

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, 2019 or

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

For the transition period from _____ to _____

Commission file number: 0-25426



NATIONAL INSTRUMENTS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware

74-1871327

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

11500 North MoPac Expressway

Austin,

78759

Texas

(address of principal executive offices)

(zip code)

Registrant's telephone number, including area code: (512) 683-0100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading symbol(s)

Name of exchange on which registered

Common Stock

NATI

Nasdaq Stock Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

Class
Common Stock - \$0.01 par value

Outstanding at July 29, 2019
131,884,775

NATIONAL INSTRUMENTS CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2019	December 31, 2018
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 191,761	\$ 259,386
Short-term investments	247,892	271,396
Accounts receivable, net	222,565	242,955
Inventories, net	206,851	194,146
Prepaid expenses and other current assets	66,021	54,337
Total current assets	935,090	1,022,220
Property and equipment, net	233,900	245,201
Goodwill	263,984	264,530
Intangible assets, net	97,612	110,783
Operating lease right-of-use assets	70,799	—
Other long-term assets	38,088	28,501
Total assets	\$ 1,639,473	\$ 1,671,235
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 54,966	\$ 48,388
Accrued compensation	39,613	45,821
Deferred revenue - current	128,787	127,288
Other lease liabilities - current	15,735	—
Other current liabilities	12,665	25,913
Other taxes payable	33,517	35,574
Total current liabilities	285,283	282,984
Deferred income taxes	27,903	25,457
Liability for uncertain tax positions	8,329	9,775
Income tax payable - long-term	67,046	74,546
Deferred revenue - long-term	32,937	32,636
Operating lease liabilities - non-current	38,495	—
Other long-term liabilities	4,906	7,479
Total liabilities	464,899	432,877
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; 131,884,775 shares and 132,655,941 shares issued and outstanding, respectively	1,319	1,327
Additional paid-in capital	924,801	897,544
Retained earnings	264,484	356,418
Accumulated other comprehensive loss	(16,030)	(16,931)
Total stockholders' equity	1,174,574	1,238,358
Total liabilities and stockholders' equity	\$ 1,639,473	\$ 1,671,235

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net sales:				
Product	\$ 299,798	\$ 306,780	\$ 577,500	\$ 587,139
Software maintenance	34,433	34,229	67,805	65,767
Total net sales	<u>334,231</u>	<u>341,009</u>	<u>645,305</u>	<u>652,906</u>
Cost of sales:				
Product	81,741	79,806	155,929	152,122
Software maintenance	2,025	2,353	3,912	4,560
Total cost of sales	<u>83,766</u>	<u>82,159</u>	<u>159,841</u>	<u>156,682</u>
Gross profit	<u>250,465</u>	<u>258,850</u>	<u>485,464</u>	<u>496,224</u>
Operating expenses:				
Sales and marketing	120,868	127,138	238,419	247,255
Research and development	68,257	66,908	134,423	128,751
General and administrative	29,044	27,892	56,927	55,170
Total operating expenses	<u>218,169</u>	<u>221,938</u>	<u>429,769</u>	<u>431,176</u>
Operating income	32,296	36,912	55,695	65,048
Other income:				
Interest income	2,023	1,290	4,257	2,305
Net foreign exchange loss	(1,611)	(2,105)	(1,245)	(1,126)
Other gain (loss), net	143	(1,095)	119	(1,613)
Income before income taxes	32,851	35,002	58,826	64,614
Provision for income taxes	4,159	3,948	6,914	9,292
Net income	<u>\$ 28,692</u>	<u>\$ 31,054</u>	<u>\$ 51,912</u>	<u>\$ 55,322</u>
Basic earnings per share	<u>\$ 0.22</u>	<u>\$ 0.24</u>	<u>\$ 0.39</u>	<u>\$ 0.42</u>
Weighted average shares outstanding - basic	<u>132,062</u>	<u>131,877</u>	<u>132,156</u>	<u>131,504</u>
Diluted earnings per share	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.39</u>	<u>\$ 0.42</u>
Weighted average shares outstanding - diluted	<u>132,973</u>	<u>133,054</u>	<u>133,172</u>	<u>132,838</u>
Dividends declared per share	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.50</u>	<u>\$ 0.46</u>

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net income	\$ 28,692	\$ 31,054	\$ 51,912	\$ 55,322
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	2,265	(11,804)	(802)	(6,001)
Unrealized gain (loss) on securities available-for-sale	738	128	1,913	(557)
Unrealized gain (loss) on derivative instruments	(1,480)	12,032	(268)	8,262
Other comprehensive income, before tax	1,523	356	843	1,704
Tax expense (benefit) related to items of other comprehensive income	(268)	2,621	(58)	1,760
Other comprehensive income (loss), net of tax	1,791	(2,265)	901	(56)
Comprehensive income	<u>\$ 30,483</u>	<u>\$ 28,789</u>	<u>\$ 52,813</u>	<u>\$ 55,266</u>

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

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

	Six Months Ended	
	June 30,	
	2019	2018
Cash flow from operating activities:		
Net income	\$ 51,912	\$ 55,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,984	35,098
Stock-based compensation	24,662	17,936
Deferred income taxes	2,268	1,766
Changes in operating assets and liabilities	(26,189)	(11,270)
Net cash provided by operating activities	88,637	98,852
Cash flow from investing activities:		
Capital expenditures	(26,048)	(19,764)
Capitalization of internally developed software	(4,497)	(11,344)
Additions to other intangibles	(487)	(3,936)
Acquisitions, net of cash received	(9,784)	—
Purchases of short-term investments	(91,777)	(137,275)
Sales and maturities of short-term investments	117,108	47,634
Net cash used in investing activities	(15,485)	(124,685)
Cash flow from financing activities:		
Proceeds from issuance of common stock	17,645	16,622
Repurchase of common stock	(92,375)	—
Dividends paid	(66,067)	(60,575)
Net cash used in financing activities	(140,797)	(43,953)
Effect of exchange rate changes on cash	20	(2,759)
Net change in cash and cash equivalents	(67,625)	(72,545)
Cash and cash equivalents at beginning of period	259,386	290,164
Cash and cash equivalents at end of period	\$ 191,761	\$ 217,619

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

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

	Common Stock Shares	Common Stock Amount	Additional-Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at March 31, 2019	131,866,173	\$ 1,319	\$ 910,602	\$ 307,153	\$ (17,821)	\$ 1,201,253
Net income	—	—	—	28,692	—	28,692
Other comprehensive income, net of tax	—	—	—	—	1,791	1,791
Issuance of common stock under employee plans, including tax benefits	1,133,102	11	8,420	—	—	8,431
Stock-based compensation	—	—	13,335	—	—	13,335
Repurchase of common stock	(1,114,500)	(11)	(7,556)	(38,404)	—	(45,971)
Dividends paid (1)	—	—	—	(32,957)	—	(32,957)
Balance at June 30, 2019	<u>131,884,775</u>	<u>\$ 1,319</u>	<u>\$ 924,801</u>	<u>\$ 264,484</u>	<u>\$ (16,030)</u>	<u>\$ 1,174,574</u>
Balance at December 31, 2018	<u>132,655,941</u>	<u>\$ 1,327</u>	<u>\$ 897,544</u>	<u>\$ 356,418</u>	<u>\$ (16,931)</u>	<u>\$ 1,238,358</u>
Net income	—	—	—	51,912	—	51,912
Other comprehensive income, net of tax	—	—	—	—	901	901
Issuance of common stock under employee plans, including tax benefits	1,378,432	14	17,631	—	—	17,645
Stock-based compensation	—	—	24,200	—	—	24,200
Repurchase of common stock	(2,149,598)	(22)	(14,574)	(77,779)	—	(92,375)
Dividends paid (1)	—	—	—	(66,067)	—	(66,067)
Balance at June 30, 2019	<u>131,884,775</u>	<u>\$ 1,319</u>	<u>\$ 924,801</u>	<u>\$ 264,484</u>	<u>\$ (16,030)</u>	<u>\$ 1,174,574</u>

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional-Paid in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total Stockholders' Equity</u>
Balance at March 31, 2018	131,204,795	\$ 1,312	\$ 846,743	\$ 315,951	\$ (14,300)	\$ 1,149,706
Net income	—	—	—	31,054	—	31,054
Other comprehensive loss, net of tax	—	—	—	—	(2,265)	(2,265)
Issuance of common stock under employee plans, including tax benefits	1,003,310	10	8,012	—	—	8,022
Stock-based compensation	—	—	9,559	—	—	9,559
Dividends paid (1)	—	—	—	(30,398)	—	(30,398)
Balance at June 30, 2018	<u>132,208,105</u>	<u>1,322</u>	<u>864,314</u>	<u>316,607</u>	<u>(16,565)</u>	<u>1,165,678</u>
Balance at December 31, 2017	<u>130,978,947</u>	<u>1,310</u>	<u>829,979</u>	<u>313,241</u>	<u>(16,509)</u>	<u>1,128,021</u>
Net income	—	—	—	55,322	—	55,322
Other comprehensive loss, net of tax	—	—	—	—	(56)	(56)
Issuance of common stock under employee plans, including tax benefits	1,229,158	12	16,610	—	—	16,622
Stock-based compensation	—	—	17,725	—	—	17,725
Adoption of ASU 2014- 09	—	—	—	8,619	—	8,619
Dividends paid (1)	—	—	—	(60,575)	—	(60,575)
Balance at June 30, 2018	<u>132,208,105</u>	<u>1,322</u>	<u>864,314</u>	<u>316,607</u>	<u>(16,565)</u>	<u>1,165,678</u>

(1) Cash dividends declared per share of common stock were \$0.25 and \$0.23 for the three months ended June 30, 2019 and 2018, respectively, and \$0.50 and \$0.46 for the six months ended June 30, 2019 and 2018, respectively.

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

NATIONAL INSTRUMENTS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018, included in our annual report on Form 10-K, filed with the Securities and Exchange Commission. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at June 30, 2019 and December 31, 2018, the results of our operations and comprehensive income for three and six months ended June 30, 2019 and 2018, the cash flows for the six months ended June 30, 2019 and 2018 and the statement of stockholder's equity for the three and six months ended June 30, 2019. Our operating results for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which supersedes ASC 840, Leases, and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. Topic 842, as amended, (the "new lease standard") establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

We adopted the new lease standard on January 1, 2019 and used the effective date as our date of initial adoption. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for earlier periods.

We have completed a qualitative and quantitative assessment of our lease portfolio, in which the standard had a material impact on our consolidated balance sheet but did not have an impact on our consolidated income statement. Upon adoption, we recognized lease liabilities of approximately \$52 million, with corresponding ROU assets of the same amount, based on the present value of the remaining minimum rental payments under current leasing standards for our existing operating leases. Additionally, we also reclassified approximately \$19 million from "Property, plant and equipment, net" to "Operating lease right-of-use assets" related to prepaid leasehold land.

The new standard provides a number of optional practical expedients in transition. We elected the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for our office leases.

The cumulative effects of the changes made to our consolidated January 1, 2019 balance sheet for the adoption of the new lease standard were as follows (in thousands):

	Balance at December 31, 2018		Adjustments Due to ASU 2016-02		Balance at January 1, 2019
Assets					
Property, plant and equipment, net	\$ 245,201	\$	(18,606)	\$	226,595
Operating lease right-of-use assets	—	\$	68,938	\$	68,938
Liabilities and Stockholders' Equity					
Operating lease liabilities, current	—	\$	18,597	\$	18,597
Operating lease liabilities, non-current	—	\$	33,853	\$	33,853
Other current liabilities	\$ 25,913	\$	(2,118)	\$	23,795

Other Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The ASU expands strategies that qualify for hedge accounting, changes how many hedging relationships are presented in the financial statements, and simplifies the application of hedge accounting in certain situations. On January 1, 2019, we adopted the guidance in ASU 2017-12. Adoption did not have a material impact on our financial statements. We continue to assess opportunities enabled by the new standard to expand our risk management strategies.

In August 2018, the Securities and Exchange Commission ("SEC") issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements. The principal change to our financial reporting will be the inclusion of the annual disclosure requirement of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. We adopted this new rule beginning with our financial reporting for the quarter ended March 31, 2019.

In January 2018, the FASB issued ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which gives entities the option to reclassify to retained earnings tax effects resulting from the Tax Cuts and Jobs Act (the "Act") related to items that the FASB refers to as having been stranded in accumulated other comprehensive income ("OCI"). We adopted ASU 2018-02 effective January 1, 2019, and we did not elect the option to reclassify to retained earnings the tax effects resulting from the Act that are stranded in accumulated OCI. The adoption of the new guidance did not have a material effect on our consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables and other financial instruments. This ASU requires instruments measured at amortized cost to be presented at the net amount expected to be collected. Entities are also required to record allowances for available-for-sale debt securities rather than reduce the carrying amount. We do not plan to adopt the ASU earlier than our required effective date of January 1, 2020. We expect that the adoption of the ASU will not have a material impact on our financial statements.

Summary of Significant Accounting Policies

As discussed above, we adopted the new lease standard as of January 1, 2019. The impact of this new guidance on our accounting policies and financial statements is described below. Additionally, in the first quarter of 2019, we granted performance-based restricted stock units to certain executives under our 2015 Equity Incentive Plan ("PRSUs"). The PRSU awards granted during the six months ended June 30, 2019 include a market condition as defined by ASC 718. The impact of the new equity awards on our accounting policies is described below. There were no other significant changes in our accounting policies during the six months ended June 30, 2019 compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2018.

Stock-Based Compensation

Stock-based compensation costs are based on the fair value on the date of grant for all restricted stock units ("RSUs") and on the date of enrollment for the employee stock purchase plan. We recognize compensation expense ratably over the requisite service period of the awards. PRSUs are RSU awards that vest based on a market condition, currently our stockholder return relative to the total stockholder return of the companies included in the Russell 2000 Index at the end of a three-year performance period. Up to 200% of the full target number of shares subject to each PRSU award are eligible to be earned after the completion of the three-year performance period based on our total stockholder return relative to the total stockholder return of the Russell 2000 Index at the end of the performance period.

The fair values of RSUs, with service-based vesting conditions, are estimated using their market price on the date of grant. The fair values of rights under employee stock purchase plans are estimated using the Black-Scholes option-pricing model. The fair values of PRSUs are estimated using a Monte Carlo simulation. The determination of fair value of the PRSUs is affected by our stock price and a number of assumptions including the expected volatility, expected dividend yield and the risk-free interest rate. Our expected volatility at the date of grant was based on the historical volatilities of our stock and the companies included in the Russell 2000 Index over the performance period.

Refer to Note 11 – Authorized shares of common and preferred stock and stock-based compensation plans for additional information on our equity-based compensation programs.

Leases

We determine whether an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities (current and non-current) on our consolidated balance sheet. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our consolidated balance sheet.

Operating lease ROU assets and operating lease liabilities are recognized based on their present value of the future minimum lease payments over the lease term at commencement date. As none of our leases provide an implicit rate we use our incremental borrowing rate based on the information available as of the commencement date. The operating lease ROU assets also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components. For office leases we account for the lease and non-lease components as a single lease component. For certain leases, such as equipment and vehicles, we account for the lease and non-lease components separately. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities. Refer to Note 8 - Leases for additional information on our leasing activities.

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 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, 2019 and 2018, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	(In thousands)		(In thousands)	
	(Unaudited)		(Unaudited)	
	2019	2018	2019	2018
Weighted average shares outstanding-basic	132,062	131,877	132,156	131,504
Plus: Common share equivalents				
RSUs	911	1,177	1,016	1,334
Weighted average shares outstanding-diluted	132,973	133,054	133,172	132,838

Stock awards to acquire 861,000 shares and 697,800 shares for the three months ended June 30, 2019 and 2018, respectively, and 395,800 shares and 350,800 shares for the six months ended June 30, 2019 and 2018, 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.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Our typical performance obligations include the following:

<i>Performance Obligation</i>	<i>When performance obligation is typically satisfied</i>	<i>When payment is typically due</i>	<i>How standalone selling price is typically estimated</i>
<u>Product revenue</u>			
Modular hardware	When customer obtains control of the product (point-in-time)	Within 30-90 days of shipment	Observable in transactions without multiple performance obligations
Software licenses	When software media is delivered to customer or made available for download electronically, and the applicable license period has begun (point-in-time)	Within 30-90 days of the beginning of license period	Perpetual/Subscription licenses: Value relationships based on (i) the directly observable pricing of the license bundled with software maintenance and (ii) the directly observable pricing of software maintenance renewals, when they are sold on a standalone basis. Enterprise-wide term licenses: Residual method
Extended hardware warranty	Ratably over the course of the support contract (over time)	Within 30-90 days of the beginning of the contract period	Observable in renewal transactions
Other related support offerings	As work is performed (over time) or course is delivered (point-in-time)	Within 30-90 days of delivery	Observable in transactions without multiple performance obligations
<u>Software maintenance revenue</u>			
Software maintenance	Ratably over the course of the support contract (over time)	Within 30-90 days of the beginning of the contract period	Observable in renewal transactions

Disaggregation of Revenues

We disaggregate revenue from contracts with customers based on the timing of transfer of goods or services to customers (point-in-time or over time) and geographic region based on the billing location of the customer. The geographic regions that are tracked are the Americas (United States, Canada and Latin America), EMEIA (Europe, Middle East, India and Africa) and APAC (Australia, New Zealand, Southeast Asia and China). Total net sales based on the disaggregation criteria described above are as follows:

Three Months Ended June 30,

(In thousands)	(Unaudited)					
	2019			2018		
Net sales:	Point-in-Time	Over Time	Total	Point-in-Time	Over Time	Total
Americas	\$ 105,773	23,141	\$ 128,914	\$ 109,180	20,611	\$ 129,791
EMEIA	79,844	19,189	99,033	90,487	19,554	110,041
APAC	98,131	8,153	106,284	93,251	7,926	101,177
Total net sales ⁽¹⁾	\$ 283,748	50,483	\$ 334,231	\$ 292,918	48,091	\$ 341,009

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

Six Months Ended June 30,

(In thousands)	(Unaudited)					
	2019			2018		
Net sales:	Point-in-Time	Over Time	Total	Point-in-Time	Over Time	Total
Americas	\$ 205,454	46,115	\$ 251,569	\$ 209,232	40,280	\$ 249,512
EMEIA	158,966	38,874	197,840	177,394	38,059	215,453
APAC	179,581	16,315	195,896	171,937	16,004	187,941
Total net sales ⁽¹⁾	\$ 544,001	101,304	\$ 645,305	\$ 558,563	94,343	\$ 652,906

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

Information about Contract Balances

Amounts collected in advance of services being provided are accounted for as deferred revenue. Nearly all of our deferred revenue balance is related to extended hardware and software maintenance contracts. Payment terms and conditions vary by contract type, although payment is typically due within 30 to 90 days of contract inception. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers, such as invoicing at the beginning of a subscription term with a portion of the revenue recognized ratably over the contract period, or to provide customers with financing, such as multi-year on-premises licenses that are invoiced annually with revenue recognized upfront.

Changes in deferred revenue, current and long-term, during the six months ended June 30, 2019 were as follows:

	Amount (In thousands)
Deferred Revenue at December 31, 2018	\$ 159,924
Deferral of revenue billed in current period, net of recognition	100,737
Recognition of revenue deferred in prior periods	(98,745)
Foreign currency translation impact	(192)
Balance as of June 30, 2019 (unaudited)	\$ 161,724

For the six months ended June 30, 2019, 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 "accounts receivable, net" 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, 2019, amounts recognized 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 excluding contracts where revenue is recognized as invoiced, was approximately \$58 million as of June 30, 2019. Since we typically invoice customers at contract inception, this amount is included in our current and non-current deferred revenue balances. As of June 30, 2019, we expect to recognize approximately 25% of the revenue related to these unsatisfied performance obligations during the remainder of 2019, 40% during 2020, and 35% 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 immaterial during the periods presented and are included in other long-term assets on our consolidated balance sheets.

Practical Expedients

As discussed in Note 1 - Basis of presentation and elsewhere in Note 2 - Revenue, we have elected the following practical expedients in accordance with the new revenue standard:

- We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.
- We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.
- We do not consider the time value of money for contracts with original durations of one year or less.

Note 3 – Short-term investments

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

(In thousands)	As of June 30, 2019			
	(Unaudited)			
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate bonds	\$ 199,632	\$ 1,358	\$ (165)	\$ 200,825
U.S. treasuries and agencies	47,014	53	—	47,067
Total Short-term investments	\$ 246,646	\$ 1,411	\$ (165)	\$ 247,892

(In thousands)

As of December 31, 2018

	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Corporate bonds	\$ 235,045	\$ 726	\$ (1,298)	\$ 234,473
U.S. treasuries and agencies	36,932	2	(11)	36,923
Total Short-term investments	\$ 271,977	\$ 728	\$ (1,309)	\$ 271,396

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

(In thousands)

As of June 30, 2019

(Unaudited)

	Adjusted Cost	Fair Value
Due in less than 1 year	\$ 134,464	\$ 135,265
Due in 1 to 5 years	112,182	112,627
Total available-for-sale debt securities	\$ 246,646	\$ 247,892

	Adjusted Cost	Fair Value
Due in less than 1 year		
Corporate bonds	\$ 87,450	\$ 88,198
U.S. treasuries and agencies	47,014	47,067
Total available-for-sale debt securities	\$ 134,464	\$ 135,265

	Adjusted Cost	Fair Value
Due in 1 to 5 years		
Corporate bonds	\$ 112,182	\$ 112,627
Total available-for-sale debt securities	\$ 112,182	\$ 112,627

Equity-Method Investments

The carrying value of our equity method investments was \$13 million as of June 30, 2019. Our proportionate share of the income from equity-method investments was not material for the periods presented.

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:

**Fair Value Measurements at Reporting Date Using
(Unaudited)**

(In thousands)

Description	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	\$ 40,198	\$ 40,198	\$ —	\$ —
Short-term investments available for sale:				
Corporate bonds	200,825	—	200,825	—
U.S. treasuries and agencies	47,067	—	47,067	—
Derivatives	9,892	—	9,892	—
Total Assets	\$ 297,982	\$ 40,198	\$ 257,784	\$ —
Liabilities				
Derivatives	\$ (2,152)	\$ —	\$ (2,152)	\$ —
Total Liabilities	\$ (2,152)	\$ —	\$ (2,152)	\$ —

(In thousands)

Fair Value Measurements at Reporting Date Using

Description	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	\$ 62,094	\$ 62,094	\$ —	\$ —
Corporate notes and bonds	9,979	—	9,979	—
Short-term investments available for sale:				
Corporate bonds	234,473	—	234,473	—
U.S. treasuries and agencies	36,923	—	36,923	—
Derivatives	9,369	—	9,369	—
Total Assets	\$ 352,838	\$ 62,094	\$ 290,744	\$ —
Liabilities				
Derivatives	\$ (1,483)	\$ —	\$ (1,483)	\$ —
Total Liabilities	\$ (1,483)	\$ —	\$ (1,483)	\$ —

We value our available-for-sale short-term investments based on pricing from third party pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. We classify all of our fixed income available-for-sale securities as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques. We believe all of these sources reflect the credit risk associated with each of our available-for-sale short-term investments. Short-term investments available-for-sale consists of debt securities issued by states of the U.S. and political subdivisions of the U.S., corporate debt securities and debt securities issued by U.S. government organizations and agencies. All of our short-term investments available-for-sale have contractual maturities of less than 60 months.

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, 2019. There were no transfers in or out of Level 1 or Level 2 during the six months ended June 30, 2019.

As of June 30, 2019, our short-term investments did not include sovereign debt from any country other than the United States.

We did not have any items that were measured at fair value on a nonrecurring basis at June 30, 2019 and December 31, 2018. 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 operations in approximately 50 countries. Sales outside of the Americas accounted for approximately 61% and 62% of our net sales during the three months ended June 30, 2019 and 2018, and approximately 61% and 62% of our net sales during the six months ended June 30, 2019 and 2018, 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 purchase 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 purchase 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 dollar strengthens 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 purchase 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 36 months or less.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated 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. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings or expenses during the current period and are classified as a component of “net foreign exchange gain (loss).” Hedge effectiveness of foreign currency forwards designated as cash flow hedges are measured by comparing the hedging instrument’s cumulative change in fair value from inception to maturity to the forecasted transaction’s terminal value.

We held forward contracts designated as cash flow hedges with the following notional amounts:

(In thousands)	US Dollar Equivalent	
	As of June 30, 2019 (Unaudited)	As of December 31, 2018
Chinese yuan	\$ 66,023	\$ 45,520
Euro	130,740	134,654
Japanese yen	34,598	15,141
Hungarian forint	43,200	35,384
British pound	18,890	9,948
Malaysian ringgit	27,975	27,778
Korean won	11,452	8,331
Total forward contracts notional amount	\$ 332,878	\$ 276,756

The contracts in the foregoing table had contractual maturities of 18 months or less and 24 months or less at June 30, 2019 and December 31, 2018, respectively.

At June 30, 2019, we expect to reclassify \$6.5 million of gains on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, \$0.2 million of losses on derivative instruments from accumulated OCI to cost of sales during the next twelve months when the cost of sales are incurred and \$0.1 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, 2019. Actual results may vary materially as a result of changes in the corresponding exchange rates subsequent to this date.

The gains and losses recognized in earnings due to hedge ineffectiveness were not material for each of the six months ended June 30, 2019 and 2018 and are included as a component of net income under the line item “net foreign exchange loss.”

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of foreign currency forward contracts that we use to hedge our foreign denominated net receivable or net payable positions 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 "net foreign exchange loss." As of June 30, 2019 and December 31, 2018, we held foreign currency forward contracts that were not designated as hedging instruments with a notional amount of \$47 million and \$71 million, respectively.

The following tables present the fair value of derivative instruments on our Consolidated Balance Sheets at June 30, 2019 and December 31, 2018, respectively.

	Asset Derivatives			
	June 30, 2019		December 31, 2018	
	(Unaudited)			
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	\$ 7,227	Prepaid expenses and other current assets	\$ 7,594
Foreign exchange contracts - LT forwards	Other long-term assets	2,036	Other long-term assets	1,380
Total derivatives designated as hedging instruments		\$ 9,263		\$ 8,974
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	\$ 629	Prepaid expenses and other current assets	\$ 395
Total derivatives not designated as hedging instruments		\$ 629		\$ 395
Total derivatives		\$ 9,892		\$ 9,369

Liability Derivatives

(In thousands)

	June 30, 2019		December 31, 2018	
	(Unaudited)			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts - ST forwards	Other current liabilities	\$ (1,086)	Other current liabilities	\$ (662)
Foreign exchange contracts - LT forwards	Other long-term liabilities	(318)	Other long-term liabilities	(191)
Total derivatives designated as hedging instruments		<u>\$ (1,404)</u>		<u>\$ (853)</u>
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Other current liabilities	\$ (748)	Other current liabilities	\$ (630)
Total derivatives not designated as hedging instruments		<u>\$ (748)</u>		<u>\$ (630)</u>
Total derivatives		<u>\$ (2,152)</u>		<u>\$ (1,483)</u>

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for three months ended June 30, 2019 and 2018, respectively:

June 30, 2019
(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	\$ (1,350)	Net sales	\$ 2,651
Foreign exchange contracts - forwards	(139)	Cost of sales	(61)
Foreign exchange contracts - forwards	9	Operating expenses	(74)
Total	<u>\$ (1,480)</u>		<u>\$ 2,516</u>

June 30, 2018
(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	\$ 17,632	Net sales	\$ (1,295)
Foreign exchange contracts - forwards	(3,052)	Cost of sales	302
Foreign exchange contracts - forwards	(2,548)	Operating expenses	321
Total	<u>\$ 12,032</u>		<u>\$ (672)</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
		June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Foreign exchange contracts - forwards	Net foreign exchange gain/(loss)	\$ (141)	1,573
Total		<u>\$ (141)</u>	<u>\$ 1,573</u>

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the six months ended June 30, 2019 and 2018, respectively:

June 30, 2019
(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	\$ 450	Net sales	\$ 4,396
Foreign exchange contracts - forwards	(409)	Cost of sales	(41)
Foreign exchange contracts - forwards	(309)	Operating expenses	(45)
Total	<u>(268)</u>		<u>\$ 4,310</u>

June 30, 2018
(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	\$ 12,560	Net sales	\$ (3,915)
Foreign exchange contracts - forwards	(2,326)	Cost of sales	643
Foreign exchange contracts - forwards	(1,972)	Operating expenses	777
Total	<u>\$ 8,262</u>		<u>\$ (2,495)</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
		June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Foreign exchange contracts - forwards	Net foreign exchange gain/(loss)	\$ (369)	(188)
Total		<u>\$ (369)</u>	<u>\$ (188)</u>

Note 6 – Inventories, net

Inventories, net consist of the following:

(In thousands)	June 30, 2019 (Unaudited)	December 31, 2018
Raw materials	\$ 102,962	\$ 98,346
Work-in-process	10,147	9,306
Finished goods	93,742	86,494
Total	<u>\$ 206,851</u>	<u>\$ 194,146</u>

Note 7 – Intangible assets, net

Intangible assets at June 30, 2019 and December 31, 2018 are as follows:

(In thousands)	June 30, 2019 (Unaudited)			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	\$ 127,915	\$ (62,549)	\$ 65,366	\$ 123,842	\$ (49,299)	\$ 74,543
Acquired technology	92,126	(86,423)	5,703	92,236	(84,962)	7,274
Patents	34,900	(22,777)	12,123	34,427	(21,725)	12,702
Other	45,825	(31,405)	14,420	46,437	(30,173)	16,264
Total	\$ 300,766	\$ (203,154)	\$ 97,612	\$ 296,942	\$ (186,159)	\$ 110,783

Software development costs capitalized for the three months ended June 30, 2019 and 2018 were \$2.2 million and \$3.9 million, respectively, and related amortization expense was \$6.9 million and \$6.8 million, respectively. For the six months ended June 30, 2019 and 2018, capitalized software development costs were \$4.6 million and \$11.9 million, respectively, and related amortization expense was \$13.8 million and \$12.9 million, respectively. Capitalized software development costs for the three months ended June 30, 2019 and 2018 included costs related to stock-based compensation of \$0.0 million and \$0.2 million, respectively. For the six months ended June 30, 2019 and 2018, capitalized software development costs included costs related to stock-based compensation of \$0.1 million and \$0.5 million, respectively. The related amounts in the table above are net of fully amortized assets.

Amortization of capitalized software development costs is computed on an individual product basis for those products available for market and is recognized based on the product's estimated economic life, generally three to six years. Acquired technology and other intangible assets are amortized over their useful lives, which range from three to eight years. Patents are amortized using the straight-line method over their estimated period of benefit, generally 10 to 17 years. Total intangible assets amortization expenses were \$9.1 million and \$9 million for the three months ended June 30, 2019 and 2018, respectively, and \$18.1 million and \$17.4 million for the six months ended June 30, 2019 and 2018, respectively.

Goodwill

The carrying amount of goodwill as of June 30, 2019, was as follows:

	Amount (In thousands)
Balance as of December 31, 2018	\$ 264,530
Foreign currency translation impact	(546)
Balance as of June 30, 2019 (unaudited)	\$ 263,984

The excess purchase price over the fair value of assets acquired is recorded as goodwill. 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, 2019 or the twelve months ended December 31, 2018.

Note 8 – Leases

We have operating leases for corporate offices, automobiles, and certain equipment. Our leases have remaining terms of 1 year to 9 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 June 30, 2019	Six Months Ended June 30, 2019
Operating Lease Cost (a)	\$ 5,769	\$ 11,495
(a) includes variable and short-term lease costs		

Supplemental cash flow information related to operating leases were as follows (unaudited):

(In thousands)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	4,183	8,974
Supplemental non-cash information:		
Operating lease right-of-use assets obtained in exchange for new operating lease obligations	2,627	9,136

Maturities of lease liabilities as of June 30, 2019 were as follows (unaudited):

(In thousands)	Operating Leases
Years ending December 31,	
2019 (Excluding the six months ended June 30, 2019)	\$ 10,468
2020	15,872
2021	10,962
2022	7,345
2023	5,507
Thereafter	15,645
Total future minimum lease payments	65,799
Less imputed interest	(11,569)
Total	\$ 54,230

Weighted Average Remaining Lease Term (years)	
Operating Leases	5.29
Weighted Average Discount Rate	
Operating Leases	5.8%

As of June 30, 2019, we have additional operating leases, that have not commenced during the period, 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 \$80 million at June 30, 2019 and December 31, 2018. A majority of the valuation allowance is related to the deferred tax assets of National Instruments Hungary Kft. (“NI Hungary”).

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 \$8.3 million and \$9.8 million of unrecognized tax benefits at June 30, 2019 and December 31, 2018, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2019, respectively, as a result of the tax positions taken during these and prior periods. We recorded a gross decrease in unrecognized tax benefits of \$2.0 million for each of the three and six months ended June 30, 2019, as a result of closing open tax years. As of June 30, 2019, it is reasonably possible that we will recognize 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. As of June 30, 2019, we had approximately \$0.8 million accrued for interest related to uncertain tax positions. The tax years 2012 through 2019 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 13% and 11% for the three months ended June 30, 2019 and 2018, respectively, and 12% and 14% for the six months ended June 30, 2019 and 2018, respectively. For the three and six months ended June 30, 2019, our effective tax rate was lower than the U.S. federal statutory rate of 21% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, the deduction for foreign-derived deduction eligible income, a decrease in unrecognized tax benefits resulting from the closing of open tax years, the research and development tax credit, excess tax benefits from share-based compensation, and a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit, offset by the U.S. tax on global intangible low-taxed income and nondeductible officer compensation. For the three and six months ended June 30, 2018, our effective tax rate was lower than the U.S. federal statutory rate of 21% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, the deduction for foreign-derived deduction eligible income, the research and development tax credit, excess tax benefits from share-based compensation, and a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit, offset by the U.S. tax on global intangible low-taxed income.

Our earnings in Hungary are subject to a statutory tax rate of 9%. In addition, our research and development activities in Hungary benefit from a tax law in Hungary that provides for an enhanced deduction for qualified research and development expenses. The tax position of our Hungarian operations resulted in income tax benefits of \$1.6 million and \$2.9 million for the three months ended June 30, 2019 and 2018, respectively, and \$2.6 million and \$4.6 million for the six months ended June 30, 2019 and 2018, respectively.

Earnings from our operations in Malaysia are free of tax under a tax holiday effective January 1, 2013. This tax holiday expires in 2027. 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, 2019 were approximately \$0.8 million and \$1.3 million, respectively. The income tax benefits of the tax holiday for the three and six months ended June 30, 2018 were approximately \$0.5 million and \$1.1 million, respectively. The impact of the tax holiday on a per share basis for each of the three and six months ended June 30, 2019 and June 30, 2018 was a benefit of \$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 IRS with regard to any foreign jurisdictions.

Note 10 – Comprehensive income

Our comprehensive income is comprised of net income, foreign currency translation, 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, 2019 and 2018, consisted of the following:

(In thousands)	June 30, 2019 (Unaudited)			
	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2018	\$ (22,485)	\$ (1,308)	6,862	\$ (16,931)
Current-period other comprehensive (loss) income	(802)	1,913	4,042	5,153
Reclassified from accumulated OCI into income	—	—	(4,310)	(4,310)
Income tax expense (benefit)	—	8	(66)	(58)
Balance as of June 30, 2019	\$ (23,287)	\$ 597	\$ 6,660	\$ (16,030)

(In thousands)	June 30, 2018 (Unaudited)			
	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2017	\$ (12,717)	\$ (782)	(3,010)	\$ (16,509)
Current-period other comprehensive income (loss)	(6,001)	(557)	5,767	(791)
Reclassified from accumulated OCI into income	—	—	2,495	2,495
Income tax expense	—	33	1,727	1,760
Balance as of June 30, 2018	\$ (18,718)	\$ (1,372)	\$ 3,525	\$ (16,565)

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

Authorized shares of common and preferred stock

Following approval by the Company's Board of Directors and stockholders, on May 14, 2013, the Company's certificate of incorporation was amended to increase the authorized shares of common stock by 180,000,000 shares to a total of 360,000,000 shares. As a result of this amendment, the total number of shares which the Company is 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.

Restricted stock plan

Our stockholders approved our 2005 Incentive Plan (the "2005 Plan") in May 2005. At the time of approval, 4,050,000 shares of our common stock were reserved for issuance under this plan, as well as the number of shares which had been reserved but not issued under our 1994 Incentive Plan which terminated in May 2005 (the "1994 Plan"), 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, administered by the Compensation Committee of the Board of Directors, provided for 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 the Company's 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 this 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 these plans. The 2010 Plan, administered by the Compensation Committee of the Board of Directors, provides for 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 the Company's 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 this 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, 2005, and the 2010 Plans as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under these plans. The 2015 Plan, administered by the Compensation Committee of the Board of Directors, 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 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 the Company's previous year's earnings and growth but ten-year awards cannot accelerate to vest over a period of less than five years. There were 1,933,363 shares available for grant under the 2015 Plan at June 30, 2019.

During the six months ended June 30, 2019, we granted PRSUs to certain executives under our 2015 Plan. Refer to the "Summary of Significant Accounting Policies" in Note 1 - Basis of presentation for additional discussion regarding the impact of these grants on our accounting policies and related estimates.

Employee stock purchase plan

Our employee stock purchase plan 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 this plan. On May 9, 2017, our stockholders approved an additional 3,000,000 shares for issuance under our employee stock purchase plan. At June 30, 2019, we had 1,525,607 shares of common stock reserved for future issuance under this plan. We issued 469,437 shares under this plan in the six months ended June 30, 2019 and the weighted average purchase price was \$37.59 per share. During the six months ended June 30, 2019, we did not make any changes in accounting principles or methods of estimates with respect to such plan.

Authorized Preferred Stock and Preferred Stock Purchase Rights Plan

We have 5,000,000 authorized shares of preferred stock. On January 21, 2004, our Board of Directors designated 750,000 of these shares as Series A Participating Preferred Stock in conjunction with the adoption of a Preferred Stock Rights Agreement which expired on May 10, 2014. There were no shares of preferred stock issued and outstanding at June 30, 2019.

Stock repurchases and retirements

From time to time, our Board of Directors has authorized various programs for our repurchase of shares of our common stock depending on market conditions and other factors. Under the current program, during the three months ended June 30, 2019, we repurchased 1,114,500 shares of our common stock at a weighted average price per share at \$41.25 and during the six months ended June 30, 2019, we repurchased 2,149,598 shares of our common stock at a weighted average price per share of \$42.97. We did not repurchase any shares during the six months ended June 30, 2018. At June 30, 2019, there were 1,850,402 shares remaining available for repurchase under this program. This repurchase program does not have an expiration date.

Note 12 – Segment and geographic information

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

We sell our products in three geographic regions which consist of Americas, EMEA and APAC. Our sales to these regions share similar economic characteristics, similar product mix, similar customers, and similar distribution methods. 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).

Based on the billing location of the customer, total sales outside the U.S. for the three months ended June 30, 2019 and 2018 were \$211 million and \$222 million, respectively, and \$409 million and \$422 million for the six months ended June 30, 2019 and 2018, respectively. Total property and equipment, net, outside the U.S. was \$119 million as of June 30, 2019 and \$132 million at December 31, 2018, respectively. Revenues and long-lived assets attributable to each individual foreign country outside the U.S. were not material.

Note 13 - Debt

On May 9, 2013, we entered into a Loan Agreement (the "Loan Agreement") with Wells Fargo Bank (the "Lender"). The Loan Agreement provided for a \$50 million unsecured revolving line of credit with a scheduled maturity date of May 9, 2018 (the "Maturity Date"). On October 29, 2015, we entered into a First Amendment to Loan Agreement (the "Amendment") with the Lender, which amended our Loan Agreement to among other things, (i) increase the unsecured revolving line of credit from \$50 million to \$125 million, (ii) extend the Maturity Date of the line of credit from May 9, 2018 to October 29, 2020, and (iii) provide us with an option to request increases to the line of credit of up to an additional \$25 million in the aggregate, subject to consent of the Lender and terms and conditions to be mutually agreed between us and the Lender. On April 27, 2018, we entered into a Second Amendment to Loan Agreement (the "Second Amendment") which amended the Loan Agreement, as amended by the Amendment to, among other things, (i) reduce the revolving line of credit from \$125.0 million to \$5.0 million, (ii) reduce the letter of credit sublimit under the line of credit from \$10.0 million to \$5.0 million and (iii) require us and our subsidiaries to comply with certain of the affirmative and negative covenants under the Loan Agreement only if loans are outstanding under the Loan Agreement or if we have not reimbursed any drawing under a letter of credit issued under the Loan Agreement within five business days following the request of the Lender.

The loans bear interest, at our option, at a base rate determined in accordance with the Loan Agreement, plus a spread of 0.0% to 0.50%, or a LIBOR rate plus a spread of 1.13% to 2.00%, in each case with such spread determined based on a ratio of consolidated indebtedness to EBITDA, determined in accordance with the Loan Agreement. Principal, together with all accrued and unpaid interest, is due and payable on the Maturity Date. We are also obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments at a rate of 0.18% to 0.30%, with such rate determined based on the ratio described above. The Loan 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; 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 Loan Agreement also requires us to maintain a ratio of consolidated indebtedness to EBITDA equal to or less than 3.25 to 1.00, and a ratio of consolidated EBITDA to interest expense greater than or equal to 3.00 to 1.00, in each case determined in accordance with the Loan Agreement. As of June 30, 2019, we were in compliance with all applicable covenants in the Loan Agreement.

The Loan 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 lender 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 Loan Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Loan Agreement at a per annum rate of interest equal to 2.00% above the otherwise applicable interest rate. Proceeds of loans made under the Loan Agreement may be used for working capital and other general corporate purposes. We may prepay the loans under the Loan Agreement in whole or in part at any time without premium or penalty. Certain of our existing and future material domestic subsidiaries are required to guaranty our obligations under the Loan Agreement.

As of June 30, 2019, we had no outstanding borrowings under this line of credit. During the three and six months ended June 30, 2019 and June 30, 2018, we incurred no interest expense. As of June 30, 2019 and June 30, 2018, the weighted-average interest rate on the revolving line of credit was 3.4% and 3.2%, respectively.

Note 14 – Commitments and contingencies

We offer a one-year limited warranty on most hardware products which is included in the terms of sale of such products. We also offer optional extended warranties on our hardware products for which the related revenue is recognized ratably over the warranty period. Provision is made for estimated future warranty costs at the time of the sale for the estimated costs that may be incurred under the standard warranty. Our estimate is based on historical experience and product sales during the period. The warranty reserve for the six months ended June 30, 2019 and 2018 was as follows:

(In thousands)	Six Months Ended June 30, (Unaudited)	
	2019	2018
Balance at the beginning of the period	\$ 3,173	\$ 2,846
Accruals for warranties issued during the period	1,017	1,456
Accruals related to pre-existing warranties	(571)	155
Settlements made (in cash or in kind) during the period	(1,101)	(1,459)
Balance at the end of the period	<u>\$ 2,518</u>	<u>\$ 2,998</u>

As of June 30, 2019, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately \$6.9 million over the next twelve months.

Note 15 – Restructuring

Since the first quarter of 2017, we have been taking steps to reduce our overall employee headcount in an effort to minimize job duplication or evaluate where we should shift and centralize activities, improve efficiencies, and rebalance our resources on higher return activities. The timing and scope of our headcount reductions will vary.

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,		Six Months Ended June 30,	
	(Unaudited)		(Unaudited)	
	2019	2018	2019	2018
Cost of sales	\$ —	—	\$ —	29
Research and development	311	830	656	976
Sales and marketing	2,984	3,033	4,965	4,678
General and administrative	533	553	1,523	1,165
Total restructuring and other related costs	\$ 3,828	4,416	\$ 7,144	6,848

A summary of balances and activity related to our restructuring activity is shown below:

	Restructuring Liability	
	(in thousands)	
Balance as of December 31, 2018	\$	3,506
Income statement expense		7,144
Cash payments		(7,584)
Balance as of June 30, 2019	\$	3,066

The restructuring liability of \$3.1 million at June 30, 2019 relating to our 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 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.

Note 17 – Subsequent events

On July 24, 2019, our Board of Directors declared a quarterly cash dividend of \$0.25 per common share, payable on September 3, 2019, to stockholders of record on August 12, 2019.

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

This Quarterly Report on Form 10-Q contains 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"). Any statements contained herein regarding our future financial performance, operations or other matters (including, without limitation, statements to the effect that we "believe," "expect," "plan," "intend to," "may," "will," "project," "anticipate," "continue," "are encouraged by," or "estimate"; statements of "goals" or "visions"; or other variations thereof or comparable terminology or the negative thereof) should be considered forward-looking statements. 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" beginning on page 46, and in the discussion below. Readers are also encouraged to refer to the documents regularly filed by us with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2018, for further discussion of our business and the risks attendant thereto.

Overview

For more than 40 years, National Instruments Corporation (the "Company", "we", "us" or "our") has 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 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 broad customer base

We strive to increase our already broad customer base and to grow our large order business by serving a large market on many computer platforms, through a global marketing and distribution network. We also seek to acquire new technologies and expertise from time to time to open new opportunities for our existing product portfolio.

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 backwards compatibility across different platforms to preserve the customer's investment in our products. In this time of intense global competition, we believe that 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 leveraging our core technologies across multiple products.

We sell automated test and automated measurement systems in a broad range of industries and are subject to the economic and industry forces that drive those markets. It has been our experience that the performance of these industries and our performance are impacted by general trends in industrial production for the global economy and by the specific performance of certain vertical markets that are intensive consumers of measurement technologies. Examples of these markets are advanced research, automotive, automated test equipment, commercial aerospace, computers and electronics, consumer electronics, continuous process manufacturing, education, government/defense, medical research/pharmaceutical, power/energy, semiconductors, and telecommunications.

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 61% and 62% of our net sales during the three months ended June 30, 2019 and 2018, respectively, and approximately 61% and 62% of our net sales during the six months ended June 30, 2019 and 2018, 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 net sales will continue to be derived from international sales. (See Note 2 - Revenue of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales).

We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. Our product manufacturing operations can be divided into four areas: electronic circuit card and module assembly; chassis and cable assembly; technical manuals and product support documentation; and software duplication. Most of our electronic circuit card assemblies, modules and chassis are manufactured in house, although contractors are used from time to time. The majority of our electronic cable assemblies are produced by contractors; however, we do manufacture some on an exception basis. Our software duplication, technical manuals and product support documentation are primarily produced by contractors.

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 and where necessary, will likely engage in future litigation to protect our intellectual property rights. In monitoring and policing our intellectual property rights, we have been and may be required to spend significant resources.

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

Current business outlook

Many of the industries we serve have historically been cyclical and have experienced periodic downturns. In assessing our business, we consider the trends in the Global Purchasing Managers' Index ("PMI"), global industrial production as well as industry reports on the specific vertical industries that we target. Historically, our business cycles have generally followed the expansion and contraction cycles in the global industrial economy as measured by the Global PMI. For the three months ended June 30, 2019, the average of the Global PMI was 49.9 and the average of the new order element of the Global PMI was 49.5. A Global PMI of 50.0 is a neutral rating, a number greater than 50.0 is indicative of expansion and a number less than 50.0 is indicative of contraction.

In the past, we have seen deterioration in the industrial economy translate to a negative impact on our net sales. Additionally, we continue to face unexpected headwinds related to increased trade restrictions impacting sales to certain third parties and softening demand for some of our broad-based product offerings and certain applications within the transportation market. These factors could contribute to an adverse effect on the spending patterns of businesses, including our current and potential customers, which could negatively impact our revenues and results of operations. Although we remain cautious about economic uncertainty indicated by these headwinds along with the continued weakening of the PMI, particularly in the Eurozone, we are encouraged by our continuing commitment to disciplined execution of our long-term goals. Additionally, we remain optimistic about our strategic objectives for the company and our long-term position in the industry through the sustained differentiation we deliver to our customers through our platform-based approach.

Since the first quarter of 2017, we have been taking steps to optimize our processes, reduce job duplication, evaluate where we should shift and centralize activities, improve efficiencies, and rebalance our resources on higher return activities. We incurred \$3 million in severance and other restructuring-related charges, net of tax during the three months ended June 30, 2019. The timing and scope of any future headcount reductions will vary.

During the three and six months ended June 30, 2019, we saw continued volatility in the exchange rates between the U.S. dollar and many of the currency markets where we have exposure. This volatility had a material negative impact on our net sales and results of operations for the three and six months ended June 30, 2019. As of the date of this filing, the U.S. dollar index, as tracked by the St. Louis Federal Reserve, remains near its ten-year high. See “Results of Operations” below for additional discussion on the impact of foreign exchange rates on our business for the three and six months ended June 30, 2019. See “Our Revenues are Subject to Seasonal Variations” under “Risk Factors” for additional discussion of potential fluctuations in our net sales.

We have hedging programs in place to help mitigate the risks associated with foreign currency exchange rate fluctuations. However, there can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in the foreign currency markets in which we do business. (See Note 5 – Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for additional details concerning our hedging programs.)

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)	
	2019	2018	2019	2018
Net sales:				
Americas	38.6 %	38.1 %	39.0 %	38.2 %
EMEIA	29.6	32.3	30.7	33.0
APAC	31.8	29.7	30.4	28.8
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	25.1	24.1	24.8	24.0
Gross profit	74.9	75.9	75.2	76.0
Operating expenses:				
Sales and marketing	36.2	37.3	36.9	37.9
Research and development	20.4	19.6	20.8	19.7
General and administrative	8.7	8.2	8.8	8.4
Total operating expenses	65.3	65.1	66.6	66.0
Operating income	9.7	10.8	8.6	10.0
Other income (expense):				
Interest income	0.6	0.4	0.7	0.4
Net foreign exchange loss	(0.5)	(0.6)	(0.2)	(0.2)
Other gain (loss), net	—	(0.3)	—	(0.2)
Income before income taxes	9.8	10.3	9.1	10.0
Provision for income taxes	1.2	1.2	1.1	1.4
Net income	8.6 %	9.1 %	8.0 %	8.5 %

Figures may not sum due to rounding.

Results of Operations for the three and six months ended June 30, 2019 and 2018

Net Sales. The following table sets forth our net sales for the three and six months ended June 30, 2019 and 2018 along with the changes between the corresponding periods.

(In millions)	Three Months Ended June 30, (Unaudited)				Six Months Ended June 30, (Unaudited)			
	2019	2018	Change		2019	2018	Change	
			Dollars	Percentage			Dollars	Percentage
Product sales	\$ 299.8	\$ 306.8	(7.0)	(2)%	\$ 577.5	\$ 587.1	(9.6)	(2)%
Software maintenance sales	34.4	34.2	0.2	1%	67.8	65.8	2.0	3%
Total net sales	\$ 334.2	\$ 341.0	(6.8)	(2)%	\$ 645.3	\$ 652.9	(7.6)	(1)%

Figures may not sum due to rounding.

Orders with a value greater than \$20,000 decreased by 2% year over year during the three months ended June 30, 2019, compared to the year over year increase of 16% in the three months ended June 30, 2018. During the six months ended June 30, 2019, orders with a value greater than \$20,000 increased by 1% year over year compared to the year over year increase of 11% in the six months ended June 30, 2018.

The slight decrease in our net sales was primarily related to the impact of changes in foreign currency exchange rates and softening demand for some of our broad-based product offerings and certain applications within the transportation market. Additionally, although orders with a value greater than \$20,000 were relatively flat during the first six months of 2019, we continued to experience increased adoption of our semiconductor development and test applications.

During the three months ended June 30, 2019 and 2018, orders over \$20,000 were 59% and 58% of our total orders, respectively, and for the six months ended June 30, 2019 and 2018, these orders were 59% and 57% of our total orders, respectively. Orders with a value greater than \$20,000, particularly those orders with a value greater than \$100,000, are more volatile, are subject to greater discount variability, and may contract at a faster pace during an economic downturn compared to our other orders.

The following table sets forth our net sales by geographic region for the three and six months ended June 30, 2019 and 2018 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)			
	2019	2018	Change		2019	2018	Change	
			Dollars	Percentage			Dollars	Percentage
Americas	\$128.9	\$ 129.8	(0.9)	(1)%	\$ 251.6	\$ 249.5	2.1	1%
Percentage of total net sales	38.6%	38.1%			39.0%	38.2%		
EMEIA	99.0	\$ 110.0	(11.0)	(10)%	197.8	215.5	(17.6)	(8)%
Percentage of total net sales	29.6%	32.3%			30.7%	33.0%		
APAC	\$ 106.3	\$ 101.2	5.1	5%	195.9	187.9	8.0	4%
Percentage of total net sales	31.8%	29.7%			30.4%	28.8%		

Figures may not sum due to rounding.

We expect sales outside of the Americas to continue to represent a significant portion of our net sales. We intend to continue to expand our international operations by increasing our presence in existing markets, adding a presence in some new geographical markets and continuing 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.), EMEIA, 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, 2018). 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, 2019.

(In millions)	Three Months Ended June 30, 2018 GAAP Net Sales	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Three Months Ended June 30, 2019 GAAP Net Sales
		Dollars	Percentage	Dollars	Percentage	
Americas	\$ 129.8	(0.6)	(0.5)%	(0.3)	(0.2)%	\$ 128.9
EMEIA	\$ 110.0	(7.0)	(6.3)%	(4.0)	(3.7)%	\$ 99.0
APAC	\$ 101.2	8.5	8.4%	(3.4)	(3.4)%	\$ 106.3
Total net sales	\$ 341.0	0.9	0.3%	(7.7)	(2.3)%	\$ 334.2

(In millions)	Six Months Ended June 30, 2018 GAAP Net Sales	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Six Months Ended June 30, 2019 GAAP Net Sales
		Dollars	Percentage	Dollars	Percentage	
Americas	\$ 249.5	2.6	1.0%	(0.6)	(0.2)%	\$ 251.6
EMEIA	\$ 215.5	(10.6)	(4.9)%	(7.0)	(3.3)%	\$ 197.8
APAC	\$ 187.9	13.1	7.0%	(5.1)	(2.7)%	\$ 195.9
Total net sales	\$ 652.9	5.1	0.8%	(12.7)	(2.0)%	\$ 645.3

Figures may not sum due to rounding.

To help protect against changes in U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales, we maintain a foreign currency cash flow hedging program. We hedge portions of our forecasted net sales denominated in foreign currencies with average rate forward contracts. During the three months ended June 30, 2019 and 2018, these hedges had the effect of increasing our net sales by \$2.7 million and decreasing our net sales by \$1.3 million, respectively. During the six months ended June 30, 2019 and 2018, these hedges had the effect of increasing our net sales by \$4.4 million and decreasing our net sales by \$3.9 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 2019 and 2018).

Gross Profit. Our gross profit as a percentage of sales is impacted by many factors including changes in the amount of revenues from our large customers and changes in the foreign currency exchange markets. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle. The following table sets forth our gross profit and gross profit as a percentage of net sales for the three and six months ended June 30, 2019 and 2018 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)	
	2019	2018	2019	2018
Gross Profit	\$250.5	\$258.9	\$485.5	\$496.2
% change compared with prior period	(3.2)%		(2.2)%	
Gross Profit as a percentage of net sales	74.9%	75.9%	75.2%	76.0%

The decreases in our gross profit and gross profit as a percentage of net sales for the three and six months ended June 30, 2019, compared to the same periods in 2018 are primarily attributable to changes in foreign currency exchange rates. For the three months ended June 30, 2019 and 2018, the change in exchange rates had the effect of decreasing our cost of sales by \$1.6 million and increasing our cost of sales by \$2.0 million, respectively. For the six months ended June 30, 2019 and 2018, the change in exchange rates had the effect of decreasing our cost of sales by \$2.9 million and increasing our cost of sales by \$3.9 million, respectively. 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, 2019 and 2018, these hedges had the effect of increasing our cost of sales by \$0.1 million and decreasing our cost of sales by \$0.3 million, respectively. During the six months ended June 30, 2019 and 2018, these hedges had the effect of increasing our cost of sales by \$0.0 million and decreasing our cost of sales by \$0.6 million, respectively. (See Note 5 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our cost of sales for 2019 and 2018).

We do not typically maintain a large amount of order backlog as orders typically translate to sales quickly. As such, any weakness in orders typically has a pronounced impact on our net sales in the short term.

Operating Expenses. The following table sets forth our operating expenses for the three and six months ended June 30, 2019 and 2018 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)		
	2019	2018	Change	2019	2018	Change
Sales and marketing	\$ 120,868	\$ 127,138	(5)%	\$ 238,419	\$ 247,255	(4)%
Percentage of total net sales	36%	37%		37%	38%	
Research and development	\$ 68,257	\$ 66,908	2%	\$ 134,423	\$ 128,751	4%
Percentage of total net sales	20%	20%		21%	20%	
General and administrative	\$ 29,044	\$ 27,892	4%	\$ 56,927	\$ 55,170	3%
Percentage of total net sales	9%	8%		9%	8%	
Total operating expenses	\$ 218,169	\$ 221,938	(2)%	\$ 429,769	\$ 431,176	—%
Percentage of total net sales	65%	65%		67%	66%	

The year over year decrease in our operating expenses during the three months ended June 30, 2019 was primarily related to the following:

- \$5 million decrease related to the year over year impact of changes in foreign currency exchange rates;
- \$4 million increase due to additional stock-based compensation expense, primarily attributable to comparatively higher share prices on the grant date of unvested RSU awards;
- \$3 million decrease in marketing and outside service costs;
- \$1 million increase in our research and development expenses, primarily attributable to a decrease in our software development costs eligible for capitalization, as described in more detail below.

The year over year decrease in our operating expenses during the six months ended June 30, 2019 was primarily related to the following:

- \$9 million decrease related to the year over year impact of changes in foreign currency exchange rates;
- \$7 million increase due to additional stock-based compensation expense, primarily attributable to comparatively higher share prices on the grant date of unvested RSU awards;
- \$6 million increase in our research and development expenses, primarily attributable to a decrease in our software development costs eligible for capitalization, as described in more detail below;
- \$4 million decrease in personnel costs, primarily attributable to a decrease in variable compensation costs;
- \$1 million decrease in marketing and outside service costs.

In the three months ended June 30, 2019, we capitalized \$2.2 million of software development costs compared to \$3.9 million in the three months ended June 30, 2018. In the second quarter of 2018, we began moving toward more frequent releases for many of our software products. Specifically, for many of our software development projects we started applying agile development methodologies which are characterized by a more dynamic development process with more frequent and iterative revisions to a product release's features and functions as the software is being developed. Due to the shorter development cycle and focus on rapid production associated with agile development, we expect that for a significant majority of our software development projects the costs incurred subsequent to the achievement of technological feasibility will be immaterial in future periods and we expect to record significantly less capitalized software development costs than under our historical software development approaches. Consequently, a larger portion of our software development expenditures have been recognized as operating expenses starting in the second quarter of 2018. We also expect amortization of previously capitalized software development costs will begin to steadily decline as previously capitalized software development costs become fully amortized over the next four years.

We believe that our long-term growth and success depends on developing high quality software and hardware products on a timely basis. We are focused on leveraging recent investments in research and development and in our field sales force and taking actions to help ensure that those resources are concentrated in areas and on initiatives that will contribute to future growth in our business.

Operating Income. For the three months ended June 30, 2019 and 2018, operating income was \$32 million and \$37 million, respectively, a decrease of 13%. As a percentage of net sales, operating income was 9.7% and 10.8% for the three months ended June 30, 2019 and 2018, respectively. For the six months ended June 30, 2019 and 2018, operating income was \$56 million and \$65 million, respectively, a decrease of 14%. As a percentage of net sales, operating income was 8.6% and 10.0% for the six months ended June 30, 2019 and 2018, respectively. The decreases in operating income in absolute dollars for the three months ended June 30, 2019, compared to the three months ended June 30, 2018, and for the six months ended June 30, 2019, compared to the six months ended June 30, 2018, are attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Interest Income. For the three months ended June 30, 2019 and 2018, interest income was \$2.0 million and \$1.3 million, respectively. For the six months ended June 30, 2019 and 2018, interest income was \$4.3 million and \$2.3 million, respectively. Recently we have seen moderate declines to the yields for high quality investment alternatives that comply with our corporate investment policy which could negatively impact the amount of interest income from our investment portfolio for the remainder of 2019.

Net Foreign Exchange Loss. For the three months ended June 30, 2019 and 2018, net foreign exchange loss was \$(1.6) million and \$(2.1) million, respectively. During the six months ended June 30, 2019 and 2018, net foreign exchange loss was \$(1.2) million and \$(1.1) million, respectively. These results are attributable to movements in the foreign currency exchange rates between the U.S. dollar and foreign currencies in subsidiaries for which our functional currency is not the U.S. dollar. During the first half of 2019, we saw continued volatility in the exchange rates between the U.S. dollar and many of the currency markets where we have exposure. In the past, we have noted that volatility in the foreign currency exchange markets in which we do business has had a significant impact on the revaluation of our foreign currency denominated firm commitments, on our ability to forecast our U.S. dollar equivalent net sales and expenses and on the effectiveness of our hedging programs. We cannot predict to what degree foreign currency markets will fluctuate in the future. In the past, these dynamics have also adversely affected our net sales growth in international markets and may pose similar challenges in the future. We recognize the local currency as the functional currency in virtually all of our international subsidiaries. See “Results of Operations - Net Sales” above for additional discussion on the impact of foreign exchange rates on our net sales of operations for the three and six months ended June 30, 2019.

We utilize foreign currency forward contracts to hedge our foreign denominated net foreign currency balance sheet positions to help protect against the change in value caused by a fluctuation in foreign currency exchange rates. We typically hedge up to 90% of our outstanding foreign denominated net receivable or payable positions and typically limit the duration of these foreign currency forward contracts to approximately 90 days. The gain or loss on these derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in current earnings under the line item “Net foreign exchange loss.” Our hedging strategy increased our foreign exchange loss by \$(0.1) million and decreased our foreign exchange loss by \$1.6 million in the three months ended June 30, 2019 and June 30, 2018, respectively. Our hedging strategy increased our foreign exchange loss by \$(0.4) million and increased our foreign exchange loss by \$(0.2) million in the six months ended June 30, 2019 and 2018, respectively. (See Note 5 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for a further description of our derivative instruments and hedging activities).

Provision for Income Taxes. For the three months ended June 30, 2019 and 2018, our provision for income taxes reflected an effective tax rate of 3% and 11%, respectively. For the six months ended June 30, 2019 and 2018, our provision for income taxes reflected an effective tax rate of 2% and 14%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	Three Months Ended June 30, 2019 (Unaudited)	Six Months Ended June 30, 2019 (Unaudited)
Effective tax rate at June 30, 2018	11 %	14 %
Foreign taxes greater (less) than federal statutory rate	3 %	2 %
Global intangible low-taxed income inclusion	(1)%	(1)%
Change in unrecognized tax benefits	— %	(4)%
Employee share-based compensation	(1)%	— %
Research and development tax credit	(1)%	(1)%
State income taxes, net of federal benefit	1 %	1 %
Enhanced deduction for certain research and development	1 %	1 %
Effective tax rate at June 30, 2019	13 %	12 %

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 stock-based compensation, amortization of acquisition related intangibles, acquisition related transaction costs, restructuring charges, capitalization and amortization of internally developed software costs, and other items that were recorded in the line items indicated below (in thousands).

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2019	2018	2019	2018
Stock-based compensation				
Cost of sales	\$ 890	\$ 846	\$ 1,683	\$ 1,571
Sales and marketing	5,140	3,617	9,515	6,956
Research and development	4,379	3,255	7,929	5,773
General and administrative	3,219	2,013	5,535	3,636
Provision for income taxes	(3,940)	(2,955)	(5,776)	(4,663)
Total	\$ 9,688	\$ 6,776	\$ 18,886	\$ 13,273
Amortization of acquisition-related intangibles				
Cost of sales	\$ 841	\$ 846	\$ 1,692	\$ 1,747
Sales and marketing	494	533	993	1,070
Research and development	28	28	56	56
Other income, net	162	—	162	—
Provision for income taxes	(192)	(178)	(386)	(370)
Total	\$ 1,333	\$ 1,229	\$ 2,517	\$ 2,503
Acquisition transaction costs, restructuring charges, and other				
Cost of sales	\$ —	\$ —	\$ —	\$ 29
Sales and marketing	3,153	3,033	5,296	4,678
Research and development	311	893	656	1,103
General and administrative	616	553	1,528	1,165
Other (income) loss, net	—	709	—	709
Provision for income taxes	(1,010)	(1,630)	(1,850)	(2,183)
Total	\$ 3,070	\$ 3,558	\$ 5,630	\$ 5,501
Capitalization and amortization of internally developed software costs				
Cost of sales	\$ 6,537	\$ 6,494	\$ 13,119	\$ 12,324
Research and development	(2,218)	(3,676)	(4,497)	(11,343)
Provision for income taxes	(907)	(592)	(1,811)	(206)
Total	\$ 3,412	\$ 2,226	\$ 6,811	\$ 775

Liquidity and Capital Resources

Overview

At June 30, 2019, we had \$440 million in cash, cash equivalents and short-term investments. Our cash and cash equivalent balances are held in numerous financial institutions throughout the world, including substantial amounts held outside of the U.S., however, all of our short-term investments that are located outside of the U.S. are denominated in the U.S. dollar with the exception of \$5 million U.S. dollar equivalent of corporate bonds that are denominated in Euro. The following table presents the geographic distribution of our cash, cash equivalents, and short-term investments as of June 30, 2019 (in millions):

	<u>Domestic</u>	<u>International</u>	<u>Total</u>
Cash and cash equivalents	\$42.9	\$148.9	\$191.8
	22%	78%	
Short-term investments	\$198.7	\$49.2	\$247.9
	80%	20%	
Total cash, cash equivalents and short-term investments	\$241.6	\$198.1	\$439.7
	55%	45%	

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

(In thousands)	<u>June 30, 2019</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2018</u>	<u>Increase/</u> <u>(Decrease)</u>
Working capital	\$ 649,807	\$ 739,236	\$ (89,429)
Cash and cash equivalents ⁽¹⁾	191,761	259,386	(67,625)
Short-term investments ⁽¹⁾	247,892	271,396	(23,504)
Total cash, cash equivalents and short-term investments	\$ 439,653	\$ 530,782	\$ (91,129)

(1) Included in working capital

Our principal sources of liquidity include cash, cash equivalents, and marketable securities, as well as the cash flows generated from our operations.

The primary driver of the net decrease in working capital between December 31, 2018 and June 30, 2019 was the \$91 million decrease in total cash, cash equivalents, and short-term investments. Additionally, other changes in working capital were related to:

- "Accounts receivable, net" decreased by \$20 million. Days sales outstanding ("DSO") was relatively flat at 65 days at June 30, 2019, and December 31, 2018. The decrease in accounts receivable is primarily related to seasonal variations in our quarterly net sales.
- Inventory increased by \$13 million to \$207 million at June 30, 2019, from \$194 million at December 31, 2018. Inventory turns were 1.6 and 1.8 at June 30, 2019 and December 31, 2018, respectively. The increase in inventory was primarily attributable to an increase in raw materials due to increased lead times and higher global demand for certain electronic components.
- Prepaid expenses and other current assets increased by \$12 million which was primarily related to an increase in prepaid freight costs in addition to the timing of insurance and maintenance renewals.
- Accrued compensation decreased by \$6 million which can be attributed to a decrease in payments expected under our company profit sharing and bonus plans.
- Accounts payable increased by \$7 million, primarily due to the timing of payments for services.
- Accrued expenses and other liabilities decreased by \$13 million due to the timing and amount of tax related payments.

- Operating lease liabilities, current, increased by \$16 million which was entirely related to the adoption of the new leasing standard on January 1, 2019, as discussed in Note 1 - Basis of presentation and Note 8 - Leases.
- Other taxes payable decreased by \$2 million 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, 2019 and 2018.

(In thousands)	Six Months Ended June 30, (unaudited)	
	2019	2018
Cash provided by operating activities	\$ 88,637	\$ 98,852
Cash used in investing activities	(15,485)	(124,685)
Cash used in financing activities	(140,797)	(43,953)
Effect of exchange rate changes on cash	20	(2,759)
Net change in cash and cash equivalents	(67,625)	(72,545)
Cash and cash equivalents at beginning of year	259,386	290,164
Cash and cash equivalents at end of period	\$ 191,761	\$ 217,619

Operating Activities Cash provided by operating activities for the six months ended June 30, 2019 decreased by \$10 million compared to the same period in 2018. This decrease was primarily due to a \$15 million decrease in operating assets and liabilities, which was partially offset due to a \$7 million increase in stock-based compensation.

Investing Activities Cash used for investing activities for the six months ended June 30, 2019 decreased by \$109 million compared to the same period in 2018. This was primarily attributable to a net sale of short-term investments of \$25 million compared to a net purchase of short-term investments of \$90 million during the same period in 2018. Investing cash outflows related to capitalized software development decreased by \$7 million compared to the same period in 2018 due to a decrease in development costs eligible for capitalization related to a recent shift for several of our software projects to a more iterative software development cycle. Due to this change in how we develop these software products, we expect the portion of software development expenditures that will be recognized as research and development expenses when incurred, and consequently, classified as operating cash flows, to increase in future periods.

Financing Activities Cash used by financing activities increased by \$97 million for the six months ended June 30, 2019 compared to the same period in 2018. This was primarily related to an increase of \$92 million in cash outflows used to repurchase 2,149,598 shares of our common stock and a \$5 million increase in cash outflows related to the increase in our quarterly dividend offset by a \$1 million increase in proceeds from issuance of our common stock under our employee stock purchase plan.

Contractual Cash Obligations. Information related to our contractual obligations as of December 31, 2018 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations,” in Part II-Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on February 21, 2019 (the “2018 Form 10-K”). At June 30, 2019, there were no material changes outside the ordinary course of business to our contractual obligations from those reported in our 2018 Form 10-K. See Note 8 - Leases for additional information regarding our non-cancellable operating lease obligations as of June 30, 2019.

Loan Agreement. As amended through April 27, 2018, the Loan Agreement provides for (i) a revolving line of credit of \$5.0 million, (ii) a letter of credit sublimit under the line of credit of \$5.0 million, and (iii) requires us and our subsidiaries to comply with certain of the affirmative and negative covenants under the Loan Agreement only if loans are outstanding under the Loan Agreement or if we have not reimbursed any drawing under a letter of credit issued under the Loan Agreement within five business days following the request of the Lender. Proceeds of loans made under the Loan Agreement may be used for working capital and other general corporate purposes. We may prepay the loans under the Loan Agreement in whole or in part at any time without premium or penalty. Certain of our existing and future material domestic subsidiaries are required to guaranty our obligations under the Loan Agreement. (See Note 13 – Debt of Notes to Consolidated Financial Statements for additional details on our revolving line of credit).

Off-Balance Sheet Arrangements. We do not have any off-balance sheet debt. At June 30, 2019, 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 as well as from the purchase of common stock through our employee stock purchase plan, 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. On June 25, 2019, we entered into an agreement to sell our 136,000 square foot office building and property located in Austin, TX. The expected proceeds from the sale are \$33.6 million. The transaction is expected to close in the third quarter of 2019. Additionally, the enactment of the Tax Cuts and Jobs Act allows us to repatriate our foreign cash for domestic needs without additional taxation. We may also seek to pursue additional financing or to raise additional funds by seeking an increase in our unsecured revolving line of credit under our Loan Agreement or selling equity or debt to the public or in private transactions from time to time. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of our existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock.

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

- payment of dividends to our stockholders;
- repurchases of our common stock;
- 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;
- 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 level of stock purchases under 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 2018 Form 10-K and there were no material changes during these six months ended June 30, 2019 to this information reported in our 2018 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of June 30, 2019, 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

Effective January 1, 2019, we adopted ASU 2016-02, Leases and all of the related amendments. Although the new lease standard is not expected to have a material impact on our operating results on an ongoing basis, we did implement changes to our processes related to lease control activities, including information systems. These included the development of new policies based on identifying leases, determining lease commencement, calculating the present value of leases, determining the incremental borrowing rate and gathering information for required disclosures. There were no other changes in our internal control over financial reporting during the second quarter of 2019, 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

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed below. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results.

Uncertain Global Economic Conditions Could Materially Adversely Affect Our Business and Results of Operations. Our operations and performance are sensitive to fluctuations in general economic 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 the impending Brexit, continued trade tensions and restrictions between the U.S. and other parts of the world, financial market volatility, tariffs or other trade restrictions, government austerity programs, government regulatory actions, negative financial news, geopolitical instability, declines in income or asset values, 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. Even if resolved, this 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. 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.

We are Subject to Various Risks Associated with International Operations and Foreign Economies. Our international sales are subject to inherent risks, including, but not limited to:

- fluctuations in foreign currencies relative to the U.S. dollar;
- unexpected changes to currency policy or currency restrictions in foreign jurisdictions;
- delays in collecting trade receivable balances from customers in developing economies;
- tariffs and other trade barriers;
- unexpected changes in regulatory requirements;
- fluctuations in local economies;
- disparate and changing employment laws in foreign jurisdictions;
- difficulties in staffing and managing foreign operations;
- costs and risks of localizing products for foreign countries;
- government actions throughout the world; and
- the burdens of complying with a wide variety of foreign laws.

Moreover, there can be no assurance that our international sales will continue at existing levels or grow in accordance with our efforts to increase foreign market penetration.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the Foreign Corrupt Practices Act. Although we have policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, including those based in or from countries where practices which violate such U.S. laws may be customary, will not take actions in violation of our policies. Any violation of foreign or U.S. laws by our employees, contractors or agents, even if such violation is prohibited by our policies, could have a material adverse effect on our business. We must also comply with various import and export regulations. The application of these various regulations depends on the classification of our products which can change over time as such regulations are modified or interpreted. As a result, even if we are currently in compliance with applicable regulations, there can be no assurance that we will not have to incur additional costs or take additional compliance actions in the future. Failure to comply with these regulations could result in fines or termination of import and export privileges, which could have a material adverse effect on our operating results. Additionally, the regulatory environment in some countries is very restrictive as their governments try to protect their local economy and value of their local currency against the U.S. dollar.

We Make Significant Investments in New Products that May Not Be Successful or Achieve Expected Returns. We plan to continue to make significant investments in research, development, and marketing for new and existing products and technologies. We have made and expect to make significant investments in software development related to the new and enhanced features of our products. These investments involve a number of risks as the commercial success of such efforts depend on many factors, including our ability to anticipate and respond to innovation, achieve the desired technological fit, and be effective with our marketing and distribution efforts. If our existing or potential customers do not perceive our latest product offerings as providing significant new functionality or value, or if we are late to market with a new product or technology, we may not achieve our expected return on our investments or be able recover the costs expended to develop new product offerings, which could have a material adverse effect on our operating results. Even if our new products are profitable, our operating margins for new products may not be as high as the margins we have experienced historically.

Our Success Depends on New Product Introductions and Market Acceptance of Our Products. The market for our products is characterized by rapid technological change, evolving industry standards, changes in customer needs and frequent new product introductions, and is therefore highly dependent upon timely product innovation. Our success is dependent on our ability to successfully develop and introduce new and enhanced products on a timely basis to replace declining revenues from older products, and on increasing penetration in domestic and international markets. As has occurred in the past and as may be expected to occur in the future, we have experienced significant delays between the announcement and the commercial availability of new products. Any significant delay in releasing new products could have a material adverse effect on the ultimate success of a product and other related products and could impede continued sales of predecessor products, any of which could have a material adverse effect on our operating results. There can be no assurance that we will be able to introduce new products in accordance with announced release dates, that our new products will achieve market acceptance or that any such acceptance will be sustained for any significant period. Failure of our new products to achieve or sustain market acceptance could have a material adverse effect on our operating results.

Our Reported Financial Results May be Adversely Affected by Changes in Accounting Principles Generally Accepted in the U.S. We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the FASB and the Securities and Exchange Commission. Generally accepted accounting principles and accompanying accounting pronouncements, implementation guidelines and interpretations for many aspects of our business, such as revenue recognition, software capitalization, and income tax uncertainties, are complex and involve subjective judgments by management. A change in these policies or interpretations could have a significant effect on our reported financial results and our internal controls over financial reporting, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes and accounting systems. For example, in February 2016, the FASB issued ASU 2016-02, Leases, as amended, supersedes nearly all existing U.S. GAAP lease guidance and which became effective for us for our fiscal year beginning January 1, 2019. (See Note 1 - Basis of presentation and Note 8 - Leases for additional discussion of the accounting changes).

Our Manufacturing Capacity, and a Substantial Majority of our Warehousing and Distribution Capacity is Located Outside of the U.S. We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. In order to enable timely shipment of products to our customers we maintain the substantial majority of our inventory at our international locations. In addition to being subject to the risks of maintaining such a concentration of manufacturing capacity and global inventory, these facilities and their operations are also subject to risks associated with doing business internationally, including, but not limited to:

- the volatility of the Hungarian forint and the Malaysian ringgit relative to the U.S. dollar;
- changing and potentially unstable political environments;
- significant and frequent changes in corporate tax laws;
- difficulty in managing manufacturing operations in foreign countries;
- challenges in expanding capacity to meet increased demand;
- difficulty in achieving or maintaining product quality;
- interruption to transportation flows for delivery of components to us and finished goods to our customers;
- restrictive labor codes; and
- increasing labor costs.

No assurance can be given that our efforts to mitigate these risks will be successful. Any failure to effectively deal with the risks above could result in an interruption in the operations of our facilities in Hungary or Malaysia which could have a material adverse effect on our operating results.

Our centralization of inventory and distribution from a limited number of shipping points is subject to inherent risks, including:

- burdens of complying with additional or more complex VAT and customs regulations; and
- concentration of inventory increasing the risks associated with fire, natural disasters and logistics disruptions to customer order fulfillment.

Any failure or delay in distribution from our facilities in Hungary and Malaysia could have a material adverse effect on our operating results.

Our Financial Performance is Subject to Risks Associated with Changes in the Value of the U.S. Dollar versus Local Currencies. The vast majority of our sales outside of the U.S. are denominated in local currencies, and accordingly, the U.S. dollar equivalent of these sales is affected by changes in the foreign currency exchange rates. If the local currencies in which we sell our products strengthen against the U.S. dollar, we have in the past, and in the future may need to, lower our prices in the local currency to remain competitive in our international markets. This could have a material adverse effect on our gross and net profit margins. If the local currencies in which we sell our products weaken against the U.S. dollar and if the local sales prices cannot be raised due to competitive pressures, we will experience a deterioration of our gross and net profit margins. In the past, we have noted that significant volatility in foreign currency exchange rates in the markets in which we do business has had a significant impact on the revaluation of our foreign currency denominated firm commitments, on our ability to forecast our U.S. dollar equivalent net sales and expenses and on the effectiveness of our hedging programs. In the past, these dynamics have also adversely affected our net sales growth in international markets and may pose similar challenges in the future. See “Results of Operations” in this Form 10-Q for further discussion on the effect that changes in the foreign currency exchange rates have had on our operating results. See “Current business outlook” in this Form 10-Q for information regarding recent business conditions.

Orders with a Value of Greater than One Million Dollars Expose Us to Significant Additional Business and Legal Risks that Could Have a Material Adverse Impact on our Business, Results of Operations and Financial Condition. We continue to make a concentrated effort to increase our net sales through the pursuit of orders with a value greater than \$1.0 million. These types of orders expose us to significant additional business and legal risks compared to smaller orders. Our very large customers frequently require contract terms that vary substantially from our standard terms of sale. At times these orders include terms that impose critical delivery commitments and severe contractual liabilities if we fail to provide the required quantity of products at the required delivery times, impose product acceptance requirements and product performance evaluation requirements which create uncertainty with respect to the timing of our ability to recognize revenue from such orders, allow the customers to cancel or delay orders without liability, require us to develop specific product mitigation plans for product delivery constraints caused by unexpected or catastrophic situations to help assure quick production recovery, and that require most favored customer pricing, significant discounts, extended payment terms and volume rebates. At times these customers require broad indemnity obligations and large direct and consequential damage provisions in the event we breach our contracts with them. At times these contracts have supply constraint requirements which mandate that we allocate large product inventories for a specific contract. These inventory requirements expose us to higher risks of inventory obsolescence and can adversely impact our ability to provide adequate product supply to other customers.

While we attempt to limit the number of contracts that contain the non-standard terms of sale described above and attempt to contractually limit our potential liability under such contracts, we have been, and expect to be, required to agree to some or all of such provisions to secure orders from very large customers and to continue to grow our business. These arrangements expose us to significant additional legal and operational risks which could result in a material adverse impact on our business, results of operations and financial condition. In addition, these larger orders are more volatile, are subject to greater discount variability and may contract at a faster pace during an economic downturn. We attempt to manage these risks but there can be no assurance that we will be successful in our efforts.

Revenue Derived from Systems Orders Could Adversely Affect our Gross Margin and Could Lead to Greater Variability in our Quarterly Results. We consider orders with a value greater than \$20,000 as being indicative of our systems business. These orders have been and may continue to be more sensitive to changes in the global industrial economy, subject to greater discount variability and such orders may be pushed-out or reduced at a faster pace during an economic downturn compared to orders valued at less than \$20,000. To the extent that the amount of our net sales derived from systems orders increases in future periods, either in absolute dollars or as a percentage of our overall business, our gross margins could decline, and we could experience greater volatility and see a greater negative impact from future downturns in the global industrial economy. Large orders may also have an impact on the historical seasonal pattern of our net sales and our results of operations. Large orders make managing inventory levels more difficult as we have in the past and may have to in the future build large quantities of inventory in anticipation of future demand that may not materialize.

Our Product Revenues are Dependent on Certain Industries and Contractions in these Industries Could Have a Material Adverse Effect on Our Results of Operations. Sales of our products are dependent on customers in certain industries, particularly the telecommunications, semiconductor, consumer electronics, automotive, energy, automated test equipment, and aerospace, defense and government. As we have experienced in the past, and as we may continue to experience in the future, downturns characterized by diminished product demand in any one or more of these industries may result in decreased sales and a material adverse effect on our operating results. We cannot predict when and to what degree contractions in these industries may occur; however, any sharp or prolonged contraction in one or more of these industries could have a material adverse effect on our business and results of operations.

Our Realignment Activities May be Disruptive to Our Operations and Negatively Impact Our Results of Operations. We are currently implementing changes within our organization designed to enhance our ability to pursue market opportunities, accelerate our technology development initiatives, and improve operational efficiencies. Specifically, we are in the process of aligning certain aspects of our operations with our strategic focus on industry-specific applications where we believe our product platform can add the most value to our customers. In the short-term, these actions may lead to business disruptions, decreased productivity and unanticipated employee turnover which may have an adverse impact on our business and results of operations.

Concentrations of Credit Risk and Uncertain Conditions in the Global Financial Markets May Adversely Affect Our Business and Results of Operations.

By virtue of our holdings of cash, investment securities and foreign currency derivatives, we have exposure to many different counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks and investment banks. Many of these transactions expose us to credit risk in the event of a default of our counterparties. We continue to monitor the stability of the financial markets, particularly those in the emerging markets. We can give no assurance that we will not be negatively impacted by any adverse outcomes in those markets. There can be no assurance that any losses or impairments to the carrying value of our financial assets as a result of defaults by our counterparties would not materially and adversely affect our business, financial position and results of operations.

We Have Established a Budget and Variations from Our Budget Will Affect Our Financial Results. We have established an operating budget for fiscal 2019. Our budget was established based on the estimated revenue from sales of our products which are based on anticipated economic conditions in the markets in which we do business as well as the timing and volume of our new products and the expected penetration of both new and existing products in the marketplace. If demand for our products during the remainder of 2019 is less than the demand we anticipated in setting our fiscal year budget, our operating results could be negatively impacted.

If we exceed our budgeted level of expenses or if we cannot reduce expenditures in response to a decrease in net sales, our operating results could be adversely affected. Our spending could exceed our budget due to a number of factors, including, but not limited to:

- continued foreign currency fluctuations;
- increased manufacturing costs resulting from component supply shortages or component price fluctuations;
- additional marketing costs for new product introductions or for conferences and tradeshows;
- the timing, cost or outcome of any future intellectual property litigation or commercial disputes;
- unanticipated costs related to acquisitions we may make; or
- increased component costs resulting from vendors increasing their sales prices.

We Operate in Intensely Competitive Markets. The markets in which we operate are characterized by intense competition from numerous competitors, some of which have larger market capitalization and resources than we do, and we may face further competition from new market entrants in the future. Key competitors are Advantest, Anritsu, Fortive, Keysight, Rohde & Schwarz, Teradyne, and others. These competitors offer hardware and software products that provide solutions that directly compete with our software defined automated test and automated measurement systems. Because these companies have strong positions in the instrumentation business, new product introductions by them, changes in their marketing strategy or product offerings or aggressive pricing strategies by them to gain market share could have a material adverse effect on our operating results.

We believe our ability to compete successfully depends on a number of factors both within and outside our control, including, but not limited to:

- general market and economic conditions;
- our ability to maintain and grow our business with our very large customers;
- our ability to meet the volume and service requirements of our large customers;
- success in developing and selling new products;
- industry consolidation, including acquisitions by us or our competitors;
- capacity utilization and the efficiency of manufacturing operations;
- timing of our new product introductions;
- new product introductions by competitors;
- product pricing, including the impact of currency exchange rates;
- the ability of competitors to more fully leverage low cost geographies for manufacturing or distribution;
- effectiveness of sales and marketing resources and strategies;
- adequate manufacturing capacity and supply of components and materials;
- strategic relationships with our suppliers;
- product quality and performance;
- protection of our products by effective use of intellectual property laws;
- the financial strength of our competitors;
- the outcome of any future litigation or commercial dispute;
- barriers to entry imposed by competitors with significant market power in new markets; and,
- government actions throughout the world.

There can be no assurance that we will be able to compete successfully in the future.

Our Quarterly Results are Subject to Fluctuations Due to Various Factors that May Adversely Affect Our Business and Results of Operations. Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a number of factors, including, but not limited to:

- tariffs and trade restrictions imposed by the U.S. or other countries;
- fluctuations in foreign currency exchange rates;
- changes in global economic conditions;
- changes in the amount of revenue derived from very large orders (including orders from our very large customers) and the pricing, margins, and other terms of such orders;
- changes in the capacity utilization including at our facility in Malaysia;
- changes in the mix of products sold;
- the availability and pricing of components from third parties (especially limited sources);
- the difficulty in maintaining margins, including the higher margins traditionally achieved in international sales;
- changes in pricing policies by us, our competitors or suppliers;
- the timing, cost or outcome of any future intellectual property litigation or commercial disputes;
- delays in product shipments caused by human error or other factors;
- or,
- disruptions in transportation channels.

Our Revenues are Subject to Seasonal Variations. In previous years, our revenues have been characterized by seasonality, with revenues typically growing from the first quarter to the second quarter, being relatively constant from the second quarter to the third quarter, growing in the fourth quarter compared to the third quarter and declining in the first quarter of the following year from the fourth quarter of the preceding year. This historical trend has been affected and may continue to be affected in the future by broad fluctuations in the global industrial economy as well as the timing of new product introductions or any acquisitions. In addition, revenue derived from very large orders, including those from our very large customers, have had a significant impact on our historical seasonal trends as these orders may be more sensitive to changes in the global industrial economy, may be subject to greater volatility in timing and amount, greater discount variability, lower gross margins, and may contract at a faster pace during economic downturns.

Our Tax Returns and Other Tax Matters are Subject to Examination by the U.S. Internal Revenue Service and Other Tax Authorities and Governmental Bodies and the Results of These Examinations Could Have a Material Adverse Effect on Our Financial Condition. 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. These uncertain tax positions are subject to examination by the U.S. Internal Revenue Service and other tax authorities. There can be no assurance as to the outcome of any future examinations. If the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our operating results, cash flows, and financial condition could be materially adversely affected. Our tax years 2012 through 2019 remain open to examination by the major taxing jurisdictions to which we are subject.

Our Acquisitions are Subject to a Number of Related Costs and Challenges that Could Have a Material Adverse Effect on Our Business and Results of Operations. In recent years, we have completed several acquisitions. Achieving the anticipated benefits of an acquisition depends upon whether the integration of the acquired business, products or technology is accomplished efficiently and effectively. In addition, successful acquisitions generally require, among other things, integration of product offerings, manufacturing operations and coordination of sales and marketing and research and development efforts. These difficulties can become more challenging due to the need to coordinate geographically separated organizations, the complexities of the technologies being integrated, and the necessities of integrating personnel with disparate business backgrounds and combining different corporate cultures. The integration of operations following an acquisition also requires the dedication of management resources, which may distract attention from our day-to-day business and may disrupt key research and development, marketing or sales efforts. Our inability to successfully integrate any of our acquisitions could harm our business. The existing products previously sold by entities we have acquired may be of a lesser quality than our products or could contain errors that produce incorrect results on which users rely or cause failure or interruption of systems or processes that could subject us to liability claims that could have a material adverse effect on our operating results or financial position. Furthermore, products acquired in connection with acquisitions may not gain acceptance in our markets, and we may not achieve the anticipated or desired benefits of such transactions.

Tax Law Changes in Hungary Could Have a Negative Impact on our Effective Tax Rate, Earnings and Results of Operations. The profit from our Hungarian operations benefits from the fact that it is subject to an effective income tax rate that is lower than the U.S. federal statutory tax rate. Our earnings in Hungary are subject to a statutory tax rate of 9%. In addition, effective January 1, 2010, certain qualified research and development expenses in Hungary became eligible for an enhanced tax deduction. These tax benefits may not be available in future years due to changes in political conditions in Hungary or changes in tax laws in Hungary or in the U.S. The reduction or elimination of these benefits in Hungary could result in an increase in our future effective income tax rate which could have a material adverse effect on our operating results. (See Note 9 - Income taxes of Notes to Consolidated Financial Statements for additional discussion regarding the impact of these matters on our income taxes).

Our Income Tax Rate Could be Adversely Affected by the Expiration of a Tax Holiday in Malaysia. Profits from our manufacturing facility in Penang, Malaysia are free of tax under a 15-year tax holiday effective January 1, 2013. If we fail to satisfy the conditions of the tax holiday, this tax benefit may be terminated early. The expiration of the tax holiday in Malaysia could have a material adverse effect on our operating results. (See Note 9 - Income taxes of Notes to Consolidated Financial Statements for additional discussion regarding the impact of this tax holiday on our income taxes).

Our Business is Dependent on Key Suppliers and Distributors and Disruptions in these Businesses Could Adversely Affect Our Business and Results of Operations. Our manufacturing processes use large volumes of high-quality components and subassemblies supplied by outside sources. Several of these items are only available through limited sources. Limited source items purchased include custom application-specific integrated circuits, chassis and other components. We have in the past experienced delays and quality problems in connection with limited source items, and there can be no assurance that these problems will not recur in the future. Accordingly, our failure to receive items from limited source item suppliers could result in a material adverse effect on our net sales and operating results. In the event that any of our limited source suppliers experience significant financial or operational difficulties due to adverse global economic conditions or otherwise, our business and operating results would likely be adversely impacted until we are able to secure another source for the required materials.

In some countries, we use distributors to support our sales channels. In the event that any of our distributors experience significant financial or operational difficulties due to adverse global economic conditions or if we experience disruptions in the use of these distributors, our business and operating results would likely be adversely impacted until we are able to secure another distributor or establish direct sales capabilities in the affected market.

We May Experience Component Shortages that May Adversely Affect Our Business and Result of Operations. As has occurred in the past and as may be expected to occur in the future, supply shortages of components used in our products, including limited source components, can result in significant additional costs and inefficiencies in manufacturing. If we are unsuccessful in resolving any such component shortages in a timely manner, we will experience a significant impact on the timing of revenue, a possible loss of revenue, or an increase in manufacturing costs, any of which would have a material adverse impact on our operating results.

We Rely on Management Information Systems and Interruptions in our Information Technology Systems or Cyber-Attacks on our Systems Could Adversely Affect Our Business. We rely on the efficient and uninterrupted operation of complex information technology systems and networks, including cloud-based and other outsourced services, to operate our business. We rely on a primary global center for our management information systems and on multiple systems in branches not covered by our global center. As with any information system, unforeseen issues may arise that could affect our ability to receive adequate, accurate and timely financial information, which in turn could inhibit effective and timely decisions. Furthermore, it is possible that our global center for information systems or our branch operations could experience a complete or partial shutdown. A significant system or network disruption could be the result of new system implementations, facility issues, energy blackouts, and computer viruses, cyber-attacks, or security breaches, some of which may remain undetected for an extended period. Threats to our information technology security can take a variety of forms and individuals or groups of hackers or sophisticated organizations including state-sponsored organizations, may take steps that pose threats to our customers and our infrastructure. If we were to experience a shutdown, disruption or attack, it would adversely impact our product shipments and net sales, as order processing and product distribution are heavily dependent on our management information systems. Such an interruption could also result in a loss of our intellectual property or the release of sensitive competitive information or partner, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by the disruptions or security breaches. In addition, changing laws and regulations governing our responsibility to safeguard private data could result in a significant increase in operating or capital expenditures needed to comply with these new laws or regulations. Accordingly, our operating results in such periods would be adversely impacted. From time to time, we have experienced attempts to breach our security and attempts to introduce malicious software into our information technology systems; however, such attacks have not previously resulted in any material damage to us.

We are continually working to maintain reliable systems to control costs and improve our ability to deliver our products in our markets worldwide. Our efforts include, but are not limited to the following: firewalls, antivirus protection, patches, log monitors, routine backups with offsite retention of storage media, system audits, data partitioning and routine password modifications. Our internal information technology systems environment continues to evolve and our business policies and internal security controls may not keep pace as new threats emerge. No assurance can be given that our efforts to continue to enhance our systems will be successful. Although we maintain insurance, there can be no assurance that such insurance or the contractual limitations used by us to limit our liability will be sufficient to cover or limit any claims which may occur.

We are Subject to Risks Associated with Our Website. We devote significant resources to maintaining our website, ni.com, as a key marketing, sales and support tool and expect to continue to do so in the future. Failure to properly maintain our website may interrupt our normal operations, including our ability to provide quotes, process orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations and otherwise run our business, which would have a material adverse effect on our results of operations. We host our website internally. Any failure to successfully maintain our website or any significant downtime or outages affecting our website could have a material adverse impact on our operating results.

Our Products are Complex and May Contain Bugs, Vulnerabilities, Errors, or Design Flaws. As has occurred in the past and as may be expected to occur in the future, our hardware products, software products and third-party components or operating systems on which our products are based may contain bugs, vulnerabilities, errors or design flaws. Our products operate in conjunction with third-party products and components across a broad ecosystem. As has occurred in the past and as may be expected to occur in the future, our products, or products or components in conjunction with which they operate, may contain design flaws. These bugs, vulnerabilities, errors or design flaws, or fixes to these issues, may have a negative impact on the performance of our products, which could result in additional costs, liability claims, reduced revenue, or harm to our reputation or competitive position, any of which could have a material adverse impact on our operating results. Although we maintain insurance, there can be no assurance that such insurance or the contractual limitations used by us to limit our liability will be sufficient to cover or limit any claims which may occur.

We Are Subject to the Risk of Product Liability Claims. Our products are designed to provide information upon which users may rely. Our products are also used in “real time” applications requiring extremely rapid and continuous processing and constant feedback. Such applications give rise to the risk that a failure or interruption of the system or application could result in economic damage, bodily harm or property damage. We attempt to assure the quality and accuracy of the processes contained in our products, and to limit our product liability exposure through contractual limitations on liability, limited warranties, express disclaimers and warnings as well as disclaimers contained in our “shrink wrap” and electronically displayed license agreements with end-users. If our products contain errors that produce incorrect results on which users rely or cause failure or interruption of systems or processes, customer acceptance of our products could be adversely affected. Further, we could be subject to liability claims that could have a material adverse effect on our operating results or financial position. Although we maintain insurance, there can be no assurance that such insurance or the contractual limitations used by us to limit our liability will be sufficient to cover or limit any claims which may occur.

Compliance with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 is Costly and Challenging As required by Section 302 of the Sarbanes-Oxley Act of 2002, this Form 10-Q contains our management’s certification of adequate disclosure controls and procedures as of June 30, 2019. Our most recent annual report on Form 10-K also contains a report by our management on our internal control over financial reporting including an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018 and an attestation and report by our external auditors with respect to the effectiveness of our internal control over financial reporting under Section 404. While these assessments and reports did not reveal any material weaknesses in our internal control over financial reporting, compliance with Sections 302 and 404 is required for each future fiscal year end. We expect that the ongoing compliance with Sections 302 and 404 will continue to be both very costly and very challenging and there can be no assurance that material weaknesses will not be identified in future periods. Any adverse results from such ongoing compliance efforts could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Our Business Depends on Our Proprietary Rights and We Have Been Subject to Intellectual Property Litigation. Our success depends on our ability to obtain and maintain patents and other proprietary rights relative to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may have in the past infringed or violated certain of our intellectual property rights. We from time to time engage in litigation to protect our intellectual property rights. In monitoring and policing our intellectual property rights, we have been and may be required to spend significant resources. We from time to time may be notified that we are infringing certain patent or intellectual property rights of others. There can be no assurance that any future intellectual property dispute or litigation will not result in significant expense, liability, injunction against the sale of some of our products, and a diversion of management's attention, any of which may have a material adverse effect on our operating results.

Our Business Depends on the Continued Service of Our Key Management and Technical Personnel. Our success depends upon the continued contributions of our key management, sales, marketing, research and development and operational personnel including Alex Davern, our Chief Executive Officer, Eric Starkloff, our President and Chief Operating Officer, and other members of our senior management and key technical personnel. Our key employees may voluntarily terminate their employment with us at any time. The loss of the services of one or more of our key employees in the future could have a material adverse effect on our operating results. We also believe our future success will depend upon our ability to attract and retain additional highly skilled management, technical, marketing, research and development, and operational personnel with experience in managing large and rapidly changing companies, as well as training, motivating and supervising employees. The market for hiring and retaining certain technical personnel, including software engineers, has become more competitive and intense in recent years. Failure to attract and retain a sufficient number of qualified technical personnel, including software engineers, or retain our key personnel could have a material adverse effect on our operating results.

Our Operations are Subject to a Variety of Environmental Regulations and Costs that May Have a Material Adverse Effect on Our Business and Results of Operations. We must comply with many different governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our operations in the U.S., Hungary, and Malaysia. Although we believe that our activities conform to presently applicable environmental regulations, our failure to comply with present or future regulations could result in the imposition of fines, suspension of production or a cessation of operations. Any such environmental regulations could require us to acquire costly equipment or to incur other significant expenses to comply with such regulations. Any failure by us to control the use of or adequately restrict the discharge of hazardous substances could subject us to future liabilities.

Provisions in Our Charter Documents and Delaware Law May Delay or Prevent an Acquisition of Us. Our certificate of incorporation, bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include a classified Board of Directors, prohibition of stockholder action by written consent, prohibition of stockholders to call special meetings and the requirement that the holders of at least 80% of our shares approve any business combination not otherwise approved by two-thirds of our Board of Directors. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. In addition, our Board of Directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information as of June 30, 2019 with respect to the shares of our common stock that we repurchased during the second quarter of 2019.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
April 1, 2019 to April 30, 2019	—	—	—	2,964,902
May 1, 2019 to May 31, 2019	1,114,500	41.25	1,114,500	1,850,402
June 1, 2019 to June 30, 2019	—	—	—	1,850,402
Total	1,114,500	\$ 41.25	1,114,500	1,850,402

(1) On January 23, 2019, our Board of Directors amended our repurchase plan approved on April 21, 2010 to increase the aggregate number of shares of common stock that we are authorized to repurchase from 1,134,247 to 4,000,000. At June 30, 2019, there were 1,850,402 shares available for repurchase under such plan. This repurchase program does not have an expiration date.

ITEM 5. OTHER INFORMATION

None.

EXHIBITS

3.1(1)	Certificate of Incorporation, as amended, of the Company.
3.2(2)	Amended and Restated Bylaws of the Company
3.3(3)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company.
4.1(4)	Specimen of Common Stock certificate of the Company.
10.1(4)	Form of Indemnification Agreement.
10.2 (5)	1994 Employee Stock Purchase Plan, as amended.*
10.3(6)	National Instruments Corporation Annual Incentive Program, as amended.*
10.4(7)	2005 Incentive Plan.*
10.5(8)	2005 Form of Restricted Stock Unit Award Agreement (Non-Employee Director).*
10.6(9)	2005 Form of Restricted Stock Unit Award Agreement (Performance Vesting).*
10.7(10)	2005 Form of Restricted Stock Unit Award Agreement (Current Employee).*
10.8(11)	2005 Form of Restricted Stock Unit Award Agreement (Newly Hired Employee).*
10.9(12)	2010 Incentive Plan.*
10.10(13)	2010 Form of Restricted Stock Unit Award Agreement (Non-Employee Director).*
10.11(14)	2010 Form of Restricted Stock Unit Award Agreement (Performance Vesting).*
10.12(15)	2010 Form of Restricted Stock Unit Award Agreement (Current Employee).*
10.13(16)	2010 Form of Restricted Stock Unit Award Agreement (Newly Hired Employee).*
10.14(17)	2010 Form of Restricted Stock Unit Award Agreement (Performance Vesting).*
10.15(18)	RSU Vesting Acceleration Agreement between the Company and Alexander M. Davern, effective as of October 28, 2014.*
10.16(19)	Loan Agreement, dated as of May 9, 2013, by and among National Instruments Corporation, the guarantors from time to time party thereto and Wells Fargo Bank, National Association, as lender.
10.17(20)	2015 Equity Incentive Plan.*
10.18(21)	2015 Form of Restricted Stock Unit Award Agreement (Non-Employee Director).*
10.19(22)	2015 Form of Restricted Stock Unit Award Agreement (Performance Vesting).*
10.20 (23)	2015 Form of Restricted Stock Unit Award Agreement (Current Employee).*
10.21(24)	2015 Form of Restricted Stock Unit Award Agreement (Newly Hired Employee).*
10.22(25)	2015 Form of Restricted Stock Unit Award Agreement (Performance Vesting – Threshold Performance Goal).*
10.23(26)	2015 Form of Restricted Stock Unit Award Agreement (Employee-Time Based Vesting).*
10.24(27)	Performance Cash Incentive Plan.*
10.25(28)	First Amendment to Loan Agreement, dated as of October 29, 2015, by and among National Instruments Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as lender
10.26(29)	RSU Vesting Acceleration Agreement between the Company and Scott A. Rust, effective as of February 26, 2016.*
10.27(30)	Employment Agreement between the Company and Alexander M. Davern, dated August 29, 2016 and effective January 1, 2017.*†
10.28(31)	Offer Letter between the Company and Karen Rapp dated March 22, 2017.*
10.29(32)	Second Amendment to Loan Agreement, dated as of April 27, 2018, by and among National Instruments Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as lender.
10.30(33)	Offer Letter between the Company and Eric H. Starkloff dated October 23, 2018, *†
10.31(34)	Form of Restricted Stock Unit Award Agreement (Time Based and Performance Based).*
10.32(35)	Form of Restricted Stock Unit Award Agreement (Non-Employee Director - One-Year Vesting).*
10.33	Agreement for Purchase and Sale of Real Property between the Company and Bridgepoint Parkway Investors, LLC, dated June 25, 2019, and the Reinstatement and First Amendment to Agreement for Purchase and Sale of Real Property between the Company and Bridgepoint Parkway Investors, LLC, dated July 11, 2019.
31.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[31.2](#) [Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1](#) [Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(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.
(2)	Incorporated by reference to exhibit 3.1 filed with the Company's Form 8-K on January 28, 2019 (File No. 000-25426).
(3)	Incorporated by reference to the same-numbered exhibit filed with the Company's Form 8-A on April 27, 2004 (File No. 000-25426).
(4)	Incorporated by reference to the Company's Form S-1 (Reg. No. 33-88386) declared effective March 13, 1995.
(5)	Incorporated by reference to exhibit B of the Company's Proxy Statement filed on March 30, 2017.
(6)	Incorporated by reference to the same-numbered exhibit filed with the Company's Form 10-K for the fiscal year ended December 31, 2016.
(7)	Incorporated by reference to exhibit A of the Company's Proxy Statement filed on April 4, 2005 (File No. 000-25426).
(8)	Incorporated by reference to exhibit 10.8 filed with the Company's Form 10-Q on August 2, 2006 (File No. 000-25426).
(9)	Incorporated by reference to exhibit 10.9 filed with the Company's Form 10-Q on August 2, 2006 (File No. 000-25426).
(10)	Incorporated by reference to exhibit 10.10 filed with the Company's Form 10-Q on August 2, 2006 (File No. 000-25426).
(11)	Incorporated by reference to exhibit 10.11 filed with the Company's Form 10-Q on August 2, 2006 (File No. 000-25426).
(12)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on May 17, 2010 (File No. 000-25426).
(13)	Incorporated by reference to exhibit 10.2 filed with the Company's Form 8-K filed on June 24, 2010 (File No. 000-25426).
(14)	Incorporated by reference to exhibit 10.3 filed with the Company's Form 8-K filed on June 24, 2010 (File No. 000-25426).
(15)	Incorporated by reference to exhibit 10.4 filed with the Company's Form 8-K filed on June 24, 2010 (File No. 000-25426).
(16)	Incorporated by reference to exhibit 10.5 filed with the Company's Form 8-K filed on June 24, 2010 (File No. 000-25426).
(17)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on April 25, 2014.
(18)	Incorporated by reference to exhibit 10.16 filed with the Company's Form 10-K for the fiscal year ended December 31, 2014.
(19)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on May 13, 2013.
(20)	Incorporated by reference to exhibit B of the Company's Proxy Statement filed on April 1, 2015.
(21)	Incorporated by reference to exhibit 10.18 filed with the Company's Form 10-Q filed on July 31, 2015.
(22)	Incorporated by reference to exhibit 10.19 filed with the Company's Form 10-Q filed on July 31, 2015.
(23)	Incorporated by reference to exhibit 10.20 filed with the Company's Form 10-Q filed on July 31, 2015.
(24)	Incorporated by reference to exhibit 10.21 filed with the Company's Form 10-Q filed on July 31, 2015.
(25)	Incorporated by reference to exhibit 10.22 filed with the Company's Form 10-Q filed on July 31, 2015.
(26)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on December 16, 2016.
(27)	Incorporated by reference to exhibit C of the Company's Proxy Statement filed on April 1, 2015.

- (28) Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on October 30, 2015.
- (29) Incorporated by reference to exhibit 10.26 filed with the Company's Form 10-Q filed on May 2, 2016.
- (30) Incorporated by reference to exhibit 10.27 filed with the Company's Form 10-Q filed on October 31, 2016.
- (31) Incorporated by reference to exhibit 10.29 filed with the Company's Form 10-Q filed on May 1, 2017.
- (32) Incorporated by reference to exhibit 10.30 filed with the Company's Form 10-Q on May 1, 2018.
- (33) Incorporated by reference to exhibit 10.30 filed with the Company's Form 10-Q on October 31, 2018.
- (34) Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K on January 28, 2019.
- (35) Incorporated by reference to exhibit 10.32 filed with the Company's Form 10-Q on May 1, 2019.
- * Management Contract or Compensatory Plan or Arrangement
- † Confidential treatment has been granted for portions of this exhibit. These portions have been omitted and submitted separately with the Securities and Exchange Commission.

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: August 2, 2019

NATIONAL INSTRUMENTS CORPORATION

By: /s/ Karen Rapp

Karen Rapp

EVP, Chief Financial Officer

(Principal Financial Officer)

**AGREEMENT FOR PURCHASE AND SALE
OF REAL PROPERTY**

THIS AGREEMENT FOR PURCHASE AND SALE OF REAL PROPERTY (this “**Agreement**”) is made as of this 25th day of June, 2019 (the “**Effective Date**”), by and between **NATIONAL INSTRUMENTS CORPORATION**, a Delaware corporation (“**Seller**”), and **BRIDGEPOINT PARKWAY INVESTORS, LLC**, a Delaware limited liability company (“**Buyer**”).

For and in consideration of the mutual promises set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Terms and Definitions: The terms listed below shall have the respective meaning given them as set forth adjacent to each term.

- (a) “**Additional Earnest Money**” shall mean THREE HUNDRED THOUSAND and NO/100 DOLLARS (\$300,000.00) (together with all interest accrued thereon).
- (b) “**Anti-Money Laundering and Anti-Terrorism Laws**” has the meaning ascribed to such term in Section 12(c) hereof.
- (c) “**Assumed Contracts**” has the meaning ascribed to such term in Section 6(c) hereof.
- (d) “**Business Day**” or “**business day**” means any day other than Saturday, Sunday or any federal legal holiday.
- (e) “**Buyer’s Notice Address**” shall be as follows, except as the same may be changed pursuant to the Notice section herein:

1000 Main Street
Suite 2400
Houston, Texas 77002
Attn: John Dailey
Tel: 713.209.5800
Email: john.dailey@madisonmarquette.com

With a copy to:

Jackson Walker LLP
1401 McKinney, Suite 1900
Houston, Texas 77010
Attn: Thad Armstrong
Tel: (713) 752-4310
Email: tarmstrong@jw.com

- (f) “**Claim Cap**” has the meaning ascribed to such term in Section 9(c) hereof.
- (g) “**Claims**” has the meaning ascribed to such term in Section 19 hereof.
- (h) “**Closing**” shall mean the consummation of the purchase and sale of the Property contemplated by this Agreement.
- (i) “**Closing Date**” shall mean the actual date of Closing, which shall occur no later than the date that is thirty (30) days after expiration of the Examination Period, subject to extension under Section 10 hereof.
- (j) “**Closing Statement**” has the meaning ascribed to such term in Section 10(a) hereof.
- (k) “**Code**” has the meaning ascribed to such term in Section 11(h) hereof.
- (l) “**Contracts**” shall mean those certain contracts or agreements affecting the Property as listed on Schedule 1(n) attached hereto.
- (m) “**Deed**” has the meaning ascribed to such term in Section 10(a) hereof.
- (n) “**Due Diligence Materials**” has the meaning ascribed to such term in Section 6(b) hereof.
- (o) “**Earnest Money**” shall mean the Initial Earnest Money plus the Additional Earnest Money and the Extension Earnest Money, if and to the extent deposited by Buyer pursuant to Section 4(b) hereof and/or Section 10 hereof.
- (p) “**Extension Earnest Money**” shall mean ONE HUNDRED THOUSAND and NO/100 DOLLARS (\$100,000.00) (together with all interest accrued thereon).
- (q) “**Examination Period**” shall mean the period beginning on the Effective Date and extending until 5:00 p.m. (Austin, Texas time) on July 5, 2019.
- (r) “**Executive Order**” has the meaning ascribed to such term in Section 12(c) hereof.

- (s) “**FIRPTA**” has the meaning ascribed to such term in Section 11(f) hereof.
- (t) “**Improvements**” shall mean all buildings, facilities and other improvements located on the Real Property.
- (u) “**Independent Consideration**” has the meaning ascribed to such term in Section 17(b) hereof.
- (v) “**Initial Earnest Money**” shall mean FOUR HUNDRED THOUSAND and NO/100 DOLLARS (\$400,000.00) (together with all interest accrued thereon).
- (w) “**Intangible Property**” shall mean all right, title and interest of Seller in and to any warranties, tradenames, logos (including any federal or state trademark or tradename registrations), or other identifying name or mark now used in connection with the Real Property and/or the Improvements, including, without limitation, “The Millennium”, plans and specifications and other architectural and engineering drawings for the Improvements, entitlements, and governmental permits, approvals and licenses (to the extent assignable); provided, however, the foregoing shall exclude any tradenames, logos (including any federal or state trademark or tradename registrations), or other identifying name or mark of National Instruments or “NI.”
- (x) “**Landlord Operating Expense Payments**” has the meaning ascribed to such term in Section 2(a)(ii) hereof.
- (y) “**Lease**” or “**Leases**” shall mean, individually or collectively, as the context may require, all leases, licenses, rental agreements and other occupancy agreements entered into by and between Seller and tenants occupying all or any portion of the Real Property.
- (z) “**Lease Costs**” has the meaning ascribed to such term in Section 2(b) hereof.
- (aa) “**Objections**” has the meaning ascribed to such term in Section 6(a) hereof.
- (bb) “**Operating Expense Statement**” has the meaning ascribed to such term in Section 2(a)(ii) hereof.
- (cc) “**Operating Expenses**” shall mean all utility charges and other operating expenses attributable to the Property for which Seller is liable, if any, including without limitation expenses under any Contracts assumed by Buyer pursuant to the terms of this Agreement.
- (dd) “**Permitted Exceptions**” has the meaning ascribed to such term in Section 5 hereof.

(ee) “**Personalty**” shall mean all machinery, furniture, equipment and items of personal property of Seller attached or appurtenant to, located on or used in the ownership, use, operation or maintenance of the Property or the Improvements, if any.

(ff) “**Plan**” has the meaning ascribed to such term in Section 11(h) hereof.

(gg) “**Preliminary Closing Statement**” has the meaning ascribed to such term in Section 10(a) hereof.

(hh) “**Property**” shall mean (i) the Real Property; (ii) the Improvements; (iii) all right, title and interest of Seller under the Leases; (iv) all right, title and interest of Seller under the Contracts; (v) the Personalty; (vi) all right, title and interest of Seller, if any, to any unpaid award for (1) any taking or condemnation of the Property or any portion thereof, or (2) any damage to the Property or the Improvements by reason of a change of grade of any street or highway; (vii) all easements, licenses, rights and appurtenances relating to any of the foregoing; and (viii) the Intangible Property.

(ii) “**Purchase Price**” shall mean the sum of THIRTY-FOUR MILLION FIVE HUNDRED THOUSAND and NO/100 DOLLARS (\$34,500,000.00), payable in cash at Closing.

(jj) “**Real Property**” shall mean that certain real property located at 6504 Bridgepoint Parkway, Austin, Texas 78730, being more particularly described on Exhibit A, attached hereto and incorporated herein by this reference.

(kk) “**Seller’s Broker**” shall mean Cushman & Wakefield U.S., Inc.

(ll) “**Seller Releasees**” has the meaning ascribed to such term in Section 19 hereof.

(mm) “**Seller’s Notice Address**” shall be as follows, except as same may be changed pursuant to the Notice section herein:

11500 N Mopac Expressway
Austin, Texas 78759
Attn: Scott Strzinek
Tel.: 512-683-8288
Email: scott.strzinek@ni.com

With a copy to:

DuBois, Bryant & Campbell
303 Colorado, Suite 2300
Austin, Texas 78701
Attn.: Rick Reed
Tel.: 512-457-8000
Email: rreed@dbcllp.com

- (nn) “**Survey**” has the meaning ascribed to such term in Section 6(a) hereof.
- (oo) “**Survival Period**” has the meaning ascribed to such term in Section 9(c) hereof.
- (pp) “**Taxes**” shall mean all ad valorem real estate taxes and assessments assessed by any governmental authority against the Real Property and Improvements.
- (qq) “**Tenant**” and “**Tenants**” shall mean, individually or collectively, as the context may require, any person leasing, using or occupying the Real Property or Improvements or any portion thereof pursuant to a Lease.
- (rr) “**Tenant Operating Expense Payments**” has the meaning ascribed to such term in Section 2(a)(ii) hereof.
- (ss) “**Tenant Tax Payment**” shall mean all amounts actually paid by Tenants to Seller for Taxes payable in the 2019 calendar year pursuant to the Leases.
- (tt) “**Threshold Amount**” has the meaning ascribed to such term in Section 9(c) hereof.
- (uu) “**Title Agent**” shall mean Heritage Title Company of Austin, Inc. at 401 Congress Avenue, Suite 1500, Austin, Texas 78701, Attention: Amy Love Fisher, telephone number (512) 505-5047, facsimile transmission number (512) 505-5024, email address: afisher@heritage-title.com, as title agent.
- (vv) “**Title Commitment**” has the meaning ascribed to such term in Section 6(a) hereof.
- (ww) “**Title Insurer**” shall mean First American Title Insurance Company or such other insurance company reasonable acceptable to Buyer.
- (xx) “**Title Policy**” has the meaning ascribed to such term in Section 2(c) hereof.

Section 2. Proration of Income and Expenses and Payment of Costs and Recording Fees.

(a) **Proration of Income and Expenses.** All income and expenses of the Property shall be prorated as of 12:01 a.m. on the Closing Date. Such prorated items include, without limitation, the following:

(i) **Rents.** All collected rents shall be prorated between Seller and Buyer. Seller shall be entitled to all collected rents attributable to any period prior to but not including the Closing Date. Buyer shall be entitled to all collected rents (including prepaid rents) attributable to any period on and after the Closing Date. Uncollected rent and other income shall not be prorated. Buyer shall apply rent and other income from Tenants that are collected after the Closing unless the Tenant properly identifies the payment as being for a specific item, in the following order: (a) first, to Buyer's reasonable costs of collection incurred with respect to such Tenant, (b) second, to Buyer in payment of the current rent due under such Lease, (c) third, to Buyer in payment of delinquent rent due under such Lease for the period from and after the Closing, and (d) fourth, to Seller in payment of rent coming due and payable prior to the Closing. Any prepaid rents for the period following the Closing Date shall be paid over by Seller to Buyer. Buyer will make reasonable efforts, without suit, to collect any rents relating to the period before Closing. The Seller may not pursue collection as to any rent not collected by Buyer.

(ii) **Operating Expenses.** All Operating Expenses incurred in the month in which Closing occurs shall be prorated between Seller and Buyer. No later than five (5) Business Days prior to the Closing Date, Seller shall deliver to Buyer a statement of Operating Expenses for the Property for the portion of the calendar year in which the Closing occurs (i.e., calendar year 2019) that the Property was owned by Seller (the "**Operating Expense Statement**"), which shall include (a) the amount of Operating Expense contributions paid by each Tenant during the calendar year in which Closing occurs through the date prior to the Closing Date (the "**Tenant Operating Expense Payments**"); and (b) the amount of Operating Expenses actually paid by Seller and proportionately allocated to the premises demised under each respective Lease during the calendar year in which Closing occurs through the date prior to the Closing Date ("**Landlord Operating Expense Payments**"); provided, however, to the extent the information necessary to fully determine the Landlord Operating Expense Payments for the month in which Closing occurs is not known at Closing, Seller shall be permitted to include an estimate of such Landlord Operating Expense Payments on the Operating Expense Statement. If the Operating Expense Statement shows that the amount of the Landlord Operating Expense Payments exceeds the Tenant Operating Expense Payments, Buyer shall reimburse Seller for such shortfall as and when such amounts are received by Buyer from Tenants following Buyer's annual reconciliation for the 2019 calendar year. If the Operating Expense Statement shows that the amount of the Landlord Operating Expense Payments is less than the Tenant Operating Expense Payments, Seller shall reimburse Buyer for such difference at Closing. Following Closing, as between Buyer

and Seller, Buyer shall be solely responsible for the performance of all Operating Expense reconciliations with Tenant for the 2019 calendar year and all calendar years thereafter, and Seller shall have no liability with respect to amounts due to any Tenant in connection with such reconciliation.

(iii) **Taxes.** Taxes for the calendar year in which Closing occurs shall be prorated on a cash basis as of 12:01 a.m. on the Closing Date, with all such Taxes accruing before the Closing Date being the obligation of Seller and all such Taxes accruing on and after the Closing Date being the obligation of Buyer (for the avoidance of doubt, as between Seller and Buyer, Buyer shall be solely responsible for any Taxes payable in the 2019 calendar year and all calendar years thereafter). If Closing shall occur before the actual Taxes payable in the 2019 calendar year are known, the apportionment of taxes shall be upon the basis of taxes for the Property payable during the immediately preceding year; and when actual Taxes are known for the 2019 calendar year, Seller and Buyer shall adjust such proration between them in cash based on actual Taxes no later than sixty (60) days thereafter. In addition, at Closing, Buyer shall receive a credit against the Purchase Price in an amount equal to (1) the Tenant Tax Payment and (2) the prorated portion of the Taxes allocable to Seller's period of ownership in the 2019 calendar year (which amount shall be reduced by the prorated portion of the Tenant Tax Payment allocable to Seller's period of ownership in the 2019 calendar year). Notwithstanding the foregoing, any real estate tax refunds, rebates or reimbursements, which apply to periods before the Closing Date, shall remain the property of Seller except to the extent required to be paid to a Tenant pursuant to the terms of a Lease. Following Closing, as between Buyer and Seller, Buyer shall be solely responsible for the payment of all Taxes payable in the 2019 calendar year and all calendar years thereafter, and Seller shall have no liability with respect to any such Taxes, subject to said adjustment when actual Taxes for the 2019 calendar year are known.

(b) **Lease Costs.** At Closing, Seller shall provide Buyer with credits against the Purchase Price in amounts equal to (i) free rents and other payments, allowances and reimbursements owed to Tenants, if any (other than as specified on Schedule 2(b) attached hereto), under the Leases attributable to the period after the Closing Date, and (ii) the amount of any security deposits held by Seller pursuant to the terms of the Leases (collectively, the "**Lease Costs**"). Seller shall be responsible for any lease commissions and other Lease Costs attributable to Leases entered into prior to the expiration of the Examination Period. Notwithstanding anything contained in this Agreement to the contrary, in no event shall Seller be responsible for, and Buyer expressly assumes any and all liability for, any contingent Lease Costs (i.e., Lease Costs that are contingent on an event certain occurring pursuant to the terms of the Lease such as Tenant exercising a renewal option pursuant to its Lease that is at Tenant's option), for which no party has triggered the payment thereof prior to the Closing Date. In the event the security deposit shall have been deposited with Seller in a form other than cash (e.g., letter of credit), Seller shall satisfy its obligations hereunder with respect to such security deposit by delivering to Title Agent, to be held in trust for the benefit of Buyer, an assignment of such security deposit to Buyer with written instructions to the issuer of

such deposit to transfer the same to Buyer, and appropriate instruments of transfer or assignment. If there is any fee required by the issuer of the deposit in order to cause the transfer of the deposit to Buyer, Seller shall take commercially reasonable efforts to require the applicable Tenant to pay such fee; however, as between Seller and Buyer, Buyer shall be responsible for the amount of any unpaid fee required by the issuer of the deposit in order to cause the transfer of the deposit to Buyer, unless Seller receives such fee from the applicable Tenant or the applicable Tenant pays such fee directly to the issuer of the deposit. This Section 2(b) shall survive the Closing.

(c) **Payment of Costs and Recording Fees.** At Closing, Seller shall pay: (i) the cost to cure any Objections (as defined below) which Seller elects (or is required) to cure in accordance with Section 6 hereof; (ii) one-half of the cost of escrow fees; and (iii) the title insurance base premium for the owner's title insurance policy for the Property in the amount of the Purchase Price to be issued to Buyer (the "**Title Policy**"). At Closing, Buyer shall pay: (i) the cost of any recording fees with respect to the Deed and any mortgage or deed of trust (if any) for any financing obtained by Buyer at Closing; (ii) any costs of any title insurance endorsements (or additional title insurance coverage in excess of the Purchase Price) requested by Buyer with respect to the Title Policy; (iii) the title insurance premium for any title insurance issued in favor of Buyer's lender (if any); (iv) the cost of the Survey (not to exceed \$8,000.00), environmental reports and other due diligence investigations undertaken by Buyer; and (v) one-half of the cost of escrow fees. Seller and Buyer shall be responsible for their own attorney's fees.

(d) **Utilities.** Seller shall receive a credit at Closing for assignable utility deposits, if any, which are assigned to Buyer. Seller shall retain the rights to any utility deposits not assigned or assignable to Buyer at Closing. Seller and Buyer shall undertake commercially reasonable efforts to cause all utility meters with respect to utility charges to be read as of the date prior to the Closing Date, together with Seller cancelling such utility account and Buyer opening a new utility account, and Seller shall pay all charges for those utilities payable by Seller with respect to the Property which have accrued to and including the day prior to the Closing Date, and Buyer shall pay all such expenses accruing as of and after the Closing Date.

(e) **Adjustment Items.** At least five (5) business days prior to the Closing (the "**Statement Date**"), Seller shall prepare and deliver to Buyer a statement of amounts to be prorated or adjusted under this Section 2, along with details of the calculations used by Seller to compute all credits and debits together with photocopies of all invoices, vouchers and other supporting documents in sufficient detail to enable Buyer to readily verify all items prorated or adjusted therein (collectively, the "**Adjustment Items**"). Should Seller fail to provide the Adjustment Items by the Statement Date, Buyer may, at Buyer's option, extend the Closing Date by one business day for each business day that elapses after the Statement Deadline until Seller completes delivery of the Adjustment Items.

Section 3. Sale of Property. Subject to the terms of this Agreement, Seller agrees to sell, and Buyer agrees to purchase, the Property for the Purchase Price.

Section 4. Payment of Purchase Price.

(a) **Purchase Price.** Buyer shall pay the Purchase Price to Seller in accordance with all the terms and conditions of this Agreement.

(b) **Earnest Money.** The Initial Earnest Money shall be delivered to Title Agent within two (2) business days after the execution of this Agreement. Unless this Agreement is otherwise terminated by Buyer pursuant to Section 6 herein, the Additional Earnest Money shall be delivered by Buyer to Title Agent within two (2) business days after the expiration of the Examination Period. The Earnest Money shall be deposited by Buyer in escrow with Title Agent, to be applied as part payment of the Purchase Price at the time the sale is closed, or disbursed as agreed upon in accordance with the terms of this Agreement.

Section 5. Title. At Closing, Seller agrees to convey to Buyer good and indefeasible fee simple title to the Property by special warranty deed, subject to the Leases, taxes for the current year and subsequent years not yet due and payable, matters arising solely as a result of the actions or omissions of any Tenant that do not encumber Seller's fee simple interest in and to the Property and other exceptions set forth in the Title Commitment (as defined below) which Seller does not agree to cure under Section 6(a) herein and to which Buyer waives an Objection pursuant to Section 6(a) (collectively, the "**Permitted Exceptions**").

Section 6. Examination of Property. Seller and Buyer hereby agree as follows:

(a) **Title Examination.** Buyer shall, at Buyer's sole cost and expense, order, within two (2) business days after the Effective Date, a title commitment (the "**Title Commitment**") from the Title Agent, on behalf of Title Insurer. As of the Effective Date, Seller has delivered a survey of the Property to Buyer (the "**Survey**"). Buyer shall provide the Title Commitment to Seller upon receipt. Buyer shall have until the date that is two (2) business days prior to the expiration of the Examination Period to notify Seller of any objections (the "**Objections**") with respect to the Title Commitment and the Survey based on its review thereof. If Buyer does not give notice of its Objections within the time period set forth above, such failure shall be conclusively deemed to be full and complete approval of the Title Commitment and the Survey and all matters disclosed therein. If Buyer gives notice of its Objections within the time period set forth above, Seller shall have until the last day of the Examination Period to notify Buyer that Seller either (i) will cause or (ii) elects not to cause any or all of the Objections disclosed therein to be removed or insured over by Title Insurer. Seller's failure to notify Buyer on or before the last day of the Examination Period as to any Objection shall be deemed an election by Seller not to remove or have Title Insurer insure over such Objections. If Seller notifies or is deemed to have notified Buyer that Seller shall not remove nor have Title Insurer insure over any or all of the Objections, Buyer shall have until the expiration of the Examination Period to (x) terminate this Agreement and receive a return of the Earnest Money or (y) waive such Objections and proceed to Closing without any abatement or reduction in the Purchase Price on account of such Objections. If Buyer does not terminate this Agreement prior to the expiration of the Examination Period, Buyer shall be deemed to have elected to waive its

Objections. Notwithstanding anything to the contrary, the Property shall be conveyed free and clear of all mortgages, deeds of trust, and monetary liens of Seller (other than the lien for non-delinquent taxes), and Seller shall remove at Closing (i) all such liens and (ii) any exceptions to title first reported to Buyer after the expiration of the Examination Period, to the extent Buyer notifies Seller in writing of any such exceptions within three (3) Business Days of receipt of notice of the existence of such exceptions and such exceptions have a material and adverse effect on the Property in Seller's reasonable and good faith judgment. For purposes of the property description to be included in the deed to be delivered by Seller and in the Title Policy, the legal description prepared by the licensed surveyor for the Survey shall, at Buyer's option, control any conflicts or inconsistencies with Exhibit A hereto, and such legal description shall, at Buyer's option, be incorporated herein by this reference upon their completion and approval by Buyer.

(b) **Examination.** Seller has provided or upon execution of this Agreement shall provide to Buyer copies of the documents and materials pertaining to the Property set forth on Schedule 6(b) of this Agreement to the extent within Seller's actual possession or control (collectively, the "**Due Diligence Materials**"). During the pendency of this Agreement, Seller shall provide Buyer with any of the Due Diligence Materials coming into Seller's possession or produced by or for Seller after the initial delivery of the Due Diligence Materials and, upon request of Buyer, but no more often than monthly, Seller shall provide Buyer with an updated Rent Roll. Additionally, during the term of this Agreement, Buyer, its agents and designees, shall have the right to enter the Property for the purposes of inspecting the Property, making surveys, mechanical and structural engineering studies, inspecting construction, and conducting any other investigations and inspections as Buyer may reasonably require to assess the condition and suitability of the Property; provided, however, that (i) each such inspection or examination of the Property shall take place during regular business hours and is subject to delivery of reasonable prior written notice to Seller; (ii) such activities by or on behalf of Buyer on the Property shall not damage the Property nor unreasonably interfere with operations of the Property or the conduct of business by Tenants under the Leases; (iii) Buyer shall not communicate with Tenants or other occupants of the Property following the scheduling procedure below; and (iv) neither Buyer nor any representative or agent of Buyer shall make any application or filing with any Federal, state, county, municipal or other department or governmental agency regarding the Property without Seller's prior written consent thereto (not to be unreasonably withheld, conditioned or delayed). Tenant interviews, if any, shall be scheduled upon reasonable prior written notice to Seller and the applicable Tenant by Buyer on dates and times and at a location convenient to Seller and the applicable Tenant, and, at Seller's election, a representative of Seller shall be present during any such interviews. Meetings with property management, if any, shall be scheduled upon reasonable prior written notice to Seller and such property manager by Buyer on dates and times and at a location convenient to Seller and the applicable property manager, and, at Seller's election, a representative of Seller shall be present during any such interview. Notwithstanding the foregoing, Buyer must obtain Seller's prior written approval, to be given in Seller's sole discretion, of the scope and method of any environmental sampling, testing or investigation (other than a standard, non-intrusive Phase I environmental assessment) and any inspection which would alter the physical condition of the Property, prior to Buyer's commencement

of such inspections or testing. Prior to any entry by Buyer or Buyer's agents and designees on the Property to conduct the inspections and tests described above, Buyer shall obtain and maintain or be covered by, or shall cause Buyer's agents and designees to obtain and maintain or be covered by, at Buyer's or Buyer's agent's and designee's sole cost and expense, and shall deliver to Seller evidence thereof (in the form of a copy of a certificate evidencing such insurance policy), commercial general liability insurance, from an insurer reasonably acceptable to Seller, in the amount of ONE MILLION and 00/100 Dollars (\$1,000,000.00) combined single limit for personal injury and property damage per occurrence, such policy to name each of Seller and Seller's property manager as additional insured parties, which insurance shall provide coverage against any claim for personal liability or property damage resulting from such inspections and tests by Buyer or Buyer's agents and designees. BUYER SHALL INDEMNIFY, DEFEND AND HOLD SELLER, ITS OFFICERS, SHAREHOLDERS, PARTNERS, MEMBERS, DIRECTORS, AND EMPLOYEES HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS OR DAMAGES TO THE EXTENT RESULTING FROM THE ACTIVITIES OF BUYER AND ITS AGENTS AND DESIGNEES ON THE PROPERTY, AND BUYER SHALL REPAIR ANY AND ALL DAMAGE CAUSED, IN WHOLE OR IN PART, BY BUYER AND RETURN THE PROPERTY TO ITS CONDITION IMMEDIATELY PRIOR TO SUCH DAMAGE, WHICH OBLIGATION SHALL SURVIVE CLOSING OR ANY TERMINATION OF THIS AGREEMENT. Seller may have a representative present during any and all examinations, inspections, tenant interviews and/or studies on the Property. Buyer shall have the unconditional right, for any reason or no reason, to terminate this Agreement by giving written notice thereof to Seller prior to the expiration of the Examination Period, in which event this Agreement shall become null and void, Buyer shall receive a refund of the Initial Earnest Money, and all rights, liabilities and obligations of the parties under this Agreement shall expire, except as otherwise expressly set forth herein. If Buyer does not so terminate this Agreement prior to the expiration of the Examination Period, Buyer conclusively shall be deemed to have waived its right to terminate this Agreement pursuant to this Section 6(b).

(c) **Assumed Contracts.** Buyer may notify Seller prior to the expiration of the Examination Period whether Buyer desires to receive an assignment of and assume Seller's rights and obligations under any Contracts at the Closing Date, which notice shall specify the Contracts to be assigned and assumed (the "**Assumed Contracts**"). Seller shall terminate all other Contracts by the Closing Date at Seller's sole cost and expense. In the event that the Contracts require notice, payment of any transfer, assignment, termination or any other fees and/or the consent from any party in connection with the assignment thereof to Buyer or termination thereof, Seller shall be obligated to pay such fees and/or obtain such consents (as applicable) at its sole cost and expense.

(d) **Estoppel Certificates.** Seller shall use commercially reasonable efforts to obtain and deliver to Buyer no later than five (5) Business Days prior to Closing (the “**Estoppel Deadline**”) executed estoppel certificates from Tenants representing no less than seventy percent (70%) of the total square footage of the building located on the Property then-rented to tenants (the “**Required Estoppels**”), which Required Estoppels must include the Tenant ATX and the Tenant Hot Schedules (the “**Major Tenants**”). The estoppel certificates shall be in the form attached hereto as **Exhibit G** or, to the extent a form is prescribed in a Lease, in the form prescribed by the applicable Leases, and shall be dated no earlier than thirty (30) days prior to the initial Closing Date (i.e., the Closing Date prior to extension under Section 10 hereof). Prior to delivery of the form of the estoppels to the Tenants, Seller shall submit a draft to Buyer and permit Buyer three (3) business days to review same and suggest changes, including changes as may be required by Buyer’s lender. At Seller’s election, if Seller is unable through its commercially reasonable efforts to obtain estoppel certificates from enough Tenants to meet the requirements set forth above, Seller may, in lieu of delivering estoppel certificates from Tenants as prescribed above, deliver an estoppel certificate(s) with respect to the Leases, signed by Seller; provided, however, Seller may not deliver such Seller estoppel in lieu of Major Tenants. If Seller subsequently delivers to Buyer an estoppel certificate from a Tenant as to which Seller has delivered its own estoppel certificate, Seller’s estoppel certificate as to that Tenant shall be deemed to be withdrawn and null and void upon such delivery. If Buyer has not received the Required Estoppels (taking into account any Seller estoppel certificates as permitted hereunder) by the Estoppel Deadline, then Buyer may, upon written notice to Seller, elect to extend the Estoppel Deadline and the Closing Date for up to an additional thirty (30) days, and Seller shall use commercially reasonable efforts to obtain the Required Estoppels (taking into account any Seller estoppel certificates as permitted hereunder), and Closing shall occur on the earlier of the date that is five (5) business days after the delivery of the Required Estoppels (taking into account any Seller estoppel certificates as permitted hereunder) and the expiration of the thirty (30) day Estoppel Deadline extension. If Seller is unable, after utilizing commercially reasonable efforts, to obtain the Required Estoppels (taking into account any Seller estoppel certificates as permitted hereunder), then Buyer, as its sole and exclusive remedy, may either: (i) terminate this Agreement by written notice to Seller whereupon the Earnest Money shall be returned to Buyer, and the parties will have no further rights or obligations under this Agreement, except for those rights or obligations that expressly survive termination; or (ii) waive the requirement of the Required Estoppels and proceed to Closing without receiving any credit against or reduction of the Purchase Price.

(e) **SNDAs.** Seller shall also distribute and use commercially reasonable efforts to obtain an executed subordination, non-disturbance and attornment agreement from each of the Tenants under the Leases, to the extent requested by Buyer (each, an “**SNDA**”); provided Buyer shall not have any right to terminate this Agreement or exercise any other remedies hereunder if such SNDAs are not obtained. Buyer shall prepare and provide to Seller the SNDAs that Buyer desires to have Seller distribute and obtain.

(f) **Restrictive Covenants.** If the Property is subject to a declaration of covenants, conditions and restrictions or similar instrument (“**Restrictions**”) governing or affecting the use, operation, maintenance, management or improvement of the Property, at the Closing, Seller shall use commercially reasonable efforts to deliver to Buyer estoppel certificates, in form and substance reasonably satisfactory to Buyer, from the declarant, association, committee, agent or other person or entity having governing or approval rights under the Restrictions; provided Buyer shall not have any right to terminate this Agreement or exercise any other remedies hereunder if such estoppel certificates are not obtained.

Section 7. Risk of Loss/Condemnation. Promptly upon learning thereof, Seller shall give Buyer written notice of any condemnation, damage or destruction of the Property occurring prior to the Closing. If prior to the Closing all or a material portion of the Property is condemned, damaged or destroyed by an insured casualty, Buyer shall have the option of either (a) applying the proceeds of any condemnation award or payment under any insurance policies (other than business interruption or rental loss insurance) toward the payment of the Purchase Price to the extent such condemnation awards or insurance payments have been received by Seller, receiving from Seller an amount equal to any applicable deductible under any such insurance policy and receiving an assignment from Seller of any such awards or payments not theretofore received by Seller, or (b) terminating this Agreement by delivering written notice of such termination to Seller and Title Agent within ten (10) days after Buyer has received written notice from Seller of such material condemnation, damage or destruction, in which case the Earnest Money will be returned to Buyer. If, prior to the Closing, a portion of the Property is condemned, damaged or destroyed and such portion is not a material portion of the Property, the proceeds of any condemnation award or payment and any applicable deductible under any insurance policies shall be applied toward the payment of the Purchase Price at Closing to the extent such condemnation awards or insurance payments have been received by Seller and Seller shall assign to Buyer all unpaid awards or payments. For purposes of this Section 7, the term “material portion” shall mean (i) any condemnation, damage or destruction of the Property resulting in damage equal to or in excess of \$3,450,000.00, or an absence of reasonable access to the Property or (ii) any damage or destruction of the Property that results in a negative impact to the rents generated from the Leases of fifteen percent (15%) or more. If the damage or destruction arises out of an uninsured risk, Seller shall elect, by written notice within ten (10) days of the occurrence of such damage or destruction either to terminate this Agreement or to close the transaction contemplated hereby with a reduction of the Purchase Price equal to the costs of repairing the Property, as reasonably estimated by an engineer engaged by Seller and reasonably acceptable to Buyer.

Section 8. Earnest Money Disbursement.

The Earnest Money shall be held by the Title Agent, in trust, and disposed of only in accordance with the following provisions:

(a) The Title Agent shall invest the Earnest Money in an interest-bearing account of the type generally used by Title Agent for the holding of escrow funds at Buyer's sole cost and expense, shall not commingle the Earnest Money with any funds of the Title Agent or others, and shall promptly provide Buyer with confirmation of the investments made. All interest earned on the Earnest Money shall become part of the Earnest Money and shall be paid to the party entitled to the Earnest Money in accordance with the terms of this Agreement.

(b) If the Closing occurs, the Earnest Money shall be credited to Buyer by applying the same against the Purchase Price. If for any reason the Closing does not occur, the Title Agent shall deliver the Earnest Money to Seller or Buyer, as the case may be in accordance with the provisions of this Agreement.

(c) The parties acknowledge that the Title Agent is acting solely as a stakeholder at their request and for their convenience, that the Title Agent shall not be deemed to be the agent of either of the parties, and that the Title Agent shall not be liable to either of the parties for any action or omission on its part taken or made in good faith, and not in disregard of this Agreement, but shall be liable for its grossly negligent acts and for any liabilities (including reasonable attorneys' fees, expenses and disbursements) incurred by Seller or Buyer resulting from the Title Agent's mistake of law respecting the Title Agent scope or nature of its duties. SELLER AND BUYER SHALL JOINTLY AND SEVERALLY INDEMNIFY, DEFEND AND HOLD THE TITLE AGENT HARMLESS FROM AND AGAINST ALL LIABILITIES (INCLUDING REASONABLE ATTORNEYS' FEES, EXPENSES AND DISBURSEMENTS) INCURRED IN CONNECTION WITH THE PERFORMANCE OF THE TITLE AGENT'S DUTIES HEREUNDER, EXCEPT WITH RESPECT TO ACTIONS OR OMISSIONS TAKEN OR MADE BY THE TITLE AGENT IN BAD FAITH, IN DISREGARD OF THIS AGREEMENT OR INVOLVING GROSS NEGLIGENCE ON THE PART OF THE TITLE AGENT.

(d) Title Agent will sign this Agreement as evidence that (i) Title Agent agrees to be bound by the obligations contained herein with respect to the Earnest Money; (ii) to evidence Title Agent's receipt of the fully executed Agreement and the Earnest Money; and (iii) to acknowledge that Title Agent is the "reporting person" for purposes of Prop. Reg. §1.6045-4(a), promulgated pursuant to the Code. Title Agent has acknowledged its agreement to these provisions by signing this Agreement in the place indicated following the signatures of Seller and Buyer. This Agreement shall be fully enforceable upon execution hereof by Buyer and Seller. The failure of Title Agent to execute this Agreement shall not affect the enforceability of this Agreement.

Section 9. Default; Breach of Representation.

(a) If, for any reason whatsoever (other than the failure of a condition set forth in Section 13 and other than a termination of this Agreement pursuant to Section 6, Section 9(b) or Section 7), Buyer fails to complete the acquisition as herein provided, Buyer shall be deemed to be in default of this Agreement. In the event that Buyer is in default of this Agreement, Buyer and Seller agree it would be impractical and extremely difficult to fix the damages which Seller may suffer. Buyer and Seller hereby agree that (i) an amount equal to the Earnest Money, together with all interest accrued thereon, is a reasonable estimate of the total net detriment Seller would suffer in the event Buyer defaults and fails to complete the purchase of the Property, and (ii) such amount will be the full, agreed and liquidated damages for Buyer's default and failure to complete the purchase of the Property, and will be Seller's exclusive remedy for any default of Buyer resulting in the failure of consummation of the Closing. In such event, this Agreement will terminate and Seller expressly waives its rights to seek damages in the event of Buyer's default except as otherwise expressly provided hereunder including, without limitation, as provided in this subsection (a) below. Buyer will have no further rights or obligations hereunder, except with respect to the any provisions herein which pursuant to their terms survive any termination of this Agreement. The payment of such amount as liquidated damages is not intended as a forfeiture or penalty but is intended to constitute liquidated damages to Seller. Notwithstanding the foregoing, nothing contained herein will limit Seller's remedies at law, in equity or as herein provided in the event of a breach by Buyer of any of the provisions herein which pursuant to their terms survive any termination of this Agreement. Notwithstanding anything in this Agreement to the contrary, in the event that this Agreement is terminated pursuant to Section 6 herein or this Section 9(a), Buyer shall promptly deliver to Seller, without warranty, copies of any due diligence reports obtained by Buyer relating to the Property.

(b) In the event that Seller defaults in any of its material obligations undertaken in this Agreement, Buyer may as its sole and exclusive remedy either (i) terminate this Agreement, in which case the Earnest Money shall be returned to Buyer or (ii) treat this Agreement as being in full force and effect and pursue only the specific performance of this Agreement, provided that Buyer must commence any action for specific performance within sixty (60) days after the scheduled Closing Date. If (A) Buyer exercises its remedy under subsection (i) above as a result of Seller failing to perform its obligations to close in accordance with Section 10 hereof, and (B) a court of competent jurisdiction has issued a final, non-appealable judgment against Seller as a result of such failure to close, Buyer shall be entitled to collect from Seller an amount equal to Buyer's costs and expenses incurred in connection with this Agreement, not to exceed \$150,000.00, after delivery of written notice to Seller of the same, together with a waiver of any right, title or interest of Buyer in the Property and reasonable substantiating evidence for such costs and expenses. Buyer waives any right to pursue any other remedy at law or equity for such default of Seller, including, without limitation, any right to seek, claim or obtain damages (including, without limitation, speculative, punitive, special, indirect or consequential damages). In no case shall Seller ever be liable to Buyer under any statutory, common law, equitable or other theory of law, either prior to or following the

Closing, for any lost rents, profits, “benefit of the bargain,” business opportunities or any form of speculative, punitive, special, indirect, or consequential damage in connection with any claim, liability, demand or cause of action in any way or manner relating to the Property, the condition of the Property, this Agreement, or any transaction or matter between the parties contemplated hereunder. Buyer’s remedies hereunder are in addition to the right to receive the return of the Earnest Money, subject to Section 8, to the extent it is not applied to the Purchase Price in connection with Buyer’s action for specific performance. BUYER WAIVES ANY AND ALL RIGHTS TO RECORD A LIS PENDENS AGAINST THE PROPERTY IN CONNECTION WITH ANY DEFAULT BY SELLER HEREUNDER, EXCEPT IN THE CASE OF AN ACTION FOR SPECIFIC PERFORMANCE BROUGHT IN ACCORDANCE WITH THIS SUBSECTION (C).

(c) All representations and warranties in this Agreement shall be deemed to have been made as of the Effective Date and again as of the Closing Date and shall survive the Closing for a period of nine (9) months after the Closing (the “**Survival Period**”). Any right of action for the breach of any representation or warranty contained herein shall not merge with the deed delivered at the Closing but shall survive the Closing for the Survival Period. Before the date that is sixty (60) days after the expiration of the Survival Period, the party claiming a breach must have filed an action in a court of competent jurisdiction and any warranty and representation not specified in such action shall expire. Damages for any action not filed before the date that is sixty (60) days after the expiration of the Survival Period shall be limited to \$1,000. Seller and Buyer agree that, following the Closing, subject to the terms of Section 11 hereof, each shall be liable for the direct, but not speculative, punitive, special, indirect or consequential damages resulting from any breach of its representations or warranties expressly set forth in this Agreement; provided, however, that: (i) following Closing, the total liability of Seller for all such breaches and any matters relating thereto or under any law applicable to the Property or this transaction shall not, in the aggregate, exceed SEVEN HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$750,000.00) (the “**Claim Cap**”); and (ii) such representations and warranties are personal to Seller and Buyer and may not be assigned to or enforced by any other Person, other than to a permitted assignee of Buyer in accordance with the terms of this Agreement. Buyer further agrees that, following the Closing, no claim may or shall be made for any alleged breach of any representations or warranties made by Seller under or relating to this Agreement unless the amount of such claim or claims, individually or in the aggregate, exceeds FIFTY THOUSAND AND NO/100 DOLLARS (\$50,000.00) (the “**Threshold Amount**”) (in which event the full amount of such valid claims against shall be actionable up to, but not in excess of, the Claim Cap). Notwithstanding anything contained herein to the contrary, Seller’s representations and warranties made herein shall be deemed modified to reflect any change in circumstances first arising after the Effective Date and not occurring as a result of a breach of this Agreement.

Section 10. Closing.

(a) The Closing shall occur on the Closing Date and shall consist of the execution and delivery of documents by Seller and Buyer, as set forth below, and delivery by Buyer to Seller of the Purchase Price in accordance with the terms of this Agreement. Buyer shall have the option to extend the Closing Date by thirty (30) days upon written notice to Seller and Title Insurer given prior to the originally scheduled Closing Date and delivery to Title Agent of the Extension Earnest Money, which such Extension Earnest Money will, except as expressly set forth in this Agreement, be non-refundable to Buyer upon deposit and will become part of the Earnest Money. Prior to the Closing Date, Title Agent shall deliver to each of the parties for their review and approval a separate preliminary closing statement for the Property (“**Preliminary Closing Statement**”) based on an income expense statement prepared by Seller, approved by Buyer, and delivered to Title Agent before such date, setting forth the proration amounts and closing costs allocable to each of the parties pursuant to this Agreement. Based on each of the party’s comments, if any, regarding the Preliminary Closing Statement, Title Agent shall revise the Preliminary Closing Statement and deliver final closing statements to each of the parties at the Closing (collectively, the “**Closing Statement**”).

(b) On or before the Closing Date, Seller shall deliver the following to Title Agent:

- (i) One (1) original of the deed in the form attached hereto as Exhibit B (the “**Deed**”), duly executed by Seller;
- (ii) One (1) original of the Assignment of Leases and Security Deposits, in the form attached hereto as Exhibit C, duly executed by Seller;
- (iii) One (1) original of the Bill of Sale in the form of Exhibit D attached hereto, duly executed by Seller;
- (iv) One (1) original of the Assignment of Contracts, Permits, Licenses and Warranties in the form of Exhibit E attached hereto, duly executed by Seller;
- (v) one (1) original of the Closing Statement, duly executed by Seller;
- (vi) good standing certificates and corporate resolutions and such other documents as reasonably requested by the Title Agent evidencing of the existence, organization and authority of Seller and of the authority of the persons executing documents on behalf of Seller;
- (vii) a FIRPTA Affidavit in form of Exhibit F attached hereto, duly executed by Seller;
- (viii) evidence of terminations satisfactory to Buyer, effective no later than Closing, of any property leasing agreement, any property management agreement, and those Contracts which Buyer has elected not to assume; and

(ix) an affidavit as to debts, liens and possession, in a form acceptable to Seller, duly executed by Seller, sufficient to cause the Title Agent, on behalf of Title Insurer, to issue to Buyer the Title Policy in accordance with Section 13(b) hereof.

(c) On or before the Closing Date, Buyer shall deliver the following to Title Agent:

(i) the Purchase Price in immediately available funds;

(ii) One (1) original of the Assignment of Leases and Security Deposits in the form of Exhibit C, duly executed by Buyer;

(iii) One (1) original of the Bill of Sale in the form of Exhibit D, duly executed by Buyer;

(iv) One (1) original of the Assignment of Contracts, Permits, Licenses and Warranties in the form of Exhibit E, duly executed by Buyer;

(v) one (1) original of the Closing Statement, duly executed by Buyer; and

(vi) good standing certificates and corporate resolutions or member or partner consents, as applicable, and such other documents as reasonably requested by the Title Agent.

(d) The Closing shall be held through a customary escrow arrangement between the parties and the Title Agent, or such other place or manner as the parties hereto may mutually agree. The Closing shall occur as soon as all conditions to closing contained in this Agreement have been satisfied (or deemed satisfied) or waived in writing which shall in any event be not later than 5:00 p.m. (Austin, Texas time) on the Closing Date, time being of the essence, by recording and delivering, as applicable, all documents and funds set forth in this Section 10.

(e) At Closing, Seller and Buyer shall each execute, and Buyer shall deliver to each Tenant promptly after the Closing, a notice regarding the sale in such form as to satisfy the requirements of Section 93.007 of the Texas Property Code.

Section 11. Seller's Representations. Seller represents and warrants to Buyer as of the Effective Date as follows:

(a) Seller is duly organized (or formed), validly existing, in good standing under the laws of its state of organization and is qualified to transact business in the State in which the Property is located. Seller is authorized to consummate the transaction set forth herein and has or will have the necessary power to execute and deliver this Agreement and all closing documents to be executed by Seller, and to perform all of Seller's obligations hereunder and thereunder. Neither the execution and delivery of this Agreement and all closing documents to be executed by Seller, nor the performance of the obligations of Seller hereunder or thereunder, will result in the violation of any

law or any provision of the organizational documents of or will conflict with any order or decree of any court or governmental instrumentality of any nature by which Seller is bound;

(b) Except as listed in Schedule 11(b) attached hereto, Seller has not received service of process for any current or pending litigation pertaining to the Property or which challenges or impairs Seller's ability to execute or perform its obligations under this Agreement, and to Seller's Knowledge, no such litigation is threatened;

(c) Except for defaults cured on or before the date hereof, Seller's Representative has not received any written notice of default under the terms of any of the Contracts;

(d) Except for violations cured or remedied on or before the date hereof and except as listed in Schedule 11(d) attached hereto, Seller's Representative has not received any written notice from any governmental authority regarding any violation of any law applicable to the Property;

(e) Schedule 11(e) is a true and correct list of the documents constituting the Leases;

(f) Seller is not a "foreign person" under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") and upon consummation of the transaction contemplated hereby, Buyer will not be required to withhold from the Purchase Price any withholding tax;

(g) Seller has not received any written notice that there is any pending or threatened condemnation of all or any part of the Property;

(h) There are no contracts of any kind relating to the management, leasing, operation, maintenance or repair of the Project, except those contracts disclosed in Schedule 1(n) hereof;

(i) Neither Seller nor its affiliates, is in violation of any Anti-Money Laundering and Anti-Terrorism Laws (defined below). Neither Seller nor its affiliates, is acting, directly or indirectly, on behalf of terrorists, terrorist organizations or narcotics traffickers, including those persons or entities that appear on the Annex to the Executive Order (defined below), or are included on any relevant lists maintained by the Office of Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Seller nor its affiliates or, to Seller's knowledge, any of its brokers or other agents, in any capacity in connection with the sale of the Property (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person included in the lists referenced above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Money Laundering and Anti-Terrorism Laws. Neither Seller, nor any person controlling or controlled by Seller, is a country, territory, individual or entity named on a government list, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived

from any activities that contravene any applicable anti-money laundering or anti-bribery laws and regulations (including funds being derived from any person, entity, country or territory on a government list or engaged in any unlawful activity defined under Title 18 of the United States Code, Section 1956(c)(7)); and

(j) Seller is not, and is not acting on behalf of (i) an “employee benefit plan” (as defined in Section 3(3) of the Employment Retirement Income Security Act of 1974 (“**ERISA**”)) that is subject to Title I of ERISA, (ii) a “plan” as defined in Section 4975(e) (1) of the Internal Revenue Code of 1986 (the “**Code**”) that is subject to Section 4975 of the Code (each of the foregoing a “**Plan**”), (iii) an entity or account the assets of which constitute “plan assets” of one or more such Plans within the meaning of Department of Labor Regulation 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA or (iv) a “governmental plan” within the meaning of Section 3(32) of ERISA; and

(k) The Rent Roll and Operating Statements to be delivered to Buyer pursuant to this Agreement are true, correct and complete in all material respects as of their respective dates of delivery.

The term “Seller’s Representative” means Scott Strzinek, Director of Global Facilities for Seller. The term “to Seller’s Knowledge” means the actual, current, conscious knowledge of Scott Strzinek without any duty of inquiry or investigation of any kind, nature or character whatsoever, and does not include constructive, imputed or inquiry knowledge; provided that so qualifying Seller’s knowledge shall in no event give rise to any personal liability on the part of such individual or any other officer or employee of Seller or any of its affiliates, on account of any breach of any representation or warranty made by Seller herein. Notwithstanding the foregoing, if Buyer has actual knowledge of a breach of any representation or warranty made by Seller in this Agreement prior to Closing and Buyer nevertheless elects to close the transaction described herein, such representation or warranty by Seller shall be deemed to have been modified to reflect the relevant information of which Buyer has knowledge and Buyer shall not be permitted to make a claim following Closing for a breach by Seller of such representation or warranty.

Section 12. Buyer’s Representations. Buyer represents and warrants to Seller as follows:

(a) Buyer is duly formed, validly existing, in good standing under the laws of Delaware, is qualified to transact business in the State in which the Property is located, is authorized to consummate the transaction set forth herein and fulfill all of its obligations hereunder and under all closing documents to be executed by Buyer, and has all necessary power to execute and deliver this Agreement and all closing documents to be executed by Buyer, and to perform all of Buyer’s obligations hereunder and thereunder. This Agreement and all closing documents to be executed by Buyer have been duly authorized by all requisite corporate or other required action on the part of Buyer and are the valid and legally binding obligation of Buyer, enforceable in accordance with their respective terms. Neither the execution and delivery of this Agreement and all closing documents to be executed by Buyer, nor the performance of the obligations of Buyer hereunder or

thereunder will result in the violation of any law or any provision of the organizational documents of Buyer or will conflict with any order or decree of any court or governmental instrumentality of any nature by which Buyer is bound;

(b) No petition has been filed by or against Buyer under the Federal Bankruptcy Code or any similar State or Federal Law;

(c) Neither Buyer nor its affiliates, is in violation of any laws relating to terrorism, money laundering or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Action of 2001, Public Law 107-56 and Executive Order No. 13224 (Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism) (the “**Executive Order**”) (collectively, the “**Anti-Money Laundering and Anti-Terrorism Laws**”). Neither Buyer nor its affiliates, is acting, directly or indirectly, on behalf of terrorists, terrorist organizations or narcotics traffickers, including those persons or entities that appear on the Annex to the Executive Order, or are included on any relevant lists maintained by the Office of Foreign Assets Control of U.S. Department of Treasury, U.S. Department of State, or other U.S. government agencies, all as may be amended from time to time. Neither Buyer nor its affiliates or, to Buyer’s knowledge, any of its brokers or other agents, in any capacity in connection with the sale of the Property (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person included in the lists referenced above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Money Laundering and Anti-Terrorism Laws. Neither Buyer, nor any person controlling or controlled by Buyer, is a country, territory, individual or entity named on a government list, and the monies used in connection with this Agreement and amounts committed with respect thereto, were not and are not derived from any activities that contravene any applicable anti-money laundering or anti-bribery laws and regulations (including funds being derived from any person, entity, country or territory on a government list or engaged in any unlawful activity defined under Title 18 of the United States Code, Section 1956(c)(7)); and

(d) Buyer is not, and is not acting on behalf of, (i) a Plan, (ii) an entity or account the assets of which constitute “plan assets” of one or more such Plans within the meaning of Department of Labor Regulation 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA or (c) a “governmental plan” within the meaning of Section 3(32) of ERISA.

Section 13. Conditions to Buyer’s Obligations. Buyer’s obligation to pay the Purchase Price, and to accept title to the Property, shall be subject to compliance by Seller with the following conditions precedent on and as of the Closing Date:

(a) Seller shall deliver to Buyer on or before the Closing the items set forth in Section 10 above;

(b) Buyer shall receive from the Title Agent, the Title Policy, or irrevocable and unconditional binder to issue the same, insuring, or committing to insure, at its ordinary premium rates, Buyer's title in fee simple to the Real Property and otherwise in such form and with such endorsements as provided in the title commitment approved by Buyer pursuant to Section 6 hereof and subject only to the Permitted Exceptions (provided the costs for such Title Policy shall be paid in accordance with Section 2(c) hereof); and

(c) Subject to Section 9(c) hereof and subject to the last sentence of Section 11 hereof, the representations and warranties of Seller contained in this Agreement shall have been true in all material respects when made and shall be true in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing, and Seller shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Seller prior to or at the Closing.

If all of the above conditions have not been satisfied or waived by Buyer on or prior to the Closing Date, then Buyer shall have the right to terminate this Agreement, and upon such termination the Earnest Money shall be refunded to Buyer and neither Buyer nor Seller shall have any further rights, obligations or liabilities hereunder, except as otherwise expressly set forth herein. If the failure of any condition precedent to Buyer's obligations set forth in this Section 13 arises as a result of a default by Seller under this Agreement, Buyer shall have the remedies available to Buyer in Section 9(b).

Section 14. Conditions to Seller's Obligations. Seller's obligation to deliver title to the Property shall be subject to compliance by Buyer with the following conditions precedent on and as of the Closing Date:

(a) Buyer shall deliver to Seller upon the Closing the remainder of the Purchase Price, subject to adjustment of such amount pursuant to Section 2 hereof, and Buyer shall deliver all documents required to be delivered by Buyer under Section 10 hereof; and

(b) The representations and warranties of Buyer contained in this Agreement shall have been true when made and shall be true in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing, and Buyer shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Buyer prior to or at the Closing.

If all of the above conditions have not been satisfied or waived in writing by Seller on or prior to the Closing Date, then Seller shall have the right to terminate this Agreement, and upon such termination the Earnest Money shall be disbursed to Seller and neither Buyer nor Seller shall have any further rights, obligations or liabilities hereunder, except as otherwise expressly set forth herein. If the failure of any condition precedent to Seller's obligations set forth in this Section 14 arises as a result of a default by Buyer under this Agreement, Seller shall have the remedies available to Seller in Section 9(a).

Section 15. Notices. Unless otherwise provided herein, all notices and other communications which may be or are required to be given or made by any party to the other in connection herewith shall be in writing and shall be deemed to have been properly given and received on the date: (a) delivered in person, (b) deposited in the United States mail, registered or certified, return receipt requested, (c) delivery via electronic mail to the addresses set out in Section 1 (provided, such email is sent prior to 5:00 p.m. (Austin, Texas time) on the day sent), or (d) deposited with a nationally recognized overnight courier, to the addresses set out in Section 1. All notices shall be deemed to have been given upon receipt provided that such receipt occurs on or before 5:00 p.m. (Austin, Texas time) on a business day, otherwise, such notice shall be deemed to have been given on the next succeeding business day. Any address or name specified in Section 1 may be changed by notice given to the addressee by the other party in accordance with this Section 15. The inability to deliver notice because of a changed address of which no notice was given as provided, above, or because of rejection or refusal to accept any notice, shall be deemed to be the receipt of the notice as of the date of inability to deliver or rejection or refusal to accept. Any notice to be given by any party may be given by the counsel for such party.

Section 16. Seller Covenants. Seller agrees that it: (a) shall continue to operate the Property in the same manner in which Seller has previously operated the Property; and (b) shall, subject to Section 7 hereof and subject to reasonable wear and tear, maintain the Property in the same condition as exists on the Effective Date. From the Effective Date through the Closing, no Personalty shall be removed from the Property by Seller, unless replaced with Personalty of equal or greater utility and value. From the Effective Date through the Closing, Seller will not negotiate with any third party the sale or other disposition of any of the Property, or enter into any contract (whether binding or not) regarding any sale or other disposition of the Property. Prior to the second (2nd) Business Day before the expiration of the Examination Period, Seller may cancel, amend and modify any of the Leases and any of the Contracts but shall deliver written notice thereof to Buyer. After the second (2nd) Business Day before the expiration of the Examination Period, Seller may not cancel, amend, or modify any material Contracts or Leases without Buyer's consent, which consent will not be unreasonably withheld or delayed. Notwithstanding the preceding sentence, after the expiration of the Examination Period, Seller may enter into any new contracts (but not Leases) without Buyer's consent if doing so is in the ordinary course of operating the Property and the contract (i) will not be binding on Buyer or (ii) is cancelable on thirty (30) days or less notice without penalty or premium. If Seller shall request Buyer's approval to any of the foregoing matters, Buyer shall have five (5) days from its receipt of such request to give Seller notice of its approval or disapproval of such matter. If Buyer does not give such notice, such matter shall be deemed approved by Buyer.

Section 17. Additional Provisions.

(a) Independent Consideration. Seller and Buyer agree that the Earnest Money shall be deemed to include the amount of ONE HUNDRED and NO/100 DOLLARS (\$100.00) (the "**Independent Consideration**"). Such Independent Consideration is paid by Buyer to Seller on the

date hereof as consideration for Seller's execution and delivery of this Agreement and for Buyer's right to inspect and evaluate the Property. The Independent Consideration is independent of any other consideration or payment provided for in this Agreement and, notwithstanding anything to the contrary herein, is non-refundable in all events, including any refund of the balance of the Earnest Money.

(b) Uniform Vendor and Purchaser Risk Act Not Applicable. It is the express intent of Buyer and Seller that the provisions of this Agreement govern the rights of the parties in the event of damage to or condemnation of the Property and that the Uniform Vendor and Purchaser Risk Act (Section 5.007 of the Texas Property Code) not apply to this Agreement.

(c) WAIVER OF CONSUMER RIGHTS. **BUYER HEREBY WAIVES ITS RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT, SECTION 17.41 ET SEQ., BUSINESS & COMMERCE CODE, A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY OF ITS OWN SELECTION, BUYER VOLUNTARILY CONSENTS TO THIS WAIVER.**

(d) No Recordation. Buyer hereby acknowledges that neither this Agreement nor any memorandum or affidavit hereof will be recorded of public record in any county in the State where the Property is located. If Buyer ever records or attempts to record this Agreement, or a memorandum or affidavit hereof, or any other similar document, then, notwithstanding anything herein to the contrary, that recordation or attempt at recordation will constitute a default by Buyer hereunder.

(e) VENUE. **THE OBLIGATIONS OF THE PARTIES HERETO ARE AND WILL BE PERFORMABLE IN THE COUNTY IN WHICH THE PROPERTY IS LOCATED. BY EXECUTING THIS AGREEMENT, EACH PARTY HERETO EXPRESSLY (i) CONSENTS AND SUBMITS TO PERSONAL JURISDICTION CONSISTENT WITH THE PREVIOUS SENTENCE, (ii) WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY CLAIM OR DEFENSE THAT SUCH VENUE IS NOT PROPER OR CONVENIENT, AND (iii) CONSENTS TO THE SERVICE OF PROCESS IN ANY MANNER AUTHORIZED BY TEXAS LAW.**

(f) Title Matters. Buyer acknowledges that Buyer should have an abstract covering the Real Property examined by an attorney of Buyer's own selection or that Buyer should be furnished with or obtain a policy of title insurance.

Section 18. Entire Agreement. This Agreement constitutes the sole and entire agreement among the parties hereto and no modification of this Agreement shall be binding unless in writing and signed by all parties hereto. No prior agreement or understanding pertaining to the subject matter hereof (including, without limitation, any letter of intent executed prior to this Agreement) shall be valid or of any force or effect from and after the date hereof.

Section 19. No Representations or Warranties. Except as expressly set forth in Section 11 this Agreement, the Property is being sold in an “AS IS, WHERE IS” condition and “WITH ALL FAULTS” as of the Effective Date and as of Closing. **THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT HAS BEEN NEGOTIATED BETWEEN SELLER AND BUYER. THIS AGREEMENT REFLECTS THE MUTUAL AGREEMENT OF SELLER AND BUYER, AND BUYER HAS THE RIGHT TO CONDUCT ITS OWN INDEPENDENT EXAMINATION OF THE PROPERTY. OTHER THAN THE MATTERS REPRESENTED IN SECTION 11 HEREOF AND ANY WARRANTY OF TITLE CONTAINED IN THE DEED AND IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS, BY WHICH ALL OF THE FOLLOWING PROVISIONS OF THIS SECTION 19 ARE LIMITED, BUYER HAS NOT RELIED UPON AND WILL NOT RELY UPON, EITHER DIRECTLY OR INDIRECTLY, ANY REPRESENTATION OR WARRANTY OF SELLER OR ANY OF SELLER’S AGENTS OR REPRESENTATIVES, AND BUYER HEREBY ACKNOWLEDGES THAT NO SUCH REPRESENTATIONS OR WARRANTIES HAVE BEEN MADE.**

EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN SECTION 11 OF THIS AGREEMENT, THE DEED AND THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS, SELLER SPECIFICALLY DISCLAIMS, AND NEITHER SELLER NOR ANY OF SELLER’S AFFILIATES NOR ANY OTHER PERSON IS MAKING, ANY REPRESENTATION, WARRANTY OR ASSURANCE WHATSOEVER TO BUYER, AND NO WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EITHER EXPRESS OR IMPLIED, ARE MADE BY SELLER OR RELIED UPON BY BUYER WITH RESPECT TO THE STATUS OF TITLE TO OR THE MAINTENANCE, REPAIR, CONDITION, DESIGN OR MARKETABILITY OF THE PROPERTY, OR ANY PORTION THEREOF, INCLUDING BUT NOT LIMITED TO (a) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (b) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, (c) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS, (d) ANY RIGHTS OF BUYER UNDER APPROPRIATE STATUTES TO CLAIM DIMINUTION OF CONSIDERATION, (e) ANY CLAIM BY BUYER FOR DAMAGES BECAUSE OF DEFECTS, WHETHER KNOWN OR UNKNOWN, WITH RESPECT TO THE IMPROVEMENTS OR THE PERSONAL PROPERTY, (f) THE FINANCIAL CONDITION OR PROSPECTS OF THE PROPERTY AND (g) THE COMPLIANCE OR LACK THEREOF OF THE REAL PROPERTY OR THE IMPROVEMENTS WITH GOVERNMENTAL REGULATIONS, INCLUDING WITHOUT LIMITATION ENVIRONMENTAL LAWS, NOW EXISTING OR HEREAFTER ENACTED OR PROMULGATED, IT BEING THE EXPRESS INTENTION OF SELLER AND BUYER THAT, EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, AND IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS, THE PROPERTY WILL BE CONVEYED AND TRANSFERRED TO BUYER IN ITS PRESENT CONDITION AND STATE OF REPAIR, “AS IS, WHERE IS, WITH ALL

FAULTS.” BUYER REPRESENTS THAT IT IS A KNOWLEDGEABLE, EXPERIENCED AND SOPHISTICATED BUYER OF REAL ESTATE, AND THAT IT IS RELYING SOLELY ON ITS OWN EXPERTISE AND THAT OF BUYER’S CONSULTANTS IN PURCHASING THE PROPERTY AND ON THE REPRESENTATIONS AND WARRANTIES OF SELLER EXPRESSLY SET FORTH IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, AND IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS. BUYER HAS BEEN GIVEN A SUFFICIENT OPPORTUNITY TO CONDUCT AND HAS CONDUCTED OR WILL CONDUCT SUCH INSPECTIONS, INVESTIGATIONS AND OTHER INDEPENDENT EXAMINATIONS OF THE PROPERTY AND RELATED MATTERS AS BUYER DEEMS NECESSARY, INCLUDING BUT NOT LIMITED TO THE PHYSICAL AND ENVIRONMENTAL CONDITIONS THEREOF, AND WILL RELY UPON SAME AND NOT, EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, AND IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS, RELY UPON ANY STATEMENTS OF SELLER (EXCLUDING THE LIMITED MATTERS REPRESENTED BY SELLER IN SECTION 11 HEREOF) NOR OF ANY OFFICER, DIRECTOR, EMPLOYEE, AGENT OR ATTORNEY OF SELLER. BUYER ACKNOWLEDGES THAT ALL INFORMATION OBTAINED BY BUYER WAS OBTAINED FROM A VARIETY OF SOURCES, AND SELLER WILL NOT BE DEEMED TO HAVE REPRESENTED OR WARRANTED THE COMPLETENESS, TRUTH OR ACCURACY OF ANY OF THE DOCUMENTS OR OTHER SUCH INFORMATION HERETOFORE OR HEREAFTER FURNISHED TO BUYER, EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, OR IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS. UPON CLOSING, BUYER WILL ASSUME THE RISK THAT ADVERSE MATTERS, INCLUDING, BUT NOT LIMITED TO, ADVERSE PHYSICAL AND ENVIRONMENTAL CONDITIONS, MAY NOT HAVE BEEN REVEALED BY BUYER’S INSPECTIONS AND INVESTIGATIONS. BUYER ACKNOWLEDGES AND AGREES THAT, UPON CLOSING, SUBJECT TO SUCH REPRESENTATIONS AS SET FORTH IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, AND IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS, SELLER WILL SELL AND CONVEY TO BUYER, AND BUYER WILL ACCEPT THE PROPERTY, “AS IS, WHERE IS, WITH ALL FAULTS.” BUYER FURTHER ACKNOWLEDGES AND AGREES THAT THERE ARE NO ORAL AGREEMENTS, ORAL WARRANTIES OR ORAL REPRESENTATIONS COLLATERAL TO OR AFFECTING THE PROPERTY BY SELLER, ANY AGENT OF SELLER OR ANY THIRD PARTY. SELLER IS NOT LIABLE OR BOUND IN ANY MANNER BY ANY ORAL OR WRITTEN STATEMENTS, REPRESENTATIONS OR INFORMATION PERTAINING TO THE PROPERTY FURNISHED BY ANY REAL ESTATE BROKER, AGENT, EMPLOYEE OR OTHER PERSON, UNLESS THE SAME ARE SPECIFICALLY SET FORTH OR REFERRED TO IN SECTION 11 OF THIS AGREEMENT, IN THE DEED, OR IN THE ASSIGNMENT OF LEASES AND SECURITY DEPOSITS. BUYER ACKNOWLEDGES THAT THE PURCHASE PRICE REFLECTS THE “AS IS, WHERE IS” NATURE OF THIS SALE AND

ANY FAULTS, LIABILITIES, DEFECTS OR OTHER ADVERSE MATTERS THAT MAY BE ASSOCIATED WITH THE PROPERTY. BUYER, WITH BUYER'S COUNSEL, HAS FULLY REVIEWED THE DISCLAIMERS AND WAIVERS SET FORTH IN THIS AGREEMENT AND UNDERSTANDS THE SIGNIFICANCE OF EACH AND AGREES THAT THE DISCLAIMERS AND OTHER AGREEMENTS SET FORTH HEREIN ARE AN INTEGRAL PART OF THIS AGREEMENT, AND THAT SELLER WOULD NOT HAVE AGREED TO SELL THE PROPERTY TO BUYER FOR THE PURCHASE PRICE WITHOUT THE DISCLAIMERS AND OTHER AGREEMENTS SET FORTH IN THIS AGREEMENT.

Except with respect to matters relating to breaches of Seller's representations and warranties contained in Section 11 (subject to the limitations contained therein), in the Deed and in the Assignment of Leases and Security Deposits, Buyer waives its right to recover from, and forever releases and discharges Seller and Seller's affiliates, parent and subsidiary entities, successors, assigns, partners, managers, members, employees, officers, directors, trustees, shareholders, counsel, representatives, agents (collectively, including Seller, the "Seller Releasees") from any and all demands, claims (including, without limitation, causes of action in tort), legal or administrative proceedings, losses, liabilities, damages, penalties, fines, liens, judgments, costs or expenses whatsoever (including, without limitation, attorneys' fees and costs), whether direct or indirect, known or unknown, foreseen or unforeseen (collectively, "Claims"), that may arise on account of the matters described in this Section 19.

Section 20. Applicable Law. This Agreement shall be construed under the laws of the State in which the Property is located.

Section 21. Broker's Commissions. Buyer and Seller each hereby represent that, except for Seller's Broker, there are no other brokers involved or that have a right to proceeds in this transaction. Seller shall be responsible for the payment of commissions due Seller's Broker at Closing pursuant to the terms of a separate written agreement. SELLER AND BUYER EACH HEREBY AGREE TO INDEMNIFY, DEFEND AND HOLD THE OTHER HARMLESS FROM ALL LOSS, COST, DAMAGE OR EXPENSE (INCLUDING REASONABLE ATTORNEYS' FEES AT BOTH TRIAL AND APPELLATE LEVELS) INCURRED BY THE OTHER AS A RESULT OF ANY CLAIM ARISING OUT OF THE ACTS OF THE INDEMNIFYING PARTY (OR OTHERS ON ITS BEHALF) FOR A COMMISSION, FINDER'S FEE OR SIMILAR COMPENSATION MADE BY ANY BROKER, FINDER OR ANY PARTY WHO CLAIMS TO HAVE DEALT WITH SUCH PARTY EXCEPT THAT NEITHER PARTY SHALL HAVE ANY OBLIGATIONS HEREUNDER WITH RESPECT TO ANY CLAIM BY THE OTHER PARTY'S BROKER SOLELY TO THE EXTENT THAT SUCH CLAIM DIRECTLY ARISES FROM SUCH PARTY'S FAILURE TO PAY OR CAUSE TO BE PAID A BROKER COMMISSION TO ITS BROKER. The representations, warranties and indemnity obligations contained in this section shall survive the Closing or the earlier termination of this Agreement.

Section 22. Assignment. Buyer shall not assign its rights under this Agreement without Seller's prior written consent; provided, however, that Buyer reserves the right to assign this Agreement without Seller's consent to any corporation, limited liability company, partnership, or other entity that, directly or indirectly, controls, is controlled by or is under common control with Buyer provided, (a) Buyer delivers to Seller written notice of its intention to do so at least five (5) Business Days prior to Closing, which notice shall include the legal name of the proposed assignee, (b) Buyer and the proposed assignee shall execute an assignment and assumption of this Agreement on a commercially reasonable form, and (d) in no event shall any assignment of this Agreement release or discharge Buyer from any liability or obligation hereunder. Notwithstanding the foregoing, under no circumstances shall Buyer have the right to assign this Agreement to any person or entity or employee benefit plan if Seller's sale of the Property to such person or entity or plan would, in the judgment of Seller, create or otherwise cause a "prohibited transaction" under or violation of ERISA. Seller may not assign this Agreement.

Section 23. Attorneys' Fees. In any action between Buyer and Seller as a result of failure to perform or a default under this Agreement, the prevailing party shall be entitled to recover from the other party, and the other party shall pay to the prevailing party, the prevailing party's reasonable attorneys' fees and disbursements and court costs incurred in such action. This Section shall survive the Closing or termination of this Agreement.

Section 24. Jury Waiver. BUYER AND SELLER DO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THEIR RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, OR UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE DOCUMENTS DELIVERED BY BUYER OR SELLER AT CLOSING, OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ANY ACTIONS OF ANY PARTY ARISING OUT OF OR RELATED IN ANY MANNER WITH RESPECT TO THIS AGREEMENT OR THE PROPERTY (INCLUDING WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT AND ANY CLAIMS OR DEFENSES ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS WAIVER IS A MATERIAL INDUCEMENT FOR SELLER TO ENTER INTO AND ACCEPT THIS AGREEMENT AND THE DOCUMENTS DELIVERED BY BUYER AT CLOSING AND SHALL SURVIVE THE CLOSING OR TERMINATION OF THIS AGREEMENT.

Section 25. Confidentiality/ No Public Disclosure.

(a) If required by Seller, Buyer shall execute a commercially reasonable confidentiality agreement respecting the transaction contemplated by this Agreement and any and all due diligence materials as are made available to Buyer, regardless of whether such due diligence materials relate to the Property. Even if Buyer does not execute a confidentiality agreement, any due diligence materials made available to Buyer (by any means of transmission or delivery) will be treated by Buyer as confidential information of Seller and used by Buyer solely for the purpose of evaluating the Property and must be returned promptly upon written request to Seller when Buyer terminates this Agreement.

(b) Except as may be required in order to comply with a court order or a governmental requirement, neither Buyer nor Seller shall publicly disclose by written press release, public announcement or otherwise, the financial terms of this transaction without the prior written approval of the other party, provided, however, that, notwithstanding the foregoing, either party shall be permitted to disclose the financial terms of the transaction to any of its attorneys, accountants, agents, consultants, advisors, investors and/or lenders who have agreed to keep such information confidential, and nothing contained herein shall prohibit either party from making any public announcement (including without limitation placing a notice on a website of such party and/or an affiliate thereof) or issuing any written press release to announce the occurrence of Closing, provided that the terms of this Agreement and Closing remain confidential.

(c) The provisions of this Section 26 shall survive Closing or the termination of this Agreement.

Section 26. Survival. Except for the rights and obligations of Seller and Buyer which by their express terms shall survive, including, without limitation, Seller's and Buyer's representations and warranties, none of the rights and obligations of Buyer and Seller shall survive Closing or the termination of this Agreement.

Section 27. Computation of Time. The time in which any act under this Agreement is to be done shall be computed by excluding the first day and including the last day. If the last day of any time period stated herein shall fall on a Saturday, Sunday or legal holiday, then the duration of such time period shall be extended so that it shall end on the next succeeding day which is not a Saturday, Sunday or legal holiday. Unless preceded by the word "business," the word "day" shall mean a calendar day. The phrase "business day" or "business days" shall have the meaning set forth in Section 1 hereof.

Section 28. Counterparts; Electronic Signatures. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become a binding agreement when one or more counterparts have been signed by each of the parties and delivered to the other party. Signatures to this Agreement, any amendment hereof and any notice given hereunder, delivered electronically via .pdf, .jpeg, .TIF, .TIFF or similar electronic format shall be deemed an original signature and fully effective as such for all purposes. Each party agrees to deliver promptly an executed original of this Agreement (and any amendment hereto) with its actual signature to the other party, but a failure to do so shall not affect the enforceability of this Agreement (or any amendment hereto), it being expressly agreed that each party to this Agreement shall be bound by its own electronically transmitted signature and shall accept the electronically transmitted signature of the other party to this Agreement.

[Signature page to follow.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

SELLER:

NATIONAL INSTRUMENTS CORPORATION,
a Delaware corporation

By: /s/ John Roiko
Name: John Roiko
Title: VP Finance & CAO

BUYER:

BRIDGEPOINT PARKWAY INVESTORS, LLC,
a Delaware limited liability company

By: Roseview Evergreen Fund, LLC Series 3, a Delaware limited liability company, its Manager

By: Roseview Manager, LLC, a Delaware limited liability company, its Manager

By: Roseview Investment Advisors, LLC, a Massachusetts limited liability company, its Member and Manager

By: /s/ Vincent J. Costantini
Vincent J. Costantini,
its Manager

JOINDER BY TITLE AGENT

Title Agent joins in the execution of this Agreement to evidence its agreement to receive, hold and disburse funds and documents in accordance with the terms and provisions of the Agreement, and acknowledges that it is the “reporting person” for purposes of Prop. Reg. § 1.6045-4(a), promulgated pursuant to the Code.

TITLE AGENT:

HERITAGE TITLE COMPANY OF AUSTIN, INC.

By: /s/ Austin Costley for

Name: Amy Fisher

Title: Senior VP

EXHIBITS AND SCHEDULES

- Exhibit A - Real Property
- Exhibit B - Form of Deed
- Exhibit C - Form of Assignment of Leases and Security Deposits
- Exhibit D - Form of Bill of Sale
- Exhibit E - Form of Assignment of Contracts
- Exhibit F - FIRPTA Affidavit
- Exhibit G - Form of Tenant Estoppel Certificate
- Schedule 1(n) - Contracts
- Schedule 2(b) - Exclusions from Lease Costs
- Schedule 11(b) - Litigation
- Schedule 11(d) - Violations
- Schedule 11(e) - Leases
- Schedule 6(b) - Due Diligence Materials

**REINSTATEMENT AND FIRST AMENDMENT TO
AGREEMENT FOR PURCHASE AND SALE OF REAL PROPERTY**

THIS REINSTATEMENT AND FIRST AMENDMENT TO AGREEMENT FOR PURCHASE AND SALE OF REAL PROPERTY (this "**Amendment**"), is dated as of July 11, 2019 (the "**Effective Date**"), by and between NATIONAL INSTRUMENTS CORPORATION, a Delaware corporation ("**Seller**"), and BRIDGEPOINT PARKWAY INVESTORS, LLC, a Delaware limited liability company ("**Buyer**").

WITNESSETH:

WHEREAS, pursuant to that certain Agreement for Purchase and Sale of Real Property (the "**Agreement**"), dated June 25, 2019, Seller agreed to sell, and Buyer agreed to purchase, certain real property as more particularly described in the Agreement (the "**Property**"), upon the terms and conditions more particularly set forth therein. All capitalized terms used but not defined herein shall have the respective meanings set forth in the Agreement.

WHEREAS, pursuant to a termination notice delivered by Buyer to Seller on July 5, 2019 (the "**Termination Notice**"), Buyer terminated the Agreement in accordance with Section 6(b) thereof.

WHEREAS, Seller and Buyer now desire to reinstate and amend the Agreement upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the covenants and agreements hereinabove and hereinafter contained and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Buyer and Seller agree as follows:

1. **Reinstatement.** The Agreement, as amended by this Amendment, is reinstated and the Termination Notice is withdrawn. Buyer and Seller agree that the Agreement, as reinstated and amended by this Amendment, is in full force and effect. By its execution and delivery of this Amendment, Buyer acknowledges that it has no right to terminate the Agreement other than in the event of a default by Seller in accordance with Section 9(b) thereof.

2. **Earnest Money.** Buyer deposited the Initial Earnest Money with Title Agent in accordance Section 4(b) of the Agreement. Buyer and Seller acknowledge and agree Title Agent is holding, and shall continue to hold, the Initial Earnest Money in accordance with the terms of the Agreement. Simultaneously with the execution of this Amendment, Buyer shall deposit the Additional Earnest Money with Title Agent as required by Section 4(b) of the Agreement.

3. **Fire, Life and Safety Inspection.** Buyer and Seller acknowledge and agree an on-going fire, life and safety inspection is being conducted on the Property (the "**Fire Inspection**"). If the Fire Inspection reveals a violation at the Property related to the fire strobe lighting, Seller shall provide written notice to Buyer within five (5) business days after Seller receives written notice of such violation whether Seller elects to either (a) cure the violation, or (b) proceed to Closing without curing the violation. If Seller elects option (b) above, at Closing, Buyer will be entitled to a credit against the Purchase Price in the amount of Twenty Thousand Dollars (\$20,000.00). If Seller elects option (a) above, but fails to cure the violation on or before the Closing Date, then Buyer will be entitled to a credit against the Purchase Price in the amount set forth

above. Seller's failure to cure any violations arising from the Fire Inspection shall not be deemed to be a default by Seller under the Agreement and, in such event, Buyer's sole remedy will be to obtain the credit against the Purchase Price at Closing as provided herein.

4. Closing Credit. At Closing, Buyer shall receive a credit against the Purchase Price in an amount equal to Nine Hundred Thousand Dollars (\$900,000.00).

5. Estoppels. Buyer acknowledges Seller previously submitted draft estoppels to Buyer for Buyer's review in accordance with Section 6(d) of the Agreement. If Buyer fails to deliver suggested changes to the draft estoppels to Seller within one (1) business day after the Effective Date, the draft estoppels will be deemed approved.

6. Miscellaneous.

(a) Except as expressly modified by the terms of this Amendment, the Agreement will remain in full force and effect and is hereby reinstated, ratified and confirmed by Seller and Buyer in all respects. In the event of any conflict between the terms and provisions of this Amendment and the Agreement, the terms and provisions of this Amendment will govern and control. From and after the date hereof, the term "this Agreement" shall be deemed to refer to the Agreement, as amended by this Amendment.

(b) This Amendment, together with the Agreement, contains the entire agreement between Seller and Buyer with respect to the matters stated herein. This Amendment cannot be modified in any manner except by a written agreement signed by Seller and Buyer.

(c) This Amendment shall be governed in all respects by the laws of the State of Texas.

(d) This Amendment may be executed in one or more original counterparts, each of which shall constitute an original, and all of which together shall constitute but one and the same instrument. An electronically transmitted signature shall have the same legal effect as an originally drawn signature.

(e) This Amendment is binding upon and shall inure to the benefit of the parties and their respective successors and assigns.

(f) *[Remainder of Page Left Blank; Signature Page Follows]*

IN WITNESS WHEREOF, Buyer and Seller have duly executed this Amendment as of the day and year first above written.

SELLER:

NATIONAL INSTRUMENTS CORPORATION,
a Delaware corporation

By: /s/ Karen Rapp
Name: Karen Rapp
Title: CFO

BUYER:

BRIDGEPOINT PARKWAY INVESTORS, LLC,
a Delaware limited liability company

By: Roseview Evergreen Fund, LLC Series 3, a Delaware limited liability company,
its Manager

By: Roseview Manager, LLC, a Delaware limited liability company, its Manager

By: Roseview Investment Advisors, LLC, a Massachusetts limited liability
company, its Member and Manager

By: /s/ Vincent J. Costantini
Vincent J. Costantini,
its Manager

**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, Alex M. Davern, 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: August 2, 2019

By: /s/ Alex M. Davern

Alex M. Davern

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: August 2, 2019

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, Alex M. Davern, 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, 2019 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/ Alex M. Davern

Alex M. Davern

Chief Executive Officer

Date: August 2, 2019

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, 2019 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: August 2, 2019