

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2022

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**  
(State or other jurisdiction of incorporation or organization)

**74-1871327**  
(I.R.S. Employer Identification No.)

**11500 North MoPac Expressway**  
**Austin,**  
**Texas**  
(Address of principal executive offices)

**78759**  
(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 25, 2022
Common Stock, \$0.01 par value	132,316,344

**NATIONAL INSTRUMENTS CORPORATION  
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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	June 30, 2022	December 31, 2021
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 110,873	\$ 211,106
Accounts receivable, net	356,077	341,275
Inventories, net	343,627	289,243
Prepaid expenses and other current assets	122,361	89,925
Total current assets	932,938	931,549
Property and equipment, net	258,155	253,668
Goodwill	603,793	575,992
Intangible assets, net	237,059	220,418
Operating lease right-of-use assets	64,476	58,641
Other long-term assets	71,435	74,717
Total assets	\$ 2,167,856	\$ 2,114,985
<b>Liabilities and stockholders' equity</b>		
Accounts payable and accrued expenses	\$ 91,227	\$ 83,218
Accrued compensation	50,199	111,261
Deferred revenue - current	122,029	137,818
Operating lease liabilities - current	14,813	13,137
Other taxes payable	51,958	59,109
Other current liabilities	44,148	40,671
Total current liabilities	374,374	445,214
Deferred income taxes	16,575	14,249
Income tax payable - non-current	40,646	54,195
Deferred revenue - non-current	42,943	32,822
Operating lease liabilities - non-current	34,520	30,468
Debt, non-current	475,000	300,000
Other long-term liabilities	15,291	14,340
Total liabilities	999,349	891,288
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; 132,316,344 shares and 132,293,898 shares issued and outstanding, respectively	1,323	1,323
Additional paid-in capital	1,173,131	1,129,647
Retained earnings	21,533	112,858
Accumulated other comprehensive loss	(27,480)	(20,131)
Total stockholders' equity	1,168,507	1,223,697
Total liabilities and stockholders' equity	\$ 2,167,856	\$ 2,114,985

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net sales:				
Product	\$ 354,805	\$ 306,490	\$ 698,489	\$ 601,583
Software maintenance	40,710	40,206	82,281	80,295
Total net sales	<u>395,515</u>	<u>346,696</u>	<u>780,770</u>	<u>681,878</u>
Cost of sales:				
Product	123,307	95,722	238,332	187,379
Software maintenance	4,167	3,516	8,370	7,273
Total cost of sales	<u>127,474</u>	<u>99,238</u>	<u>246,702</u>	<u>194,652</u>
Gross profit	<u>268,041</u>	<u>247,458</u>	<u>534,068</u>	<u>487,226</u>
Operating expenses:				
Sales and marketing	124,908	111,199	245,064	227,983
Research and development	85,589	81,434	167,750	161,520
General and administrative	36,772	30,277	69,949	63,636
Total operating expenses	<u>247,269</u>	<u>222,910</u>	<u>482,763</u>	<u>453,139</u>
Operating income	20,772	24,548	51,305	34,087
Other expense	(3,505)	(2,963)	(3,473)	(8,031)
Income before income taxes	17,267	21,585	47,832	26,056
Provision for income taxes	4,833	4,279	10,162	4,254
Net income	<u>\$ 12,434</u>	<u>\$ 17,306</u>	<u>\$ 37,670</u>	<u>\$ 21,802</u>
Basic earnings per share	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ 0.29</u>	<u>\$ 0.17</u>
Weighted average shares outstanding - basic	<u>131,973</u>	<u>132,498</u>	<u>132,039</u>	<u>131,996</u>
Diluted earnings per share	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ 0.28</u>	<u>\$ 0.16</u>
Weighted average shares outstanding - diluted	<u>132,708</u>	<u>133,539</u>	<u>132,948</u>	<u>133,157</u>
Dividends declared per share	<u>\$ 0.28</u>	<u>\$ 0.27</u>	<u>\$ 0.56</u>	<u>\$ 0.54</u>

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

**NATIONAL INSTRUMENTS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	\$ 12,434	\$ 17,306	\$ 37,670	\$ 21,802
Other comprehensive (loss) income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	(9,640)	2,284	8,027	(4,911)
Unrealized loss on securities available-for-sale	—	(54)	—	(141)
Unrealized gain (loss) on derivative instruments	6,161	2,381	(13,446)	14,362
Other comprehensive (loss) income, before tax	(3,479)	4,611	(5,419)	9,310
Tax expense related to items of other comprehensive income	1,507	498	1,930	3,259
Other comprehensive (loss) income, net of tax	(4,986)	4,113	(7,349)	6,051
Comprehensive income	<u>\$ 7,448</u>	<u>\$ 21,419</u>	<u>\$ 30,321</u>	<u>\$ 27,853</u>

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

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flow from operating activities:</b>		
Net income	\$ 37,670	\$ 21,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,742	50,024
Stock-based compensation	40,804	37,208
(Gain) loss from equity-method investees	(131)	5,360
Deferred income taxes	943	1,301
Changes in operating assets and liabilities	(169,930)	(63,372)
Net cash (used in) provided by operating activities	(44,902)	52,323
<b>Cash flow from investing activities:</b>		
Acquisitions, net of cash received	(72,802)	(19,784)
Capital expenditures	(24,509)	(17,411)
Capitalization of internally developed software	(187)	(721)
Additions to other intangibles	(2,478)	(1,519)
Payments to acquire equity-method investments	—	(12,551)
Sales and maturities of short-term investments	—	45,671
Net cash used in investing activities	(99,976)	(6,315)
<b>Cash flow from financing activities:</b>		
Proceeds from revolving line of credit	175,000	100,000
Payments on term loan	—	(98,750)
Debt issuance costs	—	(1,993)
Proceeds from issuance of common stock	17,859	17,239
Repurchase of common stock	(70,000)	—
Dividends paid	(74,034)	(71,428)
Net cash provided by (used in) financing activities	48,825	(54,932)
Effect of exchange rate changes on cash	(4,180)	(887)
Net change in cash and cash equivalents	(100,233)	(9,811)
Cash and cash equivalents at beginning of period	211,106	260,232
Cash and cash equivalents at end of period	\$ 110,873	\$ 250,421

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

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

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

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

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

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

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
<b>Balance at March 31, 2021</b>	131,607,036	\$ 1,316	\$ 1,059,018	\$ 180,063	\$ (18,888)	\$ 1,221,509
Net income	—	—	—	17,306	—	17,306
Other comprehensive gain, net of tax	—	—	—	—	4,113	4,113
Issuance of common stock under employee plans	1,373,896	14	8,660	—	—	8,674
Stock-based compensation	—	—	19,944	—	—	19,944
Dividends paid (1)	—	—	—	(35,894)	—	(35,894)
<b>Balance at June 30, 2021</b>	<u>132,980,932</u>	<u>1,330</u>	<u>1,087,622</u>	<u>161,475</u>	<u>(14,775)</u>	<u>1,235,652</u>

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
<b>Balance at December 31, 2020</b>	131,246,615	1,312	1,033,284	211,101	(20,826)	1,224,871
Net income	—	—	—	21,802	—	21,802
Other comprehensive gain, net of tax	—	—	—	—	6,051	6,051
Issuance of common stock under employee plans	1,734,317	18	17,221	—	—	17,239
Stock-based compensation	—	—	37,117	—	—	37,117
Dividends paid (1)	—	—	—	(71,428)	—	(71,428)
<b>Balance at June 30, 2021</b>	<u>132,980,932</u>	<u>1,330</u>	<u>1,087,622</u>	<u>161,475</u>	<u>(14,775)</u>	<u>1,235,652</u>

(1) Cash dividends declared per share of common stock were \$0.27 for the three months ended June 30, 2021, and \$0.54 for the six months ended June 30, 2021.

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



**NATIONAL INSTRUMENTS CORPORATION**  
**NOTES TO CONDENSED 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, 2021, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 22, 2022 (the "Form 10-K"). In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to state fairly our financial position at June 30, 2022 and December 31, 2021, the results of our operations and comprehensive income for the three and six months ended June 30, 2022 and 2021, our cash flows for the six months ended June 30, 2022 and 2021 and our statement of stockholders' equity for the three and six months ended June 30, 2022 and 2021. Our operating results for the three and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

**Recent Accounting Pronouncements**

In October 2021, the FASB issued ASU No. 2021-08—Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new guidance requires contract assets and contract liabilities acquired in a business combination to be recognized in accordance with ASC Topic 606 as if the acquirer had originated the contracts. We early adopted the standard on January 1, 2022. The adoption of this accounting standard update did not have a material effect on our consolidated financial statements and related disclosures.

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-10 ("ASU 2021-10"), Government Assistance, to increase transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on an entity's financial statements. ASU 2021-10 is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our annual financial statement disclosures.

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

**Summary of Significant Accounting Policies**

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

**Other (Expense) Income**

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

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Interest income	\$ 58	\$ 113	\$ 104	\$ 274
Interest expense	(2,500)	(1,224)	(3,792)	(1,927)
(Loss) gain from equity-method investments	(471)	(867)	131	(5,360)
Net foreign exchange loss	(769)	(896)	(1,935)	(1,455)
Other	177	(89)	2,019	437
<b>Other expense, net</b>	<b>\$ (3,505)</b>	<b>\$ (2,963)</b>	<b>\$ (3,473)</b>	<b>\$ (8,031)</b>

## Other Current Liabilities

Other current liabilities on our consolidated balance sheet includes the following amounts (in thousands):

	As of June 30, 2022		As of December 31,	
	(unaudited)		2021	
Income taxes payable - current	\$	11,071	\$	14,457
Hedge payable - current		7,523		7,091
Payroll taxes - current		5,711		5,785
Other		19,843		13,338
Total	\$	44,148	\$	40,671

## 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 six months ended June 30, 2022 and 2021 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	(Unaudited)		(Unaudited)	
	2022	2021	2022	2021
Weighted average shares outstanding-basic	131,973	132,498	132,039	131,990
Plus: Common share equivalents				
RSUs	735	1,041	909	1,160
Weighted average shares outstanding-diluted	132,708	133,539	132,948	133,150

Shares issuable upon vesting of RSU awards of 2,026,000 shares and 1,369,000 shares for the three months ended June 30, 2022 and 2021, respectively, and 1,324,000 shares and 166,000 shares for the six months ended June 30, 2022 and 2021, respectively, were excluded in the computations of diluted EPS because the effect of including the stock awards would have been anti-dilutive.

## Note 2 - Revenue

### Revenue Recognition

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

### Disaggregation of Revenues

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

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

<b>Three Months Ended June 30,</b>						
<b>(Unaudited)</b>						
<b>2022</b>				<b>2021</b>		
(In thousands)	<b>Point-in-Time<sup>(1)</sup></b>	<b>Over Time</b>	<b>Total</b>	<b>Point-in-Time<sup>(1)</sup></b>	<b>Over Time</b>	<b>Total</b>
<b>Net sales:</b>						
Americas	\$ 134,337	\$ 26,080	\$ 160,417	\$ 112,215	\$ 22,455	\$ 134,670
EMEA	76,092	20,591	96,683	67,252	21,917	89,169
APAC	127,858	10,557	138,415	111,894	10,963	122,857
Total net sales <sup>(1)</sup>	\$ 338,287	\$ 57,228	\$ 395,515	\$ 291,361	\$ 55,335	\$ 346,696

(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.

<b>Six Months Ended June 30,</b>						
<b>(Unaudited)</b>						
<b>2022</b>				<b>2021</b>		
(In thousands)	<b>Point-in-Time<sup>(1)</sup></b>	<b>Over Time</b>	<b>Total</b>	<b>Point-in-Time<sup>(1)</sup></b>	<b>Over Time</b>	<b>Total</b>
<b>Net sales:</b>						
Americas	\$ 267,326	\$ 52,302	\$ 319,628	\$ 216,801	\$ 44,602	\$ 261,403
EMEA	155,331	41,720	197,051	132,355	42,336	174,691
APAC	242,853	21,238	264,091	224,524	21,260	245,784
Total net sales <sup>(1)</sup>	\$ 665,510	\$ 115,260	\$ 780,770	\$ 573,680	\$ 108,198	\$ 681,878

(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.

The industry grouping used to disaggregate net sales is determined at the customer account level. Accounts assigned to one of our three industry-specific groupings are either designated as Semiconductor and Electronics, Transportation, or Aerospace, Defense and Government ("ADG"). We are able to leverage the investments in these areas to also serve a broad base of diverse customers in the other industries we serve, which are included in our Portfolio grouping. Our recent acquisitions described in Note 17 are presented within the "Transportation" industry grouping below.

(In thousands)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>(Unaudited)</b>			
<b>Industry Grouping</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Portfolio	\$ 113,239	\$ 111,283	\$ 239,822	\$ 223,635
Semiconductor & Electronics	116,231	99,292	219,241	198,222
Aerospace, Defense & Government	100,256	87,296	192,928	163,565
Transportation	65,789	48,825	128,779	96,456
Total net sales	\$ 395,515	\$ 346,696	\$ 780,770	\$ 681,878

### 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 six months ended June 30, 2022 were as follows:

(In thousands)		<b>Amount</b>
<b>Balance as of December 31, 2021</b>	\$	170,640
Deferral of revenue billed in current period, net of recognition		94,592
Recognition of revenue deferred in prior periods		(93,219)
Foreign currency translation impact		(7,041)
<b>Balance as of June 30, 2022 (unaudited)</b>	<b>\$</b>	<b>164,972</b>

For the six months ended June 30, 2022, 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 six months ended June 30, 2022 and December 31, 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 \$80 million as of June 30, 2022. Because we typically invoice customers at contract inception, this amount is included in our current and non-current deferred revenue balances and primarily relates to multi-year payments for hardware service and software service offerings. As of June 30, 2022, we expect to recognize approximately 24% of the revenue related to these unsatisfied performance obligations during the remainder of 2022, 39% during 2023, and 37% 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

#### Equity-Method Investments

The carrying value of our equity method investments was \$30 million and \$32 million as of June 30, 2022 and December 31, 2021, respectively. During the three months ended June 30, 2022 and 2021, net sales to our equity-method investees were approximately \$1.3 million and \$1.3 million, respectively. During the six months ended June 30, 2022 and 2021, net sales to our equity-method investees were approximately \$2.8 million and \$1.6 million, respectively. During the three and six months ended June 30, 2022 and 2021, purchases from our equity-method investees were not material.

We recorded a \$3.5 million impairment loss related to an equity-method 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 six months ended June 30, 2022 and 2021.

### 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) Description	Fair Value Measurements at Reporting Date Using (Unaudited)			
	June 30, 2022	Level 1	Level 2	Level 3
<b>Assets</b>				
<i>Cash and cash equivalents:</i>				
Money market funds	\$ 2,046	\$ 2,046	\$ —	\$ —
<i>Other assets:</i>				
Derivatives	21,842	—	21,842	—
<b>Total Assets</b>	<u>\$ 23,888</u>	<u>\$ 2,046</u>	<u>\$ 21,842</u>	<u>\$ —</u>
<b>Liabilities</b>				
Derivatives	\$ (9,688)	\$ —	\$ (9,688)	\$ —
<b>Total Liabilities</b>	<u>\$ (9,688)</u>	<u>\$ —</u>	<u>\$ (9,688)</u>	<u>\$ —</u>

(In thousands)	Fair Value Measurements at Reporting Date Using			
	December 31, 2021	Level 1	Level 2	Level 3
<b>Assets</b>				
<i>Cash and cash equivalents:</i>				
Money market funds	\$ 101,290	\$ 101,290	\$ —	\$ —
<i>Other assets:</i>				
Derivatives	12,407	—	12,407	—
<b>Total Assets</b>	<u>\$ 113,697</u>	<u>\$ 101,290</u>	<u>\$ 12,407</u>	<u>\$ —</u>
<b>Liabilities</b>				
Derivatives	\$ (9,468)	\$ —	\$ (9,468)	\$ —
<b>Total Liabilities</b>	<u>\$ (9,468)</u>	<u>\$ —</u>	<u>\$ (9,468)</u>	<u>\$ —</u>

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.

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 six months ended June 30, 2022. There were no transfers in or out of Level 1 or Level 2 during the six months ended June 30, 2022.

We did not have any items that were measured at fair value on a nonrecurring basis at June 30, 2022 and December 31, 2021. 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 61% of our net sales during the three months ended June 30, 2022 and 2021, respectively, and approximately 59% and 62% during the six months ended June 30, 2022 and 2021, 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)

	<b>US Dollar Equivalent</b>	
	<b>As of June 30, 2022 (Unaudited)</b>	<b>As of December 31, 2021</b>
British pound	\$ 19,636	\$ 25,947
Chinese yuan	68,292	99,066
Euro	96,202	145,351
Hungarian forint	38,143	54,939
Japanese yen	26,062	43,128
Korean won	8,249	21,180
Malaysian ringgit	20,380	29,624
Total forward contracts notional amount	<u>\$ 276,964</u>	<u>\$ 419,235</u>

The contracts in the foregoing table had contractual maturities of 18 months or less at June 30, 2022 and 24 months or less at December 31, 2021.

At June 30, 2022, we expect to reclassify \$18.1 million of gains on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, \$3.9 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 \$2.8 million of losses on derivative instruments from accumulated OCI to operating expenses during the next twelve months when the hedged operating expenses occur. Expected amounts are based on derivative valuations at June 30, 2022. 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 June 30, 2022 and December 31, 2021, we held foreign currency forward contracts that were not designated as hedging instruments with a notional amount of \$65 million and \$94 million, respectively.

The following tables present the fair value of derivative instruments on our Consolidated Balance Sheets at June 30, 2022 and December 31, 2021, respectively.

		<b>Asset Derivatives</b>	
		<b>June 30, 2022 (Unaudited)</b>	<b>December 31, 2021</b>
(In thousands)	Balance Sheet Location	Fair Value	Fair Value
<b>Derivatives designated as hedging instruments</b>			
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	\$ 18,248	\$ 8,993
Foreign exchange contracts - LT forwards	Other long-term assets	2,025	2,908
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 20,273</b>	<b>\$ 11,901</b>
<b>Derivatives not designated as hedging instruments</b>			
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	\$ 1,569	\$ 506
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 1,569</b>	<b>\$ 506</b>
<b>Total derivatives</b>		<b>\$ 21,842</b>	<b>\$ 12,407</b>



		<b>Liability Derivatives</b>	
		<b>June 30, 2022</b>	<b>December 31,</b>
		<b>(Unaudited)</b>	<b>2021</b>
(In thousands)	Balance Sheet Location	Fair Value	Fair Value
<b>Derivatives designated as hedging instruments</b>			
Foreign exchange contracts - ST forwards	Other current liabilities	\$ (6,911)	\$ (6,425)
Foreign exchange contracts - LT forwards	Other long-term liabilities	(2,165)	(2,377)
<b>Total derivatives designated as hedging instruments</b>		<u>\$ (9,076)</u>	<u>\$ (8,802)</u>
<b>Derivatives not designated as hedging instruments</b>			
Foreign exchange contracts - ST forwards	Other current liabilities	\$ (612)	\$ (666)
<b>Total derivatives not designated as hedging instruments</b>		<u>\$ (612)</u>	<u>\$ (666)</u>
<b>Total derivatives</b>		<u>\$ (9,688)</u>	<u>\$ (9,468)</u>

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the three months ended June 30, 2022 and 2021, respectively:

**June 30, 2022**  
**(In thousands)**  
**(Unaudited)**

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

**June 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	\$ (558)	Net sales	\$ (2,408)
Foreign exchange contracts - forwards	1,692	Cost of sales	20
Foreign exchange contracts - forwards	1,247	Operating expenses	27
Total	<u>\$ 2,381</u>		<u>\$ (2,361)</u>

(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
		<b>June 30, 2022</b> <b>(Unaudited)</b>	<b>June 30, 2021</b> <b>(Unaudited)</b>
Foreign exchange contracts - forwards	Other expense	\$ 3,590	(662)
Total		<u>\$ 3,590</u>	<u>\$ (662)</u>

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the six months ended June 30, 2022 and 2021, respectively:

**June 30, 2022**  
**(In thousands)**  
**(Unaudited)**

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

**June 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	\$ 15,728	Net sales	\$ (4,434)
Foreign exchange contracts - forwards	(837)	Cost of sales	(1)
Foreign exchange contracts - forwards	(529)	Operating expenses	18
Total	<u>\$ 14,362</u>		<u>\$ (4,417)</u>

(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
		<b>June 30, 2022</b>	<b>June 30, 2021</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Foreign exchange contracts - forwards	Other expense	\$ 2,787	\$ (2,263)
Total		<u>\$ 2,787</u>	<u>\$ (2,263)</u>

**Note 6 – Inventories, net**

Inventories, net consist of the following:

(In thousands)	<b>June 30, 2022</b> <b>(Unaudited)</b>		<b>December 31,</b> <b>2021</b>	
Raw materials	\$	229,517	\$	181,676
Work-in-process		15,354		14,573
Finished goods		98,756		92,994
Total	\$	<u>343,627</u>	\$	<u>289,243</u>

**Note 7 – Intangible assets, net and goodwill**

Intangible assets at June 30, 2022 and December 31, 2021 are as follows:

(In thousands)	<b>June 30, 2022</b> <b>(Unaudited)</b>			<b>December 31, 2021</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Capitalized software development costs	\$ 39,705	\$ (34,480)	\$ 5,225	\$ 45,671	\$ (36,457)	\$ 9,214
Acquired technology	174,529	(41,540)	132,989	148,155	(34,264)	113,891
Customer relationships	100,984	(25,642)	75,342	93,931	(19,717)	74,214
Patents	36,771	(30,396)	6,375	36,217	(29,316)	6,901
Other	36,649	(19,521)	17,128	32,962	(16,764)	16,198
Total	<u>\$ 388,638</u>	<u>\$ (151,579)</u>	<u>\$ 237,059</u>	<u>\$ 356,936</u>	<u>\$ (136,518)</u>	<u>\$ 220,418</u>

Software development costs capitalized for the three months ended June 30, 2022 and 2021 were \$0.0 million and \$0.5 million, respectively, and related amortization expense was \$1.3 million and \$6.3 million, respectively. For the six months ended June 30, 2022 and 2021, capitalized software development costs were \$0.2 million and \$0.8 million, respectively, and related amortization expense was \$3.3 million and \$13.3 million, respectively.

Amortization of capitalized software development costs is computed on an individual product basis for those products available for market and is recognized based on the product's estimated economic life, 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 \$14.8 million and \$15.9 million for the three months ended June 30, 2022 and 2021, respectively, and \$27.2 million and \$29.9 million for the six months ended June 30, 2022 and 2021, respectively.

*Goodwill*

The carrying amount of goodwill as of June 30, 2022 was as follows:

(In thousands)	<b>Amount</b>
<b>Balance as of December 31, 2021</b>	\$ 575,992
Acquisitions	31,709
Measurement period adjustments	4,243
Foreign currency translation impact	(8,151)
<b>Balance as of June 30, 2022 (unaudited)</b>	<u>\$ 603,793</u>

Refer to Note 17 - Acquisitions for additional details on the acquisition-related amounts recorded to goodwill during the six months ended June 30, 2022.

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

No impairment of goodwill was identified during the six months ended June 30, 2022 or the twelve months ended December 31, 2021.

#### Note 8 – Leases

We have operating leases for corporate offices, automobiles, and certain equipment. Our leases have remaining terms of 1 year to 92 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):

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Operating Lease Cost (1)	\$ 5,478	\$ 5,208	\$ 10,895	\$ 10,538
(1) Includes variable and short-term lease costs				

Maturities of lease liabilities as of June 30, 2022 were as follows (unaudited):

(In thousands)	Operating Leases
<b>Years ending December 31,</b>	
2022 (Excluding the six months ended June 30, 2022)	\$ 11,748
2023	12,844
2024	10,967
2025	8,015
2026	6,451
Thereafter	3,327
<b>Total future minimum lease payments</b>	<b>53,352</b>
<i>Less imputed interest</i>	<i>(4,019)</i>
<b>Total lease liabilities</b>	<b>\$ 49,333</b>

As of June 30, 2022, we have additional operating leases that have not commenced during the six months ended June 30, 2022, 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 \$84 million at June 30, 2022 and December 31, 2021. 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 \$10.6 million and \$9.4 million of gross unrecognized tax benefits at June 30, 2022 and December 31, 2021, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of \$0.5 million for the three months ended June 30, 2022, as a result of the tax positions taken during the current period. As of June 30, 2022, it is reasonably possible that we will recognize gross tax benefits in the amount of \$1.5 million in the next twelve months due to the closing of open tax years. The nature of the uncertainty is related to deductions taken on returns that have not been examined by the applicable tax authority. Our continuing policy is to recognize interest and penalties related to income tax matters in income tax expense. During the three months ended June 30, 2022, the amount of interest expense recognized related to uncertain tax positions was not material. As of June 30, 2022, we had approximately \$0.3 million accrued for interest related to uncertain tax positions. The tax years 2015 through 2022 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 28% and 20% for the three months ended June 30, 2022 and 2021, respectively, and 21% and 16% for the six months ended June 30, 2022 and 2021, respectively. For the three months ended June 30, 2022, our effective tax rate was higher than the U.S. federal statutory rate of 21% primarily as a result of excess tax expense from share-based compensation, foreign taxes greater than the statutory rate, change in unrecognized tax benefits, change in intercompany prepaid tax asset, nondeductible officer compensation, state income taxes net of federal benefit and U.S. tax on global intangible low-taxed income, offset by U.S. research and development tax credit, enhanced deduction for certain research and development expenses and deduction for foreign-derived intangible income. For the six months ended June 30, 2022, our effective tax rate was equal to the U.S. federal statutory rate of 21% primarily as a result of excess tax expense from share-based compensation, change in unrecognized tax benefits, foreign taxes greater than the statutory rate, change in intercompany prepaid tax asset, nondeductible officer compensation, state income taxes net of federal benefit and U.S. tax on global intangible low-taxed income, offset by U.S. research and development tax credit, enhanced deduction for certain research and development expenses and deduction for foreign-derived intangible income. For the three months ended June 30, 2021, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of the research and development tax credit, an enhanced deduction for certain research and development expenses and the deduction for foreign-derived intangible income, offset by the U.S. tax on global intangible low-taxed income, foreign taxes greater than the statutory rate, state income taxes net of federal benefit and nondeductible officer compensation. For the six months ended June 30, 2021, our effective tax rate was lower than the U.S. federal statutory rate of 21% primarily as a result of excess tax benefits from share-based compensation and other discrete items, the research and development tax credit, an enhanced deduction for certain research and development expenses and the deduction for foreign-derived intangible income, offset by the U.S. tax on global intangible low-taxed income, foreign taxes greater than the statutory rate, state income taxes net of federal benefit and nondeductible officer compensation.

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 \$0.9 million and \$2.9 million for the three and six months ended June 30, 2022, respectively, and income tax benefit of \$0.2 million and \$0.3 million for the three and six months ended June 30, 2021, respectively.

Earnings from our operations in Malaysia are free of tax under a tax holiday effective January 1, 2013. This tax holiday expires in 2037. If we fail to satisfy the conditions of the tax holiday, this tax benefit may be terminated early. The income tax benefits of the tax holiday for the three and six months ended June 30, 2022 were approximately \$0.5 million and \$1.1 million, respectively. The income tax benefits of the tax holiday for the three and six months ended June 30, 2021 were approximately \$0.2 million and \$0.3 million, respectively. The impact of the tax holiday on a per share basis for each of the three and six months ended June 30, 2022 and June 30, 2021 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 six months ended June 30, 2022 and 2021, consisted of the following:

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

  

	<b>June 30, 2021</b>			
	<b>(Unaudited)</b>			
(In thousands)	<b>Currency translation adjustment</b>	<b>Investments</b>	<b>Derivative instruments</b>	<b>Accumulated other comprehensive income/(loss)</b>
Balance as of December 31, 2020	\$ (10,066)	\$ (426)	(10,334)	\$ (20,826)
Current-period other comprehensive (loss) income	(4,911)	(141)	9,945	4,893
Reclassified from accumulated OCI into income	—	—	4,417	4,417
Income tax (expense) benefit	—	(3)	3,262	3,259
Balance as of June 30, 2021	<u>\$ (14,977)</u>	<u>\$ (564)</u>	<u>\$ 766</u>	<u>\$ (14,775)</u>

## 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.

We have 5,000,000 authorized shares of preferred stock. There were no shares of preferred stock issued and outstanding at June 30, 2022.

### *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 2005 Plan, 2010 Plan, and 2015 Plan as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under those plans. The 2020 Plan provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards generally vest over a one, two, three or four-year period, beginning on the date of the grant and awards may be subject to performance-based vesting conditions. There were 1,568,571 shares of common stock that were reserved but not issued under the 2020 Plan as of May 10, 2022.

Our stockholders approved our 2022 Equity Incentive Plan (the “2022 Plan”) on May 10, 2022. At the time of approval, 4,500,000 shares of our common stock were reserved for issuance under the 2022 Plan, as well as the 1,568,571 shares of common stock that were reserved but not issued under the 2020 Plan as of May 10, 2022, and any shares that were returned to the 2005 Plan, 2010 Plan, 2015 Plan and 2020 Plan as a result of the forfeiture, repurchase or termination of unissued shares subject to options or RSUs issued under those plans. The 2022 Plan provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards generally vest over a one, two, three or four-year period, beginning on the date of the grant and awards may be subject to performance-based vesting conditions. There were 6,143,665 shares available for grant under the 2022 Plan at June 30, 2022.

#### *Performance-based stock units*

During the six months ended June 30, 2022 and 2021, we granted 164,843 and 130,006 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 six months ended June 30, 2022, the three-year performance period commenced on January 1, 2022 and will end on December 31, 2024, and for the PRSUs granted during the six months ended June 30, 2021, the three year performance commenced on January 1, 2021 and will end on December 31, 2023, 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:

	Six Months Ended (unaudited)	
	June 30, 2022	June 30, 2021
Number of simulations	100,000	100,000
Expected volatility	37.81%	40.60%
Expected life in years	2.95 years	2.95 years
Risk-free interest rate	1.33%	0.21%
Dividend yield	2.52%	2.66%

The weighted average grant date fair value of the market-based awards, as determined by the Monte Carlo valuation model, was \$59.65 per share and \$66.97 per share in 2022 and 2021, 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 10, 2022, our stockholders approved an additional 3,000,000 shares for issuance under our ESPP. At June 30, 2022, we had 4,517,229 shares of common stock reserved for future issuance under the ESPP. We issued 544,292 shares under this plan in the six months ended June 30, 2022 and the weighted average purchase price was \$32.81 per share. During the six months ended June 30, 2022, we did not make any changes in accounting principles or methods of estimates with respect to our ESPP.

*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 "2019 Program"). The Board has amended the 2019 Program several times over the years to increase the number of shares that may be purchased under the program. On October 23, 2019, our Board amended the 2019 Program to increase the number of shares that may be repurchased by 3,000,000 shares.

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

As of March 31, 2022, there were no shares remaining available for repurchase under the 2019 Program. As of June 30, 2022, there was \$191 million available for repurchase under the 2022 Program. During the three months ended June 30, 2022, we repurchased 986,876 shares of our common stock at a weighted average price per share of \$39.06 under the 2022 Program. During the six months ended June 30, 2022, we repurchased 1,758,928 shares of our common stock at a weighted average price of \$39.80 under the 2019 Program and 2022 Program. We did not repurchase any shares of our common stock during the three and six months ended June 30, 2021 under the 2019 Program.

## Note 12 – Segment and geographic information

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

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

<i>(in millions)</i>	United States	China <sup>(1)</sup>	Rest of the World	Total
<b>Net sales:</b>				
Three months ended June 30, 2022	\$ 153	\$ 66	\$ 177	\$ 396
Three months ended June 30, 2021	\$ 127	\$ 59	\$ 161	\$ 347
Six months ended June 30, 2022	\$ 306	\$ 121	\$ 354	\$ 781
Six months ended June 30, 2021	\$ 247	\$ 113	\$ 322	\$ 682

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

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

<i>(in millions)</i>	United States	Hungary	Malaysia	Rest of the World	Total
<b>Long-lived Assets:</b>					
June 30, 2022	\$ 125	\$ 81	\$ 52	\$ 65	\$ 323
December 31, 2021	\$ 125	\$ 51	\$ 76	\$ 60	\$ 312

## 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 (as further amended on October 30, 2020, the "Prior Credit Agreement"), by and among us, the lenders from time-to-time party thereto and the Administrative Agent. All outstanding loans under the Prior Credit Agreement were repaid in full in connection with the entry into the Credit Agreement.

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 of the Credit Agreement, including obtaining commitments from existing lenders or new lenders, we may request term loans or additional revolving commitments. Pursuant to 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 (i) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) LIBOR for an interest period of one month plus 1.00%, in each case, plus a margin of 0.25% to 0.75%; or (ii) 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 consolidated total net leverage ratio of less than or equal to 3.50 to 1.00, which increases to 4.00 to 1.00 for a specified period following material acquisitions, and a minimum consolidated interest coverage ratio of greater than or equal to 3.00 to 1.00, in each case determined in accordance with the Credit Agreement.

The Credit Agreement provides for a commitment fee of 0.150% to 0.250% per annum, determined based upon our consolidated total net leverage ratio, on the average daily unused 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. As of June 30, 2022, there were no Subsidiary Guarantors, and no Guaranty had been executed in connection with the Credit Agreement. In connection with the Credit Agreement, we have entered (and our future Subsidiary Guarantors) will enter into an Amended and Restated Collateral Agreement pursuant to which we and our Subsidiary Guarantors from time-to-time have granted (or will grant) a lien on substantially all of our (and their) assets to secure our( and 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 including acquisitions, share repurchases and dividend payouts. We may prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty.

The following table presents the amounts outstanding related to our borrowing arrangements discussed above as of June 30, 2022 (unaudited) and December 31, 2021, respectively (in thousands):

(in thousands)	June 30, 2022	December 31, 2021
<b>Secured</b>		
2021 Revolving credit facility (effective interest rate of 2.8%)	475,000	300,000
<b>Total Debt, non-current</b>	<b>\$ 475,000</b>	<b>\$ 300,000</b>

As of June 30, 2022, debt issuance costs of approximately \$2.2 million attributable to the revolving credit facility 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.

#### Note 14 – Commitments and contingencies

We provide product warranties with varying lengths of time and terms. Products sold with one-year limited warranties do not cover anything beyond ensuring that the product functions as intended and are accounted for as assurance-type warranties. Products bundled with multi-year warranty and services obligations or separately-priced optional warranty programs are accounted for as separate performance obligations. For the assurance-type warranties described above, a provision is made for estimated future warranty costs at the time of the sale for the estimated costs that may be incurred under the limited warranty. Our estimate is based on historical experience and product sales during the period. The warranty reserve for the six months ended June 30, 2022 and 2021 was as follows:

(In thousands)	Six Months Ended June 30, (Unaudited)	
	2022	2021
<b>Balance at the beginning of the period</b>	\$ 3,210	\$ 2,877
Accruals for warranties issued during the period	1,405	1,377
Accruals related to pre-existing warranties	(399)	9
Settlements made (in cash or in kind) during the period	(1,067)	(1,457)
<b>Balance at the end of the period</b>	<b>\$ 3,149</b>	<b>\$ 2,886</b>

In the ordinary course of business, we enter into purchase orders with suppliers for the purchase of goods and services, including non-cancelable agreements for certain inventory components ("unconditional purchase obligations"). The majority of our unconditional purchase obligations relate to amounts due within the next 12 months. As of June 30, 2022, our unconditional purchase obligations primarily consist of payments to various suppliers for customized inventory and inventory components. As of June 30, 2022, our future payments under noncancellable unconditional purchase obligations with a remaining term in excess of one year were approximately \$61.8 million. As of December 31, 2021, our future payments under noncancellable unconditional purchase obligations with a remaining term in excess of one year were approximately \$11.7 million. As of June 30, 2022, our outstanding guarantees for payment of customs and foreign grants were not material.

#### Note 15 – Restructuring

On October 26, 2021, we initiated a restructuring plan (the "2021 Plan") that resulted in the site closure of our facilities in Aachen, Germany. This targeted restructuring effort is intended to further optimize our research and development operations and accelerate investment in strategic growth opportunities. In connection with the 2021 Plan, the majority of these charges were recognized during the fourth quarter of 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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Cost of sales	\$ —	\$ (118)	\$ —	\$ (43)
Research and development	292	223	692	379
Sales and marketing	—	61	—	4,147
General and administrative	—	147	—	2,105
<b>Total restructuring and other related costs</b>	<b>\$ 292</b>	<b>\$ 313</b>	<b>\$ 692</b>	<b>\$ 6,588</b>

Total restructuring and other charges incurred during the three and six months ended June 30, 2022 related to the 2021 Plan were \$0.3 million and \$0.7 million, respectively, primarily related to employee severance costs. A summary of balance sheet activity during 2022 related to our restructuring activity is shown below:

(in thousands)

	<b>Restructuring Liability</b>
<b>Balance as of December 31, 2021</b>	\$ 11,520
Income statement expense	692
Cash payments	(9,604)
<b>Balance as of June 30, 2022</b>	<u>\$ 2,608</u>

The restructuring liability of \$2.6 million at June 30, 2022 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 Test Systems Business (“TS Business”) From Kratzer Automation AG (“Kratzer”)*

On May 2, 2022, we completed the acquisition of certain assets of, and assumed certain liabilities of, the test systems business of Germany-based Kratzer. As part of this integrated transaction, we also purchased 100% of the shares in certain subsidiaries of Kratzer including Kratzer Automation S.a.r.l. (“Kratzer France”), Kratzer Automation Inc. (“Kratzer US”) and Kratzer Automation (Shanghai) Co., Ltd. (“Kratzer China”). The acquisitions of Kratzer France and Kratzer US were completed on June 1, 2022 and June 2, 2022, respectively. The consummation of the acquisition of Kratzer China is anticipated in the third quarter of 2022 and has been excluded from the net assets acquired and liabilities assumed. This transaction was accounted for as a business combination using the acquisition method of accounting. Total cash consideration for the transaction was \$56.8 million inclusive of \$0.7 million in cash acquired. All of the acquired assets and liabilities of the TS Business have been recorded at their respective fair values as of the acquisition date. The acquisition was funded by cash on hand.

Transaction costs have been expensed as incurred. During the six months ended June 30, 2022, we expensed \$1.9 million of transaction costs related to the acquisition of the TS Business, which are included in selling, general and administrative expenses.

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

### *Fair value of net assets acquired and liabilities assumed*

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

	<b>May 2, 2022</b>
<b>Consideration Transferred</b>	<b>\$ 56,806</b>
Cash and cash equivalents	672
Accounts receivable	894
Inventories	3,090
Prepaid expenses and other current assets	1,871
Property and equipment	1,063
Goodwill	18,193
Intangible assets	35,105
Operating lease right-of-use assets	4,552
Other long-term assets	23
Accounts payable and accrued expenses	(126)
Accrued compensation	(464)
Operating lease liabilities - current	(1,051)
Other current liabilities	(3,514)
Operating lease liabilities - non-current	(3,502)
<b>Net Assets Acquired</b>	<b>\$ 56,806</b>

The preliminary purchase price allocation related to the acquisition was not finalized as of June 30, 2022. These preliminary estimates of the fair value of the assets acquired and the liabilities assumed are based on the information currently available, and we are continuing to evaluate the underlying inputs and assumptions used in our valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the date of acquisition. A decrease in the fair value of assets acquired or an increase in the fair value of liabilities assumed in the acquisition would result in a corresponding increase in the amount of goodwill acquired. The primary areas of purchase price that are not yet finalized relate to intangible assets, income taxes and residual goodwill.

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

	<b>Estimated Fair Value (in thousands)</b>	<b>Estimated Useful Lives (in years)</b>
Customer relationships	\$ 4,777	8-12
Developed software	27,588	5-8
Trade name contractual rights	2,562	2
Other	178	4-12
<b>Total</b>	<b>35,105</b>	

Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers. The economic useful life was determined by examining the period of time over which a target cumulative present value of discounted cash flows could be achieved.

Developed software represents the fair value of automation systems for performing test bench tasks and management systems for all resources and accruing data in the test field. The economic life of this software is estimated to be 10 years based on the expected future utilization of the software in its current form.

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

#### *Acquisition of Electronic Vehicle ("EV") Business From Heinzinger Electronic GmbH ("Heinzinger")*

On February 28, 2022, we completed the acquisition of the systems business of Heinzinger for \$22.5 million in total cash consideration, subject to certain post-closing adjustments. This transaction is being accounted for as a business combination using the acquisition method of accounting. All of the acquired assets and liabilities of Heinzinger have been recorded at their respective fair values as of the acquisition date. We recognized approximately \$14 million of goodwill and \$7 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 acquisition was funded by cash on hand.

The preliminary purchase price allocation related to the acquisition was not finalized as of June 30, 2022, 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 as the impact of the acquired operations was not material.

The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected growth in the scope of and market opportunities for our existing offerings related to vehicle electrification and other related applications. Goodwill is deductible for tax purposes.

#### *Acquisition of N H Research, LLC ("NHR")*

On October 19, 2021, we completed the acquisition of NHR, a manufacturer of test and measurement solutions for high power applications including EV and batteries. As a result of acquiring 100% of the outstanding share capital of NHR, NHR became our wholly owned subsidiary. This transaction is being accounted for as a business combination using the acquisition method of accounting. All of the acquired assets and liabilities of NHR have been recorded at their respective fair values as of the acquisition date. Transaction costs have been expensed as incurred.

At the acquisition date, total consideration transferred was approximately \$205 million, inclusive of \$3 million in cash acquired. The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to expected growth in the scope of and market opportunities for our existing offerings related to vehicle electrification and other related applications. 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.

The acquisition was funded primarily by cash on hand in addition to \$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. During the year ended December 31, 2021, we expensed \$6 million of transaction costs in connection with the acquisition of NHR, which are included in selling, general and administrative expenses.

During the first quarter of 2022, we recorded a measurement period adjustment to our preliminary estimate of the fair value of liabilities assumed related to amounts owed for certain pre-acquisition activities. The increase to the fair value of acquired liabilities was \$5.1 million, with a corresponding increase to goodwill. The change to this provisional amount had no impact to the current period income statement.

During the second quarter of 2022, we recorded measurement period adjustments to total consideration transferred related to amounts received for certain pre-acquisition activities and certain post-closing adjustments. The net decrease to total consideration transferred was \$0.8 million, with a corresponding decrease to goodwill. This change had no impact to the current period income statement.

*Fair value of net assets acquired and liabilities assumed*

The information below represents the preliminary purchase price allocation of NHR (in thousands):

	<b>October 19, 2021</b>
<b>Consideration Transferred</b>	<b>\$ 205,396</b>
Cash	2,935
Accounts receivable, net	3,902
Inventories, net	4,764
Property and equipment, net	287
Other assets and liabilities	(4,621)
Intangible assets	98,510
Goodwill	102,090
Accounts payable and accrued expenses	(2,186)
Deferred revenue	(285)
<b>Net assets acquired</b>	<b>\$ 205,396</b>

Our preliminary estimates of the fair value of the assets acquired and the liabilities assumed are based on the information currently available, and we are continuing to evaluate the underlying inputs and assumptions used in our valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the date of acquisition. A decrease in the fair value of assets acquired or an increase in the fair value of liabilities assumed in the acquisition would result in a corresponding increase in the amount of goodwill acquired. The primary areas of the purchase price that are not yet finalized relate to certain liabilities related to preacquisition activities and residual goodwill.

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

	<u>Estimated Fair Value (in thousands)</u>	<u>Estimated Useful Lives (in years)</u>
Customer relationships	\$ 54,350	7
Developed software	6,010	2-7
Existing product configurations	28,300	9
In-process research and development (IPR&D)	4,030	Indefinite
Trade name	5,820	6
Total	\$ 98,510	



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 multi-period excess earnings method of the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by customer relationships less charges representing the contribution of other assets to those cash flows. The economic useful life was determined by examining the period of time over which a target cumulative present value of discounted cash flows could be achieved.

Existing product configurations represent the existing hardware configurations of products sold by NHR. These products are created from component parts and assembled based on their intended purpose and application. Existing product configurations were valued using the avoided costs / lost profits method. The fair value represents the total costs that would be avoided by having this asset in place. The economic useful life was determined based on the number of years since launch for each product compared to the expected total life of each product.

#### *Unaudited Pro Forma Information*

The following unaudited pro forma financial information presents combined results of operations for the periods presented, as if the NHR acquisition had occurred on January 1, 2020, 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 and an increase in interest expense related to the additional borrowings entered into in connection with the acquisition, net of tax effects. For the pro forma presentation, given the assumed acquisition date of January 1, 2020, 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 six months ended June 30, 2021, 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.

(in thousands)	<b>Three months ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2021</b>		<b>2021</b>	
Net sales	\$	356,064	\$	698,998
Net income	\$	17,628	\$	21,512

#### *Other Acquisitions*

During the second quarter of 2021, we also completed the acquisition of a software company that specialized 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.

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 July 20, 2022, our Board of Directors declared a quarterly cash dividend of \$0.28 per common share, payable on August 29, 2022, to stockholders of record on August 8, 2022.

*Sale of Property*

During July 2022, we completed the sale of two buildings and a parcel of land for approximately \$42 million in cash. We expect to recognize a gain on the disposals of approximately \$25 million, net of taxes, during the third quarter of 2022.

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

National Instruments Corporation and its subsidiaries (referred to as the "Company," "we," "us," "our," "National Instruments" or "NI") has made forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are subject to risks and uncertainties. Any statements contained herein regarding our future financial performance, operations, plans, investments, expected effects of investments, or other matters (including, without limitation, statements to the effect that we "believe," "expect," "plan," "intend to," "may," "could," "can," "will," "project," "predict," "anticipate," "continue," "strive to," "endeavor to," "seek to," "are committed to," "remaining committed to," "are encouraged by," "remain cautious," "remain optimistic," "estimate", "focus on"; statements of "goals," "commitments," "strategy" 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, 2021 (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 and electronics, transportation, and aerospace, defense and government.

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

We distribute and sell our software and hardware products primarily through a direct sales organization. We also use independent distributors, original equipment manufacturers, value added resellers, system integrators, and consultants to market and sell our products. We 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 61% of our net sales during the three months ended June 30, 2022 and 2021, respectively, and approximately 59% and 62% of our net sales during the six months ended June 30, 2022 and 2021, 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.

### **Backlog**

Backlog is a measure of firm orders that are received but have not yet shipped to customers. Our measure of backlog excludes amounts related to shipments where the customer has specified delivery in a future period.

Our backlog was approximately \$248 million and \$154 million at June 30, 2022 and December 31, 2021, respectively, primarily driven by strong order growth during the year and longer lead times for certain components. We expect the majority of backlog to be recognized as revenue within 12 months. While backlog on any particular date can be an indicator of short-term revenue performance, it is not necessarily a reliable indicator of medium or long-term revenue performance.

### **Current business outlook**

We are continuing to experience strong demand from our customers across the geographic regions and end markets that we serve, with the value of total orders during the second quarter of 2022 increasing by approximately 20% compared to the same period in 2021. The strength and duration of the recent trends will vary by region and offering and there has been some indications of slower macroeconomic growth in the next few quarters. Although certain end markets, particularly in our broader "Portfolio" and "Semiconductor" industry groups, may be negatively impacted by weakening macroeconomic conditions, we remain optimistic about additional opportunities to drive revenue growth for 2022. We expect our customers will continue to make investments in emerging technologies related to 5G/mmWave, vehicle electrification, advanced driver assistance systems ("ADAS") and new space innovation.

We continue to experience component shortages for some of our products as well as higher costs to obtain a consistent supply of certain components due to global supply chain constraints. The duration of these supply chain challenges remains uncertain but we do not currently expect the constraints to materially worsen further. Additionally, strong demand and a strategic shift to longer lead times to fulfill orders for certain offerings has continued to shift the timing of revenue recognition into future periods and increased backlog. While we expect to continue to experience some logistical challenges and cost pressures on our gross margin related to these supply chain constraints over the next few quarters, 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 application-specific system offerings. We have been able to mitigate some of the recent supply chain disruptions by expanding our supplier base, redesigning certain products to remove dependencies on certain components, and leveraging our modular platform to meet our customers' needs with available products.

During the first quarter of 2022, we began to accelerate our transition to a predominantly subscription-based licensing model for the majority of our software offerings. While we expect our subscription base, recurring revenue and cash flow to increase over time as a result of this licensing model transition, we expect some initial headwinds to our net sales and operating profitability during the transition period. However, we expect recent additions and enhancements to our software portfolio will continue to differentiate our products and fuel demand across our end markets. Revenue from software and related services was approximately 20% of our total revenue during the second quarter of 2022. We currently estimate the impact of our subscription licensing transition will decrease total revenue by 2% during 2022, but we expect to see a favorable year over year impact to our revenue beginning in 2023.

As part of our efforts to streamline the process of doing business with NI, we have 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 June 30, 2022, orders from our Focus accounts and Broad-based accounts increased by 20% and 20%, respectively, compared to the same period in 2021.

We also continue to focus on scale and efficiency when engaging with our Broad-based customers. Our focus to streamline the process of doing business with NI means effectively scaling our operations while also improving the experience for the large number of smaller accounts. We are making additional investments in ni.com for a better digital experience and expect to continue to expand customer reach through our distributor channel during 2022 and beyond. We are also simplifying our product offerings for the Broad-based customers to make our products easier-to-use. We believe these actions will allow our direct sales force to accelerate our revenue growth through proactive engagements with accounts where we can deliver enterprise-level value. During the three months ended June 30, 2022, indirect sales through our distributor channels increased to represent about 14% of our total sales, compared to 8% in the same period of 2021. During the six months ended June 30, 2022, indirect sales through our distributor channels increased to approximately 14% of our total net sales, compared to 6% in the same period of 2021. As of June 30, 2022, 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. For the three months ended June 30, 2022, no single distributor or end customer accounted for more than 5% of our total net sales.

#### *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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
Net sales:				
Americas	40.6 %	38.8 %	40.9 %	38.3 %
EMEA	24.4	25.7	25.2	25.6
APAC	35.0	35.4	33.8	36.0
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	32.2	28.6	31.6	28.5
Gross profit	67.8	71.4	68.4	71.5
Operating expenses:				
Sales and marketing	31.6	32.1	31.4	33.4
Research and development	21.6	23.5	21.5	23.7
General and administrative	9.3	8.7	9.0	9.3
Total operating expenses	62.5	64.3	61.8	66.5
Operating income	5.3	7.1	6.6	5.0
Other expense	(0.9)	(0.9)	(0.4)	(1.2)
Income before income taxes	4.4	6.2	6.1	3.8
Provision for income taxes	1.2	1.2	1.3	0.6
Net income	3.1 %	5.0 %	4.8 %	3.2 %

*Figures may not sum due to rounding.*

**Results of Operations for the three and six months ended June 30, 2022 and 2021**

**Net Sales.** The following table sets forth our net sales for the three and six months ended June 30, 2022 and 2021 along with the changes between the corresponding periods.

(In millions)	Three Months Ended June 30, (Unaudited)				Six Months Ended June 30, (Unaudited)			
	2022	2021	Change		2022	2021	Change	
			Dollars	Percentage			Dollars	Percentage
Product sales	\$ 354.8	\$ 306.5	48.3	16%	\$ 698.5	\$ 601.6	96.9	16%
Software maintenance sales	40.7	40.2	0.5	1%	82.3	80.3	2.0	2%
Total net sales	\$ 395.5	\$ 346.7	48.8	14%	\$ 780.8	\$ 681.9	98.9	15%

*Figures may not sum due to rounding.*

**Net Sales - Summary**

Net sales for the three and six months ended June 30, 2022 were up 14% percent and 15% percent, respectively, compared to the same period in 2021.

- The increase in product sales was primarily attributable to strong demand, recent acquisitions and realization of recent price increases, partially offset by changes in foreign currency exchange rates. During the first half of 2022, we continued to experience strong demand for our system-level offerings, particularly for our semiconductor, transportation, and ADG test solutions (See Note 2 - Revenue for additional information on revenue by industry grouping). The impact of recent pricing changes increased our total revenue for the three months ended June 30, 2022 by approximately 6% compared to the same period in 2021 and 5% for the six months ended June 30, 2022 compared to the same period in 2021. Geographically, we saw strong growth in the Americas region, which was partially driven by revenue from acquisitions completed within the last 12 months. Recent acquisitions increased our total revenue for the three and six months ended June 30, 2022 by approximately 3% compared to same periods in 2021.
- The increase in software maintenance sales was primarily related to additional billings from annual renewals of software maintenance programs, including enterprise-wide subscription licensing agreements, during the trailing twelve months.

### Net Sales by Region

The following table sets forth our net sales by geographic region for the three and six months ended June 30, 2022 and 2021 along with the changes between the corresponding periods and the region's percentage of total net sales.

(In millions)	Three Months Ended June 30, (Unaudited)				Six Months Ended June 30, (Unaudited)			
	2022	2021	Change		2022	2021	Change	
			Dollars	Percentage			Dollars	Percentage
Americas	\$160.4	\$134.7	25.7	19%	\$319.6	\$261.4	58.2	22%
<i>Percentage of total net sales</i>	40.6 %	38.8 %			40.9 %	38.3 %		
EMEA	\$96.7	\$89.2	7.5	8%	\$197.1	\$174.7	22.4	13%
<i>Percentage of total net sales</i>	24.4 %	25.7 %			25.2 %	25.6 %		
APAC	\$138.4	\$122.9	15.6	13%	\$264.1	\$245.8	18.3	7%
<i>Percentage of total net sales</i>	35.0 %	35.4 %			33.8 %	36.0 %		

*Figures may not sum due to rounding.*

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

Almost all of the sales made by our direct sales offices in the Americas (excluding the U.S.), EMEA, and APAC are denominated in local currencies, and accordingly, the U.S. dollar equivalent of these sales is affected by changes in foreign currency exchange rates. In order to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency fluctuations between periods, we compare the percentage change in our results from period to period using constant currency disclosure. To calculate the change in constant currency, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the average rates in effect during the three and six months ended June 30, 2021). The impact of changes in foreign currency exchange rates on sales includes the net effect of related hedging activities described below.



The following tables present this information, along with the impact of changes in foreign currency exchange rates on sales denominated in local currencies, for the three and six months ended June 30, 2022.

(In millions)	Three Months Ended June 30, 2021	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Three Months Ended June 30, 2022
	GAAP Net Sales	Dollars	Percentage	Dollars	Percentage	GAAP Net Sales
Americas	\$ 134.7	26.2	19.4%	(0.4)	(0.3)%	\$ 160.4
EMEA	\$ 89.2	11.8	13.2%	(4.3)	(4.8)%	\$ 96.7
APAC	\$ 122.9	18.1	14.6%	(2.6)	(2.1)%	\$ 138.4
Total net sales	\$ 346.7	56.1	16.2%	(7.3)	(2.1)%	\$ 395.5

(In millions)	Six Months Ended June 30, 2021	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Six Months Ended June 30, 2022
	GAAP Net Sales	Dollars	Percentage	Dollars	Percentage	GAAP Net Sales
Americas	\$ 261.4	59.0	22.6%	(0.8)	(0.3)%	\$ 319.6
EMEA	\$ 174.7	30.6	17.5%	(8.2)	(4.7)%	\$ 197.1
APAC	\$ 245.8	22.0	8.9%	(3.7)	(1.5)%	\$ 264.1
Total net sales	\$ 681.9	111.6	16.4%	(12.7)	(1.9)%	\$ 780.8

Figures may not sum due to rounding.

We use a foreign currency cash flow hedging program to help protect against changes in U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales. We hedge portions of our forecasted net sales denominated in foreign currencies with average rate forward contracts. During the three months ended June 30, 2022 and 2021, these hedges had the effect of increasing our net sales by \$5.1 million and decreasing our net sales by \$2.4 million, respectively. During the six months ended June 30, 2022 and 2021, these hedges had the effect of increasing our net sales by \$6.8 million and decreasing our net sales by \$4.4 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 2022 and 2021).

**Gross Profit.** Our gross profit as a percentage of sales is impacted by many factors including changes in our sales mix of revenue from hardware, software and services. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle. The following table sets forth our gross profit and gross profit as a percentage of net sales for the three and six months ended June 30, 2022 and 2021 along with the percentage changes in gross profit for the corresponding periods.

(In millions)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
<b>Gross Profit</b>	\$268.0	\$247.5	\$534.1	\$487.2
<i>% change compared with prior period</i>	8.3%		9.6%	
<b>Gross Profit as a percentage of net sales</b>	67.8%	71.4%	68.4%	71.5%

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

	Three Months Ended (Unaudited)	Six Months Ended (Unaudited)
<b>June 30, 2021</b>	71.4 %	71.5 %
<i>Impact of increases in our selling price</i>	2.6 %	1.8 %
<i>Impact of lower amortization of capitalized software development costs</i>	1.2 %	1.3 %
<i>Impact of increase in component costs</i>	(3.9)%	(3.9)%
<i>Impact of changes in sales mix related to recently acquired businesses</i>	(0.7)%	(0.5)%
<i>Impact of changes in sales mix excluding recent acquisitions</i>	(1.7)%	(0.8)%
<i>Impact of increase in outbound freight and other logistic costs</i>	(0.5)%	(0.8)%
<i>Impact of acquired intangibles and other purchase accounting adjustments</i>	(0.6)%	(0.2)%
<b>June 30, 2022</b>	67.8 %	68.4 %

To help protect against changes in our cost of sales caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows, we have a foreign currency cash flow hedging program. We hedge portions of our forecasted costs of sales denominated in foreign currencies with average rate forward contracts. During the three months ended June 30, 2022 and 2021, these hedges had the effect of increasing our cost of sales by \$0.9 million and decreasing our cost of sales by less than \$0.1 million, respectively. During the six months ended June 30, 2022 and 2021, these hedges had the effect of increasing our cost of sales by \$1.2 million and increasing our cost of sales by less than \$0.1 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 2022 and 2021).

**Operating Expenses.** The following table sets forth our operating expenses for the three and six months ended June 30, 2022 and 2021, along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

(In thousands)	Three Months Ended June 30, (Unaudited)			Six Months Ended June 30, (Unaudited)		
	2022	2021	Change	2022	2021	Change
<b>Sales and marketing</b>	\$ 124,908	\$ 111,199	12%	\$ 245,064	\$ 227,983	7%
<i>Percentage of total net sales</i>	32%	32%		31%	33%	
<b>Research and development</b>	\$ 85,589	\$ 81,434	5%	\$ 167,750	\$ 161,520	4%
<i>Percentage of total net sales</i>	22%	23%		21%	24%	
<b>General and administrative</b>	\$ 36,772	\$ 30,277	21%	\$ 69,949	\$ 63,636	10%
<i>Percentage of total net sales</i>	9%	9%		9%	9%	
<b>Total operating expenses</b>	\$ 247,269	\$ 222,910	11%	\$ 482,763	\$ 453,139	7%
<i>Percentage of total net sales</i>	63%	64%		62%	66%	

### Operating Expenses -three months ended June 30, 2022

The year over year increase of \$24 million in our operating expenses during the three months ended June 30, 2022 was primarily related to the following:

- \$14 million increase in personnel costs, primarily attributable to our acquisitions and merit increases, partially offset by a decrease in accruals for expected attainment under our variable compensation program;
- \$6 million increase attributable to higher acquisition-related operating costs and amortization of acquisition-related intangibles, and acquisition-related transaction and integration costs;
- \$3 million increase in external service providers and travel expenses related to strategic initiatives and loosening of restrictions related to the COVID-19 pandemic; and
- \$1 million increase related to the year over year impact of changes in foreign currency exchange rates.

### *Sales and Marketing*

The primary drivers of the increase in sales and marketing expenses for the three months ended June 30, 2022 compared to the same period in 2021 were additional costs related to an increase in personnel costs, an increase in travel during the period, and an increase in the amortization of acquired intangibles.

### *Research and Development*

The primary drivers of the increase in research and development expenses for the three months ended June 30, 2022 compared to the same period in 2021 were additional costs related to an increase in personnel costs and outside services, partially offset by lower accruals under our variable compensation programs.

### *General and administrative*

The primary drivers of the increase in general and administrative expenses for the three months ended June 30, 2022 compared to the same period in 2021 were additional costs related to an increase in personnel costs, outside services, and the impact of changes in foreign currency exchange rates.

### Operating Expenses - six months ended June 30, 2022

The year over year increase of \$30 million in our operating expenses during the six months ended June 30, 2022 was primarily related to the following:

- \$19 million increase in personnel costs, primarily attributable to additional personnel cost due to our acquisitions and merit increases, partially offset by a decrease in accruals for expected attainment under our variable compensation program and lower severance-related costs;
- \$8 million increase related to higher acquisition-related operating costs and amortization of acquisition-related intangibles, partially offset by lower acquisition-related transaction and integration costs;
- \$2 million increase in travel during the period due to the loosening of COVID-19 restrictions partially offset by less spend on marketing and advertising; and
- \$1 million increase related to the year over year impact of changes in foreign currency exchange rates.

### *Sales and Marketing*

The primary drivers of the increase in sales and marketing expenses for the six months ended June 30, 2022 compared to the same period in 2021 were additional costs related to an increase in personnel costs, an increase in travel during the period, and an increase in the amortization of acquired intangibles partially offset by equipment related costs, lower severance-related costs and lower accruals under our variable compensation program.

## *Research and Development*

The primary drivers of the increase in research and development expenses for the six months ended June 30, 2022 compared to the same period in 2021 were additional costs related to increase personnel costs and outside services, partially offset by lower accruals under our variable compensation programs.

## *General and administrative*

The primary drivers of the increase in general and administrative expenses for the six months ended June 30, 2022 compared to the same period in 2021 were additional costs related to increase salaries and outside services partially offset by a decrease in acquisition related expenses and a decrease in severance related costs.

**Operating Income (loss).** For the three months ended June 30, 2022 and 2021, operating income was \$21 million and \$25 million, respectively. As a percentage of net sales, operating income was 5.3% and 7.1% for the three months ended June 30, 2022 and 2021, respectively. For the six months ended June 30, 2022 and 2021, operating income was \$51 million and \$34 million, respectively. As a percentage of net sales, operating income was 6.6% and 5.0% for the six months ended June 30, 2022 and 2021, respectively. The decrease in operating income in absolute dollars for the three months ended June 30, 2022, compared to the three months ended June 30, 2021, is attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above. The increase in operating income in absolute dollars for the six months ended June 30, 2022, compared to the six months ended June 30, 2021, is primarily attributable by the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

## **Other (Expense) Income.**

- **Interest Income.** For the three months ended June 30, 2022 and 2021, interest income was \$0.1 million and \$0.1 million, respectively. For the six months ended June 30, 2022 and 2021, interest income was \$0.1 million and \$0.3 million, respectively. During the six months ended June 30, 2022, the Federal Reserve increased the federal funds rate target from a range of zero to 0.25% to a range of 1.50% to 1.75%. However, this increase will likely have limited impact in our interest income given our lower level of short-term investments.
- **Interest Expense.** For the three months ended June 30, 2022 and 2021, interest expense was approximately \$2.5 million and \$1.2 million, respectively. For the six months ended June 30, 2022 and 2021, interest expense was approximately \$3.8 million, and \$1.9 million, respectively. These interest charges are due to interest on outstanding borrowings, commitment fees and amortization of deferred costs related to the Credit Agreement. During the three months ended June 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 the Credit Agreement and related borrowings.
- **(Loss) Gain From Equity-Method Investments.** For the three months ended June 30, 2022, loss from equity-method investments was approximately \$0.5 million and for the three months ended June 30, 2021, loss from equity-method investments was approximately \$0.9 million. For the six months ended June 30, 2022 and 2021, gain from equity-methods investment was approximately \$0.1 million and loss from equity-method investments was approximately \$5.4 million, respectively. The decrease in the six months ended June 30, 2022 compared to the same period in 2021 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 June 30, 2022 and 2021, net foreign exchange loss was \$0.8 million and \$0.9 million, respectively. During the six months ended June 30, 2022 and 2021, net foreign exchange loss was \$1.9 million and \$1.5 million, respectively. Gains and losses on foreign currency are primarily due to the impact of re-measuring foreign currency monetary assets and liabilities into the functional currency of the corresponding entity. The amount of the gain or loss on foreign currency is driven by the volume of foreign currency transactions and the foreign currency exchange rates for the period. See “Results of Operations - Net Sales” above for additional discussion on the impact of foreign exchange rates on our net sales of operations for the three and six months ended June 30, 2022.

**Provision for Income Taxes.** For the three months ended June 30, 2022 and 2021, our provision for income taxes reflected an effective tax rate of 28% and 20%, respectively. For the six months ended June 30, 2022 and 2021, our provision for income taxes reflected an effective tax rate of 21% and 16%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	<b>Three Months Ended June 30, 2022</b>	<b>Six months ended June 30, 2022</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Effective tax rate at June 30, 2021</b>	20 %	16 %
Foreign-derived intangible income deduction	(4)	(4)
Global intangible low-taxed income inclusion	(2)	(2)
Enhanced deduction for certain research and development expenses	(2)	(2)
Foreign taxes greater than federal statutory rate	1	—
Transition tax on deferred foreign income	1	1
Research and development tax credit	1	1
Change in intercompany prepaid tax asset	1	1
Change in unrecognized tax benefits	2	2
Employee share-based compensation and other discrete items	10	8
<b>Effective tax rate at June 30, 2022</b>	<b>28 %</b>	<b>21 %</b>

## 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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
<b>Stock-based compensation</b>				
Cost of sales	\$ 1,253	\$ 1,191	\$ 2,475	\$ 2,305
Sales and marketing	7,202	6,922	14,291	12,617
Research and development	6,271	6,180	12,359	11,893
General and administrative	5,951	5,854	11,680	10,520
Provision for income taxes	(1,993)	(3,916)	(4,648)	(7,241)
Total	\$ 18,684	\$ 16,231	\$ 36,157	\$ 30,094

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
<b>Amortization of acquisition-related intangibles and fair value adjustments</b>				
Net sales	\$ 371	\$ 738	\$ 742	\$ 1,551
Cost of sales	\$ 6,415	\$ 4,226	\$ 10,218	\$ 8,497
Sales and marketing	5,573	2,357	11,712	4,528
Research and development	—	—	(320)	—
Other expense	503	554	1,019	948
Provision for income taxes	(2,094)	(979)	(3,530)	(1,969)
Total	\$ 10,768	\$ 6,896	\$ 19,841	\$ 13,555

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
<b>Acquisition-related transaction and integration costs, restructuring charges, and other</b>				
Cost of sales	\$ 1,159	\$ (118)	\$ 1,944	\$ (43)
Sales and marketing	2,339	839	2,646	5,487
Research and development	487	548	1,102	1,036
General and administrative	1,248	873	3,019	6,539
Other expense	(265)	280	(2,132)	4,006
Provision for income taxes	(779)	(578)	(1,356)	(3,463)
Total	\$ 4,189	\$ 1,844	\$ 5,223	\$ 13,562

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2022	2021	2022	2021
<b>Capitalization and amortization of internally developed software costs</b>				
Cost of sales	\$ 1,896	\$ 6,227	\$ 3,929	\$ 13,101
Research and development	—	(495)	(187)	(721)
Provision for income taxes	(436)	(1,204)	(843)	(2,600)
Total	\$ 1,460	\$ 4,528	\$ 2,899	\$ 9,780

## Liquidity and Capital Resources

### Overview

At June 30, 2022, we had \$111 million in cash and cash equivalents. Our cash and cash equivalent balances are held in numerous financial institutions throughout the world, including substantial amounts held outside of the U.S., 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 June 30, 2022:

(in millions)	Domestic	International	Total
Cash and cash equivalents	\$20.8	\$90.1	\$110.9
	19%	81%	
Total cash, cash equivalents and short-term investments	\$20.8	\$90.1	\$110.9
	19%	81%	

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

(In thousands)	June 30, 2022 (unaudited)	December 31, 2021	Increase/ (Decrease)
Working capital	\$ 558,564	\$ 486,335	\$ 72,229
Cash and cash equivalents <sup>(1)</sup>	110,873	211,106	(100,233)
Short-term investments <sup>(1)</sup>	—	—	—
Total cash, cash equivalents and short-term investments	\$ 110,873	\$ 211,106	\$ (100,233)

(1) Included in working capital

Our principal sources of liquidity include cash, cash equivalents, cash flows generated from our operations, cash generated from issuance of common stock through our employee stock purchase plan and available borrowings under the Credit Agreement. The primary drivers of the net increase in working capital between December 31, 2021 and June 30, 2022 were:

- Cash and cash equivalents decreased by \$100 million for the six-month period ended June 30, 2022. Additional analysis of the changes in our cash flows for the period ended June 30, 2022 compared to the prior year period is discussed below;
- Inventory increased by \$54 million. Inventory turns on a trailing twelve month basis were 1.5 at June 30, 2022 and 1.5 at December 31, 2021. 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 \$15 million. Days sales outstanding increased to 62 days at June 30, 2022, compared to 58 days at December 31, 2021. The increase in accounts receivable is primarily related to quarterly fluctuations in our net sales and a temporary shift in timing of collections for certain customers due to a delay in their ability to receive and process invoices following the COVID-19 lockdowns in China earlier this year;
- Prepaid and other current assets increased by \$32 million, which was primarily related to timing of prepaid insurance, other prepaid renewals and payments and changes in the fair value of our foreign currency forward contracts;
- Accounts payable and accrued expenses increased by \$8 million, which was primarily related to timing of invoices to our suppliers for raw materials;
- The current portion of deferred revenue decreased by \$16 million, which was primarily related to the timing of software maintenance renewals during the year and the impact of changes in foreign currency exchange rates, partially offset by additional deferrals under our standard hardware service plans;

- Accrued compensation decreased by \$61 million attributable to annual payments under our variable compensation programs related to 2021 attainment, partially offset by accruals related to expected payouts under our 2022 variable compensation programs;
- Other current liabilities increased by \$3 million which was primarily related to changes in the fair value of our foreign currency forward contracts and the timing of certain tax payments; and
- Other taxes payable decreased by \$7 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 six months ended June 30, 2022 and 2021.

(In thousands)	Six Months Ended June 30, (unaudited)	
	2022	2021
Cash (used in) provided by operating activities	\$ (44,902)	\$ 52,323
Cash used in investing activities	(99,976)	(6,315)
Cash provided by (used in) financing activities	48,825	(54,932)
Effect of exchange rate changes on cash	(4,180)	(887)
Net change in cash and cash equivalents	(100,233)	(9,811)
Cash and cash equivalents at beginning of period	211,106	260,232
Cash and cash equivalents at end of period	\$ 110,873	\$ 250,421

### *Operating Activities*

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

Cash provided by operating activities for the six months ended June 30, 2022 decreased by \$97 million compared to the same period in 2021. This decrease was primarily due to a \$107 million decrease in cash provided by changes in operating assets and liabilities during the year, further described below, partially offset by an increase of \$9 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 \$73 million during the six months ended June 30, 2022 compared to net cash used of \$7 million in the comparable period in 2021. 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 2021 to support current and anticipated demand for our products and minimize supply chain disruptions.
- The changes in accrued compensation used cash of \$54 million during the six months ended June 30, 2022 compared to net cash used of \$16 million during the six months ended June 30, 2021. The year over year change is primarily related to an increase in payments under our variable pay programs due to 2021 attainment partially offset by lower severance payments.
- The aggregate of changes in prepaid assets, deferred revenue and other assets and liabilities used cash of \$44 million during the six months ended June 30, 2022 compared to \$41 million in the comparable period in 2021.



### *Investing Activities*

Cash used by investing activities increased by \$94 million for the six months ended June 30, 2022 compared to the same period in 2021. This was primarily attributable to a \$40 million increase in cash outflows related to acquisitions and equity-method investments in the six months ended June 30, 2022 compared to cash inflows of \$46 million from a net sale of short-term investments during the same period in 2021 and an increase of \$8 million in capital expenditures, internally developed software costs that were eligible for capitalization and other additions to intangible assets during the six months ended June 30, 2022, compared to the same period in 2021.

### *Financing Activities*

Cash provided by financing activities increased by \$104 million for the six months ended June 30, 2022 compared to the same period in 2021. This was primarily related to an \$176 million increase in net proceeds from drawing on our revolving credit facility, no term loan payments during 2022 (as we repaid our term loan in full in June of 2021), net of issuance costs, partially offset by an increase in cash outflows of \$3 million related to our quarterly dividends and \$70 million related to share repurchases. (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, 2021 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 June 30, 2022, 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 June 30, 2022.

**Credit Agreement.** 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. As of June 30, 2022, we had \$24 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. (See Note 13 - Debt of Notes to Consolidated Financial Statements for additional details on the Credit Agreement).

**Off-Balance Sheet Arrangements.** We do not have any off-balance sheet debt. At June 30, 2022, 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, available borrowing under the Credit Agreement and additional credit capacity 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 seek to pursue additional financing or to raise additional funds by seeking additional credit financing, including through an increase in revolving and/or term loan commitments under the 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 can fund our operating activities for at least the next 12 months, our future capital requirements may vary materially from those now planned. We anticipate that the amount of capital we will need in the future will depend on many factors, including:

- payment of dividends to our stockholders;
- 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, except as noted below, there were no material changes during the six months ended June 30, 2022 to this information reported in our Form 10-K.

#### *Interest Expense Risk*

Our borrowings under the 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 \$5 million. We do not expect changes in interest rates to have a material adverse effect on our income or our cash flows in 2022. 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 June 30, 2022, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the second quarter of 2022, 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 factor is 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 factor 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.

***Uncertain Global Economic and Geopolitical Conditions, Including in China and Other Countries, Could Materially Adversely Affect Our Business and Results of Operations.*** Our operations and performance are sensitive to fluctuations in general economic and geopolitical conditions, both in the U.S. and globally. Uncertainty about global and regional economic conditions poses a risk to us as businesses may decrease or postpone spending in response to events such as continued trade tensions between the U.S. and China, or new or existing trade tensions with other countries, geopolitical instability, pandemics and other major public health issues including the COVID-19 pandemic, financial market volatility, tariffs or other trade restrictions, government regulatory actions, negative financial news or other factors. Negative trends or sentiments in worldwide and regional economic conditions have in the past and could again have a material adverse effect on demand for our products and services. For example, in recent years, there have been significant changes to U.S. trade policies, legislation, treaties and tariffs, in particular trade policies and tariffs affecting China. Some of these trade policies, including the U.S.'s trading relationship with China, have been renegotiated during this timeframe and are subject to further changes in the future. Changes to current policies by the U.S. or other governments could adversely affect our business, including potentially through increased import tariffs and other influences on U.S. trade relations with China and other countries. The imposition of additional tariffs or other trade barriers could increase our costs in certain markets, and may cause our customers to find alternative sourcing. Protectionist and retaliatory trade measures by any of the United States, China or another country could limit our customers' ability to sell their products and services and could reduce demand for our customers' products. Even if resolved, these trends could have a broad negative impact on the global industrial economy, which could have a material adverse impact on our business and our results of operations. In addition, the application of various regulations depends on the classification of our products which can change over time as such regulations are modified or interpreted. The ongoing

geopolitical tensions related to Russia's invasion of the Ukraine and resulting sanctions imposed by the U.S. and other countries have impacted our shipments and ongoing services to customers with operations in Russia and Ukraine. During the first quarter of 2022, we suspended sales into Russia. Although our sales into Russia represented less than 1 percent of our total revenue in 2021, further escalation of geopolitical tensions could have a broader impact that expands into other markets where we do business, which could adversely affect our business and/or our supply chain, business partners or customers in the broader region.

We have recently experienced an increase in inflationary pressures in many of the jurisdictions in which we operate. We have and may continue to attempt to offset the effect of these inflationary pressures by increasing the prices of our products. These factors as well as others we may not contemplate could have a material adverse effect on the spending patterns of businesses including our current and potential customers which could have a material adverse effect on our net sales and our results of operations. See "Current business outlook" in this Form 10-Q for information regarding recent business conditions.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information as of June 30, 2022 with respect to the shares of our common stock that we repurchased under our stock repurchase programs during the second quarter of 2022.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares of common stock that may yet be purchased under the plans or programs (1)
April 1, 2022 to April 30, 2022	702,506	\$ 40.63	702,506	\$ 201,114,903
May 1, 2022 to May 31, 2022	284,370	\$ 35.17	284,370	\$ 191,114,923
June 1, 2022 to June 30, 2022	—	\$ —	—	\$ 191,114,923
Total	986,876	\$ 39.06	986,876	\$ 191,114,923

(1) On January 19, 2022, our Board of Directors approved a stock repurchase program for up to \$250 million of our common stock. The stock repurchase program does not have an expiration date.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

## EXHIBITS

<a href="#">3.1(1)</a>	<a href="#">Certificate of Incorporation, as amended, of the Company, effective May 14, 2013</a>
<a href="#">3.2(2)</a>	<a href="#">Amended and Restated Bylaws of the Company, effective August 1, 2021</a>
<a href="#">10.1(3)</a>	<a href="#">National Instruments Corporation 2022 Equity Incentive Plan†</a>
<a href="#">10.2(4)</a>	<a href="#">2022 Form of Restricted Stock Unit Award Agreement (Non-Employee Director Award)†</a>
<a href="#">10.3(5)</a>	<a href="#">2022 Form of Restricted Stock Unit Award Agreement (Employee - Performance-Based Vesting Award)†</a>
<a href="#">10.4(6)</a>	<a href="#">2022 Form of Restricted Stock Unit Award Agreement (Employee - Time-Based Vesting Award)†</a>
<a href="#">10.5(7)</a>	<a href="#">1994 Employee Stock Purchase Plan, as amended, effective May 10, 2022†</a>
<a href="#">31.1*</a>	<a href="#">Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">31.2*</a>	<a href="#">Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">32.1**</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, “Financial Statements” of this Quarterly Report on Form 10-Q
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
(1)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 10-K for the fiscal year ended December 31, 2013 on February 20, 2014 (File No. 000-25426)
(2)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 10-Q on August 2, 2021 (File No. 000-25426)
(3)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K on May 12, 2022 (File No. 000-25426)
(4)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K on May 12, 2022 (File No. 000-25426)
(5)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K on May 12, 2022 (File No. 000-25426)
(6)	Incorporated by reference to the same-numbered exhibit filed with the Company’s Form 8-K on May 12, 2022 (File No. 000-25426)
(7)	Incorporated by reference to Exhibit A to the Company’s Proxy Statement filed on March 28, 2022 (File No. 000-25426)
*	Management Contract or Compensatory Plan or Arrangement
*Filed herewith	
**Furnished herewith	
† Management Contract or Compensatory Plan or Arrangement	

**SIGNATURE**

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

Dated: July 29, 2022

**NATIONAL INSTRUMENTS CORPORATION**

By: /s/ Karen Rapp

Karen Rapp

EVP, Chief Financial Officer

(Principal Financial Officer)



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

I, Eric Starkloff, certify that:

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

Date: July 29, 2022

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

**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: July 29, 2022

By: /s/ Karen Rapp

Karen Rapp  
Chief Financial Officer

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

I, Eric Starkloff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of National Instruments Corporation on Form 10-Q for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of National Instruments Corporation.

By: /s/ Eric Starkloff

Eric Starkloff

Chief Executive Officer

Date: July 29, 2022

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 June 30, 2022 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: July 29, 2022