ (19,359)	$ —	$ (19,359)	$ —

We value our available-for-sale short-term investments based on pricing from third party pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. We classify all of our fixed income available-for-sale securities as having Level 2 inputs. 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. We believe all of these sources reflect the credit risk associated with each of our available-for-sale short-term investments. Short-term investments available-for-sale consists of debt securities issued by states of the U.S. and political subdivisions of the U.S., corporate debt securities and debt securities issued by U.S. government organizations and agencies. All of our short-term investments available-for-sale have contractual maturities of less than 60 months as of December 31, 2020.

Derivatives include foreign currency forward contracts. Our foreign currency forward contracts 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 nine months ended September 30, 2021. There were no transfers in or out of Level 1 or Level 2 during the nine months ended September 30, 2021.

We did not have any items that were measured at fair value on a nonrecurring basis at September 30, 2021 and December 31, 2020. The carrying value of net accounts receivable, accounts payable, and long-term debt contained in the 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 59% and 59% of our net sales during the three months ended September 30, 2021 and 2020, respectively, and approximately 61% and 59% during the nine months ended September 30, 2021 and 2020, 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.

We maintain a foreign currency risk management strategy that uses derivative instruments (foreign currency forward contracts) to help protect our earnings and cash flows from fluctuations caused by the volatility in currency exchange rates. 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.

The vast majority of our foreign sales are denominated in the customers' local currency. We use foreign currency forward contracts as hedges of forecasted sales 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 resulting from such sales or firm commitments will be adversely affected by changes in exchange rates. We also use foreign currency forward contracts as hedges of forecasted expenses that are denominated in foreign currencies. These contracts are entered into to help protect against the risk that the eventual dollar-net-cash outflows resulting from foreign currency operating and cost of sales expenses 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 protect against the reduction in value caused by a fluctuation 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 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. 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 September 30, 2021 (Unaudited)	**As of December 31, 2020**
British pound	$ 31,445	$ 25,133
Chinese yuan	96,205	45,553
Euro	176,759	219,115
Hungarian forint	64,928	82,429
Japanese yen	53,798	73,399
Korean won	24,092	22,301
Malaysian ringgit	34,536	36,249
Total forward contracts notional amount	$ 481,763	$ 504,179

The contracts in the foregoing table had contractual maturities of 27 months or less at September 30, 2021 and 36 months or less at December 31, 2020.

At September 30, 2021, we expect to reclassify $3.7 million of gains on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, $1.0 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 $0.7 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 September 30, 2021. Actual results may vary materially as a result of changes in the corresponding exchange rates subsequent to this date.

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 September 30, 2021 and December 31, 2020, we held foreign currency forward contracts that were not designated as hedging instruments with a notional amount of $102 million and $89 million, respectively.

The following tables present the fair value of derivative instruments on our Consolidated Balance Sheets at September 30, 2021 and December 31, 2020, respectively.

	Asset Derivatives				
(In thousands)		September 30, 2021 (Unaudited)		December 31, 2020	
	Balance Sheet Location	Fair Value		Fair Value	
Derivatives designated as hedging instruments					
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$	6,118	$	1,564
Foreign exchange contracts - LT forwards	Other long-term assets		3,915		3,117
Total derivatives designated as hedging instruments		$	10,033	$	4,681
Derivatives not designated as hedging instruments					
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$	420	$	1,443
Total derivatives not designated as hedging instruments		$	420	$	1,443
Total derivatives		$	10,453	$	6,124

	Liability Derivatives				
(In thousands)		September 30, 2021 (Unaudited)		December 31, 2020	
	Balance Sheet Location	Fair Value		Fair Value	
Derivatives designated as hedging instruments					
Foreign exchange contracts - ST forwards	Other current liabilities	$	(4,166)	$	(12,549)
Foreign exchange contracts - LT forwards	Other long-term liabilities		(1,470)		(6,328)
Total derivatives designated as hedging instruments		$	(5,636)	$	(18,877)
Derivatives not designated as hedging instruments					
Foreign exchange contracts - ST forwards	Other current liabilities	$	(1,892)	$	(482)
Total derivatives not designated as hedging instruments		$	(1,892)	$	(482)
Total derivatives		$	(7,528)	$	(19,359)

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the three months ended September 30, 2021 and 2020, respectively:

September 30, 2021
(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	$ 7,400	Net sales	$ (815)
Foreign exchange contracts - forwards	(1,869)	Cost of sales	(73)
Foreign exchange contracts - forwards	(1,288)	Operating expenses	(88)
Total	$ 4,243		$ (976)

September 30, 2020
(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	$ (12,524)	Net sales	$ 334
Foreign exchange contracts - forwards	1,849	Cost of sales	(448)
Foreign exchange contracts - forwards	1,145	Operating expenses	(266)
Total	$ (9,530)		$ (380)

(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
		September 30, 2021 (Unaudited)	**September 30, 2020 (Unaudited)**
Foreign exchange contracts - forwards	Other expense	$ (1,679)	(267)
Total		$ (1,679)	$ (267)

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the nine months ended September 30, 2021 and 2020, respectively:

September 30, 2021
(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	$ 23,098	Net sales	$ (5,249)
Foreign exchange contracts - forwards	(2,675)	Cost of sales	(73)
Foreign exchange contracts - forwards	(1,819)	Operating expenses	(70)
Total	$ 18,604		$ (5,392)

September 30, 2020
(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	$ (6,800)	Net sales	$ 5,594
Foreign exchange contracts - forwards	(1,898)	Cost of sales	(1,817)
Foreign exchange contracts - forwards	(1,430)	Operating expenses	(1,348)
Total	$ (10,128)		$ 2,429

(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
		September 30, 2021 (Unaudited)	**September 30, 2020 (Unaudited)**
Foreign exchange contracts - forwards	Other expense	$ (3,942)	$ (163)
Total		$ (3,942)	$ (163)

Note 6 – Inventories, net

Inventories, net consist of the following:

(In thousands)	September 30, 2021 (Unaudited)	December 31, 2020
Raw materials	$ 131,725	$ 99,942
Work-in-process	11,458	11,307
Finished goods	93,550	82,763
Total	$ 236,733	$ 194,012

Note 7 – Intangible assets, net and goodwill

Intangible assets at September 30, 2021 and December 31, 2020 are as follows:

(In thousands)	September 30, 2021 (Unaudited)			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	$ 82,099	$ (68,074)	$ 14,025	$ 115,251	$ (83,706)	$ 31,545
Acquired technology	98,900	(19,017)	79,883	105,486	(17,913)	87,573
Customer relationships	39,747	(15,274)	24,473	40,273	(10,026)	30,247
Patents	35,923	(28,737)	7,186	35,803	(25,578)	10,225
Other	26,885	(15,514)	11,371	27,440	(14,311)	13,129
Total	$ 283,554	$ (146,616)	$ 136,938	$ 324,253	$ (151,534)	$ 172,719

Software development costs capitalized for the three months ended September 30, 2021 and 2020 were $0.6 million and $(0.2) million, respectively, and related amortization expense was $5.6 million and $6.9 million, respectively. For the nine months ended September 30, 2021 and 2020, capitalized software development costs were $1.4 million and $3.1 million, respectively, and related amortization expense was $18.9 million and $21.6 million, respectively. Capitalized software development costs for the three months ended September 30, 2021 and 2020 included costs related to stock-based compensation of less than $0.1 million and $0.1 million, respectively. For the nine months ended September 30, 2021 and 2020, capitalized software development costs included costs related to stock-based compensation of $0.2 million and $0.3 million, respectively. The related amounts in the table above are net of fully amortized assets.

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 $13.4 million and $14.2 million for the three months ended September 30, 2021 and 2020, respectively, and $43.3 million and $32.9 million for the nine months ended September 30, 2021 and 2020, respectively.

Goodwill

The carrying amount of goodwill as of September 30, 2021, was as follows:

(In thousands)		Amount
Balance as of December 31, 2020	$	467,547
Acquisitions		16,893
Measurement period adjustments		1,973
Foreign currency translation impact		(5,924)
Balance as of September 30, 2021 (unaudited)	$	480,489

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 nine months ended September 30, 2021 or the twelve months ended December 31, 2020.

Note 8 – Leases

We have operating leases for corporate offices, automobiles, and certain equipment. Our leases have remaining terms of 1 year to 93 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				Nine Months Ended			
(In thousands)	September 30, 2021		September 30, 2020		September 30, 2021		September 30, 2020	
Operating Lease Cost (1)	$	5,174	$	4,869	$	15,712	$	15,941

(1) Includes variable and short-term lease costs

Maturities of lease liabilities as of September 30, 2021 were as follows (unaudited):

(In thousands) **Years ending December 31,**		**Operating Leases**
2021 (Excluding the nine months ended September 30, 2021)	$	4,419
2022		12,815
2023		8,638
2024		7,445
2025		4,949
Thereafter		7,067
Total future minimum lease payments		45,333
Less imputed interest		(3,767)
Total lease liabilities	$	41,566

As of September 30, 2021, we have additional operating leases that have not commenced during the nine months ended September 30, 2021, 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 $94 million and $93 million at September 30, 2021 and December 31, 2020, 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 $10.9 million and $10.5 million of gross unrecognized tax benefits at September 30, 2021 and December 31, 2020, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of $0.2 million for the three months ended September 30, 2021, as a result of the tax positions taken during prior periods. As of September 30, 2021, it is reasonably possible that we will recognize gross tax benefits in the amount of $1.4 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 September 30, 2021, we recognized interest expense related to uncertain tax positions of approximately $40,000. As of September 30, 2021, we had approximately $0.5 million accrued for interest related to uncertain tax positions. The tax years 2014 through 2021 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 16% and (11)% for the three months ended September 30, 2021 and 2020, respectively, and 16% and 24% for the nine months ended September 30, 2021 and 2020, respectively. For the three months ended September 30, 2021, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of an enhanced deduction for certain research and development expenses, the U.S. research and development tax credit, foreign taxes lower than the statutory rate and the deduction for foreign-derived intangible income, offset by the U.S. tax on global intangible low-taxed income, state income taxes net of federal benefit, nondeductible officer compensation and excess tax expense from share-based compensation. For the nine months ended September 30, 2021, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of an enhanced deduction for certain research and development expenses, the U.S research and development tax credit and the deduction for foreign-derived intangible income, offset by the U.S. tax on global intangible low-taxed income, state income taxes net of federal benefit and nondeductible officer compensation. For the three months ended September 30, 2020, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of foreign taxes lower than the statutory rate, the U.S. research and development tax credit, an enhanced deduction for certain research and development expenses and the deduction for foreign-derived intangible income, offset by state income taxes net of federal benefit, nondeductible officer compensation and nondeductible acquisition costs. For the nine months ended September 30, 2020, our effective tax rate was higher than the U.S. federal statutory rate of 21% primarily as a result of state income taxes net of federal benefit, nondeductible officer compensation, foreign taxes greater than the statutory rate, nondeductible acquisition costs and the gain on the sale of our AWR business, offset by the U.S. research and development tax credit, an enhanced deduction for certain research and development expenses, and 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 $1.9 million and $2.2 million for the three and nine months ended September 30, 2021, respectively, and income tax expense of $0.1 million and $0.3 million for the three and nine months ended September 30, 2020, 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 nine months ended September 30, 2021 were approximately $0.6 million and $0.9 million, respectively. The income tax benefits of the tax holiday for the three and nine months ended September 30, 2020 were approximately $0.2 million and $0.4 million, respectively. The impact of the tax holiday on a per share basis for each of the three and nine months ended September 30, 2021 and September 30, 2020 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 and securities classified as available-for-sale. The accumulated OCI, net of tax, for the nine months ended September 30, 2021 and 2020, consisted of the following:

	September 30, 2021 (Unaudited)			
(In thousands)	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2020	$ (10,066)	$ (426)	(10,334)	$ (20,826)
Current-period other comprehensive (loss) income	(10,585)	(162)	13,213	2,466
Reclassified from accumulated OCI into income	—	—	5,392	5,392
Income (benefit) tax expense	—	(4)	4,212	4,208
Balance as of September 30, 2021	$ (20,651)	$ (584)	$ 4,059	$ (17,176)

	September 30, 2020 (Unaudited)			
(In thousands)	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2019	$ (25,831)	$ (85)	4,846	$ (21,070)
Current-period other comprehensive income (loss)	6,507	(317)	(7,699)	(1,509)
Reclassified from accumulated OCI into income	—	—	(2,429)	(2,429)
Income tax benefit	—	(45)	(2,223)	(2,268)
Balance as of September 30, 2020	$ (19,324)	$ (357)	$ (3,059)	$ (22,740)

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 2005 Incentive Plan (the “2005 Plan”) on May 10, 2005. At the time of approval, 4,050,000 shares of our common stock were reserved for issuance under the 2005 Plan, as well as the number of shares which had been reserved but not issued under our 1994 Incentive Stock Options Plan (the “1994 Plan”) which terminated in May 2005, and any shares that returned to the 1994 Plan as a result of termination of options or repurchase of shares issued under such plan. The 2005 Plan provided for the granting of incentive awards in the form of restricted stock and RSUs to directors, executive officers and employees of the Company and its subsidiaries. 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 2005 Plan terminated on May 11, 2010, except with respect to outstanding awards previously granted thereunder. There were 3,362,304 shares of common stock that were reserved but not issued under the 2005 Plan as of May 11, 2010.

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 the 1994 Plan and 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 the 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 1994 Plan, 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 3,270,415 shares available for grant under the 2020 Plan at September 30, 2021.

Performance-based stock units

During the nine months ended September 30, 2021 and 2020, we granted 130,006 and 144,647 performance-based restricted stock units (“PRSUs”), respectively, to executive officers pursuant to the 2020 Plan and 2015 Plan. The PRSUs may be earned based on our total shareholder return ("TSR") compared to the TSR of the Russell 2000 Index (the “Index”) over a three-year performance period. For the PRSUs granted during the nine months ended September 30, 2021, the three-year performance period commenced on January 1, 2021 and will end on December 31, 2023, and for the PRSUs granted during the nine months ended September 30, 2020, the three year performance commenced on January 1, 2020 and will end on December 31, 2022, using the average daily closing price over a 30-day lookback in each case. The number of awards earned could range from zero to two times the target number of shares granted.

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:

	Nine Months Ended (unaudited)	
	September 30, 2021	**September 30, 2020**
Number of simulations	100,000	100,000
Expected volatility	40.60%	27.41%
Expected life in years	2.95 years	2.92 years
Risk-free interest rate	0.21%	1.38%
Dividend yield	2.66%	2.32%

The weighted average grant date fair value of the market-based awards, as determined by the Monte Carlo valuation model, was $66.97 per share and $61.00 per share in 2021 and 2020, 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. On May 14, 2019, our stockholders approved an additional 3,000,000 shares for issuance under our ESPP. At September 30, 2021, we had 2,257,649 shares of common stock reserved for future issuance under the ESPP. We issued 801,543 shares under this plan in the nine months ended September 30, 2021 and the weighted average purchase price was $31.74 per share. During the nine months ended September 30, 2021, we did not make any changes in accounting principles or methods of estimates with respect to our ESPP.

Authorized Preferred Stock and Preferred Stock Purchase Rights Plan

We have 5,000,000 authorized shares of preferred stock. There were no shares of preferred stock issued and outstanding at September 30, 2021.

Stock repurchases and retirements

On April 21, 2010, our Board of Directors authorized a program to repurchase of shares of our common stock from time to time, depending on market conditions and other factors (the "Program"). The Board of Directors has amended the Program several times over the years to increase the number of shares that may be purchased under the Program. Most recently, on October 23, 2019, our Board amended the Program to increase the number of shares that may be repurchased by 3,000,000 shares. At September 30, 2021, there were 1,010,877 shares remaining available for repurchase under the Program. During the three and nine months ended September 30, 2021, we repurchased 599,066 shares of our common stock at a weighted average price per share of $41.73. During the three months ended September 30, 2020, we repurchased 446,502 shares of our common stock at a weighted average price per share of $34.86 and during the nine months ended September 30, 2020, we repurchased 1,114,701 shares of our common stock at a weighted average price per share of $35.21. The Program does not have an expiration date.

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 Americas, EMEA and 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 Consolidated Statements of Income. (See Note 2 - Revenue of Notes to Consolidated Financial Statements for total net sales by the major geographic areas 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 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 September 30, 2021	$ 141	$ 59	$ 167	$ 367
Three months ended September 30, 2020	$ 121	$ 52	$ 135	$ 308
Nine months ended September 30, 2021	$ 388	$ 172	$ 489	$ 1,049
Nine months ended September 30, 2020	$ 355	$ 139	$ 425	$ 919

(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, operating lease right-of-use assets and other long-term assets excluding intangible assets.

(in millions)	United States	Hungary	Malaysia	Rest of the World	Total
Long-lived Assets:					
September 30, 2021	$ 127	$ 51	$ 75	$ 56	$ 309
December 31, 2020	$ 127	$ 52	$ 75	$ 68	$ 322

Note 13 – Debt

On June 18, 2021, we entered into a Second 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, as sole lead arranger and bookrunner, and the lenders party thereto. The Credit Agreement amended and restated and refinanced our prior Amended and Restated Credit Agreement, dated as of June 12, 2020, by and among us, the lenders from time-to-time party thereto and Administrative Agent, as amended on October 30, 2020.

The Credit Agreement provides for 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. Subject to the terms and conditions of the Credit Agreement, including obtaining commitments from existing lenders or new lenders, we may request term loans or additional revolving commitments. Pursuant the Credit Agreement, the revolving line of credit terminates, and all revolving loans under the Credit Agreement will be due and payable, on June 18, 2026.

The revolving loans accrue interest, at our option, at a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) a LIBOR loan interest rate of LIBOR for an interest period of one month plus 1.00%, plus a margin of 0.25% to 0.75%, or LIBOR 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 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 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 amount 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 the obligations of the Company under the Credit Agreement, among other things. There is no Subsidiary Guarantor, and no Guaranty has been executed in connection with the Credit Agreement at this time. In connection with the Credit Agreement, we, our Subsidiary Guarantors from time-to-time party thereto and the Administrative Agent have entered (or will enter in the case of the future Subsidiary Guarantors) into an Amended and Restated Collateral Agreement pursuant to which we and each of our Subsidiary Guarantor from time-to-time have granted (or will grant) a lien on substantially all of their assets to secure their obligations under the Credit Agreement and the Guaranty.

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 rate of interest equal to 2.00% above the otherwise applicable interest rate.

Proceeds of revolving loans of the Credit Agreement may be used for working capital and other general corporate purposes. We may prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty.

The following table presents the amounts outstanding related to our borrowing arrangements discussed above as of September 30, 2021 (unaudited) and December 31, 2020, respectively (in thousands):

(in thousands)	September 30, 2021	December 31, 2020
Secured		
2020 Term loan (effective interest rate of 1.7%)	$ —	$ 98,75
2021 Revolving line of credit (effective interest rate of 1.3%)	100,000	—
Total Debt	100,000	98,75
Less: Unamortized debt issuance costs	—	(1,71
Less: Current portion of total debt	—	(5,00
Total Debt, non-current	$ 100,000	$ 92,03

As of September 30, 2021, debt issuance costs of approximately $2.6 million attributable to the revolving line of credit are presented within "Other long-term assets" in our Consolidated Balance Sheet. These amounts are amortized to interest expense ratably over the life of the revolving line of credit.

Please refer to Note 18 - Subsequent Events of Notes to Consolidated Financial Statements for additional information on additional borrowings under our Credit Agreement.

Note 14 – Commitments and contingencies

We offer a one-year limited warranty on most hardware products which is included in the terms of sale of such products. We also offer optional extended warranties on our hardware products for which the related revenue is recognized ratably over the warranty period. Provision is made for estimated future warranty costs at the time of the sale for the estimated costs that may be incurred under the standard warranty. Our estimate is based on historical experience and product sales during the period. The warranty reserve for the nine months ended September 30, 2021 and 2020 was as follows:

(In thousands)	Nine Months Ended September 30, (Unaudited)			
	2021		2020	
Balance at the beginning of the period	$	2,872	$	2,561
Accruals for warranties issued during the period		2,037		1,824
Accruals related to pre-existing warranties		(636)		405
Settlements made (in cash or in kind) during the period		(1,291)		(2,088)
Balance at the end of the period	$	2,982	$	2,702

As of September 30, 2021, we had certain off-balance sheet commitments that require the future purchase of goods or services ("unconditional purchase obligations"). Our unconditional purchase obligations primarily consist of payments to various suppliers for customized inventory and inventory components. As of September 30, 2021, our total future payments under noncancellable unconditional purchase obligations having a remaining term in excess of one year were approximately $3.2 million.

Note 15 – Restructuring

On October 29, 2020, we announced a workforce reduction plan (the “Plan”) intended to accelerate our growth strategy and further optimize our operations and cost structure. The majority of charges related to this Plan were recognized during the three months ended December 31, 2020. We implemented a majority of the actions under this Plan as of September 30, 2021.

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

(In thousands)	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 30, (Unaudited)			
	2021		2020		2021		2020	
Cost of sales	$	(7)	$	(13)	$	(50)	$	7
Research and development		65		38		444		4,716
Sales and marketing		(223)		512		3,924		8,055
General and administrative		54		121		2,159		683
Total restructuring and other related costs	$	(111)	$	658	$	6,477	$	13,461

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

(in thousands)	Restructuring Liability	
Balance as of December 31, 2020	$	28,993
Income statement expense		6,477
Cash payments		(30,389)
Balance as of September 30, 2021	$	5,081

The restructuring liability of $5.1 million at September 30, 2021 related primarily to severance payments associated with the restructuring activity is recorded in the “accrued compensation” line item of our 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

Acquisition of OptimalPlus

On July 2, 2020, we completed the acquisition of OptimalPlus Ltd. ("OptimalPlus"), a global leader in data analytics software for the semiconductor, automotive and electronics industries that is based in Israel. As a result of acquiring 100% of the outstanding share capital of OptimalPlus, OptimalPlus became our wholly-owned subsidiary. This transaction was accounted for as a business combination using the acquisition method of accounting. All of the acquired assets and liabilities of OptimalPlus have been recorded at their respective fair values as of the acquisition date. Transaction costs have been expensed as incurred.

The acquisition was funded primarily by cash on hand in addition to $70 million drawn under our prior term loan facility on June 30, 2020. See Note 13 – Debt of Notes to Consolidated Financial Statements for further information on our outstanding borrowings. During the twelve months ended December 31, 2020, we expensed $7 million of transaction costs in connection with the acquisition of OptimalPlus, which are included in selling, general and administrative expenses.

At the acquisition date, total consideration transferred was approximately $353 million, inclusive of $18 million in cash acquired. Additionally, unvested in-the-money share options of certain OptimalPlus employees were exchanged into the right to receive deferred cash consideration in accordance with the terms of the share purchase agreement. Approximately $12 million of deferred cash consideration was allocated to post-combination expense and is not included in the total consideration transferred. The deferred cash consideration is subject to the original vesting schedule of the corresponding unvested options that were replaced and the amounts will be recognized as compensation expense over the remaining service period.

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 software-defined automated test and measurement platform. As a result of the structure of the transaction, the balance of goodwill is deductible in the U.S. over 15 years for income tax purposes.

Fair value of net assets acquired and liabilities assumed

The information below represents the purchase price allocation of OptimalPlus:

(in thousands)		July 2, 2020
Consideration Transferred	$	352,642
Cash		17,661
Intangible assets		129,000
Goodwill		205,038
Contract assets		15,454
Deferred revenue		(7,341)
Accounts receivable		4,927
Other assets and liabilities		(4,516)
Deferred tax liabilities		(7,581)
Net assets acquired	$	352,642

We finalized the purchase price allocation for our acquisition of OptimalPlus during the second quarter of 2021. Since the preliminary estimates reported in the third quarter of 2020, we updated certain amounts related to current and deferred income taxes, reflected in the final purchase price allocation, as summarized in the fair values of assets acquired and liabilities assumed in the table above. Measurement period adjustments were recognized in the reporting period in which the adjustments were determined and calculated as if the accounting had been completed at the acquisition date.

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

(dollars in thousands)		Estimated Fair Value	Estimated Useful Lives (i years)
Customer relationships	$	30,100	5
Developed technology		82,400	6
In-process research and development (IPR&D)		10,400	6
Other intangibles		6,100	3-5
Total	$	129,000	

Developed technology and IPR&D relate to software platforms for data analytics in the semiconductor, automotive, and electronic industries that combine machine-learning with a global data infrastructure to provide real-time product analytics and extract insights from data across the entire supply chain. We valued the developed technology and IPR&D using the multi-period excess earnings method under the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by the technology less charges representing the contribution of other assets to those cash flows. The economic useful life was determined based on the technology cycle related to each technology, as well as the cash flows over the forecast period. IPR&D was initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is amortized over the asset's estimated useful life.

Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers. Customer relationships were valued using the with-and-without-method under the income approach. In the with-and-without method, the fair value was measured by the difference between the present values of the cash flows with and without the existing customers in place over the period of time necessary to reacquire the customers. The economic useful life was determined by evaluating many factors, including the useful life of other intangible assets, the length of time remaining on the acquired contracts and the historical customer turnover rates.

Unaudited Pro Forma Information

The results of OptimalPlus have been included in our consolidated statements of income for the period subsequent to the acquisition date. The following unaudited pro forma financial information presents combined results of operations for the periods presented, as if the OptimalPlus acquisition had occurred on January 1, 2019, with adjustments to give effect to pro forma events that are directly attributable to the acquisition. These pro forma adjustments include additional amortization expense for the identifiable intangible assets, a reduction in revenue related to deferred revenue purchase accounting adjustments, an increase in interest expense related to the term loan entered into in connection with the acquisition, and adjustments to compensation expense for the replacement of unvested share options discussed above, net of tax effects. For the pro forma presentation, given the assumed acquisition date of January 1, 2019, transaction and integration costs that were incurred at or subsequent to the actual acquisition date have been included in the calculation of pro forma net income for the three and nine months ended September 30, 2020, whereas transaction and integration costs that were incurred prior to the acquisition date have been excluded from the calculation of pro forma net income. The unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what actual results of operations would have been if the acquisition had occurred as the beginning of the period presented, nor are they indicative of future results of operations. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the unaudited pro forma results.

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
(in thousands)		
Net sales	$ 309,142	$ 929,381
Net income	$ 4,907	$ 123,676

Other Acquisitions

During the second quarter of 2021, we also completed the acquisition of a software company that specializes in signal processing and hi-fi simulation software for validation of autonomous vehicles and advanced driver assistance systems (ADAS), for approximately $20 million in total cash consideration, subject to certain post-closing adjustments. This transaction was accounted for as a business combination using the acquisition method of accounting. All of the acquired assets and liabilities of the software company have been recorded at their respective fair values as of the acquisition date. We recognized approximately $17 million of goodwill and $4 million of other intangible assets as part of our preliminary purchase price allocation. Transaction costs have been expensed as incurred and were not material to the periods presented.

The preliminary purchase price allocation related to the acquisition was not finalized as of September 30, 2021, and is based upon a preliminary valuation which is subject to change as we obtain additional information with respect to certain intangible assets and income taxes. Pro-forma results of operations have not been presented because the effects of the acquired operations were 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 software-defined automated test and measurement platform. Goodwill is not deductible for tax purposes.

Note 18 – Subsequent events

Dividends

On October 19, 2021, our Board of Directors declared a quarterly cash dividend of $0.27 per common share, payable on November 29, 2021, to stockholders of record on November 8, 2021.

Acquisitions

On October 19, 2021, we completed the acquisition of NH Research (NHR), a manufacturer of test and measurement solutions for high power applications including electric vehicles and batteries. This transaction is being accounted for as a business combination. All of the acquired assets and liabilities of the acquired business will be recorded at their respective fair values as of the acquisition date. Transaction costs will be expensed as incurred. At the acquisition date, total consideration transferred was approximately $200 million, inclusive of $3 million in cash acquired. The acquisition was funded by $200 million drawn under our existing credit facility in October 2021. See Note 13 - Debt of Notes to Consolidated Financial Statements for further information on our outstanding borrowings.

We have excluded certain disclosures required under ASC Topic 805. Disclosure of certain information has been deemed impracticable primarily due to the short period of time we have had to obtain the necessary information from the acquired company, which is not a public company. This short timeframe prohibits us from fully applying various valuation methodologies and preparing the information for this Quarterly Report on Form 10-Q for the third quarter of 2021. Such information, as required under Topic 805, will be included in our Annual Report on Form 10-K for the year ended 2021, and finalized within the one-year measurement period.

Restructuring

On October 26, 2021, we initiated a restructuring plan (the “2021 Plan”) that will result in the site closure of our facilities in Aachen, Germany. This targeted restructuring effort is intended to accelerate our growth strategy and further optimize our operations and cost structure. In connection with the 2021 Plan, we currently estimate that we will incur pre-tax charges of approximately $8 million to $9 million, consisting primarily of severance payments and other employee-related costs. We expect that the majority of these charges will be recognized during the fourth quarter of 2021.

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," "will," "project," "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" 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, 2020 (the "Form 10-K"). 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 filed with the U.S. Securities and Exchange Commission (the "SEC") 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 in 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, transportation, and aerospace, defense and government ("ADG").

- **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 have sales offices in the U.S. and sales offices and distributors in key international markets. Sales outside of the Americas accounted for approximately 59% and 59% of our net sales during the three months ended September 30, 2021 and 2020, respectively, and approximately 61% and 59% of our net sales during the nine months ended September 30, 2021 and 2020, 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. (See Note 2 - Revenue and Note 12 - Segment and geographic information of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales and long-lived assets, respectively).

  We manufacture substantially all 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 the impact of the COVID-19 pandemic. 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.

Current Business Outlook

During the third quarter of 2021, we continued to see strong demand from our customers across the geographic regions and end markets that we serve, with the value of total orders increasing by approximately 30% compared to the same period in 2020. Although the strength and duration of the recent trends will vary by region and end market, we remain optimistic about opportunities for additional revenue growth during the remainder of 2021 and beyond. We expect our customers will continue to make investments in emerging technologies related to 5G/mmWave, vehicle electrification, and advanced driver assistance systems (ADAS). We also anticipate that recent additions and enhancements to our software offerings will differentiate our products and fuel demand across our various end markets.

We continue to experience shortages of certain components in our supply chain due to global capacity constraints that were amplified by the COVID-19 pandemic and increasing global demand. Historically, our backlog levels have remained fairly consistent at the end of each quarter, representing approximately a week of quarterly sales activity, and the majority of these orders are fulfilled quickly within the following quarter. However, due to the shortage of certain components from our suppliers and the increase in demand from our customers, our backlog at the end of the third quarter was more than six times the historical average, representing more than one month of quarterly sales activity. Longer lead times to fulfill orders for certain offerings have continued to shift the timing of revenue recognition into future periods and increased our costs to obtain a consistent supply of certain components. Consequently, while we expect some temporary headwinds related to the supply chain constraints to continue while global supply chains adjust to the significant increases in demand, we are optimistic about our ability to maintain competitive lead times while continuing to maintain higher backlog levels as part of our strategic focus on system offerings through the remainder of 2021 and beyond.

We remain committed to maintaining our critical investments and capacity to run our business while continuing to innovate. Furthermore, we continue to focus on scale and efficiency in serving our broad-based customers. Our focus to streamline the process of doing business with NI means both reducing our costs and improving the experience of the large number of smaller accounts we serve. This commitment and focus include plans to invest in ni.com for a better digital experience and continue to significantly expand the usage of our distributor channel during 2021 and beyond. We believe these actions will allow our direct sales force to support proactive engagements with accounts where we can deliver enterprise-level value.

During the three months ended September 30, 2021, sales to our distributors represented approximately 12% of our total sales, compared to 2% in the same period of 2020 and during the nine months ended September 30, 2021, sales to our distributors represented approximately 8% of our total net sales, compared to 2% in the same period of 2020. As of September 30, 2021, our distributors were not carrying significant amounts of our products in inventory and were not eligible for any variable adjustments related to their previous purchases. As of September 30, 2021 no single distributor accounted for more than 2% of our total net sales.

As part of our efforts to streamline the process of doing business with NI, we have also increased our focus on customer account tiers when assessing trends in our order growth. Specifically, we have grouped our customers into tiers based on their historical spending patterns and potential for future order growth. Our "Focus" account tiers are comprised of approximately 2,500 accounts we have identified as having a high potential to maintain or expand our business through system-level offerings. The Focus tier currently represents approximately 70% of our total order value. Our "Broad-based" account tier is comprised of the remainder of our customer base of approximately 30,000 accounts. The Broad-based tier currently represents approximately 30% of our total order value. During the three months ended September 30, 2021, orders from our Focus accounts and Broad-based accounts increased by 27% and 37%, respectively, compared to the same period in 2020.

During the nine months ended September 30, 2021, we saw continued volatility in the exchange rates between the U.S. dollar and many of the currency markets where we have exposure. The U.S. dollar index, as tracked by the St. Louis Federal Reserve, was approximately 5% weaker compared to the first nine months of 2020 resulting in a modest year over year benefit to our US dollar equivalent sales. We cannot predict to what degree foreign currency markets will fluctuate in the future. See Results of Operations - Net Sales below for additional discussion on the impact of foreign exchange rates on our net sales and Note 5 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for a further description of our derivative instruments and hedging activities.

Acquisitions and divestitures

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

Critical Accounting Estimates

In preparing our 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 Consolidated Statements of Income:

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Net sales:				
Americas	40.6 %	41.2 %	39.1 %	40.7 %
EMEA	25.8	25.5	25.7	26.1
APAC	33.6	33.3	35.2	33.2
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	28.0	29.9	28.3	28.5
Gross profit	72.0	70.1	71.7	71.5
Operating expenses:				
Sales and marketing	31.9	35.6	32.9	36.0
Research and development	22.4	23.0	23.2	22.5
General and administrative	8.5	12.1	9.0	10.1
Total operating expenses	62.7	70.8	65.1	68.6
Gain on sale of business/asset	—	—	—	17.4
Operating income	9.3	(0.7)	6.5	20.3
Other expense	(0.5)	(0.6)	(0.9)	(0.3)
Income before income taxes	8.8	(1.3)	5.6	20.0
Provision for income taxes	1.4	0.2	0.9	4.9
Net income	7.4 %	(1.5) %	4.7 %	15.1 %

Figures may not sum due to rounding.

Results of Operations for the three and nine months ended September 30, 2021 and 2020

Net Sales. The following table sets forth our net sales for the three and nine months ended September 30, 2021 and 2020 along with the changes between the corresponding periods.

	Three Months Ended September 30, (Unaudited)				**Nine Months Ended September 30, (Unaudited)**			
			Change				**Change**	
(In millions)	**2021**	**2020**	**Dollars**	**Percentage**	**2021**	**2020**	**Dollars**	**Percentage**
Product sales	$ 325.7	$ 269.7	56.1	21%	$ 927.3	$ 809.9	117.4	14%
Software maintenance sales	41.4	38.5	3.0	8%	121.7	108.9	12.8	12%
Total net sales	$ 367.2	$ 308.1	59.0	19%	$ 1,049.0	$ 918.8	130.2	14%

Figures may not sum due to rounding.

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

Net sales for the three and nine months ended September 30, 2021 were up 19 percent and 14 percent, respectively, compared to the same period in 2020.

- The increase in product sales was primarily attributable to stronger demand for our system-level offerings, particularly in semiconductor and electronics test solutions as well as our transportation-related offerings. Net sales in those end markets increased more than 40 percent for the three months ended September 30, 2021 compared to the same period in 2020. Additionally, we implemented price increases for certain offerings which increased net sales by approximately 5 percent compared to the same periods in 2020.

- The increase in software maintenance sales was primarily related to additional billings from our software-related recurring revenue streams during the trailing twelve months, including annual renewals of software maintenance programs and the software-maintenance component of our subscription licensing offerings, which consist primarily of our enterprise-level licenses for LabVIEW and our product analytics offerings.

Net Sales by Region

The following table sets forth our net sales by geographic region for the three and nine months ended September 30, 2021 and 2020 along with the changes between the corresponding periods and the region's percentage of total net sales.

	Three Months Ended September 30, (Unaudited)				**Nine Months Ended September 30, (Unaudited)**			
			Change				**Change**	
(In millions)	**2021**	**2020**	**Dollars**	**Percentage**	**2021**	**2020**	**Dollars**	**Percentage**
Americas	$148.9	$127.0	21.9	17%	$410.3	$373.8	36.5	10%
Percentage of total net sales	40.6 %	41.2 %			39.1 %	40.7 %		
EMEA	$94.9	$78.5	16.3	21%	$269.6	$239.9	29.6	12%
Percentage of total net sales	25.8 %	25.5 %			25.7 %	26.1 %		
APAC	$123.4	$102.5	20.9	20%	$369.2	$305.1	64.0	21%
Percentage of total net sales	33.6 %	33.3 %			35.2 %	33.2 %		

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 operations by increasing our presence in existing markets, adding a presence in certain new geographical 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 nine months ended September 30, 2020).

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 nine months ended September 30, 2021.

(In millions)	Three Months Ended September 30, 2020 GAAP Net Sales		Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Three Months Ended September 30, 2021 GAAP Net Sales	
			Dollars	Percentage	Dollars	Percentage		
Americas	$	127.0	21.6	17.0%	0.3	0.2%	$	148.9
EMEA	$	78.5	14.9	19.0%	1.4	1.8%	$	94.9
APAC	$	102.5	17.6	17.1%	3.3	3.2%	$	123.4
Total net sales	$	308.1	54.1	17.6%	4.9	1.6%	$	367.2

(In millions)	Nine months ended September 30, 2020 GAAP Net Sales		Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Nine months ended September 30, 2021 GAAP Net Sales	
			Dollars	Percentage	Dollars	Percentage		
Americas	$	373.8	35.8	9.6%	0.7	0.2%	$	410.3
EMEA	$	239.9	21.5	9.0%	8.2	3.4%	$	269.6
APAC	$	305.1	53.4	17.5%	10.7	3.5%	$	369.2
Total net sales	$	918.8	110.6	12.0%	19.6	2.2%	$	1,049.0

Figures may not sum due to rounding.

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 have a foreign currency cash flow hedging program. We hedge portions of our forecasted net sales denominated in foreign currencies with average rate forward contracts. During the three months ended September 30, 2021 and 2020, these hedges had the effect of decreasing our net sales by $0.8 million and increasing our net sales by $0.3 million, respectively. During the nine months ended September 30, 2021 and 2020, these hedges had the effect of decreasing our net sales by $5.2 million and increasing our net sales by $5.6 million, respectively. (See Note 5 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our net sales for 2021 and 2020).

Gross Profit. Our gross profit as a percentage of sales is impacted by many factors including changes in the amount of revenues from our large customers and changes in the foreign currency exchange markets. 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 nine months ended September 30, 2021 and 2020 along with the percentage changes in gross profit for the corresponding periods.

(In millions)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Gross Profit	$264.4	$215.9	$751.7	$656.9
% change compared with prior period	*22.5%*		*14.4%*	
Gross Profit as a percentage of net sales	72.0%	70.1%	71.7%	71.5%

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)	Nine Months Ended (Unaudited)
September 30, 2020	70.1 %	71.5 %
Impact of amortization of acquired intangible and other purchase accounting adjustments	0.1 %	(0.9)%
Impact of increases in outbound freight and other logistics costs	(0.2)%	(0.3)%
Impact of change in excess and obsolescence reserve	(0.4)%	(0.3)%
Impact of changes in sales mix and sales price	1.9 %	1.2 %
Changes in foreign currency exchange rates	0.5 %	0.5 %
September 30, 2021	72.0 %	71.7 %

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 September 30, 2021 and 2020, these hedges had the effect of increasing our cost of sales by $0.1 million and increasing our cost of sales by $0.4 million, respectively. During the nine months ended September 30, 2021 and 2020, these hedges had the effect of increasing our cost of sales by $0.1 and $1.8 million, respectively. (See Note 5 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our cost of sales for 2021 and 2020).

Operating Expenses. The following table sets forth our operating expenses for the three and nine months ended September 30, 2021 and 2020, along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

	Three Months Ended September 30, (Unaudited)			Nine Months Ended September 30, (Unaudited)		
(In thousands)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Sales and marketing	$ 117,065	$ 109,774	7%	$ 345,048	$ 330,939	4%
Percentage of total net sales	32%	36%		33%	36%	
Research and development	$ 82,165	$ 70,802	16%	$ 243,685	$ 206,648	18%
Percentage of total net sales	22%	23%		23%	22%	
General and administrative	$ 31,037	$ 37,431	(17)%	$ 94,672	$ 92,980	2%
Percentage of total net sales	8%	12%		9%	10%	
Total operating expenses	$ 230,267	$ 218,007	6%	$ 683,405	$ 630,567	8%
Percentage of total net sales	63%	71%		65%	69%	

Operating Expenses - Three Months Ended September 30, 2021

The year over year increase of $12 million in our operating expenses during the three months ended September 30, 2021 was primarily related to the following:

- $18 million increase in personnel costs, primarily attributable to additional accruals for expected attainment under our variable compensation programs and stock-based compensation expense (due to comparatively higher stock prices on the grant date of unvested awards and a shorter average service period for our awards) partially offset by a reduction in severance-related costs associated with our restructuring activities;
- $2 million increase in external service providers and travel expenses related to strategic initiatives and loosening of restrictions related to the COVID-19 pandemic;
- $2 million increase related to the year over year impact of changes in foreign currency exchange rates; and
- $10 million decrease attributable to lower acquisition-related transaction and integration costs.

Sales and Marketing

The primary drivers of the increase in sales and marketing expenses for the three months ended September 30, 2021 compared to the same period in 2020 were additional costs related to accruals under our variable compensation programs, additional costs related to advertising and stock-based compensation, which were partially offset by lower severance-related charges and salaries due to a reduction in headcount.

Research and Development

The primary drivers of the increase in research and development expenses for the three months ended September 30, 2021 compared to the same period in 2020 were additional personnel costs related to accruals under our variable compensation programs, salaries and stock-based compensation expense.

General and administrative

The primary drivers of the decrease in general and administrative expenses for the three months ended September 30, 2021 compared to the same period in 2020 were decreases in acquisition-related transaction costs, partially offset by additional personnel costs related to accruals under our variable compensation programs and stock-based compensation expense.

Operating Expenses - Nine Months Ended September 30, 2021

The year over year increase of $53 million in our operating expenses during the nine months ended September 30, 2021 was primarily related to the following:

- $25 million increase in non-acquisition personnel costs, primarily attributable to additional accruals for estimated attainment under our variable compensation programs and additional stock-based compensation expense (due to comparatively higher stock prices on the grant date of unvested awards and a shorter average service period for our awards), partially offset by lower severance-related costs
- $16 million increase related to the amortization of acquisition-related intangibles, additional operating costs of our acquired OptimalPlus business, and transaction and integration costs related to a one-time redemption fee associated with recently acquired intellectual property;
- $7 million increase related to the year over year impact of changes in foreign currency exchange rates;
- $3 million increase in advertising and external service providers spending partially offset by lower travel spending related to the COVID-19 pandemic travel restrictions; and
- $2 million increase related to a decrease in software development costs eligible for capitalization.

Sales and Marketing

The primary drivers of the increase in sales and marketing expenses for the nine months ended September 30, 2021 compared to the same period in 2020 were additional costs associated with accruals under our variable compensation programs, marketing and advertising costs, and the amortization of acquired intangibles, which were partially offset by lower severance-related costs and lower salaries related to lower headcount.

Research and Development

The primary drivers of the increase in research and development expenses for the nine months ended September 30, 2021 compared to the same period in 2020 were additional personnel costs associated with accruals under our variable compensation programs, higher salaries, stock-based compensation, as well as an anticipated decrease in software development costs eligible for capitalization, which were partially offset by lower severance-related costs.

General and administrative

The primary drivers of the increase in general and administrative expenses for the nine months ended September 30, 2021 compared to the same period in 2020 were additional personnel costs associated with accruals under our variable compensation programs, stock-based compensation, and severance, as well as a one-time redemption fee associated with recently acquired intellectual property.

Gain on sale of business/assets. As previously disclosed, on January 15, 2020, we completed the sale of our AWR subsidiary and recognized a gain on the sale of $160 million. These amounts are presented as "Gain on sale of business/assets" in our Consolidated Statements of Income.

Operating Income (loss). For the three months ended September 30, 2021 and 2020, operating income was $34 million and $(2) million, respectively. As a percentage of net sales, operating income was 9.3% and (0.7)% for the three months ended September 30, 2021 and 2020, respectively. For the nine months ended September 30, 2021 and 2020, operating income was $68 million and $186 million, respectively. As a percentage of net sales, operating income was 6.5% and 20.3% for the nine months ended September 30, 2021 and 2020, respectively. The increase in operating income in absolute dollars for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, is attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above. The decrease in operating income in absolute dollars for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, is primarily attributable to the approximately $160 million gain on sale of our AWR subsidiary in 2020, partially offset by the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Other (Expense) Income.

- ***Interest Income.*** For the three months ended September 30, 2021 and 2020, interest income was $0.1 million and $0.4 million, respectively. For the nine months ended September 30, 2021 and 2020, interest income was $0.3 million and $3.7 million, respectively. During the nine months ended September 30, 2021, the Federal Reserve maintained the federal funds rate target to a range of zero to 0.25%. This will likely continue to have a negative impact on our interest income for the remainder of 2021.

- ***Interest Expense.*** For the three months ended September 30, 2021 and 2020, interest expense was approximately $0.7 million and $1.0 million, respectively. For the nine months ended September 30, 2021 and 2020, interest expense was approximately $2.6 million, and $1.1 million, respectively. These interest charges are due to interest on outstanding borrowings, commitment fees and amortization of deferred costs related to our Credit Agreement. During the nine-month period ended September 30, 2021, we amended and restated in its entirety and refinanced our existing Credit Agreement. We recognized approximately $0.6 million of expense related to the portion of debt issuance costs that were allocated to the previous Credit Agreement and accounted for as an extinguishment of debt during the second quarter of 2021. Refer to Note 13 - Debt of Notes to Consolidated Financial Statements for additional information regarding the terms of our Credit Agreement and related borrowings.

- ***Gain (Loss) From Equity-Method Investments***. For the three months ended September 30, 2021, gain from equity-method investments was approximately $0.3 million and for the three months ended September 30, 2020, loss from equity-method investments was approximately $0.6 million. For the nine months ended September 30, 2021 and 2020, loss from equity-methods investment was approximately $5.1 million and $2.6 million, respectively. The increase in the nine months ended September 30, 2021 compared to the same period in 2020 was primarily attributable to an impairment loss of $3.5 million recorded in the three months ended March 31, 2021.

- ***Net Foreign Exchange Gain/Loss.*** For the three months ended September 30, 2021 and 2020, net foreign exchange loss was $1.2 million and $0.7 million, respectively. During the nine months ended September 30, 2021 and 2020, net foreign exchange loss was $2.7 million and $2.0 million, respectively. Gains and losses on foreign currency are primarily due to the impact of re-measuring foreign currency transactions 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. We recognize the local currency as the functional currency in virtually all of our international subsidiaries. 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 nine months ended September 30, 2021.

Provision for Income Taxes. For the three months ended September 30, 2021 and 2020, our provision for income taxes reflected an effective tax rate of 16% and (11)%, respectively. For the nine months ended September 30, 2021 and 2020, our provision for income taxes reflected an effective tax rate of 16% and 24%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	Three Months Ended September 30, 2021 (Unaudited)	**Nine Months Ended September 30, 2021 (Unaudited)**
Effective tax rate at September 30, 2020	(11)%	24 %
Employee share-based compensation and other discrete items	(5)	(5)
Nondeductible acquisition costs	(4)	(4)
State income taxes, net of federal benefit	(2)	(2)
Nondeductible officer compensation	(1)	(1)
Enhanced deduction for certain research and development expenses	(1)	(1)
Change in intercompany prepaid tax asset	(1)	(1)
Transition tax on deferred foreign income	—	(1)
Gain on sale of AWR business	—	5
Research and development tax credit	1	3
Change in unrecognized tax benefits	2	1
Global intangible low-taxed income inclusion	7	3
Foreign-derived intangible income deduction	8	3
Foreign taxes greater than federal statutory rate	23	(8)
Effective tax rate at September 30, 2021	16 %	16 %

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.

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Stock-based compensation				
Cost of sales	$ 1,183	$ 1,051	$ 3,487	$ 2,787
Sales and marketing	6,332	5,184	18,949	16,826
Research and development	5,811	4,692	17,704	12,640
General and administrative	5,530	4,293	16,050	10,301
Provision for income taxes	(2,798)	(3,854)	(10,036)	(8,260)
Total	$ 16,058	$ 11,366	$ 46,154	$ 34,294

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Amortization of acquisition-related intangibles and fair value adjustments				
Net sales	$ 421	$ 1,299	$ 1,971	$ 1,299
Cost of sales	$ 4,194	$ 4,198	$ 12,691	$ 5,579
Sales and marketing	2,331	2,334	6,859	3,300
Research and development	—	28	—	84
Other expense	529	121	1,476	363
Provision for income taxes	(917)	(1,658)	(2,870)	(1,948)
Total	$ 6,558	$ 6,322	$ 20,127	$ 8,677

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Acquisition-related transaction and integration costs, restructuring charges, and other(1)(2)				
Cost of sales	$ (7)	$ (13)	$ (50)	$ 7
Sales and marketing	584	1,158	6,071	8,771
Research and development	386	374	1,422	5,190
General and administrative	850	10,210	7,388	12,595
Gain on sale of business/assets	—	—	—	(159,753)
Other expense	316	270	4,322	397
Provision for income taxes	(238)	(712)	(3,701)	33,965
Total	$ 1,891	$ 11,287	$ 15,452	$ (98,828)

(1): During the first quarter of 2020, we recognized a gain of approximately $160 million related to the divestiture of AWR, presented within "Gain on sale of business/assets".

(2): During the first quarter of 2021, we recognized a $3.5 million impairment loss related to one of our equity-method investments.

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2021	2020	2021	2020
Capitalization and amortization of internally developed software costs				
Cost of sales	$ 5,532	$ 6,769	$ 18,633	$ 20,995
Research and development	(525)	302	(1,246)	(2,794)
Provision for income taxes	(1,192)	(1,485)	(3,792)	(3,822)
Total	$ 3,815	$ 5,586	$ 13,595	$ 14,379

Liquidity and Capital Resources

Overview

At September 30, 2021, we had $231 million in cash, cash equivalents and short-term investments. Our cash and cash equivalent balances are held in numerous financial institutions throughout the world, including substantial amounts held outside of the U.S., however, all of our short-term investments that are located outside of the U.S. are denominated in the U.S. dollar. The following table presents the geographic distribution of our cash, cash equivalents, and short-term investments as of September 30, 2021:

(in millions)	Domestic	International	Total
Cash and cash equivalents	$95.1	$135.6	$230.7
	41%	*59%*	
Short-term investments	$—	$—	$—
	—%	*—%*	
Total cash, cash equivalents and short-term investments	$95.1	$135.6	$230.7
	41%	*59%*	

The following table presents our working capital, cash and cash equivalents and short-term investments:

(In thousands)	**September 30, 2021 (unaudited)**	**December 31, 2020**	**Increase/ (Decrease)**
Working capital	$ 482,451	$ 467,655	$ 14,796
Cash and cash equivalents (1)	230,697	260,232	(29,535)
Short-term investments (1)	—	59,923	(59,923)
Total cash, cash equivalents and short-term investments	$ 230,697	$ 320,155	$ (89,458)

(1) Included in working capital

Our principal sources of liquidity include cash, cash equivalents, cash generated from the sale and maturity of marketable securities, cash flows generated from our operations, cash generated from purchases of common stock through our employee stock purchase plan and available borrowings under our Credit Agreement. The primary drivers of the net increase in working capital between December 31, 2020 and September 30, 2021 were:

- Cash, cash equivalents, and short-term investments decreased by $89 million for the nine-month period ended September 30, 2021. Additional analysis of the changes in our cash flows for the period ended September 30, 2021 compared to the year ended December 31, 2020 is discussed below;

- Inventory increased by $43 million. Inventory turns on a trailing twelve month basis were 1.6 at September 30, 2021 and 1.7 at December 31, 2020. The increase in inventory was primarily attributable to an increase in raw materials to support increased demand for our products and minimize supply chain disruptions;

- Accounts receivable, net increased by $12 million. Days sales outstanding increased to 57 days at September 30, 2021, compared to 56 days at December 31, 2020. The increase in accounts receivable is primarily related to quarterly fluctuations in our net sales;

- Prepaid and other current assets increased by $21 million, which was primarily related to the timing of annual contract renewals;

- Accounts payable and accrued expenses increased by $12 million, which was primarily related to amounts owed to suppliers for additional inventory purchases;

- The current portion of deferred revenue decreased by $11 million, which was primarily related to the timing of annual software maintenance renewals for our enterprise-level licensing arrangements;

- Accrued compensation increased by $1 million attributable to annual payments under our variable compensation programs related to 2020 performance and severance payments under our 2020 restructuring initiative, offset by accruals related to expected payouts under our 2021 variable compensation programs;

- Other current liabilities decreased by $17 million which was primarily related to income tax payments and changes in the fair value of foreign currency forward contracts designated as hedging instruments; and

- Other taxes payable decreased by $4 million primarily related to the timing of payments for VAT and other indirect taxes.

Analysis of Cash Flow

The following table summarizes our cash flow results for the nine months ended September 30, 2021 and 2020.

(In thousands)	Nine Months Ended September 30, (unaudited) 2021	2020
Cash provided by operating activities	$ 86,036	$ 108,784
Cash used in investing activities	(5,533)	(77,374)
Cash used in financing activities	(107,702)	(29,024)
Effect of exchange rate changes on cash	(2,336)	317
Net change in cash and cash equivalents	(29,535)	2,703
Cash and cash equivalents at beginning of period	260,232	194,616
Cash and cash equivalents at end of period	$ 230,697	$ 197,319

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 nine months ended September 30, 2021 decreased by $23 million compared to the same period in 2020. This decrease was primarily due to a $120 million decrease in cash provided by changes in operating assets and liabilities during the year, further described below, partially offset by an increase of $97 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 used net cash of $47 million during the nine months ended September 30, 2021 compared to net cash provided of $19 million in the comparable period in 2020. 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 increased inventory purchases compared to 2020 to support current and anticipated demand for our products and minimize supply chain disruptions.

- The aggregate of other movements in assets and liabilities used net operating cash of $48 million during the nine months ended September 30, 2021 compared to net operating cash provided of $5 million in the comparable period in 2020. The year over year change is primarily attributable to the timing of payments of federal income taxes, variable compensation programs and severance payments under our 2020 restructuring initiative.

Investing Activities

Cash used by investing activities decreased by $72 million for the nine months ended September 30, 2021 compared to the same period in 2020. This was primarily attributable to a $307 million decrease in cash outflows related to acquisitions and equity-method investments which was partially offset by a $160 million decrease in proceeds received from the sale of our AWR subsidiary in January 2020, a net sale of short-term investments of $60 million in the nine months ended September 30, 2021 compared to a net sale of short-term investments of $145 million during the same period in 2020 and a decrease of $12 million in capital expenditures and internally developed software costs that were eligible for capitalization during the nine months ended September 30, 2021, compared to the same period in 2020.

Financing Activities

Cash used by financing activities increased by $79 million for the nine months ended September 30, 2021 compared to the same period in 2020. This was primarily related to an $88 million decrease in net proceeds received under our term and revolving loan facilities, net of issuance costs, and an increase in cash outflows of $5 million related to our quarterly dividends, partially offset by a decrease in cash outflows of $14 million related to shares repurchased during the comparable period in 2020. (See Note 11 – Authorized shares of common and preferred stock and stock based compensation plans of Notes to 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, 2020 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations,” in Part II-Item 7 of the Form 10-K. At September 30, 2021, there were no material changes outside the ordinary course of business to our contractual obligations from those reported in our Form 10-K. See Note 8 - Leases of Notes to Consolidated Financial Statements for additional information regarding our non-cancellable operating lease obligations as of September 30, 2021.

Below are the payments due by period for our debt outstanding as of September 30, 2021:

	Payments due by period				
(In thousands)	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**More than five years**
Revolving line of credit	$ 100,000	—	—	100,000	—

Credit Agreement. Refer to Note 13 - Debt and Note 18 - Subsequent Events of Notes to Consolidated Financial Statements for additional details on our secured revolving loan facility. As of September 30, 2021, we had approximately $400 million in available borrowing capacity under the Credit Agreement. Proceeds of additional borrowings made under the Credit Agreement may be used for working capital and other general corporate purposes. We may prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty. Certain of our future material domestic subsidiaries are required to guaranty our obligations under the Credit Agreement.

Off-Balance Sheet Arrangements. We do not have any off-balance sheet debt. At September 30, 2021, 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 and short-term investments, together with cash generated from operations, cash generated from the purchase of common stock through our employee stock purchase plan and available borrowing under our Credit Agreement will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments, payment of dividends to our stockholders and repurchases of our common stock for at least the next 12 months. We may also seek to pursue additional financing or to raise additional funds by seeking an additional increase in our secured revolving line of credit under our Credit Agreement 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 have sufficient capital to 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;
- 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;
- repurchase of our common stock;
- 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;
- our relationships with suppliers and customers; and
- the amount of proceeds received as a result of our employee stock purchase plan.

Recently Issued Accounting Pronouncements

See Note 1 – Basis of presentation in Notes to Consolidated Financial Statements.

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

Changes in currency exchange rates and interest rates are our primary financial market risks. 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 the material changes during the nine months ended September 30, 2021 to this information reported in our Form 10-K are described below.

Interest Expense Risk

Our borrowings under our Credit Agreement bear interest at a variable rate which exposes us to market risk related to changes in interest rates. We have not entered into derivative transactions related to our borrowing arrangements. The primary base interest rate is LIBOR. Assuming the outstanding balance on our floating rate indebtedness remains constant over a year, a 100-basis point increase in the interest rate would decrease annual net income and cash flow by less than $1 million. We do not expect changes in interest rates to have a material adverse effect on our income or our cash flows in 2021. However, there is no assurance that interest rates will not significantly change in the future.

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 September 30, 2021, 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 third quarter of 2021, 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. The developments described in the additional risk factors presented below have heightened, or in some cases manifested, certain of the risks disclosed in the other risk factors identified in the "Risk Factors" section of our Form 10-K.

A Global Shortage of Key Components Has and May Continue to Adversely Affect Our Business and Result of Operations. Various factors, including increased demand for certain components and production delays due to COVID-19 and other natural events and disasters, are contributing to shortages of certain components used in our products and increased difficulties in our ability to obtain a consistent supply of materials at stable pricing levels. The supply shortages have increased the costs and lead times of certain components. Longer lead times may cause a significant disruption to our production activities, which could have a substantial adverse effect on our financial condition or results of operations. If we are unsuccessful in resolving any such component shortages in a timely manner, we will experience a significant impact on the timing of revenue, a possible loss of revenue, or an increase in manufacturing costs, any of which would have a material adverse impact on our operating results.

We Continue to Face Significant Risks Related to Adverse Public Health Matters, Including Epidemics and Pandemics such as the COVID-19 Pandemic. Any outbreaks of contagious diseases and other adverse public health developments in countries where we operate could have a material and adverse effect on our business, financial condition, liquidity and results of operations. For example, the COVID-19 pandemic has adversely affected our operations throughout the world, as well as the facilities of our suppliers and customers. The COVID-19 pandemic caused widespread disruptions to our operations throughout 2020, particularly during the first half of the year. Although we have not experienced a significant reduction in our overall productivity due to the COVID-19 pandemic, we have experienced some disruptions to our operations, and expect to continue to experience such disruptions to our operations. These disruptions have included and may continue to include, depending on the specific location, logistical challenges and limitations, reduced demand from certain customers, and government regulations that require us to adjust or restrict our operations at certain of our facilities, incur additional costs, adapt to challenges presented by travel restrictions and "work-from-home" orders and/or require employee vaccinations. The extent to which the COVID-19 pandemic will continue to impact our business and financial results going forward will be dependent on future developments such as the length and severity of the COVID-19 pandemic, future government regulations and actions in response to the COVID-19 pandemic, the timing, availability and effectiveness of vaccines, as well as the willingness of our employees to receive such vaccine, and the overall impact of the COVID-19 pandemic on the global economy and capital markets, among many other factors, all of which remain uncertain and unpredictable. In October 2021, to remain compliant with the deadline established in the recent U.S. federal executive order applicable to U.S. federal contractors, we notified our employees that we will require all US employees to be fully vaccinated against the COVID-19 virus by December 8 (other than employees with certain legally qualifying exemptions).

In addition, the COVID-19 pandemic could directly impact the health of our management team and other employees. It is impossible to predict the overall future impact of the COVID-19 pandemic on our business, financial condition, liquidity and financial results, and there can be no assurance that the COVID-19 pandemic will not have a material and adverse effect on our financial results in the future during any quarter or period in which we are affected.

The COVID-19 pandemic also increases the likelihood and potential severity of other risks to the Company (including some discussed separately within this Item 1A. Risk Factors), including but not limited to, the following:

- We may be required to implement certain public health protocols in order to continue doing business with certain customers or operate in certain jurisdictions, including additional mandatory vaccination or ongoing testing programs for a subset of our employee population. Complying with these requirements could result in additional costs and challenges with employee retention. Failure to comply with these requirements could have a significant impact on our sales to certain customers.

- A significant subset of our employee population is currently in a remote work environment in an effort to mitigate the spread of COVID-19. This change may exacerbate certain risks to our business, including an increased risk of phishing and other cybersecurity attacks, an increased risk of challenges related to hiring, training, and retaining personnel, and an increased risk of delays or disruptions to our product development, sales, marketing, manufacturing and support operations that we cannot fully mitigate through remote or other alternative work arrangements.

- Protracted economic uncertainty could negatively affect the financial condition of our customers or suppliers, which may result in an increase in bankruptcies or insolvencies, a delay in payments and decreased sales.

- A scarcity of resources or other hardships caused by the COVID-19 pandemic may result in increased geopolitical tensions which may cause governments and/or other entities to take actions that may have a significant negative impact on our ability or the ability of our suppliers and customers to conduct business.

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

The following table provides information as of September 30, 2021 with respect to the shares of our common stock that we repurchased during the third quarter of 2021.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
July 1, 2021 to July 31, 2021	—	$ —	—	1,609,943
August 1, 2021 to August 31, 2021	—	$ —	—	1,609,943
September 1, 2021 to September 30, 2021	599,066	$ 41.73	599,066	1,010,877
Total	599,066	$ 41.73	599,066	1,010,877

(1) 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 Board of Directors amended such program several times over the years to increase the number of shares that may be purchased under the program. Most recently, on October 23, 2019, our Board of Directors amended the program to increase the number of shares that may be repurchased by 3,000,000 shares. At September 30, 2021, there were 1,010,877 shares remaining available for repurchase under the stock repurchase program. This program does not have an expiration date nor does it obligate the Company to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions.

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

None.

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

None.

Item 5. ***Other Information***

None.

EXHIBITS

3.1(1)	Certificate of Incorporation, as amended, of the Registrant, effective May 14, 2013
3.2(2)	Amended and Restated By-laws of the Registrant effective August 1, 2021
10.1*	Executive Employment Agreement, between the Registrant and Scott Rust, effective October 1, 2021†
10.2*	National Instruments Corporation Executive Incentive Program, as amended and restated, effective October 11, 2021†
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 Exhibit 3.1 to the Registrant's Form 10-K for the fiscal year ended December 31, 2013, filed with the Commission on February 20, 2014
(2)	Incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2021, filed with the Commission on August 2, 2021

*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: November 1, 2021

NATIONAL INSTRUMENTS CORPORATION
By: /s/ Karen Rapp
Karen Rapp
EVP, Chief Financial Officer
(Principal Financial Officer)

NATIONAL INSTRUMENTS CORPORATION

EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") by and between Scott Rust ("Executive") and National Instruments Corporation ("Company") (collectively referred to as the "Parties" or individually referred to as a "Party") is dated to be effective as of October 1, 2021 (the "Effective Date").

RECITALS

WHEREAS, the Company currently employs Executive as Senior Vice President, Global Product Research & Development;

WHEREAS, the Company and Executive entered into an RSU Vesting Acceleration Agreement effective as of February 26, 2016 (the "RSU Vesting Acceleration Agreement");

WHEREAS, the Company seeks to employ Executive as Executive Vice President, Platform & Product and seeks to enter into an agreement embodying the terms of such employment; and

WHEREAS, Executive desires to accept such employment and enter into such an agreement.

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Executive hereby agree as follows:

AGREEMENT

1. Duties and Scope of Employment.

(a) Positions and Duties. As of the Effective Date, Executive will serve as Executive Vice President, Platform & Product and will continue reporting to the Company's Chief Executive Officer and President, Eric Starkloff ("Manager"). Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as shall reasonably be assigned to him by his Manager. The period of Executive's employment under this Agreement is referred to herein as the "Employment Period."

(b) Obligations. During the Employment Period, Executive will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time to the Company. For the duration of the Employment Period, Executive agrees not to engage in any other employment, occupation, or consulting activity for any direct or indirect remuneration without his Manager's prior written approval and subject to the approvals required by the Conflict of Interest Policy for employees of the Company. The Company acknowledges and agrees that Executive has been granted prior written approval to serve on the Advisory Board of Flyscan Systems, Inc.

2. At-Will Employment. The Parties agree that Executive's employment with the Company will continue to be at-will employment and therefore may be terminated at any time with or without cause or notice, for any reason or no reason. However, as described in this Agreement, Executive may be entitled to severance benefits depending on the circumstances of Executive's termination of employment with the Company. The Company requests that, in the event of Executive's resignation, where practicable, Executive provide the Company with up to ninety (90) days' advance notice. The Company may, in its discretion, accelerate the separation date during that period without altering the nature of Executive's resignation. Any such requested notice period does not alter the at-will nature of Executive's employment with the Company.

3. Compensation.

(a) Base Salary. As of the Effective Date, Executive's annual base salary will increase to a rate of Four Hundred Twenty-Five Thousand Dollars ($425,000) per annum payable in accordance with the Company's normal payroll practices and subject to usual required withholdings. The term "Base Salary" means the greater of a rate of Four Hundred Twenty-Five Thousand Dollars ($425,000) per annum or such greater, but not lower, rate of pay the Company might hereafter set for Executive. The first and last payment of Executive's Base Salary will be adjusted, if necessary, to reflect a commencement or termination date other than the first or last working day of a pay period.

(b) Annual Bonus. As of the Effective Date, Executive is eligible to participate in the Company Executive Incentive Program ("EIP") with an annual target of One Hundred percent (100%) of Base Salary and provided that such annual target shall be prorated from October 1, 2021 for the 2021 performance year, with performance goals commensurate with Executive's position, as specified by the Compensation Committee of the Board of Directors (the "Committee") from time to time, as may be applicable. The actual earned EIP bonus will be determined based on achievement of performance goals and paid no later than two and one-half (2-1/2) months following the end of the performance year.

(c) Restricted Stock Units. Executive understands and agrees that, to the extent he becomes eligible for any future equity grants, such grant would be subject to any required Committee approval and subject to the relevant equity documents as then in effect at the Company and to Executive's continued employment through the award grant date.

4. Employee Benefits. During the Employment Period, Executive and Executive's eligible dependents will continue to be eligible to participate in Company employee benefit plans and perquisites and fringe benefit programs, including medical, dental, 401(k), and Company stock purchase plan, made available to other senior executive-level employees, as in effect from time to time.

5. Vacation. During the Employment Period, Executive will be entitled to paid vacation in accordance with the Company's then-current policy for other executive-level employees.

6. Severance Benefits.

(a) Termination Without Cause or Resignation for Good Reason. If the Company terminates Executive's employment involuntarily without Cause (excluding any termination due to death or Disability) or Executive resigns for Good Reason, then, subject to the limitations of Sections 7 and 8 below, Executive shall be entitled to receive: (i) continuing severance pay at a rate equal to one hundred percent (100%) of the Executive's Base Salary, as then in effect (less applicable withholding), for a period of twelve (12) months from the date of such termination, paid in accordance with the Company's normal payroll practices; (ii) to the extent not already earned and accrued, a lump sum equivalent to one hundred percent (100%) of Executive's EIP bonus as in effect at the time of the applicable termination or resignation, less applicable withholding, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company (for avoidance of doubt in no case would Executive be entitled to more than one EIP bonus payment under the terms of this provision); (iii) accelerated vesting of Executive's outstanding Company service-based restricted stock units that would have vested had Executive remained employed by the Company for twelve (12) months following the termination date, and subject to any required approval by the Committee, such approval not to be unreasonably withheld; and (iv) provided Executive timely elects healthcare continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA"), Company reimbursement of Executive for, or direct payment of, Executive's COBRA premiums (at the coverage level in effect immediately prior to Executive's termination) until the earlier of twelve (12) months following the termination date or the date Executive becomes covered under similar plans. If the Company determines, in its sole discretion, that it cannot provide the foregoing benefit related to COBRA premiums without potentially violating, or being subject to an excise tax under, applicable law, the Company will instead provide a taxable monthly payment of an equivalent amount, which will be made regardless of whether Executive elects COBRA and continue until the earlier of twelve (12) months following termination or the date Executive becomes covered under similar plans.

(b) Change in Control Benefits. Notwithstanding any contrary provision in the preceding paragraph, if a termination described in Section 6(a) occurs within the period beginning three (3) months prior to a Change in Control and ending twelve (12) months following a Change in Control, then the Executive will be entitled to receive the same severance in Section 6(a) except the severance amount in Section 6(a)(i) will be paid in a lump-sum on the sixtieth (60^{th}) day following the termination date. For avoidance of doubt, Executive's equity awards will remain subject to the Change in Control vesting or other treatment as provided for under the terms of the Company's equity plan and Executive's equity award agreements, as applicable, notwithstanding Executive's eligibility to receive vesting acceleration under Section 6(a)(iii) of this Agreement in the event of a termination described in Section 6(a).

(c) Voluntary Resignation; Termination for Cause. If Executive's employment with the Company or its Affiliates (as defined below) terminates (i) voluntarily by Executive (other than for Good Reason) or (ii) for Cause by the Company, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company, if applicable.

(d) Disability; Death. If the Company terminates Executive's employment as a result of Executive's Disability, or Executive's employment terminates due to Executive's death, then Executive will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company, if applicable.

(e) Accrued Compensation. For the avoidance of any doubt, in the event of a termination of Executive's employment with the Company or its Affiliates, Executive will be entitled to receive all accrued but unpaid base salary, any earned but unused vacation pay, and reimbursement for any unreimbursed expenses, in accordance with Company policies then in effect and applicable law.

(f) Transfer between the Company and Affiliates. For purposes of this Section 6, Executive will not be determined to have been terminated without Cause, where Executive continues to remain employed by the Company or one of its Affiliates (e.g., upon transfer from on Affiliate to another); provided, however, that the Parties understand and acknowledge that any such transfer could potentially result in Executive's ability to resign for Good Reason.

(g) Exclusive Remedy. Severance benefits provided to the Executive pursuant to this Section 6 are in lieu of, and not in addition to, any benefits to which Executive may otherwise be entitled under any Company severance plan, policy, or program.

7. Conditions to Receipt of Severance. Any severance payments, equity acceleration, or other payments or benefits under Section 6(a) and (b) above are conditioned on Executive's not materially breaching the Proprietary Rights Agreement (defined below), including the restrictive covenants therein, in a manner that would be reasonably likely to result in a material injury or effect on the Company's business, operations, prospects or reputation as determined by Executive's Manager in his Manager's sole reasonable discretion, and on Executive's signing and not revoking a separation agreement and release, including a general release of claims against the Company and certain related persons and entities, in a form reasonably satisfactory to the Company (the "Release") and such Release becoming effective in accordance with its terms (such date, the "Release Effective Date") within sixty (60) days following Executive's termination date (the "Release Deadline"), which both Parties agree to take all reasonable steps to accomplish. Severance payments or benefits shall be paid or commence, as applicable, upon the first payroll date following the Release Effective Date and such payment will include the amount of any installment that would otherwise been paid prior to such payment date. All other benefits, if any, due to Executive following a termination will be determined in accordance with the plans, policies and practices of the Company as then in effect. Notwithstanding the foregoing, to the extent

required to comply with Section 409A of the Internal Revenue Code and the regulations and guidance promulgated thereunder ("Section 409A"), if the sixty (60) day Release period spans two (2) calendar years, the severance payments will be delayed to the first scheduled payroll date in the second year (and will include all payments that would otherwise have been made prior to such date). Severance payments will not be paid or provided until the Release becomes effective and irrevocable.

8. Section 409A. The Parties intend that this Agreement be interpreted to comply with or be exempt from Section 409A so that none of the severance payments or benefits provided hereunder will be subject to the additional tax imposed under Section 409A. For purposes of determining severance, a termination of employment shall mean not be deemed to have occurred unless the termination is also a "separation from service" within the meaning of Section 409A. If Executive is a "specified employee" within the meaning of Section 409A, then the severance and any other separation benefits payable upon a separation from service (whether under this Agreement or otherwise) that would constitute deferred compensation under Section 409A (the "Deferred Payments"), otherwise due to Executive on or within the six (6)-month period following Executive's separation from service will accrue during such six (6)-month period and will become payable in a lump sum payment on the date six (6) months and one (1) day following the date of Executive's separation from service (such rule, the "Six Month Delay Rule") or, if earlier, the date of Executive's death. All subsequent Deferred Payments following the application of the Six Month Delay Rule, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit or, if earlier, upon the date of Executive's death. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. Executive and the Company agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions that are necessary, appropriate or desirable to avoid subjecting Executive to an additional tax or income recognition under Section 409A prior to actual payment of any payments and benefits under this Agreement, as applicable. In no event will the Company reimburse Executive for any taxes that may be imposed on Executive as a result of Section 409A.

9. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Section 9, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive's severance benefits under Section 6 will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state, and local income taxes and the excise tax imposed by Section 4999 of the Code, results in the receipt by Executive on an after-tax basis, of the greatest amount of severance benefits, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (i) reduction of cash payments; (ii) cancellation of awards granted "contingent on a change in ownership or control" (within the meaning of Code Section 280G); (iii) cancellation of accelerated vesting of equity awards; or (iv) reduction of employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting will be cancelled in the reverse order of the date of grant of Executive's equity awards. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 9 will be made in writing by a nationally recognized accounting or valuation firm (the "Firm") selected by the Company, whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 9, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Firm such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company will bear all costs the Firm may reasonably incur in connection with any calculations contemplated by this Section 9.

10. Definitions. The following terms referred to in this Agreement will have the following meanings:

(a) Affiliate. "Affiliate" means Company and any other parent or subsidiary corporations of the Company, as such terms are defined in Section 424(e) of the Code.

(b) Cause. "Cause" means the occurrence of one or more of the following: (i) Executive's indictment for the commission of any felony or a misdemeanor involving deceit, material dishonesty or fraud, or any other such conduct by Executive that would reasonably be expected to result in material injury or reputational harm to the Company if Executive were retained in his position; (ii) Executive's material violation of this Agreement, the Proprietary Rights Agreement, or any other material agreement with the Company, including any misappropriation or disclosure of confidential and proprietary information or trade secrets of the Company and its subsidiaries or affiliates; (iii) continued failure to substantially perform Executive's duties with the Company (other than any such failure resulting from Executive's Disability) after a written demand for substantial performance is delivered to Executive by his Manager, which is not substantially corrected by Executive to the reasonable satisfaction of his Manager within thirty (30) days of receipt of such demand; (iv) a breach by Executive of Executive's fiduciary duties and responsibilities to the Company that would be reasonably likely to result in a material injury or effect on the Company's business, operations, prospects or reputation; (v) Executive's participation in releasing financial statements known by Executive to be false or materially misleading or intentional submission of a false certification to the Securities and Exchange Commission or other governmental agency or authority; (vi) a material violation of the Company's Code of Ethics or other policies of the Company, that would be reasonably likely to result in a material injury or effect on the Company's business, operations, prospects or reputation as determined by Executive's Manager in his Manager's sole reasonable discretion; or (vii) failure to reasonably cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by his Manager to cooperate, or the destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation.

(c) Change in Control. "Change in Control" means (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; (ii) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; (iii) a change in the effective control of the Company which occurs on the date that a majority of the members of the Board of Directors ("Board") is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or (iv) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation. Notwithstanding the foregoing definition, any payment or benefit that would be considered deferred compensation subject to, and not exempt from, Section 409A, payable or to be provided upon a Change in Control shall only be paid or provided to Executive to the extent such event also qualifies as an event described in Internal Revenue Code Section 409A(a)(2)(A)(v).

(d) Disability. "Disability" means Executive's entitlement to benefits under Company's long-term disability plan or if Executive does not participate in Company's long term-disability plan, Executive's inability, due to physical or mental incapacity, to perform Executive's duties under this letter

Agreement for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six (6)-month period.

(e) Good Reason. "Good Reason" means Executive's resignation within thirty (30) days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Executive's written consent: (i) a material diminution of Executive's authority relative to Executive's authority in effect immediately prior to such diminution; provided, however, that a reduction in the Executive's authority, duties, or responsibilities solely by virtue of the Company being acquired and made part of a larger entity does not constitute "Good Reason" (for example, "Good Reason" does not exist if the Executive is employed by the Company with substantially the same responsibilities with respect to the Company's business that Executive had immediately prior to the Change in Control regardless of whether Executive's title is revised to reflect Executive's placement within the overall corporate hierarchy or whether Executive provides services to a subsidiary, affiliate, business unit or otherwise); (ii) a material reduction by the Company in the base compensation or target bonus of the Executive as in effect immediately prior to such reduction, other than a reduction of up to 25% that is also applied to other senior executives of the Company such that Executive is not the only senior executive whose base compensation or target bonus is being reduced; or (iii) the relocation of Executive to a facility or a location more than one hundred (100) miles from Executive's then-present location. Executive's resignation will not be deemed to be for Good Reason unless Executive has first provided the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and a reasonable cure period of not less than thirty (30) days following the date the Company receives such notice, and such condition has not been cured during such period.

11. Company Matters.

(a) Proprietary Information and Inventions. Executive acknowledges and agrees that as a condition of his continued employment with the Company under this Agreement, he will be required to sign and comply with an At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement (the "Proprietary Rights Agreement"), a copy of which is attached hereto as Exhibit A. Executive further acknowledges and agrees that he will continue to abide by the Company Values and Guidelines and the Company Code of Ethics, which remain in full force and effect, as well as other Company policies as in effect from time to time. In the event of any conflict between any pre-existing confidentiality, non-compete, or non-disclosure obligations and the terms of the restrictive covenants agreement set forth in the Proprietary Rights Agreement, the terms of the Proprietary Rights Agreement shall control.

(b) Resignation on Termination. On termination of his employment, regardless of the reason thereof, Executive shall immediately (and with contemporaneous effect) resign any directorships, offices, or other positions he may hold in the Company unless otherwise agreed in writing by the Parties.

(c) Notification of New Employer. In the event that Executive leaves the employ of the Company, Executive grants consent to notification by the Company to Executive's new employer about his rights and obligations under this Agreement and the Proprietary Rights Agreement.

12. Arbitration. IN CONSIDERATION OF EXECUTIVE'S CONTINUED EMPLOYMENT WITH THE COMPANY, ITS PROMISE TO ARBITRATE ALL EMPLOYMENT-RELATED DISPUTES AND EXECUTIVE'S RECEIPT OF THE COMPENSATION, PAY RAISES, AND OTHER BENEFITS PAID TO EXECUTIVE BY THE COMPANY, AT PRESENT AND IN THE FUTURE, EXECUTIVE AGREES THAT ANY AND ALL CONTROVERSIES, CLAIMS, OR DISPUTES WITH ANYONE (INCLUDING THE COMPANY AND ANY EMPLOYEE, OFFICER, DIRECTOR, SHAREHOLDER, OR BENEFIT PLAN, IN THEIR CAPACITY AS SUCH OR OTHERWISE) ARISING OUT OF, RELATING TO, OR RESULTING FROM EXECUTIVE'S EMPLOYMENT WITH THE COMPANY OR THE TERMINATION OF EXECUTIVE'S EMPLOYMENT WITH THE COMPANY, INCLUDING ANY DISPUTES RELATED TO OR ARISING OUT OF THIS AGREEMENT, SHALL BE SUBJECT TO BINDING ARBITRATION AS SET

FORTH IN THE PROPRIETARY RIGHTS AGREEMENT, AND SUBJECT TO THE PROVISIONS THEREIN REGARDING PROTECTED ACTIVITY.

13. Assignment. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive's death and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

14. Notices. All notices, requests, demands, and other communications called for under this Agreement shall be in writing and shall be delivered personally by hand or by courier, mailed by United States first-class mail, postage prepaid, or sent by email directed to the Party to be notified at the physical address or email address indicated for such Party on the signature page to this Agreement, or at such other address or email address as such Party may designate by ten (10) days' advance written notice to the other Party hereto. All such notices and other communications shall be deemed given upon personal delivery, three (3) days after the date of mailing, or upon sending the email.

15. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

16. Integration. This Agreement, together with the Proprietary Rights Agreement, any other agreements relating to proprietary rights or equity awards between Executive and the Company, the Indemnification Agreement between Executive and the Company dated August 25, 2020, and the Company's Employee Handbook and Code of Ethics, set forth the terms of Executive's employment with the Company as of the Effective Date and supersede any prior representations and agreements, whether written or oral. This Agreement supersedes any prior employment agreement between Executive and the Company, including, but not limited to, the RSU Vesting Acceleration Agreement, which is expressly superseded by this Agreement.

17. Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

18. Waiver. No Party to this Agreement shall be deemed to have waived any right, power, or privilege under this Agreement or any provisions hereof unless such waiver shall have been duly executed in writing and acknowledged by the Party to be charged with such waiver. No waiver of any breach of this Agreement shall be held to be a waiver of any other subsequent breach.

19. Governing Law. This Agreement will be governed by the laws of the State of Texas (with the exception of its conflicts of law provisions). Subject to the arbitration provisions referenced above and without limiting such provisions, the Parties agree to exclusive venue in the state and federal courts in Austin, Texas.

20. Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his legal counsel, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

21. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and all such counterparts shall constitute but one instrument.

22. Effect of Headings. The section and subsection headings contained herein are for convenience only and shall not affect the construction hereof.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Company and Executive have executed this Agreement as of the day and year first above written.

"COMPANY"

NATIONAL INSTRUMENTS CORPORATION

By: /s/ Eric Starkloff
Eric Starkloff
President & Chief Executive Officer
Address:

National Instruments Corporation
11500 N Mopac Expwy
Austin, TX 78759-3504
Attn: General Counsel

"EXECUTIVE"

/s/ Scott Rust
Scott Rust

Address:

NATIONAL INSTRUMENTS CORPORATION
EXECUTIVE EMPLOYMENT AGREEMENT
SIGNATURE PAGE

<u>Exhibit A</u>

(Proprietary Rights Agreement)

<u>AT-WILL EMPLOYMENT, CONFIDENTIAL INFORMATION, INVENTION ASSIGNMENT, AND ARBITRATION AGREEMENT</u>

As a condition of my employment with National Instruments Corporation (the "**Company**"), and in consideration of my employment with the Company and my receipt of the compensation paid to me by the Company, I agree to the following provisions of this At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement (this "**Agreement**"):

1. **<u>At-Will Employment</u>.** I UNDERSTAND AND ACKNOWLEDGE THAT MY EMPLOYMENT WITH THE COMPANY IS FOR NO SPECIFIED TERM AND CONSTITUTES "AT-WILL" EMPLOYMENT. I ALSO UNDERSTAND THAT ANY REPRESENTATION TO THE CONTRARY IS NOT VALID UNLESS IN WRITING AND SIGNED BY THE CEO OF THE COMPANY. I ACKNOWLEDGE THAT MY EMPLOYMENT MAY BE TERMINATED AT ANY TIME, WITH OR WITHOUT GOOD CAUSE OR FOR ANY OR NO CAUSE, AT MY OPTION OR AT THE OPTION OF THE COMPANY, WITH OR WITHOUT NOTICE.

2. **<u>Confidentiality</u>.**

A. *Definition of Company Confidential Information*. "**Company Confidential Information**" means information that the Company has or will develop, acquire, create, compile, discover or own, that has value in or to the Company's business that is not generally known and which the Company wishes to maintain as confidential. Company Confidential Information includes both information disclosed by the Company to me, and information developed or learned by me during my employment with the Company. Company Confidential Information also includes all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Company Confidential Information. By way of example, and without limitation, Company Confidential Information includes any and all non-public information that relates to the actual or anticipated business and/or products, research or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets therefor, customer lists and customers (including, but not limited to, customers of the Company with which I may become acquainted during the term of my employment), software, developments, inventions, discoveries, ideas, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Company Confidential Information shall not include any such information that I can establish (i) was publicly known or made generally available prior to the time of disclosure by the Company to me; (ii) becomes publicly known or made generally available after disclosure by the Company to me through no wrongful action or omission by me; or (iii) is in my rightful possession, without confidentiality obligations, at the time of disclosure by the Company as shown by my then-contemporaneous written records; provided that any combination of individual items of information shall not be deemed to be within any of the foregoing exceptions merely because one or more of the individual items are within such exception, unless the combination as a whole is within such exception.

B. *Nonuse and Nondisclosure*. During and after my employment with the Company, I will hold in the strictest confidence and take all reasonable precautions to prevent any unauthorized use or disclosure of Company Confidential Information. I will not (i) use Company Confidential Information for any purpose whatsoever other than for the benefit of the Company in the course of my employment, or (ii) disclose Company Confidential Information to any third party without the prior written authorization of the CEO of the Company. Prior to disclosure, when compelled by applicable law, I shall provide prior written notice to the CEO and General Counsel of the Company (as applicable). I agree that I obtain no title to any Company Confidential Information, and that the Company retains all Confidential Information as the sole property of the Company. I understand that my unauthorized use or disclosure of Company Confidential Information during my employment may lead to disciplinary action, up to and including, termination and legal action by the Company. I understand that my obligations under this section shall continue after termination of my employment and that nothing in this Agreement prevents me from engaging in protected activity, as described below.

C. *Former Employer Confidential Information*. I agree that during my employment with the Company, I will not improperly use, disclose, or induce the Company to use any proprietary information or trade secrets of any former employer or other person or entity with which I have an obligation to keep such proprietary information or trade secrets in confidence. I further agree that I will not bring onto the Company's premises or transfer onto the Company's technology systems any unpublished document, proprietary information, or trade secrets belonging to any such third party unless disclosure to, and use by, the Company has been consented to, in writing, by such third party and the Company.

D. *Third Party Information*. I recognize that the Company has received, and in the future may receive, from third parties (for example, customers, suppliers, licensors, licensees, partners, and collaborators) as well as its subsidiaries and affiliates ("**Associated Third Parties**"), information that the Company is required to maintain and treat as confidential or proprietary information of such Associated Third Parties ("**Associated Third Party Confidential Information**"), and I agree to use such Associated Third Party Confidential Information only as directed by the Company and to not use or disclose such Associated Third Party Confidential Information in a manner that would violate the Company's obligations to such Associated Third Parties. I agree at all times during my employment with the Company and thereafter, that I owe the Company and its Associated Third Parties a duty to hold all such Associated Third Party Confidential Information in the strictest confidence, and not to use it or to disclose it to any person, firm, corporation, or other third party except as necessary in carrying out my work for the Company consistent with the Company's agreement with such Associated Third Parties.

3. **Ownership.**

A. *Assignment of Inventions*. As between the Company and myself, I agree that all right, title, and interest in and to any and all copyrightable material, notes, records, drawings, designs, logos, inventions, improvements, developments, discoveries, ideas and trade secrets conceived, discovered, authored, invented, developed, or reduced to practice by me, solely or in collaboration with others, during the period of time I am in the employ of the Company (including during my off-duty hours), or with the use of the Company's equipment, supplies, facilities, or Company Confidential Information, and any copyrights, patents, trade secrets, mask work rights or other intellectual property rights relating to the foregoing, except as provided in Section 3.F below (collectively, "**Inventions**"), are the sole property of the Company. I also agree to promptly make full written disclosure to the Company of any Inventions, and to deliver and assign and hereby irrevocably assign fully to the Company all of my right, title and interest in and to Inventions. I agree that this assignment includes a present conveyance to the Company of ownership of Inventions that are not yet in existence. I further acknowledge that all original works of authorship that are made by me (solely or jointly with others) within the scope of and during the period of my employment with the Company and that are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act. I understand and agree that the decision whether or not to commercialize or market any Inventions is within the Company's sole discretion and for the Company's sole benefit, and that no royalty or other consideration will be due to me as a result of the Company's efforts to commercialize or market any such Inventions.

B. *Pre-Existing Materials*. I will inform the Company, in writing, before incorporating any inventions, discoveries, ideas, original works of authorship, developments, improvements, trade secrets and other proprietary information or intellectual property rights owned by me or in which I have an interest prior to, or separate from, my employment with the Company, including, without limitation, any such inventions that qualify as an "Other Invention" as defined below in Section 3.F ("**Prior Inventions**") into any Invention or otherwise utilizing any Prior Invention in the course of my employment with the Company; and the Company is hereby granted a nonexclusive, royalty-free, perpetual, irrevocable, transferable worldwide license (with the right to grant and authorize sublicenses) to make, have made, use, import, offer for sale, sell, reproduce, distribute, modify, adapt, prepare derivative works of, display, perform, and otherwise exploit such incorporated or utilized Prior Inventions, without restriction, including, without limitation, as part of, or in connection with, such Invention, and to practice any method related thereto. I will not incorporate any inventions, discoveries, ideas, original works of authorship, developments, improvements, trade secrets and other proprietary information or intellectual property rights owned by any third party into any Invention without the Company's prior written permission. I have attached hereto, as Exhibit A, a list describing all Prior Inventions that relate to the Company's current or anticipated business, products, or research and development or, if no such list is attached, I represent and warrant that there are no such Prior Inventions. Furthermore, I represent and warrant that if any Prior Inventions are included on Exhibit A, they will not materially affect my ability to perform all obligations under this Agreement.

C. *Moral Rights*. Any assignment to the Company of Inventions includes all rights of attribution, paternity, integrity, modification, disclosure and withdrawal, and any other rights throughout the world that may be known as or referred to as "moral rights," "artist's rights," "droit moral," or the like (collectively, "**Moral Rights**"). To the extent that Moral Rights cannot be assigned under applicable law, I hereby waive and agree not to enforce any and all Moral Rights, including, without limitation, any limitation on subsequent modification, to the extent permitted under applicable law.

D. *Further Assurances*. I agree to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, and all other instruments that the Company shall deem proper or necessary in order to apply for, register, obtain, maintain, defend, and enforce such rights, and in order to deliver, assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title, and interest in and to all Inventions, and testifying in a suit or other proceeding relating to such Inventions. I further agree that my obligations under this Section 3.D shall continue after the termination of this Agreement.

E. *Attorney-in-Fact*. I agree that, if the Company is unable because of my unavailability, mental or physical incapacity, or for any other reason to secure my signature with respect to any Inventions, including, without limitation, for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright registrations covering the Inventions assigned to the Company in Section 3.A, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and on my behalf to execute and file any papers and oaths, and to do all other lawfully permitted acts with respect to such Inventions to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by me. This power of attorney shall be deemed coupled with an interest and shall be irrevocable.

F. *Exception to Assignments*. I UNDERSTAND THAT THE PROVISIONS OF THIS AGREEMENT REQUIRING ASSIGNMENT OF INVENTIONS (AS DEFINED UNDER SECTION 3.A ABOVE) TO THE COMPANY DO NOT APPLY TO ANY INVENTION FOR WHICH NO EQUIPMENT SUPPLIES, FACILITY, OR TRADE SECRET INFORMATION OF THE COMPANY WAS USED AND WHICH WAS DEVELOPED ENTIRELY ON MY OWN TIME (AN "**OTHER INVENTION**") EXCEPT FOR THOSE OTHER INVENTIONS THAT RELATE: (A) DIRECTLY TO THE BUSINESS OF THE COMPANY; (B) TO THE COMPANY'S ACTUAL OR DEMONSTRABLY ANTICIPATED RESEARCH OR DEVELOPMENT; OR (C) RESULT FROM ANY WORK I PERFORM FOR THE COMPANY. I WILL NOT INCORPORATE, OR PERMIT TO BE INCORPORATED, ANY OTHER INVENTION OWNED BY ME OR IN WHICH I HAVE AN INTEREST INTO A COMPANY PRODUCT, PROCESS OR SERVICE WITHOUT THE COMPANY'S PRIOR WRITTEN CONSENT. I WILL ADVISE THE COMPANY PROMPTLY IN WRITING OF ANY INVENTIONS THAT I BELIEVE MEET THE ABOVE CRITERIA AND ARE NOT OTHERWISE DISCLOSED ON EXHIBIT A TO PERMIT A DETERMINATION OF OWNERSHIP BY THE COMPANY. ANY SUCH DISCLOSURE WILL BE RECEIVED IN CONFIDENCE.

4. **Conflicting Obligations.** I agree that during my employment with the Company, I will not engage in any other employment, occupation, consulting relationship, or commitment that is directly related to the business in which the Company is now involved or becomes involved or has plans to become involved, nor will I engage in any other activities that conflict with my obligations to the Company. I represent and warrant that I have no other agreements, relationships, or commitments to any other person or entity that conflict with the provisions of this Agreement or my ability to be employed and perform services for the Company. I further agree that if I have signed a confidentiality agreement or similar type of agreement with any former employer or other entity, I will comply with the terms of any such agreement to the extent that its terms are lawful under

applicable law, as advised by counsel to the extent such advice is deemed necessary. I represent and warrant that after undertaking a careful search, I have returned all property and confidential information belonging to all prior employers (and/or other third parties I have performed services for in accordance with the terms of any such applicable agreements).

5. **Notification of New Employer.** If I leave the employ of the Company, I hereby grant consent to notification by the Company to my new employer about my obligations under this Agreement.

6. **Company Policies.** I agree to adhere to all policies of the Company, including, but not limited to, the Company's insider trading and conflict of interest policies as well as policies governing use of the Company's documents and the Company's internet, email, telephone, and technology systems to which I will have access during my employment.

7. **Covenant Not to Compete and No Solicitation.**

A. *Covenant Not to Compete.* I agree that during the course of my employment and for a period of twelve (12) months immediately following the termination of my relationship with the Company for any reason, whether with or without cause, at the option either of the Company or myself, with or without notice, I will not, without the prior written consent of the Company: (i) serve as a partner, principal, licensor, licensee, employee, consultant, officer, director, manager, agent, affiliate, representative, advisor, promoter, associate, investor, or otherwise for (except for passive ownership of one percent (1%) or less of any entity whose securities have been registered under the Securities Act of 1933, as amended, or Section 12 of the Securities Exchange Act of 1934, as amended); (ii) directly or indirectly, own, purchase, organize or take preparatory steps for the organization of; or (iii) build, design, finance, acquire, lease, operate, manage, control, invest in, work or consult for or otherwise join, participate in or affiliate myself with, any business whose business, products or operations are in any respect involved in the Covered Business. For purposes of this Agreement, "**Covered Business**" shall mean any business in which the Company is engaged or in which the Company has plans to be engaged, or any service that the Company provides or has plans to provide. The foregoing covenant shall cover my activities in every part of the Territory. For purposes of this Agreement, "**Territory**" shall mean: (i) all counties in the State of Texas; (ii) all other states of the United States of America in which the Company provided goods or services, had customers, or otherwise conducted business at any time during the two-year period prior to the date of the termination of my relationship with the Company; and (iii) any other countries from which the Company maintains non-trivial operations or facilities, provided goods or services, had customers, or otherwise conducted business at any time during the two-year period prior to the date of the termination of my relationship with the Company. Should I obtain other employment during my employment with the Company or within twelve (12) months immediately following the termination of my relationship with the Company, I agree to provide written notification to the Company as to the name and address of my new employer, the position that I expect to hold, and a general description of my duties and responsibilities, at least three (3) business days prior to starting such employment.

B. *No Solicitation.*

(1) *Non-Solicitation of Customers.* I agree that for a period of twelve (12) months immediately following the termination of my relationship with the Company for any reason, whether with or without cause, at the option either of the Company or myself, with or without notice, I will not contact, or cause to be contacted, directly or indirectly, or engage in any form of oral, verbal, written, recorded, transcribed, or electronic communication with any Customer for the purposes of conducting business that is competitive or similar to that of the Company or for the purpose of disadvantaging the Company's business in any way. For purposes of this Agreement, "**Customer**" shall mean all persons or entities that have used or inquired of the Company's services at any time during the two-year period preceding the termination of my employment with the Company. I acknowledge and agree that the Customers did not use or inquire of the Company's services solely as a result of my efforts, and that the efforts of other Company personnel and resources are responsible for the Company's relationship with the Customers. I further acknowledge and agree that the identity of the Customers is not readily ascertainable or discoverable through public sources, and that the Company's list of

Customers was cultivated with great effort and secured through the expenditure of considerable time and money by the Company.

(2) *Non-Solicitation of Employees.* I agree that for a period of twelve (12) months immediately following the termination of my relationship with the Company for any reason, whether with or without cause, at the option either of the Company or myself, with or without notice, I will not directly or indirectly hire, solicit, or recruit, or attempt to hire, solicit, or recruit, any employee of the Company to leave their employment with the Company, nor will I contact any employee of the Company, or cause an employee of the Company to be contacted, for the purpose of leaving employment with the Company.

(3) *Non-Solicitation of Others.* I agree that for a period of twelve (12) months immediately following the termination of my relationship with the Company for any reason, whether with or without cause, at the option either of the Company or myself, with or without notice, I will not solicit, encourage, or induce, or cause to be solicited, encouraged or induced, directly or indirectly, any franchisee, joint venture, supplier, vendor or contractor who conducted business with the Company at any time during the two-year period preceding the termination of my employment with the Company, to terminate or adversely modify any business relationship with the Company or not to proceed with, or enter into, any business relationship with the Company, nor shall I otherwise interfere with any business relationship between the Company and any such franchisee, joint venture, supplier, vendor or contractor.

C. *Acknowledgements.* I acknowledge that I will derive significant value from the Company's agreement to provide me with Company Confidential Information to enable me to optimize the performance of my duties to the Company. I further acknowledge that my fulfillment of the obligations contained in this Agreement, including, but not limited to, my obligation neither to disclose nor to use Company Confidential Information other than for the Company's exclusive benefit and my obligations not to compete and not to solicit contained in subsections (A) and (B) above, is necessary to protect Company Confidential Information and, consequently, to preserve the value and goodwill of the Company. I also acknowledge the time, geographic and scope limitations of my obligations under subsections (A) and (B) above are fair and reasonable in all respects, especially in light of the Company's need to protect Company Confidential Information and the scope and nature of the Company's business, and that I will not be precluded from gainful employment if I am obligated not to compete with the Company or solicit its customers, employees, or others during the period and within the Territory as described above. In the event of my breach or violation of this Section 8, or good faith allegation by the Company of my breach or violation of this Section 8, the restricted periods set forth in this Section 8 shall be tolled until such breach or violation, or dispute related to an allegation by the Company that I have breached or violated this Section 8, has been duly cured or resolved, as applicable. I agree that nothing in this Section 8 shall affect my continuing obligations under this Agreement during and after this twelve (12) month period, including, without limitation, my obligations under Section 2.

D. *Separate Covenants*. The covenants contained in subsections (A) and (B) above shall be construed as a series of separate covenants, one for each city, county and state of any geographic area in the Territory. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in subsections (A) and (B) above. If, in any judicial or arbitral proceeding, a court or arbitrator refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be revised, or if revision is not permitted it shall be eliminated from this Agreement, to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of subsections (A) and (B) above are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, then permitted by such law. In the event that the applicable court or arbitrator does not exercise the power granted to it in the prior sentence, I and the Company agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

8. **<u>Representations</u>.** Without limiting my obligations under Section 3.D above, I agree to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. I represent and warrant that my performance of the terms of this Agreement will not breach any agreement to keep confidential information acquired by me in confidence or in trust prior to my employment by the Company. I hereby represent and warrant that I have not entered into, and I will not enter into, any oral or written agreement in conflict herewith.

9. **<u>Arbitration and Equitable Relief</u>.**

A. *Arbitration*. IN CONSIDERATION OF MY EMPLOYMENT WITH THE COMPANY, ITS PROMISE TO ARBITRATE ALL EMPLOYMENT-RELATED DISPUTES WITH ME, AND MY RECEIPT OF COMPENSATION, AND OTHER COMPANY BENEFITS, AT PRESENT AND IN THE FUTURE, I AGREE THAT ANY AND ALL CONTROVERSIES, CLAIMS, OR DISPUTES THAT I MAY HAVE WITH THE COMPANY (INCLUDING ANY COMPANY EMPLOYEE, OFFICER, DIRECTOR, TRUSTEE, OR BENEFIT PLAN OF THE COMPANY, IN THEIR CAPACITY AS SUCH OR OTHERWISE), ARISING OUT OF, RELATING TO, OR RESULTING FROM MY EMPLOYMENT WITH THE COMPANY OR THE TERMINATION OF MY EMPLOYMENT WITH THE COMPANY, INCLUDING ANY BREACH OF THIS AGREEMENT, SHALL BE SUBJECT TO BINDING ARBITRATION PURSUANT TO THE FEDERAL ARBITRATION ACT (9 U.S.C. SEC. 1 ET SEQ.) (THE "FAA"). THE FAA'S SUBSTANTIVE AND PROCEDURAL PROVISIONS SHALL EXCLUSIVELY GOVERN AND APPLY WITH FULL FORCE AND EFFECT TO THIS ARBITRATION AGREEMENT, INCLUDING ITS ENFORCEMENT, AND ANY STATE COURT OF COMPETENT JURISDICTION SHALL COMPEL ARBITRATION IN THE SAME MANNER AS A FEDERAL COURT UNDER THE FAA. I FURTHER AGREE THAT, TO THE FULLEST EXTENT PERMITTED BY LAW, I MAY BRING ANY ARBITRATION PROCEEDING ONLY IN MY INDIVIDUAL CAPACITY, AND NOT AS A PLAINTIFF, REPRESENTATIVE OR CLASS MEMBER IN ANY PURPORTED CLASS, COLLECTIVE OR REPRESENTATIVE LAWSUIT OR PROCEEDING. **TO THE FULLEST EXTENT PERMITTED BY LAW, I AGREE TO ARBITRATE ANY AND ALL COMMON LAW AND/OR STATUTORY CLAIMS UNDER LOCAL, STATE, OR FEDERAL LAW, INCLUDING, BUT NOT LIMITED TO, CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE OLDER WORKERS BENEFIT PROTECTION ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE FAIR LABOR STANDARDS ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE TEXAS COMMISSION ON HUMAN RIGHTS ACT, CLAIMS RELATING TO EMPLOYMENT STATUS, COMPENSATION, CLASSIFICATION, HARASSMENT, DISCRIMINATION, WRONGFUL TERMINATION, AND BREACH OF CONTRACT. TO THE FULLEST EXTENT PERMITTED BY LAW, I ALSO AGREE TO ARBITRATE ANY AND ALL DISPUTES ARISING OUT OF OR RELATING TO THE INTERPRETATION OR APPLICATION OF THIS AGREEMENT TO ARBITRATE, BUT NOT DISPUTES ABOUT THE ENFORCEABILITY, REVOCABILITY, OR VALIDITY OF THIS AGREEMENT TO ARBITRATE OR THE CLASS, COLLECTIVE, AND REPRESENTATIVE PROCEEDING WAIVER HEREIN. WITH RESPECT TO ALL SUCH CLAIMS AND DISPUTES THAT I AGREE TO ARBITRATE, I HEREBY EXPRESSLY AGREE TO WAIVE, AND DO WAIVE, ANY RIGHT TO A TRIAL BY JURY.** I FURTHER UNDERSTAND THAT THIS AGREEMENT TO ARBITRATE ALSO APPLIES TO ANY DISPUTES THAT THE COMPANY MAY HAVE WITH ME. I UNDERSTAND THAT NOTHING IN THIS AGREEMENT REQUIRES ME TO ARBITRATE CLAIMS THAT CANNOT BE ARBITRATED UNDER THE SARBANES-OXLEY ACT OR OTHER LAW THAT EXPRESSLY PROHIBITS ARBITRATION OF A CLAIM NOTWITHSTANDING THE APPLICATION OF THE FAA.

B. *Administration of Arbitration*. I AGREE THAT ANY ARBITRATION WILL BE ADMINISTERED BY JAMS, PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES (THE "**JAMS RULES**"), AVAILABLE AT https://www.jamsadr.com/rules-employment-arbitration/. IF THE JAMS RULES CANNOT BE ENFORCED AS TO THE ARBITRATION, THEN THE PARTIES AGREE THAT THEY WILL ARBITRATE THIS DISPUTE UTILIZING JAMS

COMPREHENSIVE ARBITRATION RULES AND PROCEDURES OR SUCH RULES AS THE ARBITRATOR MAY DEEM MOST APPROPRIATE FOR THE DISPUTE. I AGREE THAT THE ARBITRATOR SHALL HAVE THE POWER TO DECIDE ANY MOTIONS BROUGHT BY ANY PARTY TO THE ARBITRATION, APPLYING THE STANDARDS SET FORTH FOR SUCH MOTIONS UNDER THE TEXAS RULES OF CIVIL PROCEDURE. I AGREE THAT THE ARBITRATOR SHALL ISSUE A WRITTEN DECISION ON THE MERITS. I ALSO AGREE THAT THE ARBITRATOR SHALL HAVE THE POWER TO AWARD ANY REMEDIES AVAILABLE UNDER APPLICABLE LAW, AND THAT THE ARBITRATOR MAY AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, WHERE PERMITTED BY APPLICABLE LAW. I AGREE THAT THE DECREE OR AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED AS A FINAL AND BINDING JUDGMENT IN ANY COURT HAVING JURISDICTION THEREOF. THE COMPANY AGREES THAT THE COMPANY WILL PAY FOR ANY FEES OR COSTS CHARGED BY JAMS OR THE ARBITRATOR OR COURT REPORTERS, INCLUDING ADMINISTRATIVE OR HEARING FEES CHARGED BY THE ARBITRATOR OR JAMS EXCEPT THAT I SHALL PAY ANY FILING FEES ASSOCIATED WITH ANY ARBITRATION THAT I INITIATE, BUT ONLY SO MUCH OF THE FILING FEES AS I WOULD HAVE INSTEAD PAID HAD I FILED A COMPLAINT IN A COURT THAT WOULD HAVE HAD JURISDICTION OVER SUCH COMPLAINT. I AGREE THAT THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH TEXAS LAW, INCLUDING THE TEXAS RULES OF CIVIL PROCEDURE AND THE TEXAS RULES OF EVIDENCE, AND THAT THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL TEXAS LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO RULES OF CONFLICT-OF-LAW. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH TEXAS LAW, TEXAS LAW SHALL TAKE PRECEDENCE. I AGREE THAT ANY ARBITRATION UNDER THIS AGREEMENT SHALL BE CONDUCTED IN TRAVIS COUNTY, TEXAS.

C. *Remedy*. EXCEPT AS PROVIDED BY THE FAA OR THIS AGREEMENT, ARBITRATION SHALL BE THE SOLE, EXCLUSIVE, AND FINAL REMEDY FOR ANY DISPUTE BETWEEN ME AND THE COMPANY. ACCORDINGLY, EXCEPT AS PROVIDED FOR BY THE FAA OR THIS AGREEMENT, NEITHER I NOR THE COMPANY WILL BE PERMITTED TO PURSUE OR PARTICIPATE IN A COURT ACTION REGARDING CLAIMS THAT ARE SUBJECT TO ARBITRATION.

D. *Administrative Relief*. I UNDERSTAND THAT THIS AGREEMENT DOES NOT PROHIBIT ME FROM PURSUING AN ADMINISTRATIVE CLAIM WITH AN ADMINISTRATIVE BODY OR GOVERNMENT AGENCY AUTHORIZED TO ENFORCE OR ADMINISTER LAWS RELATED TO EMPLOYMENT. THIS AGREEMENT DOES PRECLUDE ME FROM PURSUING A COURT ACTION REGARDING ANY SUCH CLAIM, EXCEPT AS PERMITTED BY LAW.

E. *Voluntary Nature of Agreement*. I ACKNOWLEDGE AND AGREE THAT I AM EXECUTING THIS AGREEMENT VOLUNTARILY AND WITHOUT ANY DURESS OR UNDUE INFLUENCE BY THE COMPANY OR ANYONE ELSE. I FURTHER ACKNOWLEDGE AND AGREE THAT I HAVE CAREFULLY READ THIS AGREEMENT AND THAT I HAVE ASKED ANY QUESTIONS NEEDED FOR ME TO UNDERSTAND THE TERMS, CONSEQUENCES, AND BINDING EFFECT OF THIS AGREEMENT AND FULLY UNDERSTAND IT, INCLUDING THAT ***I AM WAIVING MY RIGHT TO A JURY TRIAL***. I AGREE THAT I HAVE BEEN PROVIDED AN OPPORTUNITY TO SEEK THE ADVICE OF AN ATTORNEY OF MY CHOICE BEFORE SIGNING THIS AGREEMENT.

10. **Miscellaneous.**

A. *Governing Law; Consent to Personal Jurisdiction*. This Agreement will be governed by the laws of the State of Texas without regard to Texas' conflicts-of-law, except that any dispute regarding the enforceability of the arbitration section of this Agreement shall be governed by the FAA. To the extent that any lawsuit is permitted under this Agreement, the Company and I hereby expressly consent to the personal and exclusive jurisdiction and venue of the state and federal courts located in Travis County, Texas for any lawsuit filed against me by the Company or against the Company by me.

B. *Assignability*. This Agreement will be binding upon my heirs, executors, assigns, administrators, and other legal representatives, and will be for the benefit of the Company, its successors, and its assigns. The Associated Third Parties are intended third-party beneficiaries to this Agreement with respect to my obligations in Section 2.D. Notwithstanding anything to the contrary herein, the Company may assign this Agreement and its rights and obligations under this Agreement to any successor to all, or substantially all, of the Company's relevant assets, whether by merger, consolidation, reorganization, reincorporation, sale of assets or stock, or otherwise. For the avoidance of doubt, the Company's successors and assigns are authorized to enforce the Company's rights under this Agreement.

C. *Entire Agreement*. This Agreement, together with the Exhibits herein and any executed written offer letter between me and the Company, to the extent such materials are not in conflict with this Agreement, sets forth the entire agreement and understanding between the Company and me with respect to the subject matter herein and supersedes all prior written and oral agreements, discussions, or representations between us. I represent and warrant that I am not relying on any representation not contained in this Agreement. Any subsequent change or changes in my duties, salary, compensation, conditions, or any other terms of my employment will not affect the validity or scope of this Agreement.

D. *Severability*. If a court or other body of competent jurisdiction finds, or the parties mutually believe, any provision of this Agreement, or portion thereof, to be invalid or unenforceable, such provision will be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of this Agreement will continue in full force and effect.

E. *Modification, Waiver.* No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in a writing signed by the CEO of the Company and me. Waiver by the Company of a breach of any provision of this Agreement will not operate as a waiver of any other or subsequent breach.

F. *Survivorship.* The rights and obligations of the parties to this Agreement will survive termination of my employment with the Company.

11. **Protected Activity Not Prohibited.** I understand that nothing in this Agreement limits or prohibits me from filing and/or pursuing a charge or complaint with, or otherwise communicating or cooperating with or participating in any investigation or proceeding that may be conducted by, any federal, state, or local government agency or commission, including disclosing documents or other information as permitted by law, without giving notice to, or receiving authorization from, the Company. In addition, nothing in this Agreement, including its definition of Company Confidential Information, is intended to limit employees' rights to discuss the terms, wages, and working conditions of their employment, nor to deny employees the right to disclose information pertaining to sexual harassment or any unlawful or potentially unlawful conduct, as protected by applicable law. I further understand that I am not permitted to disclose the Company's attorney-client privileged communications or attorney work product. In addition, I hereby acknowledge that the Company has provided me with notice in compliance with the Defend Trade Secrets Act of 2016 regarding immunity from liability for limited disclosures of trade secrets. The full text of the notice is attached in Exhibit B.

Date: Sep 28, 2021 /s/ Scott Rust
Signature

Scott Rust
Name of Employee (typed or printed)

EXHIBIT A

LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP

Title	Applicable Date	Identifying Registration Number or Brief Description

___ No inventions or improvements

___ Additional Sheets Attached

Date: Sep 28, 2021 /s/ Scott Rust
Signature

Scott Rust
Name of Employee (typed or printed)

EXHIBIT B

SECTION 7 OF THE DEFEND TRADE SECRETS ACT OF 2016

“ . . . An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. . . . An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—(A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.”

NATIONAL INSTRUMENTS CORPORATION

EXECUTIVE INCENTIVE PROGRAM

SECTION 1
DURATION AND PURPOSE

1.1 Effective Date. The Program, as amended and restated, is effective October 11, 2021.

1.2 Purpose. The Program is intended to increase stockholder value and the success of National Instruments Corporation (the "Company") by providing an incentive and reward for the accomplishment of specified goals by selected Executive Officers (as defined below) of the Company. Its purpose is to connect each selected Executive Officer's compensation to the accomplishment of goals determined to be critical to the Company's performance in a given calendar year. Payouts under the Program are made annually following the end of the applicable calendar year subject to the terms and conditions of the Program.

SECTION 2
ELIGIBILITY, SELECTION AND PROCEDURE

2.1 Eligibility. An individual employed by the Company who is an "Executive Officer," as defined by Section 16 of the Securities Exchange Act of 1934, as amended (an "Executive Officer") is eligible for participation in the Program. Eligibility does not guarantee participation in this Program.

2.2 Selection of Participants. From time to time, the Board may designate eligible Executive Officers, in its sole discretion. Any individual selected to participate in the Program under this Section 2.2 with respect to a calendar year shall be referred to as a "Participant" for such calendar year. Participation in the Program in one or more calendar years does not guarantee participation in a future calendar year or years.

2.3 Bonus Procedure. For each calendar year, the Chief Executive Officer and the Compensation Committee (the "Committee") (or, with respect to the Chief Executive Officer, the independent members of the Board) will approve objectives for Executive Officers to attain for that year. The Chief Executive Officer and Committee (or, with respect to the Chief Executive Officer, the independent members of the Board) will also identify a target bonus and maximum and minimum bonus amounts that may be awarded to each Executive Officer corresponding to the achievement of each Executive Officer's objectives for the year. The objectives and the associated bonus amounts shall be provided to the applicable Executive Officer as soon as practicable following the beginning of the applicable calendar year. At the end of the applicable calendar year, the Chief Executive Officer and Committee (or, with respect to the Chief Executive Officer, the independent members of the Board) will meet to determine, in their sole discretion, whether the objectives of each Executive Officer were attained and, thereupon, will approve or disapprove the payment of the applicable bonus amount based upon the achievement of such objectives. The Chief Executive Officer shall not approve the bonus amounts or goals for himself or herself nor determine whether the specified goals have been met, and all such matters shall be approved by the Committee (or, with respect to the Chief Executive Officer, the independent members of the Board).

SECTION 3
PAYMENT OF BONUS

3.1 Timing of Payment. Payment of any bonus under this Program shall be made as soon as administratively practicable following the date on which the Company's books for the applicable calendar year have been closed and audited, but not later than the 15th day of the third calendar month following the end of the applicable calendar year. Notwithstanding the foregoing, in the discretion of the Committee (or, with respect to the Chief Executive Officer, the independent members of the Board), an estimated payment for a portion of the payout may be made to any or all Participants during the fourth quarter of the current year based upon projected achievement levels corresponding to the applicable goals for such calendar year. In the event that estimated payments are made before the end of the calendar year, final determination of the correct amount of each bonus will be made pursuant to Section 2.3 and differences between the finally-determined amount and the estimated payment will be reconciled by either (a) making an additional reconciling payment to the Participant in the event of a shortfall or (b) requiring remittance by Participant to Company of any previous overpayment. Notwithstanding the foregoing, any payments or estimated payments shall only be made in compliance with the terms and conditions applicable to this Program, as amended from time to time.

3.2 Employment Required for Payment. Only Participants actively employed by the Company as an employee on the day of the bonus payout are eligible to receive a bonus under this Program.

3.3 Right to Receive Payment. Any bonus that may become payable under this Program is to be paid solely from the general assets of the Company, as determined by the Committee. Nothing in this Program shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of an actual award other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

SECTION 4
ADMINISTRATION AND TERMINATION

4.1 Committee Authority. The Committee, in consultation with the Chief Executive Officer, shall administer the Program in accordance with the Program's provisions. Except as otherwise provided to the contrary herein, the Committee shall have all powers and discretion necessary or appropriate to administer the Program and to control its operation, including, but not limited to, the power to (a) interpret and amend the Program, (b) adopt rules for the administration, interpretation and application of the Program as are consistent with the objectives of the Program, (c) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Program by Executive Officers who are foreign nationals or employed outside of the United States, and (d) interpret, amend or revoke any such rules. Neither the members of the Committee nor the Chief Executive Officer shall be liable for any act, omission or determination taken or made in good faith with respect to the Program or any bonus awarded under it.

4.2 Decisions Binding. All determinations and decisions made by the Committee (or, with respect to the Chief Executive Officer, the independent members of the Board) related to this Program shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

SECTION 5
GENERAL PROVISIONS

5.1 No Effect on Employment. Participation in this Program shall not alter any Participant's status as an at-will employee of the Company.

5.2 Successors. All obligations of the Company under the Program, including with respect to bonus payouts, shall be binding on any successor to the Company.

5.3 Nontransferability of Bonus. No eligible bonus amount or amount payable under the Program may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

5.4 Severability. In the event any provision of the Program shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Program, and the Program shall be construed and enforced as if the illegal or invalid provision had not been included.

5.5 Governing Law and Entire Terms. The Program shall be construed in accordance with and governed by the laws of the State of Texas, but without regard to its conflict of law provisions. Further, the Program constitutes the entire understanding with respect to any incentive bonus and shall supersede any prior or subsequent oral representations. The Program may be amended or terminated by the Committee at any time, provided, however, if such amendment or termination affects the eligibility of the Chief Executive Officer, the independent members of the Board has consented to such amendment or termination.

5.6 Clawback Policy. Payment of any bonus under this Program will be subject to the Company's Recoupment of Certain Incentive Compensation Policy or any other compensation clawback policy as may be established and/or amended from time to time (the "Clawback Policy"). The Committee may require a Participant to forfeit, return or reimburse the Company all or a portion of any bonus paid thereunder pursuant to the terms of the Clawback Policy or as necessary or appropriate to comply with applicable laws.

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: November 1, 2021

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, Karen Rapp, 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: November 1, 2021

By: /s/ Karen Rapp
Karen Rapp
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 September 30, 2021 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: November 1, 2021

I, Karen Rapp, 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 September 30, 2021 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/ Karen Rapp
Karen Rapp
Chief Financial Officer
Date: November 1, 2021