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

FORM 10-Q

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

For the quarterly period ended: September 30, 2016 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 *(State or other jurisdiction of incorporation or organization)*	**74-1871327** *(I.R.S. Employer Identification Number)*
11500 North MoPac Expressway **Austin, Texas** *(address of principal executive offices)*	**78759** *(zip code)*

Registrant's telephone number, including area code: (512) 338-9119

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

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

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

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

Class	**Outstanding at October 24, 2016**
Common Stock - $0.01 par value	128,919,410

NATIONAL INSTRUMENTS CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

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

	September 30, 2016	December 31, 2015
Assets	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 300,652	$ 251,129
Short-term investments	52,277	81,789
Accounts receivable, net	206,171	216,244
Inventories, net	196,391	185,197
Prepaid expenses and other current assets	55,281	65,381
Total current assets	810,772	799,740
Property and equipment, net	261,859	257,853
Goodwill	261,372	257,718
Intangible assets, net	110,161	108,196
Other long-term assets	28,729	30,349
Total assets	$ 1,472,893	$ 1,453,856
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 53,192	$ 50,970
Accrued compensation	31,615	27,956
Deferred revenue - current	113,645	112,283
Accrued expenses and other liabilities	23,940	11,756
Other taxes payable	33,461	37,250
Total current liabilities	255,853	240,215
Long-term debt	25,000	37,000
Deferred income taxes	37,787	44,673
Liability for uncertain tax positions	10,037	11,974
Deferred revenue - long-term	28,148	27,708
Other long-term liabilities	8,657	10,565
Total liabilities	365,482	372,135
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; 128,920,278 shares and 127,471,604 shares issued and outstanding, respectively	1,289	1,275
Additional paid-in capital	758,411	717,705
Retained earnings	372,893	400,831
Accumulated other comprehensive loss	(25,182)	(38,090)
Total stockholders’ equity	1,107,411	1,081,721
Total liabilities and stockholders’ equity	$ 1,472,893	$ 1,453,856

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net sales:				
Product	$ 278,521	$ 271,683	$ 816,486	$ 807,064
Software maintenance	27,843	28,129	83,161	84,053
Total net sales	306,364	299,812	899,647	891,117
Cost of sales:				
Product	74,734	75,144	225,261	225,646
Software maintenance	1,998	2,022	5,126	4,531
Total cost of sales	76,732	77,166	230,387	230,177
Gross profit	229,632	222,646	669,260	660,940
Operating expenses:				
Sales and marketing	116,662	114,507	346,230	335,916
Research and development	59,066	52,533	178,244	168,462
General and administrative	24,537	23,255	74,308	69,391
Total operating expenses	200,265	190,295	598,782	573,769
Operating income	29,367	32,351	70,478	87,171
Other income:				
Interest income	276	396	787	1,089
Net foreign exchange gain/(loss)	(760)	286	(1,471)	(1,965)
Other income (loss), net	301	133	(2,052)	787
Income before income taxes	29,184	33,166	67,742	87,082
Provision for income taxes	4,695	9,988	14,155	23,958
Net income	$ 24,489	$ 23,178	$ 53,587	$ 63,124
Basic earnings per share	$ 0.19	$ 0.18	$ 0.42	$ 0.49
Weighted average shares outstanding - basic	128,815	127,935	128,233	128,219
Diluted earnings per share	$ 0.19	$ 0.18	$ 0.42	$ 0.49
Weighted average shares outstanding - diluted	129,047	128,229	128,738	128,856
Dividends declared per share	$ 0.20	$ 0.19	$ 0.60	$ 0.57

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 24,489	$ 23,178	$ 53,587	$ 63,124
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	3,964	(3,789)	12,130	(14,273)
Unrealized (loss) gain on securities available-for-sale	(70)	(348)	479	441
Unrealized (loss) gain on derivative instruments	976	(7,642)	4,541	(14,378)
Other comprehensive (loss) gain, before tax	4,870	(11,779)	17,150	(28,210)
Tax (benefit) expense related to items of other comprehensive income	967	(3,935)	4,242	(8,238)
Other comprehensive (loss) gain, net of tax	3,903	(7,844)	12,908	(19,972)
Comprehensive income	$ 28,392	$ 15,334	$ 66,495	$ 43,152

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

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

	Nine Months Ended September 30,	
	2016	**2015**
Cash flow from operating activities:		
Net income	$ 53,587	$ 63,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,164	55,157
Stock-based compensation	19,635	19,151
Tax expense from deferred income taxes	(7,321)	(7,404)
Tax benefit from stock option plans	(439)	(944)
Changes in operating assets and liabilities:		
Accounts receivable	10,073	17,162
Inventories	(11,194)	(14,809)
Prepaid expenses and other assets	19,696	(3,370)
Accounts payable	2,222	(5,609)
Deferred revenue	1,802	(1,591)
Taxes, accrued expenses and other liabilities	9,855	(386)
Net cash provided by operating activities	153,080	120,481
Cash flow from investing activities:		
Capital expenditures	(34,408)	(28,102)
Capitalization of internally developed software	(24,048)	(22,639)
Additions to other intangibles	(1,969)	(2,240)
Acquisitions, net of cash received	(549)	(28,629)
Purchases of short-term investments	(9,054)	(29,649)
Sales and maturities of short-term investments	38,566	44,752
Net cash used in investing activities	(31,462)	(66,507)
Cash flow from financing activities:		
Proceeds from revolving line of credit	15,000	42,000
Principal payments on revolving line of credit	(27,000)	(17,000)
Proceeds from issuance of common stock	22,157	21,252
Repurchase of common stock	(5,635)	(72,559)
Dividends paid	(77,056)	(73,406)
Tax benefit from stock option plans	439	944
Net cash used in financing activities	(72,095)	(98,769)
Net change in cash and cash equivalents	49,523	(44,795)
Cash and cash equivalents at beginning of period	251,129	274,030
Cash and cash equivalents at end of period	$ 300,652	$ 229,235

The accompanying notes are an integral part of these 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, 2015, 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 September 30, 2016 and December 31, 2015, the results of our operations and comprehensive income for the three and nine month periods ended September 30, 2016 and 2015, and the cash flows for the nine month periods ended September 30, 2016 and 2015. Our operating results for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Note 2 – Earnings per share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include stock options and restricted stock units (“RSUs”), is computed using the treasury stock method.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and nine month periods ended September 30, 2016 and 2015, are as follows:

	Three Months Ended September 30, (In thousands) (Unaudited)		Nine Months Ended September 30, (In thousands) (Unaudited)	
	2016	**2015**	**2016**	**2015**
Weighted average shares outstanding-basic	128,815	127,935	128,233	128,219
Plus: Common share equivalents				
Stock options and RSUs	232	294	505	637
Weighted average shares outstanding-diluted	129,047	128,229	128,738	128,856

Stock awards to acquire 1,068,800 shares and 1,331,000 shares for the three months ended September 30, 2016 and 2015, respectively, and 58,000 shares 433,400 shares, for the nine months ended September 30, 2016 and 2015, respectively, were excluded in the computations of diluted EPS because the effect of including the stock awards would have been anti-dilutive.

Note 3 – Cash, cash equivalents and short-term investments

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

(In thousands)	As of September 30, 2016 (Unaudited)				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	$ 254,227	-	-	(1,173)	253,054
Money Market Accounts	47,598	-	-	-	47,598
Corporate bonds	51,979	110	(36)	(1,536)	50,517
Time deposits	1,760	-	-	-	1,760
Cash, cash equivalents, and short-term investments	$ 355,564	$ 110	$ (36)	$ (2,709)	$ 352,929

(In thousands)	December 31, 2015				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	$ 165,251	$ -	$ -	$ (1,551)	$ 163,700
Money Market Accounts	87,429	-	-	-	87,429
Corporate bonds	69,442	2	(281)	(1,119)	68,044
U.S. treasuries and agencies	4,419	-	(2)	-	4,417
Time deposits	9,326	2	-	-	9,328
Cash, cash equivalents, and short-term investments	$ 335,867	$ 4	$ (283)	$ (2,670)	$ 332,918

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

(In thousands)	As of September 30, 2016 (Unaudited)	
	Adjusted Cost	Fair Value
Due in less than 1 year	$ 37,442	$ 37,439
Due in 1 to 5 years	16,297	14,838
Total available-for-sale debt securities	$ 53,739	$ 52,277
Due in less than 1 year	Adjusted Cost	Fair Value
Corporate bonds	$ 35,682	$ 35,679
Time deposits	1,760	1,760
Total available-for-sale debt securities	$ 37,442	$ 37,439
Due in 1 to 5 years	Adjusted Cost	Fair Value
Corporate bonds	$ 16,297	$ 14,838
Total available-for-sale debt securities	$ 16,297	$ 14,838

Note 4 – Fair value measurements

We define fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market that market participants may use when pricing the asset or liability.

We follow a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement is determined based on the lowest level input that is significant to the fair value measurement. The three values of the fair value hierarchy are the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs that are not based on observable market data

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(In thousands)	Fair Value Measurements at Reporting Date Using (Unaudited)			
Description	**September 30, 2016**	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	$ 47,598	47,598	-	-
Short-term investments available for sale:				
Corporate bonds	50,517	-	50,517	-
Time deposits	1,760	1,760	-	-
Derivatives	2,698	-	2,698	-
Total Assets	$ 102,573	$ 49,358	$ 53,215	$ -
Liabilities				
Derivatives	$ (6,188)		(6,188)	
Total Liabilities	$ (6,188)	$ -	$ (6,188)	$ -

(In thousands)	Fair Value Measurements at Reporting Date Using			
Description	**December 31, 2015**	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	$ 87,429	$ 87,429	$ -	$ -
Short-term investments available for sale:				
Corporate bonds	68,044	-	68,044	-
U.S. treasuries and agencies	4,417	-	4,417	-
Time deposits	9,328	9,328	-	-
Derivatives	1,231	-	1,231	-
Total Assets	$ 170,449	$ 96,757	$ 73,692	$ -
Liabilities				
Derivatives	$ (8,746)	$ -	$ (8,746)	$ -
Total Liabilities	$ (8,746)	$ -	$ (8,746)	$ -

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 short-term investments available-for-sale have contractual maturities of less than 60 months.

Derivatives include foreign currency forward and option 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. Our foreign currency option contracts are valued using a market approach based on the quoted market prices which are derived from observable inputs including current and future spot rates, interest rate spreads as well as quoted market prices of similar instruments. We consider counterparty credit risk in the valuation of our derivatives. However, counterparty credit risk did not impact the valuation of our derivatives during the nine month period ended September 30, 2016. There were no transfers in or out of Level 1 or Level 2 during the nine month period ended September 30, 2016.

As of September 30, 2016, 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 September 30, 2016 and December 31, 2015. 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 over 50 countries. Sales outside of the Americas accounted for approximately 58% of our net sales during each of the three month periods ended September 30, 2016 and 2015, and approximately 61% and 58% of our net sales during the nine month periods ended September 30, 2016 and 2015, 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 and purchased option 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 and option 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 and purchased option 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 and purchased option 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. For option 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 option contracts net of the premium paid designated as hedges. Our foreign currency purchased option contracts are purchased "at-the-money" or "out-of-the-money." We purchase foreign currency forward and option contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, Hungarian forint, British pound, Malaysian ringgit and Chinese yuan) and limit the duration of these contracts to 40 months or less.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income ("OCI") and reclassified into earnings in the same line item (net sales, operating expenses, or cost of sales) associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. 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 and purchased option contracts 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 with the following notional amounts:

(In thousands)	US Dollar Equivalent	
	As of September 30, 2016 (Unaudited)	**As of December 31, 2015**
Euro	$ 87,972	$ 30,867
Japanese yen	38,217	4,119
Hungarian forint	63,587	38,836
British pound	2,826	4,342
Malaysian ringgit	46,692	40,249
Chinese yuan	34,390	26,548
Total forward contracts notional amount	$ 273,684	$ 144,961

The contracts in the foregoing table had contractual maturities of 40 months or less at September 30, 2016 and December 31, 2015.

At September 30, 2016, we expect to reclassify $1.0 million of losses on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, $1.1 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 $1.3 million of losses on derivative instruments from accumulated OCI to operating expenses during the next twelve months when the hedged operating expenses occur. Expected amounts are based on derivative valuations at September 30, 2016. Actual results may vary materially as a result of changes in the corresponding exchange rates subsequent to this date.

We did not record any ineffectiveness from our hedges during the three and nine month periods ended September 30, 2016 and 2015.

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 120 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 gain (loss)." As of September 30, 2016 and December 31, 2015, we held foreign currency forward contracts with a notional amount of $66 million and $97 million, respectively.

The following tables present the fair value of derivative instruments on our Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, respectively.

	Asset Derivatives			
(In thousands)	September 30, 2016 (Unaudited)		December 31, 2015	
	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	$ 1,030		$ 391
Foreign exchange contracts - LT forwards	Other long-term assets	950		-
Total derivatives designated as hedging instruments		$ 1,980		$ 391
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$ 718		$ 840
Total derivatives not designated as hedging instruments		$ 718		$ 840
Total derivatives		$ 2,698		$ 1,231

	Liability Derivatives			
(In thousands)	September 30, 2016 (Unaudited)		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts - ST forwards	Accrued expenses and other liabilities	$ (4,116)		$ (4,653)
Foreign exchange contracts - LT forwards	Other long-term liabilities	(1,349)		(3,613)
Total derivatives designated as hedging instruments		$ (5,465)		$ (8,266)
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Accrued expenses and other liabilities	$ (723)		$ (480)
Total derivatives not designated as hedging instruments		$ (723)		$ (480)
Total derivatives		$ (6,188)		$ (8,746)

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for three month periods ended September 30, 2016 and 2015, respectively:

September 30, 2016
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$ (1,156)	Net sales	$ (160)	Net foreign exchange gain/(loss)	$ -
Foreign exchange contracts - forwards and options	1,412	Cost of sales	(414)	Net foreign exchange gain/(loss)	-
Foreign exchange contracts - forwards and options	720	Operating expenses	(389)	Net foreign exchange gain/(loss)	-
Total	$ 976		$ (963)		$ -

September 30, 2015
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$ (4,706)	Net sales	$ 5,405	Net foreign exchange gain/(loss)	$ -
Foreign exchange contracts - forwards and options	(649)	Cost of sales	(698)	Net foreign exchange gain/(loss)	-
Foreign exchange contracts - forwards and options	(2,287)	Operating expenses	(573)	Net foreign exchange gain/(loss)	-
Total	$ (7,642)		$ 4,134		$ -

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
		September 30, 2016 (Unaudited)	**September 30, 2015 (Unaudited)**
Foreign exchange contracts - forwards		$ (814)	$ 2,967
Total		$ (814)	$ 2,967

The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the nine month periods ended September 30, 2016 and 2015, respectively:

September 30, 2016
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship		Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)		Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$	$(1,432)	Net sales	$	$(1,301)	Net foreign exchange gain/(loss)	$	-
Foreign exchange contracts - forwards and options		$3,009	Cost of sales		$(1,367)	Net foreign exchange gain/(loss)		-
Foreign exchange contracts - forwards and options		$2,964	Operating expenses		$(1,278)	Net foreign exchange gain/(loss)		-
Total	$	4,541		$	(3,946)		$	-

September 30, 2015
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship		Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)		Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$	(7,599)	Net sales	$	15,687	Net foreign exchange gain/(loss)	$	-
Foreign exchange contracts - forwards and options		(2,608)	Cost of sales		(1,540)	Net foreign exchange gain/(loss)		-
Foreign exchange contracts - forwards and options		(4,171)	Operating expenses		(1,315)	Net foreign exchange gain/(loss)		-
Total	$	(14,378)		$	12,832		$	-

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income		Amount of Gain (Loss) Recognized in Income		Amount of Gain (Loss) Recognized in Income
			September 30, 2016 (Unaudited)		**September 30, 2015 (Unaudited)**
Foreign exchange contracts - forwards	Net foreign exchange gain/(loss)	$	(1,005)	$	3,606
Total		$	(1,005)	$	3,606

Note 6 – Inventories, net

Inventories, net consist of the following:

(In thousands)	September 30, 2016 (Unaudited)	December 31, 2015
Raw materials	$ 97,174	$ 94,816
Work-in-process	9,059	10,819
Finished goods	90,158	79,562
	$ 196,391	$ 185,197

Note 7 – Intangible assets, net

Intangible assets at September 30, 2016 and December 31, 2015 are as follows:

(In thousands)	September 30, 2016 (Unaudited)			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	$ 90,878	$ (29,112)	$ 61,766	$ 80,682	$ (30,434)	$ 50,248
Acquired technology	95,148	(78,078)	17,070	93,976	(69,908)	24,068
Patents	31,216	(16,905)	14,311	30,221	(14,941)	15,280
Other	44,697	(27,683)	17,014	43,201	(24,601)	18,600
	$ 261,939	$ (151,778)	$ 110,161	$ 248,080	$ (139,884)	$ 108,196

Software development costs capitalized for the three month periods ended September 30, 2016 and 2015 were $9.1 million and $11.7 million, respectively, and related amortization expense was $4.9 million and $4.4 million, respectively. For the nine month periods ended September 30, 2016 and 2015, capitalized software development costs were $25 million and $24 million, respectively, and related amortization expense was $14 million for each period. Capitalized software development costs for the three month periods ended September 30, 2016 and 2015 included costs related to stock based compensation of $445,000 and $480,000, respectively. For the nine month periods ended September 30, 2016 and 2015, capitalized software development costs included costs related to stock based compensation of $970,000 and $950,000 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 $8 million and $9 million for the three months ended September 30, 2016 and 2015, respectively, and $27 million and $26 million for the nine month periods ended September 30, 2016 and 2015.

Note 8 – Goodwill

The carrying amount of goodwill as of September 30, 2016, was as follows:

	Amount (In thousands)
Balance as of December 31, 2015	$ 257,718
Acquisitions	419
Foreign currency translation impact	3,235
Balance as of September 30, 2016 (unaudited)	$ 261,372

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 was performed as of February 28, 2016. No impairment of goodwill was identified during 2016 or 2015. (See “Note 17 – Acquisitions” of Notes to Consolidated Financial Statements for additional discussion related to our recent acquisitions).

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 account for uncertainty in income taxes recognized in our financial statements using prescribed recognition thresholds and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on our tax returns. We had $10.6 million and $12.5 million unrecognized tax benefits at September 30, 2016 and December 31, 2015, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of $606,400 and $1.2 million for the three and nine month periods ended September 30, 2016, respectively, as a result of the tax positions taken during these periods. We recorded a gross decrease in unrecognized tax benefits of $3.5 million for each of the three and nine month periods ended September 30, 2016 as a result of closing open tax years. As of September 30, 2016, it is reasonably possible that we will recognize tax benefits in the amount of $3.6 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 September 30, 2016, we had approximately $1.0 million accrued for interest related to uncertain tax positions. The tax years 2008 through 2016 remain open to examination by the major taxing jurisdictions to which we are subject.

Our provision for income taxes reflected an effective tax rate of 16% and 30% for the three month periods ended September 30, 2016 and 2015, respectively, and 21% and 28% for the nine month periods ended September 30, 2016 and 2015, respectively. For the three and nine month periods ended September 30, 2016, our effective tax rate was lower than the U.S. federal statutory rate of 35% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, the research and development tax credit, and a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit. For the three and nine month periods ended September 30, 2015, our effective tax rate was lower than the U.S. federal statutory rate of 35% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, and a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit.

Our earnings in Hungary are subject to a statutory tax rate of 19%. The difference between this rate and the statutory U.S. rate of 35% resulted in income tax benefits of $1.8 million and $500,000, for the three month periods ended September 30, 2016 and 2015, respectively, and $3.8 million and $2.2 million for the nine month periods ended September 30, 2016 and 2015, respectively.

The tax position of our Hungarian operation continues to benefit from assets created by the restructuring of our operations in Hungary. In addition, our research and development activities in Hungary continue to benefit from a tax law in Hungary that provides for an enhanced deduction for qualified research and development expenses. Partial release of the valuation allowance on assets from the restructuring and the enhanced tax deduction for research expenses resulted in income tax benefits of $2.7 million and $1.9 million for the three month periods ended September 30, 2016 and 2015, respectively, and $6.5 million and $6.0 million for the nine month periods ended September 30, 2016 and 2015, 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 tax holiday resulted in income tax benefits of $771,000 and $460,000 for the three month periods ended September 30, 2016 and 2015, respectively, and $1.9 million and $2.2 million for the nine month periods ended September 30, 2016 and 2015, respectively.

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 and option contracts and securities classified as available-for-sale. The accumulated OCI, net of tax, for the nine month periods ended September 30, 2016 and 2015, consisted of the following:

	September 30, 2016 (Unaudited)			
(In thousands)	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2015	$ (31,871)	$ (857)	(5,362)	$ (38,090)
Current-period other comprehensive income	12,130	479	595	13,204
Reclassified from accumulated OCI into income	-	-	3,946	3,946
Income tax expense	2,582	123	1,537	4,242
Balance as of September 30, 2016	$ (22,323)	$ (501)	$ (2,358)	$ (25,182)

	September 30, 2015 (Unaudited)			
(In thousands)	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2014	$ (17,304)	$ (1,399)	$ 7,039	$ (11,664)
Current-period other comprehensive (loss) income	(14,273)	441	(1,547)	(15,379)
Reclassified from accumulated OCI into income	-	-	(12,832)	(12,832)
Income tax (benefit) expense	(3,318)	88	(5,008)	(8,238)
Balance as of September 30, 2015	$ (28,259)	$ (1,046)	$ (2,332)	$ (31,637)

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 $.01 per share, and (ii) 360,000,000 shares of common stock, par value $.01 per share.

Stock option plans

Our stockholders approved the 1994 Incentive Stock Option Plan (the "1994 Plan") in May 1994. At the time of approval, 13,668,750 shares of our common stock were reserved for issuance under this plan. In 1997, an additional 10,631,250 shares of our common stock were reserved for issuance under this plan, and an additional 1,125,000 shares were reserved for issuance under this plan in 2004. The 1994 Plan terminated in May 2005, except with respect to outstanding awards previously granted thereunder.

Awards under the 1994 Plan were either incentive stock options within the meaning of Section 422 of the Internal Revenue Code or nonqualified options. The right to purchase shares under the options vested over a five to ten-year period, beginning on the date of grant. Vesting of ten year awards may have accelerated based on the Company's previous year's earnings and revenue growth but shares could not accelerate to vest over a period of less than five years. Stock options were required to be exercised within ten years from date of grant. Stock options were issued with an exercise price which was equal to the market price of our common stock at the grant date. We estimated the potential forfeitures of stock grants and adjusted the compensation cost recorded accordingly. During nine month period ended September 30, 2016, we did not make any changes in accounting principles or methods of estimates related to the 1994 Plan.

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 the 1994 Plan (our incentive stock option plan which terminated in May 2005), and any shares that returned to the 1994 Plan as a result of termination of options or repurchase of shares issued under such plan. The 2005 Plan, 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. 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. There were 4,849,044 shares available for grant under the 2015 Plan at September 30, 2016.

We estimate potential forfeitures of RSUs and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods. During the nine month period ended September 30, 2016, we did not make any changes in accounting principles or methods of estimates related to the 2005, 2010 and 2015 Plans.

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 13, 2014, our stockholders approved an additional 3,000,000 shares for issuance under our employee stock purchase plan. At September 30, 2016, we had 1,215,752 shares of common stock reserved for future issuance under this plan. We issued 935,128 shares under this plan in the nine month period ended September 30, 2016. The weighted average purchase price of the employees' purchase rights was $23.69 per share. During the nine month period ended September 30, 2016, 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. There were no shares of preferred stock issued and outstanding at September 30, 2016.

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, we did not make any share repurchases during the three month period ended September 30, 2016. We repurchased a total of 2,212,301 shares of our common stock at a weighted average price per share of $28.94 during the three month period ended September 30, 2015. We repurchased a total of 206,780 shares and 2,500,305 shares of our common stock at a weighted average price per share of $27.25 and $29.02 during the nine month periods ended September 30, 2016 and 2015, respectively. At September 30, 2016, there were 1,134,247 shares remaining available for repurchase under this program. This repurchase program does not have an expiration date.

During the nine month period ended September 30, 2016, we did not receive any proceeds from the exercise of stock options as all remaining options outstanding under our 1994 Plan were exercised or expired in 2015.

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 product in three geographic regions which consist of Americas; Europe, Middle East, India, and Africa (EMEIA); and Asia-Pacific (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.

Total net sales by the major geographic areas in which we operate, are as follows:

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2016	**2015**	**2016**	**2015**
Net sales:				
Americas	$ 129,710	$ 126,477	$ 354,806	$ 371,479
EMEIA	92,232	97,899	278,616	289,130
APAC	84,422	75,436	266,225	230,508
	$ 306,364	$ 299,812	$ 899,647	$ 891,117

Based on the billing location of the customer, total sales outside the U.S. for the three month periods ended September 30, 2016 and 2015 were $184 million and $180 million, respectively, and $564 million and $544 million for the nine month periods ended September 30, 2016 and 2015, respectively.

Total property and equipment, net, outside the U.S. was $136 million and $138 million as of September 30, 2016 and December 31, 2015, respectively.

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 $50.0 million to $125.0 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 $25.0 million in the aggregate, subject to consent of the Lender and terms and conditions to be mutually agreed between us and 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 0.5%, or a LIBOR rate plus a spread of 1.125% to 2.0%, 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 0.175% to 0.300%, 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 September 30, 2016, we were in compliance with all 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 September 30, 2016, we had outstanding $25 million in borrowings under this line of credit. During the three month periods ended September 30, 2016 and September 30, 2015, we incurred interest expense related to our outstanding borrowings of $167,000 and $53,000, respectively. During the nine month periods ended September 30, 2016 and September 30, 2015, we incurred interest expense related to our outstanding borrowings of $377,000 and $53,000, respectively. As of September 30, 2016 and September 30, 2015, the weighted-average interest rate on the revolving line of credit was 1.6% and 1.3%, 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 nine month periods ended September 30, 2016 and 2015 was as follows:

(In thousands)	Nine Months Ended September 30, (Unaudited)	
	2016	**2015**
Balance at the beginning of the period	$ 1,755	$ 1,885
Accruals for warranties issued during the period	1,470	3,572
Settlements made (in cash or in kind) during the period	(1,104)	(3,732)
Balance at the end of the period	$ 2,121	$ 1,725

As of September 30, 2016, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $6.3 million over the next twelve months.

As of September 30, 2016, we had outstanding guarantees for payment of customs and foreign grants totaling approximately $3.1 million, which are generally payable over the next twelve months.

Note 15 – Recently issued and adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. The update is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 and early adoption is permitted for annual reporting periods, and interim periods within that period, beginning after December 31, 2016. We intend to adopt this standard as of January 1, 2018 by applying the modified retrospective transition method. Consequently, the cumulative effect of applying the standard will be recognized in the first quarter of 2018. We are currently evaluating the effect that the updated standard will have on our Consolidated Financial Statements and related disclosures. The adoption of this standard will likely impact the timing of revenue recognition for some of our software licensing arrangements, particularly arrangements with customers of our enterprise licensing agreements.

In March 2016, FASB issued ASU 2016-09, *Compensation - Stock Compensation*, which simplifies the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The update is effective for annual and interim periods beginning after December 31, 2016 and early adoption is permitted. We are currently evaluating the effect that the updated standard will have on our Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC840, *Leases*. The guidance requires lessees to recognize most lease liabilities on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The update states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The update is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the effect that the updated standard will have on our Consolidated Financial Statements and related disclosures.

Other Updates

The FASB also issued the following Accounting Standards Update which is not expected to have a material impact on our financial condition, results of operations or cash flows upon adoption:

- Update 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)

Note 16 – Litigation

We are not currently a party to any material litigation. However, in the ordinary course of our business, we are involved in a limited number of legal actions, both as plaintiff and defendant, 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 future litigation or dispute.

Note 17 – Acquisitions

2015 Acquisitions

Micropross

On October 23, 2015, we completed the acquisition of M2, a privately held French holding company and its wholly-owned subsidiary, Micropross, a supplier of software-based test systems for Near Field Communications (NFC), smart cards, and wireless charging test systems, pursuant to an Agreement for the Sale and Purchase of Shares (the “Purchase Agreement”). Under the terms of the Purchase Agreement, the purchase price of the transaction was approximately $99 million, which included $89 million cash consideration paid directly to existing shareholders and $10.4 million of consideration which was paid by issuing an aggregate of 367,481 shares of our common stock. We also assumed and repaid $5 million of existing Micropross borrowings, net of cash received. The results of operations of Micropross are included in our consolidated financial statements from the date of acquisition.

The allocation of the purchase price was determined using the fair value of assets and liabilities acquired as of October 23, 2015. The preliminary purchase price allocation related to the Micropross acquisition was not finalized with respect to inventory and deferred revenue as of September 30, 2016, and was based upon a preliminary valuation using information obtained during the reporting period.

Other Acquisitions

During the twelve month period ending December 31, 2015, we acquired four additional businesses, all of which were treated as business combinations. The total purchase price for these four acquisitions was approximately $36 million which consisted of $31 million cash, net of $1.5 million in cash received, $1.1 million in cash obligations incurred to former owners, $3.4 million in shares of our common stock, and $ 0.2 million of a previously-held interest in an equity-method investee. The acquired businesses included a leading designer, manufacturer, and provider of data acquisition solutions for the test and measurement marketplace, a technology innovator and leading supplier of high-performance FPGA prototyping and deployment products for advanced wireless research, wireless infrastructure and military/defense applications and a PXI modular instruments hardware product line. Our consolidated financial statements include the operating results from the dates of acquisition.

The allocation of the purchase prices for the four acquisitions was determined using the fair value of assets and liabilities acquired as of the acquisition dates.

Pro-forma Results of Operations

Pro-forma results of operations have not been presented because the effects of the acquired operations were not material individually or in the aggregate.

We allocate the fair value of the purchase consideration of the Company’s acquisitions to the tangible assets, intangible assets, including in-process research and development (“IPR&D”), if any, and liabilities assumed, based on estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. IPR&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When a project underlying reported IPR&D is completed, the corresponding amount of IPR&D is amortized over the asset’s estimated useful life. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred in “Selling, General, and Administrative” in the Consolidated Statements of Operations. The following table summarizes the aggregate allocation of the purchase price of our acquisitions resulting from all adjustments as of September 30, 2016 (in thousands):

Purchase Price		
Cash consideration paid to former shareholders	$	121,944
Issuance of common stock		13,778
Fair value of previously held interest in equity method investee		214
Future payment obligations		1,139
Non-Cash Consideration		15,131
Total Purchase Price	$	137,075
Net Assets Acquired		
Fair value of debt assumed and cash received	$	(3,668)
Fair value of tangible net assets acquired (excluding debt assumed and cash received)		1,136
Fair value of identifiable intangible assets acquired		30,783
Goodwill		116,635
Deferred Tax Assets/(Liabilities)		(7,811)
Total Net Assets Acquired	$	137,075

Note 18 – Subsequent events

On October 26, 2016, our Board of Directors declared a quarterly cash dividend of $0.20 per common share, payable on December 5, 2016, to stockholders of record on November 14, 2016.

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," "may," "will," "intend to," "project," "anticipate", "continue," or "estimate" 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 38, 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, 2015, for further discussion of our business and the risks attendant thereto.

Recent Events

On August 30, 2016, we announced that Alex Davern, our current Chief Operating Officer and Chief Financial Officer, will become our President and Chief Executive Officer. Mr. Davern will succeed Dr. James Truchard, who will retain his role as Chairman of our Board of Directors. These changes will be effective on January 1, 2017.

Overview

National Instruments Corporation (the "Company", "we", "us" or "our") designs, manufactures and sells systems to engineers and scientists that accelerate productivity, innovation and discovery. Our graphical system design approach to engineering provides an integrated software and hardware platform that speeds the development of systems needing measurement and control. We believe that our long-term vision and focus on technology supports the success of our customers, employees, suppliers and stockholders. We sell to a large number of customers in a wide variety of industries. We have been profitable in every year since 1990.

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 such as custom application specific integrated circuits ("ASICs") across multiple products.

We sell into test and measurement and industrial/embedded applications in a broad range of industries and are subject to the economic and industry forces that drive those markets. 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 semiconductor capital equipment, telecom and mobile devices, consumer electronics, energy, defense, aerospace and automotive.

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, OEMs, VARs, 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 58% of our net sales during each of the three month periods ended September 30, 2016 and 2015, and approximately 61% and 58% of our net sales during the nine month periods ended September 30, 2016 and 2015, 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 12 – Segment and geographic information" 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. In the remainder of 2016, our site in Malaysia is expected to produce approximately 35% of our global production and our site in Hungary is expected to produce approximately 65% of our global production. 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 subcontractors are used from time to time. The majority of our electronic cable assemblies are produced by subcontractors; however, we do manufacture some on an exception basis. Our software duplication, technical manuals and product support documentation is primarily produced by subcontractors.

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 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. In the three month period ended September 30, 2016, the average of the Global PMI was 50.9. The average of the new order element of the Global PMI was 51.3 for the quarter ended September 30, 2016. During the quarter ended September 30, 2016, the PMI in the U.S. and the Eurozone maintained readings at or above 50. Although these readings are indicative of expansion in the industrial sector we are unable to predict whether the industrial economy, as measured by the PMI, will remain above the neutral reading of 50, strengthen or contract during the remainder of 2016.

During the third quarter of 2016, we continued to experience headwinds in our business as a result of the continued strength of the U.S. dollar and continued weakness in the energy and personal computer ("PC") markets. In the third quarter of 2016, we saw a 2.5% year over year decrease from orders under $20,000, a 1.8% year over year increase from orders between $20,000 and $100,000, and a 28% year over year increase from orders over $100,000. Excluding our largest customer, orders over $100,000 were up 34% year over year. The timing and amount of orders from our largest customer are unpredictable and therefore can cause unusual variations in the results and trends of our business. See "Results of Operations" below for additional discussion on the impact of orders from our largest customer on our business for the nine month period ended September 30, 2016.

During the third quarter of 2016, we continued to experience broad volatility in the foreign exchange markets and a strong U.S. dollar in many of the currency markets where we have exposure. As of the date of this filing, the U.S. dollar index, as tracked by the St. Louis Federal Reserve, remains near a ten year high. See "Results of Operations" below for additional discussion on the impact of foreign exchange rates on our business for the nine month period ended September 30, 2016.

We have hedging programs in place to help mitigate the risks associated with foreign currency risks. 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 hedging programs.) In the fourth quarter of 2016, we expect continued market uncertainty and volatility following the impending exit of the United Kingdom (U.K.) from the European Union ("Brexit") and the upcoming U.S. election.

Results of Operations

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

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2016	**2015**	**2016**	**2015**
Net sales:				
Americas	42.3 %	42.2 %	39.4 %	41.7 %
EMEIA	30.1	32.6	31.0	32.4
APAC	27.6	25.2	29.6	25.9
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	25.1	25.7	25.6	25.8
Gross profit	74.9	74.3	74.4	74.2
Operating expenses:				
Sales and marketing	38.1	38.2	38.5	37.7
Research and development	19.3	17.5	19.8	18.9
General and administrative	8.0	7.8	8.3	7.8
Total operating expenses	65.4	63.5	66.6	64.4
Operating income	9.5	10.8	7.8	9.8
Other income (expense):				
Interest income	0.1	0.1	0.1	0.1
Net foreign exchange loss	(0.2)	0.1	(0.2)	(0.2)
Other income, net	0.1	0.0	(0.2)	0.1
Income before income taxes	9.5	11.1	7.5	9.8
Provision for income taxes	1.5	3.3	1.5	2.7
Net income	8.0 %	7.7 %	6.0 %	7.1 %

Figures may not sum due to rounding.

Results of Operations for the three and nine month periods ended September 30, 2016 and 2015

Net Sales. The following table sets forth our net sales for the three and nine month periods ending September 30, 2016 and 2015 along with the changes between the corresponding periods.

	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 30, (Unaudited)			
			Change				Change	
($ in millions)	**2016**	**2015**	**Dollars**	**Percentage**	**2016**	**2015**	**Dollars**	**Percentage**
Product sales	$ 278.5	$ 271.7	6.8	2.5%	$ 816.5	$ 807.1	9.4	1.2%
Software maintenance sales	27.9	28.1	(0.2)	(1.0%)	83.1	84.0	(0.9)	(1.1%)
Total net sales	$ 306.4	$ 299.8	6.6	2.2%	$ 899.6	$ 891.1	8.5	1.0%

The factors that most significantly impacted our net sales were the year over year change in orders from our largest customer and the year over year impact of changes in the foreign currency exchange markets, both discussed in more detail below.

Large orders, defined as orders with a value greater than $100,000, increased by 28% year over year during the three months ended September 30, 2016, compared to the year over year decrease of 7% in the three month period ended September 30, 2015. A significant factor in the continued expansion of our large orders in the three month period ended September 30, 2016, compared to the comparable period in 2015 was strong demand for our RF products. In the nine month period ended September 30, 2016, large orders increased by 10% year over year compared to the year over year decrease of 7% during the nine month period ended September 30, 2015. A significant factor in the continued expansion of our large orders in the nine month period ended September 30, 2016, compared to the comparable period in 2015 was the result of an increase in orders from our largest customer. Year over year, orders from our largest customer increased by 53% in the nine months ended September 30, 2016. Excluding the impact of our largest customer, large orders increased by 34% year over year during the three month period ended September 30, 2016, and increased by 5% year over year during the nine month period ended September 30, 2016. Orders from our largest customer are discussed in more detail below. During the three month periods ended September 30, 2016 and 2015, large orders were 24% and 20% of our total orders, respectively, and for the nine month periods ended September 30, 2016 and 2015, large orders were 23% and 22% of our total orders, respectively. Large orders 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.

During the three month periods ended September 30, 2016 and 2015, we received $4.8 million and $6.2 million, respectively, in orders from our largest customer. During the nine month periods ended September 30, 2016 and 2015, we received $29 million and $19 million, respectively, in orders from our largest customer. In the three month periods ended September 30, 2016 and 2015, we recognized net sales of $7.9 million and $5.9 million, respectively, from orders from our largest customer, and in the nine month periods ended September 30, 2016 and 2015, we recognized net sales of $31 million and $19 million, respectively, from these orders.

The following table sets forth our net sales by geographic region for the three and nine month periods ending September 30, 2016 and 2015 along with the changes between the corresponding periods and the region's percentage of total net sales.

	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 30, (Unaudited)			
			Change				Change	
($ in millions)	2016	2015	Dollars	Percentage	2016	2015	Dollars	Percentage
Americas	$ 129.7	$ 126.5	3.2	2.6%	$ 354.8	$ 371.5	(16.7)	(4.5%)
Percentage of total net sales	42.3%	42.2%			39.4%	41.7%		
EMEIA	$ 92.2	$ 97.9	(5.7)	(5.8%)	$ 278.6	$ 289.1	(10.5)	(3.6%)
Percentage of total net sales	30.1%	32.6%			31.0%	32.4%		
APAC	$ 84.4	$ 75.4	9.0	11.9%	$ 266.2	$ 230.5	35.7	15.5%
Percentage of total net sales	27.6%	25.2%			29.6%	25.9%		

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 nine month periods ended September 30, 2015). The following tables present this information, along with the impact of changes in foreign currency exchange rates on sales denominated in local currencies, for the three and nine month periods ended September 30, 2016.

($ in millions)	Three Months ended September 30, 2015 GAAP Net Sales	Change in Constant Dollars Dollars	Change in Constant Dollars Percentage	Impact of changes in foreign currency exchange rates on net sales Dollars	Impact of changes in foreign currency exchange rates on net sales Percentage	Three Months ended September 30, 2016 GAAP Net Sales
Americas	$ 126.5	3.7	2.9%	(0.4)	(0.3%)	129.7
EMEIA	$ 97.9	1.1	1.1%	(6.7)	(6.9%)	92.2
APAC	$ 75.4	9.4	12.5%	(0.4)	(0.6%)	84.4
Total net sales	$ 299.8	14.1	4.7%	(7.6)	(2.5%)	306.4

Figures may not sum due to rounding.

($ in millions)	Nine Months ended September 30, 2015 GAAP Net Sales	Change in Constant Dollars Dollars	Change in Constant Dollars Percentage	Impact of changes in foreign currency exchange rates on net sales Dollars	Impact of changes in foreign currency exchange rates on net sales Percentage	Nine Months ended September 30, 2016 GAAP Net Sales
Americas	$ 371.5	(13.3)	(3.6%)	(3.4)	(0.9%)	354.8
EMEIA	$ 289.1	10.8	3.7%	(21.3)	(7.4%)	278.6
APAC	$ 230.5	43.9	19.0%	(8.2)	(3.5%)	266.2
Total net sales	$ 891.1	41.4	4.6%	(32.9)	(3.7%)	899.6

Figures may not sum due to rounding.

To help protect against changes in U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales, we have instituted 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 month periods ended September 30, 2016 and 2015, these hedges had the effect of decreasing our net sales by $0.2 million and increasing our net sales by $5.4 million, respectively. During the nine month periods ended September 30, 2016 and 2015, these hedges had the effect of decreasing our net sales by $1.3 million and increasing our net sales by $15.7 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 2016 and 2015).

Gross Profit. Our gross profit as a percentage of sales is impacted by many factors including changes in the amount of revenues from our largest customer and changes in the foreign currency exchange markets. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle. The following table sets forth our gross profit and gross profit as a percentage of net sales for the three and nine month periods ending September 30, 2016 and 2015 along with the percentage changes in gross profit for the corresponding periods.

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
($ in millions)	2016	2015	2016	2015
Gross Profit	$ 229.6	$ 222.6	$ 669.3	$ 660.9
% change compared with prior period	3.1%		1.3%	
Gross Profit as a percentage of net sales	75.0%	74.3%	74.4%	74.2%

For the three month periods ended September 30, 2016 and 2015, the change in exchange rates had the effect of decreasing our cost of sales by $0.5 and $3.0 million, respectively. For the nine month periods ended September 30, 2016 and 2015, the change in exchange rates had the effect of decreasing our cost of sales by $3.2 million and $7.3 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 month periods ended September 30, 2016 and 2015, these hedges had the effect of increasing our cost of sales by $414,000 and $698,000, respectively. During the nine month periods ended September 30, 2016 and 2015, these hedges had the effect of increasing our cost of sales by $1.4 million and $1.5 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 2016 and 2015).

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 nine month periods ending September 30, 2016 and 2015 along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

	Three Months Ended September 30, (Unaudited)			Nine Months Ended September 30, (Unaudited)		
($ in thousands)	2016	2015	Change	2016	2015	Change
Sales and marketing	$ 116,662	$ 114,507	2%	$ 346,230	$ 335,916	3%
Percentage of total net sales	38%	38%		38%	38%	
Research and development	$ 59,066	$ 52,533	12%	$ 178,244	$ 168,462	6%
Percentage of total net sales	19%	18%		20%	19%	
General and Administrative	$ 24,537	$ 23,255	6%	$ 74,308	$ 69,391	7%
Percentage of total net sales	8%	8%		8%	8%	
Total operating expenses	$ 200,265	$ 190,295	5%	$ 598,782	$ 573,769	4%
Percentage of total net sales	65%	63%		67%	64%	

During the three month period ending September 30, 2016, the year over year increase in operating expenses was primarily the result of an increase in personnel related expenses of $8.5 million due to increased headcount and increased variable compensation in regions with strong local currency growth. In addition, marketing and outside services costs increased by $1.0 million, building and equipment costs increased by $1.0 million, and software development costs increased by $2.6 million due to a decrease in capitalization of software development costs compared to the three month period ended September 30, 2015. The year over year change in exchange rates had the effect of decreasing our operating expenses by $1.2 million.

During the nine month period ending September 30, 2016, the year over year increase in operating expenses was primarily the result of an increase in personnel related expenses of $30 million due to an increase in head count of 138 employees and increased variable compensation in regions with strong local currency growth. In addition, building and equipment costs increased by $3.8 million, marketing and outside services costs increased by $3 million, offset by a decrease in software development costs of $1.4 million due to an increase in capitalization of software development costs compared to the nine month period ending September 30, 2015. During the nine month period ending September 30, 2016, the year over year change in exchange rates had the effect of decreasing our operating expenses by $8.6 million.

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. The increase in our research and development expenses for the three and nine month periods ended September 30, 2016, compared to the three and nine month periods ended September 30, 2015 was primarily driven by the increase in research and development headcount of 49 employees. The increase in our sales and marketing expenses for the nine month period ended September 30, 2016, compared to the nine month period ended September 30, 2015, was primarily driven by the increase in sales and marketing headcount of 39 employees and increased variable compensation in regions with strong local currency growth.

Operating Income. For the three month periods ended September 30, 2016 and 2015, operating income was $29 million and $32 million, respectively, a decrease of 9%. As a percentage of net sales, operating income was 10% and 11% for three month periods ended September 30, 2016 and 2015, respectively. For the nine month periods ended September 30, 2016 and 2015, operating income was $70 million and $87 million, respectively, a decrease of 19%. As a percentage of net sales, operating income was 8% and 10% for the nine month periods ended September 30, 2016 and 2015, respectively. The decreases in operating income in absolute dollars for the three month period ended September 30, 2016, compared to the three month period ended September 30, 2015, and for the nine month period ended September 30, 2016, compared to the nine month period ended September 30, 2015, are attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Interest Income. For the three month periods ended September 30, 2016 and 2015, interest income was $276,000 and $396,000, respectively. For the nine month periods ended September 30, 2016 and 2015, interest income was $787,000 and $1.1 million, respectively. We continue to see low yields for high quality investment alternatives that comply with our corporate investment policy. We do not expect yields in these types of investments to increase significantly during the remainder of 2016.

Net Foreign Exchange Gain/(Loss). For the three month periods ended September 30, 2016 and 2015, net foreign exchange loss was $(760,000) and net foreign exchange gain was $286,000, respectively. During the nine month periods ended September 30, 2016 and 2015, net foreign exchange loss was $(1.5) million and $(2.0) 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 third quarter of 2016, we continued to see broad volatility in the foreign currency exchange markets and a strong U.S. dollar in many of the currency markets where we have exposure, with the trade-weighted U.S. dollar index, as tracked by the St. Louis Federal Reserve, near a ten year high. In addition, the announcement of Brexit caused significant short-term volatility in the foreign currency markets and an approximately 15% devaluation of the GBP against the U.S. dollar. The ongoing uncertainty surrounding the implementation of Brexit, including the conditions and timing of the exit negotiation period, and uncertainty in relation to the relationship of the U.K. with the remaining members of the E.U. (including in relation to trade) has caused and is likely to continue to cause continued volatility in the foreign currency markets. We cannot predict the direction or degree of future volatility in the foreign exchange markets or the impact the impending Brexit U.K. referendum will have in future periods. In the past, we have noted that significant 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. 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.

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 gain (loss).” Our hedging strategy decreased our foreign exchange gains by $814,000 and decreased our foreign exchange losses by $3.0 million in the three month period ended September 30, 2016 and September 30, 2015, respectively. Our hedging strategy increased our foreign exchange losses by $1.0 million and decreased our foreign exchange losses by $3.6 million in the nine month periods ended September 30, 2016 and 2015, 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 month periods ended September 30, 2016 and September 30, 2015, our provision for income taxes reflected an effective tax rate of 16% and 30%, respectively. For the nine month periods ended September 30, 2016 and 2015, our provision for income taxes reflected an effective tax rate of 21% and 28%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	Three Months Ended September 30, 2016 (Unaudited)	Nine Months Ended September 30, 2016 (Unaudited)
Effective tax rate at September 30, 2015	30 %	28 %
Change in research and development credit	(2)	(2)
Change in profit in foreign jurisdictions with reduced tax rates	(5)	(3)
Change in enhanced deduction for certain research and development expenses	(3)	(3)
Change in intercompany profit	2	2
Change in unrecognized tax benefits	(10)	(3)
Change in valuation allowance related to deferred tax assets	3	1
Other	1	1
Effective tax rate at September 30, 2016	16 %	21 %

(See “Note 9 – Income taxes” of Notes to Consolidated Financial Statements for further discussion regarding our effective tax rate).

Other operational metrics

We believe that the following additional unaudited operational metrics assist investors in assessing our operational performance relative to our others in our industry and to our historical results.

Charges related to stock-based compensation, amortization of acquired intangibles, acquisition related transaction costs, restructuring charges, foreign exchange loss on acquisitions and taxes levied on the transfer of acquired intellectual property.

For the three and nine month periods ended September 30, 2016 and 2015, the gross charges related to stock-based compensation were recorded in the following line items in the amounts shown:

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2016	2015	2016	2015
Stock-based compensation				
Cost of sales	$ 556	$ 499	$ 1,643	$ 1,427
Sales and marketing	2,635	2,854	8,422	8,303
Research and development	2,027	2,132	6,745	6,764
General and administrative	921	921	2,764	2,656
Provision for income taxes	(2,092)	(1,933)	(6,202)	(5,420)
Total	$ 4,047	$ 4,473	$ 13,372	$ 13,730

For three and nine month periods ended September 30, 2016 and 2015, the gross charges related to the amortization of acquisition related intangibles were recorded in the following line items in the amounts shown:

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2016	2015	2016	2015
Amortization of acquired intangibles				
Cost of sales	$ 1,599	$ 2,643	$ 7,621	$ 7,858
Sales and marketing	502	423	2,141	1,299
Research and development	276	322	815	983
Other income, net	-	145	-	448
Provision for income taxes	854	(1,152)	1,312	(3,469)
Total	$ 3,231	$ 2,381	$ 11,889	$ 7,119

For the three and nine month periods ended September 30, 2016 and 2015, the gross charges related to acquisition related transaction costs, restructuring charges, foreign exchange loss on acquisitions and taxes levied on the transfer of acquired intellectual property were recorded in the following line items in the amounts shown:

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2016	2015	2016	2015
Acquisition transaction costs, restructuring charges, and other				
Cost of sales	$ 74	$ 169	$ 253	$ 974
Sales and marketing	42	-	141	-
Research and development	236	-	648	-
General and administrative	97	238	317	442
Foreign exchange gain (loss) (1)	-	-	94	-
Other income (loss), net(2)	-	-	2,475	-
Provision for income taxes	(156)	(59)	(1,358)	(390)
Total	$ 293	$ 348	$ 2,570	$ 1,026

(1) Foreign exchange losses on acquisitions were $94 and $0 for the nine month periods ended September 30, 2016 and 2015, respectively

(2) Taxes levied on the transfer of acquired intellectual property were $2,475 and $0 for the nine months ended September 30, 2016 and 2015, respectively

Liquidity and Capital Resources

Working Capital, Cash and Cash Equivalents and Short-term Investments. Cash, cash equivalents and short-term investments increased by $20 million to $353 million at September 30, 2016 from $333 million at December 31, 2015. The following table presents our working capital, cash and cash equivalents and short-term investments:

(In thousands)	September 30, 2016 (unaudited)	December 31, 2015	Increase/ (Decrease)
Working capital	$ 554,919	$ 559,525	$ (4,606)
Cash and cash equivalents [1]	300,652	251,129	49,523
Short-term investments [1]	52,277	81,789	(29,512)
Total cash, cash equivalents and short-term investments	$ 352,929	$ 332,918	$ 20,011

(1) Included in working capital

During the nine month period ended September 30, 2016, our working capital decreased by $4.6 million compared to December 31, 2015. Overall, current assets increased by $11 million while current liabilities increased by $16 million. The increase in our current assets was the result of a $20 million increase in cash, cash equivalents and short-term investments, a decrease in accounts receivable of $10 million, a decrease in prepaid expenses and other current assets of $10.1 million and an increase in inventory of $11 million. The increase in current liabilities was the result of an increase in accrued compensation of $3.7 million, an increase in accrued expenses and other liabilities of $12 million, an increase in the current portion of our deferred revenue of $1.3 million, and a decrease in accounts and other taxes payable of $1.6 million.

Accounts receivable decreased by $10 million to $206 million at September 30, 2016, from $216 million at December 31, 2015. Days sales outstanding (“DSO”) increased to 64 days at September 30, 2016, compared to 62 days at December 31, 2015. The decrease in our accounts receivable can primarily be attributed to our decrease in net sales for the three month period ended September 30, 2016 compared to the three month period ended December 31, 2015. DSO has been negatively impacted by accounts in Russia and other countries where the currency devaluation against the U.S. dollar has been significant.

Inventory increased by $11 million to $196 million at September 30, 2016, from $185 million at December 31, 2015. Inventory turns were 1.6 and 1.8 at September 30, 2016 and December 31, 2015, respectively. The increase in our inventory and decrease in our inventory turns can primarily be attributed to an anticipated increase in sales volume during the remainder of 2016.

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, the majority of our short-term investments that are located outside of the U.S. are denominated in the U.S. dollar with the exception of $4.8 million U.S. dollar equivalent of corporate bonds that are denominated in Euro. At September 30, 2016, we had $353 million in cash, cash equivalents and short-term investments. Approximately $53 million or 15% of these amounts were held in domestic accounts with various financial institutions and $300 million or 85% was held in accounts outside of the U.S. with various financial institutions. At September 30, 2016, we had cash and cash equivalents of $301 million, of which $53 million or 18% was held in domestic accounts and $248 million or 82% was held in various accounts of our foreign subsidiaries. At September 30, 2016, we had short-term investments of $52 million, all of which was held in investment accounts of our foreign subsidiaries. Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal income tax payments in future years. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

Cash Provided by and (Used in) in the nine month periods ended September 30, 2016 and 2015. The following table summarizes the proceeds and (uses) of cash:

(In thousands)	Nine Months Ended September 30, (unaudited) 2016	2015
Cash provided by operating activities	$ 153,080	$ 120,481
Cash used in investing activities	(31,462)	(66,507)
Cash used in financing activities	(72,095)	(98,769)
Net change in cash equivalents	49,523	(44,795)
Cash and cash equivalents at beginning of year	251,129	274,030
Cash and cash equivalents at end of period	$ 300,652	$ 229,235

For the nine month periods ended September 30, 2016 and 2015, cash provided by operating activities was $153 million and $120 million, respectively, an increase of $33 million. This increase was due to a $41 million increase in cash provided by operating assets and liabilities offset by a $10 million decrease in net income. The increase in cash provided by operating assets was related to reductions in prepaid expenses and taxes.

Investing activities used cash of $31 million during the nine month period ended September 30, 2016, as a result of capital expenditures of $34 million, capitalization of internally developed software and other intangibles of $26 million offset by the net sale of short-term investments of $30 million. Capital expenditures during the nine month period ended September 30, 2016 included leasehold improvements, expansion of existing facilities, computers, equipment and furniture and fixtures to support operations throughout our business. Investing activities used cash of $67 million during the nine month period ended September 30, 2015, as the result of the purchase price of three acquisitions for $29 million, net of cash received, capital expenditures of $28 million, capitalization of internally developed software and other intangibles of $25 million, offset by the net sale of short-term investments of $15 million.

Financing activities used cash of $72 million during the nine month period ended September 30, 2016, which was the net result of $77 million used to pay dividends, $6 million used to repurchase shares of our common stock, and $12 million used for net repayments on our revolving line of credit, offset by $22 million received from the issuance of our common stock through our employee stock purchase plan. Financing activities used cash of $99 million during the nine month period ended September 30, 2015, which was the net result of $73 million used to pay dividends and $73 million used to repurchase shares of our common stock, offset by $25 million received from borrowings under our revolving line of credit and $22 million received from the issuance of our common stock from our employee stock purchase plan and the exercise of employee stock options.

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, we repurchased a total of 206,780 shares of our common stock at a weighted average price per share of $27.25 during the nine months ended September 30, 2016. At September 30, 2016, there were 1,134,247 shares remaining available for repurchase under this program. We repurchased a total of 2,500,305 shares of our common stock at a weighted average price per share of $29.02 during the nine months ended September 30, 2015. This repurchase program does not have an expiration date.

During the nine month period ended September 30, 2016, we did not receive any proceeds from the exercise of stock options as all remaining options were exercised or expired in 2015. (See “Note 11 – Authorized shares of common and preferred stock and stock-based compensation plans” of Notes to Consolidated Financial Statements for additional discussion about our equity compensation plans).

Contractual Cash Obligations. Purchase obligations primarily represent purchase commitments for customized inventory and inventory components. At September 30, 2016, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $6.3 million.

Guarantees are related to payments of customs and foreign grants. At September 30, 2016, we had outstanding guarantees for payment of customs and foreign grants totaling approximately $3.1 million. At December 31, 2015, we had outstanding guarantees for payment of customs, foreign grants and potential customer disputes totaling approximately $4 million.

Loan Agreement. On May 9, 2013, we entered into a Loan Agreement (the "Loan Agreement") with Wells Fargo Bank (the "Lender"). 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 $50.0 million to $125.0 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 $25.0 million in the aggregate, subject to consent of the Lender and terms and conditions to be mutually agreed between us and 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. We may choose to borrow additional funds against this line of credit in future periods to have sufficient domestic cash to fund continued dividends to our stockholders, to fund potential acquisitions or other domestic general corporate purposes without the need to repatriate foreign earnings. (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 September 30, 2016, 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 and available borrowings under our Loan Agreement will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments, payment of dividends to our stockholders and repurchases of our common stock for at least the next 12 months, although the use of certain of our funds for domestic purposes may require us to repatriate foreign earnings which would be subject to the U.S. federal statutory tax rate of 35%. We may also seek to pursue additional financing or to raise additional funds by selling equity or debt to the public or in private transactions. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis 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. We may also choose to repatriate foreign earnings which would be subject to the U.S. federal statutory tax rate of 35% and therefore, would likely have a material adverse effect on our effective tax rate and on our net income and earnings per share. We could also choose to reduce certain expenditures or payments of dividends or suspend our program to repurchase shares 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;
- 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 overall levels of sales of our products and gross profit margins;
- the levels of inventory and accounts receivable that we maintain;
- difficulties and the high tax costs associated with the repatriation of earnings;
- acquisitions of other businesses, assets, products or technologies;
- required levels of research and development and other operating costs;
- repurchases of our common stock;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- 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 new and existing 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 15 – Recently issued accounting pronouncements" in Notes to Consolidated Financial Statements.

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

Financial Risk Management

Our international sales are subject to inherent risks, including fluctuations in local economies; fluctuations in foreign currencies relative to the U.S. dollar; difficulties in staffing and managing foreign operations; greater difficulty in accounts receivable collection; costs and risks of localizing products for foreign countries; unexpected changes in regulatory requirements, tariffs and other trade barriers; difficulties and costs in the repatriation of earnings and burdens of complying with a wide variety of foreign laws.

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. See “Results of Operations” in this Form 10-Q for further discussion on the effect that changes in the foreign currency exchange rates have on our operating results.

During the third quarter of 2016, we continued to see broad volatility in the foreign currency exchange markets and a strong U.S. dollar in many of the currency markets where we have exposure, with the trade-weighted U.S. dollar index, as tracked by the St. Louis Federal Reserve, near a ten year high. In addition, the announcement of Brexit caused significant short-term volatility in the foreign currency markets and an approximately 15% devaluation of the GBP against the U.S. dollar. The ongoing uncertainty surrounding the implementation of Brexit, including the conditions and timing of the exit negotiation period, and uncertainty in relation to the relationship of the U.K. with the remaining members of the E.U. (including in relation to trade) has caused and is likely to continue to cause continued volatility in the foreign currency markets. We cannot predict the direction or degree of future volatility in the foreign exchange markets or the impact the impending Brexit will have in future periods. In the past, we have noted that significant 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, our ability to forecast our U.S. dollar equivalent net sales and expenses and 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. We recognize the local currency as the functional currency in virtually all of our international subsidiaries.

If the local currencies in which we sell our products strengthen against the U.S. dollar, we may need to lower our prices in the local currency to remain competitive in our international markets which 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. To help protect against the change in the value caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales and expenses over the next one to two years, we have a foreign currency cash flow hedging program. We hedge portions of our forecasted net sales, cost of sales and operating expenses denominated in foreign currencies with foreign currency 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. For purchased option 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 option contracts designated as hedges, net of the premium paid. Our foreign currency purchased option contracts are purchased “at-the-money” or “out-of-the-money.” We purchase foreign currency forward and option contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, Hungarian forint, British pound, Chinese yuan, and Malaysian ringgit) and limit the duration of these contracts to 40 months or less. As a result, our hedging activities only partially address our risks from foreign currency transactions, and there can be no assurance that this strategy will be successful. We do not invest in contracts for speculative purposes.

During the three month period ended September 30, 2016, our hedges had the effect of decreasing our net sales by $0.2 million, increasing our cost of sales by $0.4 million and increasing our operating expenses by $0.4 million. During the three month period ended September 30, 2015, our hedges had the effect of increasing our net sales by $5.4 million, increasing our cost of sales by $0.7 million, and increasing our operating expenses by $0.6 million. During the nine month period ended September 30, 2016, our hedges had the effect of decreasing our net sales by $1.3 million, increasing our cost of sales by $1.4 million and increasing our operating expenses by $1.3 million. During the nine month period ended September 30, 2015, our hedges had the effect of increasing our net sales by $15.7 million, increasing our cost of sales by $1.5 million and increasing our operating expenses by $1.3 million. (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, cost of sales and operating expenses for the three and nine month periods ended September 30, 2016 and 2015).

Inventory Management

The markets for our products dictate that many of our products be shipped very quickly after an order is received. As a result, we are required to maintain significant inventories. Therefore, inventory obsolescence is a risk for us due to frequent engineering changes, shifting customer demand, the emergence of new industry standards and rapid technological advances including the introduction by us or our competitors of products embodying new technology. However, our risk of obsolescence may be mitigated as many of our products have interchangeable parts and many have long lives. While we adjust for excess and obsolete inventories and we monitor the valuation of our inventories, there can be no assurance that our valuation adjustments will be sufficient.

In recent years, we have made a concentrated effort to increase our net sales through the pursuit of orders with a value greater than $1.0 million. Fulfillment of these contracts can severely challenge our supply chain capabilities at the component acquisition, assembly and delivery stages. These contracts can also require us to develop specific product mitigation plans for product delivery constraints caused by unexpected or catastrophic situations to help assure timely production recovery and to comply with critical delivery commitments where severe contractual liabilities can be imposed on us if we fail to provide the quantity of products at the required delivery times. In order to help mitigate the risks associated with these contractual requirements, we may choose to build inventory levels for certain parts or systems. Because our contracts with such customers may allow the customer to cancel or delay orders without liability, such actions expose our business to increased risk of inventory obsolescence.

Market Risk

We are exposed to a variety of risks, including foreign currency fluctuations and changes in the market value of our investments. In the normal course of business, we employ established policies and procedures to manage our exposure to fluctuations in foreign currency values and changes in the market value of our investments.

Cash, Cash Equivalents and Short-Term Investments

At September 30, 2016, we had $353 million in cash, cash equivalents and short-term investments. See *Liquidity and Capital Resources* above for further discussion regarding our cash, cash equivalents and short-term investments**.**

We report our available-for-sale short-term investments at fair value. (See “Note 4 – Fair value measurements” of Notes to Consolidated Financial Statements for a further description of the fair value measurement of our short term investments).

The goal of our investment policy is to manage our investment portfolio to preserve principal and liquidity while maximizing the return on our investment portfolio through the full investment of available funds. We place our cash investments in instruments that meet credit quality standards, as specified in our corporate investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. Our cash equivalents and short-term investments carried ratings from the major credit rating agencies that were in accordance with our corporate investment policy. Our investment policy allows investments in the following: government and federal agency obligations, repurchase agreements (“Repos”), certificates of deposit and time deposits, corporate obligations, medium term notes and deposit notes, commercial paper including asset-backed commercial paper (“ABCP”), puttable bonds, general obligation and revenue bonds, money market funds, taxable commercial paper, corporate notes/bonds, municipal notes, municipal obligations, and tax exempt commercial paper. All such instruments must carry minimum ratings of A1/P1/F1, MIG1/VMIG1/SP1 and A2/A/A, as applicable, all of which are considered “investment grade.” Our investment policy for marketable securities requires that all securities mature in five years or less, with a weighted average maturity of no longer than 24 months with at least 10% maturing in 90 days or less.

We account for our investments in debt and equity instruments under FASB ASC 320 Investments – Debt and Equity Securities (“FASB ASC 320”). Our investments are classified as available-for-sale and accordingly are reported at fair value, with unrealized gains and losses reported as other comprehensive income, a component of stockholders’ equity. Unrealized losses are charged against income when a decline in fair value is determined to be other-than-temporary. Investments with maturities beyond one year are classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. The fair value of our short-term investments at September 30, 2016 and December 31, 2015 was $52 million and $82 million, respectively.

We follow the guidance provided by FASB ASC 320 to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income/(loss), net, in our Consolidated Statements of Income. There were not any other-than-temporary impairments recognized in other expense during nine month periods ended September 30, 2016.

Interest Expense Risk

We are exposed to interest rate fluctuations in the normal course of our business, including through our Loan Agreement. The interest payments on the Loan Agreement consist of a variable-rate of interest.

Interest Income Risk

Investments in both fixed rate and floating rate instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in the fair value of our publicly traded debt investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. However, because any debt securities we hold are classified as available-for-sale, no gains or losses are realized in our income statement due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of tax.

In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates. Given the short-term nature of certain of our investments, the current interest rate environment of low rates has negatively impacted our investment income.

In order to assess the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of our investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on our investment positions as of September 30, 2016, a 100 basis point increase or decrease in interest rates across all maturities would result in a $125,000 increase or decrease in the fair market value of our portfolio. As of December 31, 2015, a similar 100 basis point increase or decrease in interest rates across all maturities would have resulted in a $802,000 increase or decrease in the fair market value of our portfolio. Such losses would only be realized if we sold the investments prior to maturity or if there is an other-than-temporary impairment. Actual future gains and losses associated with our investments may differ from the sensitivity analyses performed as of September 30, 2016, due to the inherent limitations associated with predicting the changes in the timing and level of interest rates and our actual exposures and positions.

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. We also continue to weigh the benefit of the higher yields associated with longer maturities against the interest rate risk and credit rating risk, also associated with these longer maturities when making these decisions. We cannot predict when or if interest rates and investment yields will rise. If yields continue to stay at these low levels, our investment income will continue to be negatively impacted.

Exchange Rate Risk

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in such exchange rates on our earnings and cash flow. Accordingly, we utilize purchased foreign currency option and forward contracts to hedge our exposure on anticipated transactions and firm commitments. There can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on our results of operations and financial position. Based on the foreign exchange instruments outstanding at September 30, 2016 and December 31, 2015, an adverse change (defined as 20% in the Asian currencies and 10% in all other currencies) in exchange rates would result in a decline in the aggregate settlement value of all of our instruments outstanding of approximately $12 million and $16 million, respectively. However, as we utilize foreign currency instruments for hedging anticipated and firmly committed transactions, we believe that a loss in settlement value for those instruments will be substantially offset by increases in the value of the underlying exposure. (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).

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of September 30, 2016, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of 2016, 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 are involved in a limited number of legal actions, both as plaintiff and defendant, 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 future 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.

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 may need to lower our prices in the local currency to remain competitive in our international markets which 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. We cannot predict to what degree or how long the recent volatility in the foreign currency exchange markets will continue. 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.

In addition, the announcement of Brexit caused significant short-term volatility in the foreign currency markets and an approximately 15% devaluation of the GBP against the U.S. dollar. The ongoing uncertainty surrounding the implementation of Brexit, including the conditions and timing of the exit negotiation period, and uncertainty in relation to the relationship of the U.K with the remaining members of the E.U. (including in relation to trade) has caused and is likely to continue to cause continued volatility in the foreign currency markets. The continuing uncertainty following the U.K. vote may lead to broader negative business sentiment resulting in less demand for our products negatively impacting our net sales and results of operations.

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. The ongoing uncertainty created by volatile currency markets, a weak Global PMI, the continued weakness in the PC and energy sectors, alone or in combination, may continue to have a material adverse effect on our net sales and the financial results of our operations. In addition, we remain concerned about the geopolitical and fiscal instability in the Middle East and some emerging markets as well as the continued volatility of the equity markets. The impending Brexit and upcoming U.S. election may also create additional global economic uncertainty. 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. Other factors that could adversely influence demand for our products include unemployment, labor and healthcare costs, access to credit, consumer and business confidence, and other macroeconomic factors that could have a negative impact on capital investment and spending behavior. See “Current business outlook” in this Form 10-Q for information regarding recent business conditions.

We Have Established a Budget and Variations From Our Budget Will Affect Our Financial Results. We have an operating budget for 2016. 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 2016 is less than the demand we anticipated in setting our 2016 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:

- continued foreign currency fluctuations;
- less than expected capacity utilization of our manufacturing facility in Penang, Malaysia;
- additional unanticipated costs related to our acquisitions;
- 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; or
- increased component costs resulting from vendors increasing their sales price.

Our Current Domestic Cash Position May Not Be Sufficient to Fund our Domestic Cash Needs in the Next Twelve Months and We May Need to Borrow Additional Amounts Under our Loan Agreement, Seek Funding from External Sources or Repatriate Foreign Earnings. Our Loan Agreement (the “Loan Agreement”) with Wells Fargo Bank provides for a $125 million unsecured revolving line of credit. Proceeds of loans made under the Loan Agreement may be used for working capital and other general corporate purposes. (See “Note 13—Debt” in Notes to Consolidated Financial Statements for additional discussion of the Loan Agreement). We may choose to borrow additional funds against our line of credit in future periods to have sufficient domestic cash to fund continued dividends to our stockholders, to fund potential acquisitions, to purchase shares under our board authorized share repurchase program or other domestic general corporate purposes without the need to repatriate foreign earnings. Future dividends are subject to declaration by our Board of Directors, and our share repurchase program does not obligate us to acquire any specific number of shares.

We may also seek to pursue additional financing or to raise additional funds by selling equity or debt to the public or in private transactions. 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. We may also choose to repatriate foreign earnings which would be subject to the U.S. federal statutory tax rate of 35% and therefore would likely have a material adverse effect on our effective tax rate and on our net income and earnings per share. We could also choose to reduce certain expenditures or payments of dividends or suspend our program to repurchase shares of our common stock.

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. In recent years, we have made 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. These orders can be accompanied by critical delivery commitments and severe contractual liabilities can be imposed on us if we fail to provide the required quantity of product at the required delivery times. These customers may also impose product acceptance requirements and product performance evaluations which create uncertainty with respect to the timing of our ability to recognize revenue from such orders. 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. These contracts may also 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.

Fulfillment of these contracts can challenge our supply chain capabilities at the component acquisition, assembly and delivery stages. Our contracts with such customers may allow the customer to cancel or delay orders without liability which exposes our business and financial results to significant risk. These contracts can require us to develop specific product mitigation plans for product delivery constraints caused by unexpected or catastrophic situations to help assure quick production recovery. We attempt to manage this risk but there can be no assurance that we will be successful in our efforts. These customers may demand most favored customer pricing, significant discounts, extended payment terms and volume rebates and such terms can adversely impact our net sales, margins and financial results and may also negatively impact our days sales outstanding to the extent these orders become a larger proportion of our overall net sales. These customers may request broad indemnity obligations and large direct and consequential damage provisions in the event their contracts with us are breached, and these provisions may expose us to risk and liabilities in excess of our standard terms and conditions of sale. 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 these customers and to continue to grow our business. Such actions expose us to significant additional risks which could result in a material adverse impact on our business, results of operations and financial condition.

Revenue Derived from Large Orders Could Adversely Affect our Gross Margin and Could Lead to Greater Variability in our Quarterly Results. We define our large order business as orders with a value greater than $100,000. These orders may be more sensitive to changes in the global industrial economy, may be subject to greater discount variability, lower gross margins, and may contract at a faster pace during an economic downturn. To the extent that the amount of our net sales derived from large 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. This dynamic may also have an impact on the historical seasonal pattern of our net sales and our results of operations. These types of orders also 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, defense and aerospace industries. 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.

We are Subject to Various Risks Associated with International Operations and Foreign Economies. Our international sales are subject to inherent risks, including:

- fluctuations in foreign currencies relative to the U.S. dollar;
- delays in collecting trade receivable balances from customers in developing economies;
- difficulties and the high tax costs associated with the repatriation of earnings;
- fluctuations in local economies;
- disparate and changing employment laws in foreign jurisdictions;
- difficulties in staffing and managing foreign operations;
- greater difficulty in accounts receivable collection;
- costs and risks of localizing products for foreign countries;
- unexpected changes in regulatory requirements;
- government actions throughout the world;
- tariffs and other trade barriers; 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. 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 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 R&D 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 R&D, 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.

We Operate in Intensely Competitive Markets. The markets in which we operate are characterized by intense competition from numerous competitors, some of which are divisions of large corporations having far greater resources than we have, and we may face further competition from new market entrants in the future. A key competitor is Keysight Technologies Inc. ("Keysight") which was formerly part of Agilent. Agilent completed the spin off of Keysight in November 2014. Keysight offers hardware and software products that provide solutions that directly compete with our virtual instrumentation products including its own line of PXI based hardware. Keysight is aggressively advertising and marketing products that are competitive with our products. Because of Keysight's strong position in the instrumentation business, changes in its marketing strategy or product offerings could have a material adverse effect on our operating results. In July 2016, Danaher Corporation announced that it had completed a spin-off that resulted in a new public company named Fortive, which is comprised of Danaher's test and measurement platform and other specialty industrial businesses which can compete directly with us.

We believe our ability to compete successfully depends on a number of factors both within and outside our control, including:

- general market and economic conditions;
- our ability to maintain and grow our business with our current largest customer;
- our ability to meet the volume and service requirements of our large customers;
- industry consolidation, including acquisitions by us or our competitors;
- capacity utilization and the efficiency of manufacturing operations;
- success in developing new products;
- timing of our new product introductions;
- new product introductions by competitors;
- the ability of competitors to more fully leverage low cost geographies for manufacturing or distribution;
- product pricing;
- 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 Result 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:

- 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 largest customer) 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 largest customer, 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 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 Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission. A change in these policies or interpretations could have a significant effect on our reported financial results, 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 May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers which supersedes nearly all existing U.S. GAAP revenue recognition guidance. (See "Note 15 – Recently issued and adopted accounting pronouncements" for additional discussion of the accounting changes).

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 2008 through 2015 remain open to examination by the major taxing jurisdictions to which we are subject.

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 operation 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 of 35%. Our earnings in Hungary are subject to a statutory tax rate of 19%. 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 or future changes in U.S. law pertaining to the taxation of foreign earnings 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 or future changes in U.S. law pertaining to the taxation of foreign earnings 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 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 vast 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:

- 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.

Difficulties arising from the centralization of our distribution or delays in the implementation of the systems or processes to support this centralized distribution could result in an interruption of our normal operations, including our ability to process orders and ship products to our customers. Any failure or delay in distribution from our facilities in Hungary and Malaysia could have a material adverse effect on our operating results.

Our Manufacturing Facility in Penang, Malaysia Could Adversely Affect our Gross Margin, Results of Operations and Earnings if Anticipated Demand is Not Achieved. Our facility in Malaysia is intended to support our long term manufacturing and warehousing capacity needs. If demand for our products does not grow as expected or if it contracts in future periods, we will have excess warehousing and manufacturing capacity which will cause an increase in overhead that will likely negatively impact our gross margins and results of operations in future periods.

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 components are only available through limited sources. Limited source components purchased include custom ASICs, chassis and other components. We have in the past experienced delays and quality problems in connection with limited source components, and there can be no assurance that these problems will not recur in the future. Accordingly, our failure to receive components from limited 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.

Concentrations of Credit Risk and Uncertain Conditions in the Global Financial Markets May Adversely Affect Our Business and Result 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 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 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, computer viruses, cyber-attacks, security breaches, facility issues or energy blackouts. 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.

We are Subject to Risks Associated with Our Website. We devote significant resources to maintain our website, ni.com, as a key marketing, sales and support tool and expect to continue to do so in the future. However, there can be no assurance that we will be successful in our attempt to leverage the Web to increase sales. Failure to properly maintain our Website may interrupt 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.

Adoption of Complex Health Care Legislation and Related Regulations and Financial Reform Have Increased our Operating Costs and Adversely Affected Our Result of Operations. The adoption of the Patient Protection and Affordable Care Act and the related reconciliation measure, the Health Care and Education Reconciliation Act of 2010, and the regulations resulting from such legislation have increased the costs of providing health care to our employees as well as caused us to incur additional administrative burdens and costs to comply with certain provisions of this legislation. We are unable to predict the ultimate amount or timing of any such increased costs or to what extent we may need to divert other resources to comply with various provisions of this legislation. Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act has resulted in increased costs to us as a result of fees as well as incremental efforts we have had to undertake to comply with provisions of this law which are applicable to our derivative contracts or other financial instruments. In addition to the fees and efforts we have already incurred and undertaken to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act, we may incur additional costs in future periods as new rules are published and become effective.

Our Products are Complex and May Contain Bugs or Errors. As has occurred in the past and as may be expected to occur in the future, our new software products or new operating systems of third parties on which our products are based often contain bugs or errors that can result in reduced sales or cause our support costs to increase, either of which could have a material adverse impact on our operating results.

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 Dr. Truchard, our Chairman and Chief Executive Officer, Alex Davern, our Chief Operating Officer and Chief Financial Officer, and other members of our senior management and key technical personnel. On August 30, 2016, we announced that Mr. Davern will become our President and Chief Executive Officer effective January 1, 2017. Mr. Davern will succeed Dr. Truchard, who will retain his role as Chairman of our Board of Directors. In connection with his promotion to Chief Executive Officer, we entered into an employment agreement with Mr. Davern. We have no other agreements providing for the employment of any of our key employees for any fixed term and 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 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 our 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.

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 liability insurance for product liability matters, 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.

Provisions in Our Charter Documents and Delaware Law May Delay or Prevent an Acquisition of Us. Our certificate of incorporation and 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.

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 September 30, 2016. 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, 2015. Our most recent annual report on Form 10-K also contains 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.

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

At September 30, 2016, there were 1,134,247 shares available for repurchase under a repurchase plan approved on April 21, 2010. This repurchase plan does not have an expiration date. The following table provides information as of September 30, 2016 with respect to the shares of our common stock that we repurchased during the third quarter of 2016.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
July 1, 2016 to July 31, 2016	-	-	-	1,134,247
August 1, 2016 to August 30, 2016	-	-	-	1,134,247
September 1, 2016 to September 30, 2016	-	-	-	1,134,247
Total	-	$ -	-	1,134,247

ITEM 5. OTHER INFORMATION

From time to time our directors, executive officers and other insiders may adopt stock trading plans pursuant to Rule 10b5-1(c) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Jeffrey L. Kodosky and James J. Truchard have made periodic sales of our stock pursuant to such plans.

ITEM 6 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)	Performance Cash Incentive Plan.*
10.24(27)	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
10.25(28)	RSU Vesting Acceleration Agreement between the Company and Eric H. Starkloff, effective as of February 26, 2016
10.26(29)	RSU Vesting Acceleration Agreement between the Company and Scott A. Rust, effective as of February 26, 2016
10.27	Employment Agreement between the Company and Alexander M. Davern, dated August 29, 2016 and effective January 1, 2017 †
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.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 the same-numbered exhibit filed with the Company's Form 10-K for the fiscal year ended December 31, 2007.
(3)	Incorporated by reference to the same-numbered exhibit filed with the Company's Form 8-A on April 27, 2004.
(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 April 1, 2014.
(6)	Incorporated by reference to exhibit 10.3 filed with the Company's Form 10-Q filed on May 2, 2016.
(7)	Incorporated by reference to exhibit A of the Company's Proxy Statement filed on April 4, 2005.

(8)	Incorporated by reference to exhibit 10.8 filed with the Company's Form 10-Q on August 2, 2006.
(9)	Incorporated by reference to exhibit 10.9 filed with the Company's Form 10-Q on August 2, 2006.
(10)	Incorporated by reference to exhibit 10.10 filed with the Company's Form 10-Q on August 2, 2006.
(11)	Incorporated by reference to exhibit 10.11 filed with the Company's Form 10-Q on August 2, 2006.
(12)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on May 17, 2010.
(13)	Incorporated by reference to exhibit 10.2 filed with the Company's Form 8-K filed on June 24, 2010.
(14)	Incorporated by reference to exhibit 10.3 filed with the Company's Form 8-K filed on June 24, 2010.
(15)	Incorporated by reference to exhibit 10.4 filed with the Company's Form 8-K filed on June 24, 2010.
(16)	Incorporated by reference to exhibit 10.5 filed with the Company's Form 8-K filed on June 24, 2010.
(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 C of the Company's Proxy Statement filed on April 1, 2015.
(27)	Incorporated by reference to exhibit 10.1 filed with the Company's Form 8-K filed on October 30, 2015.
(28)	Incorporated by reference to exhibit 10.25 filed with the Company's Form 10-Q filed on May 2, 2016.
(29)	Incorporated by reference to exhibit 10.26 filed with the Company's Form 10-Q filed on May 2, 2016.
*	Management Contract or Compensatory Plan or Arrangement
†	Confidential treatment has been requested 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: October 31, 2016

NATIONAL INSTRUMENTS CORPORATION
By: /s/ Alex M. Davern
Alex M. Davern
EVP, Chief Operating Officer,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Employment Agreement

This **EMPLOYMENT AGREEMENT** (the "Agreement") is entered into August 29, 2016 and made effective as of January 1, 2017 (the "Effective Date"), by and between National Instruments Corporation, a corporation organized under the laws of the State of Delaware (the "Company"), and Alexander M. Davern ("Executive") (the Company and Executive are sometimes collectively referred to herein as the "Parties" and individually as a "Party"), all with reference to the following:

WHEREAS, the Company desires to employ Executive, and Executive is willing and able to accept such employment, upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual covenants in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties agree as follows:

1. Defined Terms. Capitalized terms not otherwise defined shall have the meanings set forth in Exhibit A.

2. Term. Subject to earlier termination in accordance with Section 6 of this Agreement, Executive shall be employed by the Company for a term commencing on the Effective Date and ending on December 31, 2019 (the "Initial Term"), and, upon the expiration of the Initial Term, for successive one-year periods thereafter (each, a "Renewal Term"), unless (i) written notice of non-renewal is given no less than sixty (60) days prior to the expiration of the applicable term by either party hereto; or (ii) Executive's employment is terminated earlier pursuant to Section 6 of this Agreement. References to the "Term" shall be deemed to include the Initial Term or any Renewal Term, as applicable.

3. Position and Duties.

(a) Position. During the Term, Executive shall serve as President and Chief Executive Officer of the Company. Executive shall report solely and directly to the Board. Executive shall have the powers, authorities, and duties of management usually vested in the President and Chief Executive Officer of a corporation of a similar size and nature to the Company, subject to the legal directives of the Board in exercising its general oversight function.

(b) Board Membership. The Board shall use its best efforts to cause the appointment of Executive to the Board as a director, with such appointment to be effective as soon as practicable after the Effective Date (but in no event later than January 31, 2017), and to retain Executive in that capacity for the duration of the Term. Executive shall not receive separate or additional compensation for such Board service. At, or any time after, the time of his termination of employment with the Company for any reason, Executive shall resign from the Board and from his position as an officer, director, manager or member of any of the Company's subsidiaries and affiliates and, at the Board's request, will execute documents necessary to reflect his resignation. The preceding sentence shall survive any termination of this Agreement.

(c) Duties. Executive shall have supervision, control over, and responsibility for the day-to-day business and affairs of the Company and shall have such other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with Executive's position or other positions that he may hold from time to time. Executive shall devote substantially all of his business time and attention to the performance of Executive's duties hereunder and to the Company's affairs and shall not engage in any other business, profession or occupation for compensation or otherwise that would conflict or interfere with the rendition of such services, either directly or indirectly; provided, that nothing herein shall preclude Executive from (i) serving on the board of directors of one (1) for-profit company that does not compete with the Company in the judgment of the Board; (ii) serving on civic or charitable boards or committees; and/or (iii) managing personal investments, so long as all such activities described in clauses (i) through (iii) above do not unreasonably interfere with the Executive's performance of his duties to the Company as provided in this Agreement and, in the case of the activities described in clauses (i) and (ii), are disclosed to the Board. For the avoidance of doubt, (x) Executive acknowledges and agrees that his resignation from any boards of directors of any for-profit companies on which he serves in excess of the number permitted by this Section 3(c) shall be effective no later than March 31, 2017 and (y) the Board has determined that Cirrus Logic Inc. and Helen of Troy Inc. do not compete with the Company.

(d) Principal Place of Employment. Executive's initial principal place of employment during the Term shall be at the Company's corporate headquarters in Austin, Texas. The parties acknowledge that Executive may be required to travel in connection with the performance of his duties hereunder.

(e) Corporate Policies. During the Term, Executive shall be subject to all of the Company's corporate governance, ethics, and executive compensation and other policies as in effect from time to time.

4. Compensation.

(a) Base Salary. During the Term, Executive shall receive an annual base salary (the "Base Salary") of seven hundred thousand dollars ($700,000), payable in regular installments in accordance with the Company's usual payroll practices. Executive's Base Salary is subject to annual review and may, in the Compensation Committee's discretion, be increased or decreased under the Company's standard compensation policies for executive-level employees. As so adjusted, the term "Base Salary" shall refer to the adjusted amount.

(b) Annual Incentive Bonus. During the Term, Executive shall be eligible to participate in an annual incentive program (the "AIP") and receive an annual cash incentive, the amount of which shall be determined by performance goals focused on meaningful organic growth in Company revenues and profits over the applicable performance period, as established by the Compensation Committee (the "AIP Bonus"). Executive's initial target annual cash incentive under the AIP shall be eighty percent (80%) of his Base Salary ("Target Annual Cash Incentive") and will be subject to subsequent adjustment by the Board in accordance with the terms of the AIP. The actual earned AIP Bonus, if any, payable to Executive for any performance period will depend upon the extent to which the applicable performance goals specified by the Board are achieved or exceeded as set forth in the AIP and will be contingent on

Executive's continuous employment with the Company through the payment date specified for the AIP Bonus.

(c) Company Performance Bonus. Executive will be eligible to participate in the National Instruments Corporation Annual Cash Performance Bonus Program (the "Annual Program") and receive annual performance-based cash incentive compensation payable for the achievement of Company revenue growth, profitability, and other performance goals established by the Compensation Committee from time to time (a "Performance Bonus"). During the Term, Executive's target Performance Bonus under the Annual Program will be established by the Compensation Committee and shall otherwise be subject to the terms of the Annual Program as in effect from time to time. The actual earned Performance Bonus, if any, payable to Executive for any performance period will depend upon the extent to which the applicable performance goals specified by the Compensation Committee are achieved or exceeded as set forth in the Annual Program.

(d) Equity Awards.

(i) Initial Award. As a material inducement to Executive's acceptance of employment with the Company as President and Chief Executive Officer and in partial consideration for the covenants set forth in Sections 8 through 11 below, on the Effective Date, Executive shall receive an award under the National Instruments Corporation 2015 Equity Incentive Plan (the "2015 Plan") comprised of one hundred and fifty thousand (150,000) restricted stock units (the "Initial Award"). The Initial Award will vest in three equal annual increments commencing December 15, 2017 and subsequent anniversaries thereof, generally subject to continued employment of Executive other than as stated herein. Except as otherwise provided herein, the Initial Award will be subject to the terms of the 2015 Plan and the individual award agreement pursuant to which it is made.

(ii) Annual Awards. For each calendar year during the Term, Executive shall be eligible to receive an additional award under the 2015 Plan (or any successor thereto) comprised of up to fifty thousand (50,000) restricted stock units (each, an "Annual Award"). The Annual Awards shall be made on terms and conditions that are consistent with those on which awards are made to other senior executive officers of the Company, except as the Compensation Committee may otherwise specify in its sole discretion. Executive shall be eligible for the first grant of an Annual Award in April 2017 in accordance with the Company's customary grant practices for its senior executive officers. Except as otherwise provided herein, each Annual Award will be subject to the terms of the 2015 Plan (or any successor thereto) and the individual award agreement pursuant to which it is made.

5. Employee and Fringe Benefits; Expense Reimbursements.

(a) Employee Benefits. During the Term, Executive and his eligible dependents (if any) shall be able to participate in employee benefit plans and perquisite and fringe benefit programs on a basis no less favorable than the basis on which such benefits and perquisites are provided by the Company from time to time to other senior executive employees.

(b) Paid Time Off. Executive shall be entitled to paid vacation each year in

accordance with the Company's then-current vacation policy for other executive-level employees. The rules relating to other absences from regular duties for holidays, sick or disability leave, leave of absence without pay, or for other reasons, shall be the same as those provided to the Company's other senior executive employees.

(c) Expense Reimbursement. Executive shall be entitled to receive prompt reimbursement for all travel and business expenses reasonably incurred and accounted for by Executive (in accordance with the policies and procedures established from time to time by the Company for Executive or as otherwise provided for in the Company's approved travel budget) in performing services hereunder. Any reimbursement that Executive is entitled to receive shall (i) be paid as soon as practicable and in any event no later than the last day of Executive's tax year following the tax year in which the expense was incurred, (ii) not be affected by any other expenses that are eligible for reimbursement in any tax year and (ii) not be subject to liquidation or exchange for another benefit.

(d) Recoupment/Clawback. Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to Executive pursuant to this Agreement or any other agreement or arrangement with the Company or any of its affiliates, which may be subject to recovery under any law, government regulation, company policy or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation, company policy or stock exchange listing requirement to the extent reasonably required by any such law, government regulation, company policy or stock exchange listing requirement, as determined by the Board in its sole and absolute discretion.

6. Termination of Employment. Except for the provisions intended to survive for other periods of time as specified in Section 16(n) below, this Agreement and Executive's employment shall terminate (a) at any time upon mutual written agreement of the Parties; (b) immediately upon Executive's death or Disability as provided in Sections 6(a) and 6(b) below, respectively; (c) by the Company, immediately and without prior notice, for Cause as provided in Section 6(c); (d) by Executive for Good Reason as provided in Section 6(d); (e) by the Company for any reason not otherwise covered by clauses (a), (b), (c), or (d) herein as provided in Section 6(d); or (f) by Executive for any reason not otherwise covered by clauses (a), (b), (c), or (d) herein with advance written notice as provided in Section 6(c). The date on which Executive's employment ends under this Section 6 shall be referred to herein as his "Termination Date."

(a) Termination Due to Death. Executive's employment with the Company shall terminate upon Executive's death. Upon the termination of the Term and Executive's employment as a result of this Section 6(a), Executive's estate shall receive the Accrued Obligations within fifteen (15) days following the Termination Date. All other payments or benefits, if any, due to Executive's estate following Executive's termination due to death shall be determined in accordance with the plans, policies and practices of the Company as then in effect; provided, that Executive's estate shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company (excluding any group health benefit plans). For the avoidance of doubt, any unvested restricted stock units previously granted as part of the Initial Award or any Annual Award that remain outstanding at the time of Executive's death shall become fully vested and nonforfeitable upon Executive's

death and shall be settled as provided by the terms of the 2015 Plan (or any successor thereto) and any applicable individual award agreement(s). Executive's estate shall not earn or accrue any additional compensation or other benefits under this Agreement following the Termination Date.

(b) Termination Due to Disability. The Company may terminate Executive's employment if he becomes unable to perform the essential functions of his position as a result of his Disability. Upon any termination of the Term and Executive's employment pursuant to this Section 6(b), Executive shall receive the Accrued Obligations. All other benefits, if any, due to Executive following Executive's termination by the Company for Disability shall be determined in accordance with the plans, policies and practices of the Company as then in effect; provided, that Executive shall not be entitled to any payments or benefits under any other agreement or any severance plan, policy or program of the Company (excluding any group health benefit plans). For the avoidance of doubt, any unvested restricted stock units previously granted as part of the Initial Award or any Annual Award that remain outstanding on the Termination Date shall become fully vested and nonforfeitable on such date and shall be settled as provided by the terms of the 2015 Plan (or any successor thereto) and any applicable individual award agreement(s). Executive shall not earn or accrue any additional or other benefits under this Agreement following the Termination Date.

(c) Termination for Cause; Voluntary Termination. At any time during the Term, (i) the Company may immediately terminate Executive's employment for Cause, and (ii) Executive may terminate his employment "voluntarily" (that is, other than by death, Disability or for Good Reason); provided, that Executive will be required to give the Board at least ninety (90) days' advance written notice of any such termination; provided, however, that the Board may waive all or any part of the foregoing notice requirement in its sole discretion, in which case Executive's voluntary termination will be effective upon the date specified by the Board. Upon the termination of Executive's employment by the Company for Cause or by Executive's voluntary termination, Executive shall be entitled to receive the Accrued Obligations. All other benefits, if any, due to Executive following Executive's termination of employment pursuant to this Section 6(c) shall be determined in accordance with the plans, policies and practices of the Company as then in effect; provided, that Executive shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company (excluding any group health benefit plans). Executive shall not earn or accrue any additional compensation or other benefits under this Agreement following the Termination Date. The Company and Executive hereby agree that the Company will be entitled to immediate payment of five hundred thousand dollars ($500,000) as liquidated damages in the event of Executive's noncompliance with the advance notice requirement set forth above, an amount Executive recognizes as equitable and fair in light of the difficulties associated with estimating the tangible and intangible damages to the Company resulting from Executive's termination of employment under this Agreement without having provided such advance notice, including, without limitation, the direct and indirect costs to the Company associated with recruiting Executive's interim and permanent successor(s) and the disruption of the Company's business during the transition period, and the possible adverse impact of the transition process and related uncertainty on the Company's financial performance and reputation, customer and supplier relationships.

(d) Termination for Good Reason by Executive or Without Cause by the Company.

(i) At any time, (A) Executive may terminate his employment for Good Reason; and (B) the Company may terminate Executive's employment hereunder without Cause, in either case pursuant to this Section 6(d). Upon the termination of Executive's employment pursuant to this Section 6(d), Executive shall receive the Accrued Obligations. In addition, subject to Executive's continued compliance with the provisions of Sections 8 through 12 of this Agreement and Executive's execution, delivery and non-revocation of an effective release of claims against the Company and certain related persons and entities in substantially the form attached hereto as Exhibit B (the "Release"), which Release shall be delivered to Executive within five (5) business days following the Termination Date and which must be executed (and not revoked) by Executive within the time specified in the Release (the "Release Period"), Executive shall be entitled to the following severance benefits (collectively, the "Severance Benefit"):

(1) A cash severance payment equal to the sum of: (A) two (2) times the Base Salary as in effect on the Termination Date; (B) two (2) times the Target Annual Cash Incentive for the year of termination; and (C) an amount equal to the COBRA premium that Executive would incur if he continued coverage under the Company's group health plan(s) for a period of twelve (12) months based on the coverage elections in effect for Executive and, as applicable, his spouse and eligible dependents (to the extent covered on Executive's date of termination) as of his date of termination. Collectively, the foregoing components of the Severance Benefit shall be referred to herein as the "Severance Payment."

(2) Accelerated vesting for the number of restricted stock units (whether awarded pursuant to this Agreement or through an award made prior to the Effective Date) that would have vested had Executive remained employed by the Company for twelve (12) months following his Termination Date.

(ii) The Severance Payment shall be payable in accordance with the Company's usual payroll practices in equal, or substantially equal, installments over the twenty-four (24) month period commencing on the Termination Date, with the first such installment to be paid on the first regularly scheduled payroll date following the date on which the Release becomes irrevocable (the "Release Effective Date"), and to include any amounts Executive would otherwise have been paid prior to such payment date. All other benefits, if any, due Executive following a termination pursuant to this Section 6(d) shall be determined in accordance with the plans, policies and practices of the Company as then in effect; provided, that Executive shall not be entitled to any severance payments or benefits under any other agreement or any severance plan, policy or program of the Company (excluding any group health benefit plans). Executive shall not earn or accrue any additional compensation or other benefits under this Agreement following the Termination Date. Notwithstanding the foregoing, to the extent required to comply with Code Section 409A, if the Release Period spans two (2) calendar years, the first installment of the Severance Payment shall be paid on the first regularly scheduled payroll date that occurs in the second calendar year (and such installment shall include all payments that would otherwise have been paid prior to such date if this Section 6(d)(ii) did not apply).

(iii) Equity awards accelerated pursuant to Section 6(d)(i)(2) above shall be settled following the Release Effective Date in the manner provided by the applicable provisions of the equity plan documents under which such awards were made and the related individual award agreement(s), as applicable.

(e) Notice of Termination. Any purported termination of Executive's employment by the Company or by Executive shall be communicated by written notice of termination to the other party in accordance with this Section 6. Such notice shall indicate the specific termination provision in this Agreement relied upon and shall, to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

7. Change in Control Benefits. The provisions of this Section 7 are intended to assure and encourage in advance Executive's continued attention and dedication to his assigned duties and his objectivity during the pendency and after the occurrence of a Change in Control. These provisions shall apply in lieu of, and expressly supersede, the provisions of Section 6(d) regarding severance pay and benefits payable upon a termination of employment by the Company without Cause or by Executive for Good Reason, if such termination of employment occurs within twenty-four (24) months after the Company's consummation of a Change in Control. These provisions shall terminate and be of no further force or effect beginning twenty-four (24) months after the date on which the Company consummates a Change in Control (provided that any obligation to satisfy payment obligations thereafter shall remain in effect until all such payments are made).

(a) During the Term, if upon or within twenty-four (24) months after a Change in Control, Executive's employment is terminated by the Company without Cause or the Executive terminates his employment for Good Reason as provided in Section 6(d) above, then, subject to the timely execution of the Release becoming irrevocable and subject also to the limitations set forth in Section 7(c) below, Executive shall be entitled to the following enhanced severance benefits (collectively, the "Enhanced Benefit"):

(i) The Company shall pay the Severance Payment in a lump sum in cash; and

(ii) All outstanding unvested restricted stock units granted as part of the Initial Award or a subsequent Annual Award shall partially accelerate and become vested as if Executive had remained employed by the Company for twelve (12) months following his Termination Date. For the avoidance of doubt, the treatment of any of Executive's other outstanding equity awards in connection with a Change in Control shall be governed by the applicable equity plan document(s) and individual award agreement(s) to which such awards are subject.

(b) The Severance Payment component of the Enhanced Benefit payable under this Section 7 shall be paid within sixty (60) days after the Termination Date; provided, however, that if such period begins in one calendar year and ends in a second calendar year, such payment shall be paid or commence to be paid in the second calendar year by the last day of such 60-day period. Equity awards accelerated pursuant to Section 7(a)(ii) above shall be promptly

settled following the Termination Date in the manner provided by the applicable provisions of the 2015 Plan (or its successor) and the applicable individual award agreement(s).

(c) Additional Limitation.

(i) Anything in this Agreement to the contrary notwithstanding, in the event that the amount of any compensation, payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, calculated in a manner consistent with Section 280G of the Code and the applicable regulations thereunder (the "Aggregate Payments"), would be subject to the excise tax imposed by Section 4999 of the Code, then the Aggregate Payments shall be reduced (but not below zero) so that the sum of all of the Aggregate Payments shall be $1.00 less than the amount at which Executive becomes subject to the excise tax imposed by Section 4999 of the Code; provided that such reduction shall only occur if it would result in the Executive receiving a higher After Tax Amount (as defined below) than Executive would receive if the Aggregate Payments were not subject to such reduction. In such event, the Aggregate Payments shall be reduced in the following order, in each case, in reverse chronological order beginning with the Aggregate Payments that are to be paid the furthest in time from consummation of the transaction that is subject to Section 280G of the Code: (1) cash payments not subject to Section 409A of the Code; (2) cash payments subject to Section 409A of the Code; (3) equity-based payments and acceleration; and (4) non-cash forms of benefits; provided that in the case of all the foregoing Aggregate Payments all amounts or payments that are not subject to calculation under Treas. Reg. § 1.280G-1, Q&A-24(b) or (c) shall be reduced before any amounts that are subject to calculation under Treas. Reg. § 1.280G-1, Q&A-24(b) or (c).

(ii) For purposes of this Section 6(c), the "After Tax Amount" means the amount of the Aggregate Payments less all federal, state, and local income, excise and employment taxes imposed on Executive as a result of his receipt of the Aggregate Payments. For purposes of determining the After Tax Amount, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in each applicable state and locality, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(iii) The determination as to whether a reduction in the Aggregate Payments shall be made pursuant to Section 7(c)(i) shall be made by a nationally recognized accounting firm selected by the Company (the "Accounting Firm") with Executive's consent, which will not be unreasonably withheld. The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the Termination Date, if applicable, or at such earlier time as is reasonably requested by the Company or Executive. Any determination by the Accounting Firm shall be binding upon the Company and Executive.

8. Non-Competition and Non-Solicitation.

(a) Acknowledgements. Executive acknowledges:

(i) Company has provided and shall continue to provide Executive with its goodwill (a legitimate business interest of the Company) and Confidential Information so that Executive can perform his duties. Because Company would suffer irreparable harm if Executive misused its goodwill or disclosed Confidential Information, it is reasonable to protect the Company against misuse and disclosure of such information by Executive.

(ii) Because Executive will have continued access to and receive Confidential Information and will establish, maintain and increase Company's goodwill with its customers, employees and others, and because the services provided by Executive for Company are a significant factor in the creation of valuable, special and unique assets that are expected to provide Company with a competitive advantage, Company would suffer irreparable harm if Executive competed unfairly with Company (as described more fully below). Accordingly, it is reasonable to protect Company against potential unfair competition by Executive.

(iii) The promises in this Section are reasonably necessary for the protection of the Company and are reasonably limited with respect to the activities they prohibit, their duration, their geographical scope and their effect on Executive and the public. Executive acknowledges and agrees that the Company's provision of Confidential Information and grant of the Initial Award described in Section 4(d)(i) above shall each serve as adequate and independent consideration for the covenants set forth in this Section 8.

(b) <u>Agreements Not to Compete or Solicit Employees or Customers</u>. As a condition of employment and to protect Company's Confidential Information and competitive position, Executive promises and agrees that during his employment and for a period of twenty-four (24) months following his separation from the Company for any reason, Executive (whether as an employee, officer, director, partner, proprietor, investor, associate, consultant, advisor or otherwise) will not, directly or indirectly, either for his own benefit or the benefit of any other person or entity:

(i) Engage, invest in, or establish, in any capacity as either as an employee, employer, contractor, consultant, agent, principal, partner, member, stockholder, investor, corporate officer, director, or in any other individual or representative capacity any business that is a Restricted Business (except Executive is allowed to own or acquire 5% or less of the outstanding voting securities of a public company). Executive further promises that during Executive's employment and for a period of twenty-four (24) months following Executive's termination of employment with Company, Executive will not give advice or lend credit, money or Executive's reputation to any person or entity engaged in or establishing the Restricted Business.

(ii) Solicit, recruit, induce, entice, encourage, hire, directly recruit, or in any way cause any officer or manager who is or was an employee of Company within the twelve (12) months prior to Executive's separation of employment, or after, to terminate his employment with Company. This restriction is limited to those employees with whom Executive worked, had business contact, or about whom Executive gained non-public or Confidential Information while employed with the Company.

(iii) Solicit, contact, or communicate with any person or company for the purpose of engaging in a business that is the same or similar to the Company's business at the time Executive's employment ends, who was a customer of the Company during the twelve (12) months preceding Executive's separation and whom Executive contacted, solicited, serviced, or sold services to as an Executive of the Company (either directly or indirectly as a supervisor) at any time during the twelve (12) months preceding the date of Executive's separation. Executive also agrees not to induce any customer, supplier or other person with whom the Company engaged in business, or to the knowledge of Executive planned or proposed to engage in business, during the twelve (12) months preceding the date of Executive's separation, to terminate any commercial relationship with the Company.

9. Non-Disclosure of Intellectual Property, Trade Secrets, and Confidential Information.

(a) Executive agrees that, unless otherwise required by law, Executive will forever keep secret all Confidential Information of the Company, and Executive will not use it for Executive's own private benefit, or directly or indirectly for the benefit of others, and Executive will not disclose Confidential Information to any other person, directly or indirectly.

(b) If Executive is legally compelled (by subpoena, interrogatory, request for documents, investigative demand or similar process) to disclose Confidential Information, Executive shall give Company prompt, prior written notice so Company can seek an appropriate remedy or waive compliance. Executive shall furnish only that portion of the Confidential Information required on advice of legal counsel, and shall exercise Executive's best efforts to obtain an order or assurance that any Confidential Information disclosed will be treated by others in a confidential manner.

10. Non-Disparagement.

(a) Executive agrees that he will not make or cause to be made any oral or written statements that are derogatory, defamatory, or disparaging concerning the Company, its policies or programs, or its past or present officers, directors, employees, agents, or business associates, including but not limited to its past or present suppliers or vendors, or take any actions that are harmful to the business affairs of the Company or its employees. Executive also agrees that he will not make or cause to be made any oral or written statements regarding the Company's Confidential Information (as defined above) to any third party, including, but not limited to, the general public (for example, via postings or publications on the internet), the media, financial analysts, auditors, institutional investors, consultants, suppliers, vendors, or business associates, or agents and/or representatives of any of the foregoing, unless the statement is (i) expressly authorized by the Company in writing, or (ii) required by law. This provision is a material and substantial term of this Agreement.

(b) Company agrees that it will not make any official public statement that is derogatory, defamatory, or disparaging concerning Executive, and will instruct the members of the Board and its senior executives to refrain from making any derogatory, defamatory, or disparaging public statements concerning Executive.

11. Restrictive Covenants Generally. It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in Sections 8, 9, and 10 (the "Covenants") to be reasonable if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. Compliance With Confidentiality, Non-Compete, or Non-Disclosure Obligations. Executive represents and warrants that he is in compliance with any confidentiality, non-compete, or non-disclosures obligations or agreements previously entered into with the Company and that any such obligations or agreements shall remain in effect from and after the Effective Date. In the event of any conflict between any such pre-existing confidentiality, non-compete, or non-disclosures obligations or agreements and the terms of this Agreement, the terms of this Agreement shall control.

13. Specific Performance. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the Covenants would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, Executive agrees that, in the event of a breach of any of the Covenants, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement (including, without limitation, payment of any unpaid portion of the Severance Payment described in Section 6(d)(i) above) and, in the case of either a breach or a threatened breach of any of the Covenants, and without waiving its right to arbitration as provided in Section 16(f), seek equitable relief before a court of competent jurisdiction, in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy that may then be available.

14. Conflicts of Interest. Executive agrees that for the duration of this Agreement, he will not engage, either directly or indirectly, in any activity (a "Conflict of Interest") which might adversely affect Company or its affiliates, including ownership of a material interest in any supplier, contractor, distributor, subcontractor, customer or other entity with which Company does business or accepting any payment, service, loan, gift, trip, entertainment, or other favor from a supplier, contractor, distributor, subcontractor, customer or other entity with which Company does business, and that Executive will promptly inform the Chair of the Audit Committee as to each offer received by Executive to engage in any such activity. Executive further agrees to disclose to Chair of the Audit Committee any other facts of which Executive becomes aware which might involve or give rise to a Conflict of Interest or potential Conflict of Interest.

15. Intellectual Property; Assignment of Inventions.

(a) Assignment and License of Rights. Executive assigns to Company all of Executive's rights in Intellectual Property that Executive makes or conceives during Executive's employment, whether as a sole or joint inventor, whether made during or outside working hours, and whether made on Company premises or elsewhere. Executive grants to Company an unlimited, unrestricted, worldwide, royalty-free, fully paid right to access, use, modify, add to, and distribute any Intellectual Property that Executive developed and reduced to a practical form prior to Executive's employment with Company, its affiliates or subsidiaries, and that Executive includes in any Intellectual Property assigned to Company. Executive understands and acknowledges that "Intellectual Property" means, for purposes of this Agreement, any information of a technical and/or business nature, such as ideas, discoveries, inventions, trade secrets, know-how, and writings and other works of authorship which relate in any manner to the actual or anticipated business or research and development of Company, its affiliates or subsidiaries.

(b) Assist Documentation. Upon request at any time and at the expense of Company or its nominee and for no additional personal remuneration, Executive agrees to execute and sign any document that Company considers necessary to secure for or maintain for the benefit of Company adequate patent and other property rights in the United States and all foreign countries with respect to any Intellectual Property. Executive also agrees to assist Company as required to obtain and enforce these rights.

(c) Disclosure. Executive agrees to promptly disclose to Company any Intellectual Property when conceived or made by Executive, whether in whole or in part, and to make and maintain adequate and current records of it. If Executive's employment ends for any reason, Executive agrees to promptly turn over to Company all models, prototypes, drawings, records, documents, and the like in Executive's possession or under Executive's control, whether prepared by Executive or others, relating to Intellectual Property, and any other work done for Company. Executive acknowledges that these items are the sole property of Company.

16. Miscellaneous.

(a) Executive's Representations. Executive hereby represents and warrants to the Company that (i) Executive has read this Agreement in its entirety, fully understands the terms of this Agreement, has had the opportunity to consult with counsel prior to executing this Agreement and is signing the Agreement voluntarily and with full knowledge of its significance; (ii) the execution, delivery and performance of this Agreement by Executive does not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he is bound; (iii) Executive is not a party to or bound by an employment agreement, non-compete agreement or confidentiality agreement with any other person or entity that would interfere with the performance of his duties hereunder; and (iv) Executive shall not use any confidential information or trade secrets of any person or party other than the Company in connection with the performance of his duties hereunder, except with valid written consent of such other person or party. **Executive has carefully read and considered all provisions of these Agreements and acknowledges that this is an important legal document that sets forth restrictions on**

Executive's conduct as a condition of employment with the Company.

(b) Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by Executive and an officer of the Company (other than Executive) duly authorized by the Board to execute such amendment, waiver or discharge. No waiver by either Party of any breach of the other Party of, or compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(c) Successors and Assigns.

(i) This Agreement is personal to Executive and shall not be assignable by Executive but shall inure to the benefit of and be enforceable by Executive's heirs and legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and, other than as set forth in Section 16(d)(iii) below, shall not be assignable by the Company without the prior written consent of Executive (which shall not be unreasonably withheld).

(iii) The Agreement shall be assignable by the Company to any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company; provided, that the Company shall require such successor to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as defined in this Agreement and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law or otherwise.

(d) Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, or if mailed by registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission; and (iii) notices sent by registered mail shall be deemed given two (2) days after the date of deposit in the mail.

If to Executive, to such address as shall most currently appear on the records of the Company.

If to the Company, to:

National Instruments Corporation

11500 North MoPac Expressway
Austin, Texas 78759

Attention: General Counsel

With a copy, which shall not constitute notice to:

Gary D. Eisenstat
Ogletree, Deakins, Nash, Smoak & Stewart, P.C.
8117 Preston Road, Suite 500
Dallas, Texas 75225

(e) GOVERNING LAW; CONSENT TO JURISDICTION; JURY TRIAL WAIVER. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICTING PROVISION OR RULE (WHETHER OF THE STATE OF DELAWARE OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF TEXAS TO BE APPLIED. IN FURTHERANCE OF THE FOREGOING, THE LAW OF THE STATE OF TEXAS (EXCEPT TO THE EXTENT SUPERSEDED BY THE LAWS OF THE UNITED STATES) WILL CONTROL THE INTERPRETATION AND CONSTRUCTION OF THIS AGREEMENT. ANY ACTION TO ENFORCE THIS AGREEMENT MUST BE BROUGHT IN, AND THE PARTIES HEREBY CONSENT TO JURISDICTION IN DALLAS, TEXAS. EACH PARTY HEREBY WAIVES THE RIGHTS TO CLAIM THAT ANY SUCH COURT OR ARBITRATION PROCEEDING IS AN INCONVENIENT FORUM FOR THE RESOLUTION OF ANY SUCH ACTION. EACH PARTY TO THIS AGREEMENT WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM.

(f) Resolution of Disputes. Any claim arising out of or relating to this Agreement, any other agreement between Executive and the Company or any of its Affiliates, or Executive's employment with the Company or any of its Affiliates, or the termination thereof (collectively, "Covered Claims") shall be resolved by binding arbitration, to be held in Dallas, Texas, in accordance with the National Rules for the Resolution of Employment Disputes (or successor rules) of the American Arbitration Association ("AAA"), Federal Rule of Civil Procedure 68 ("Offer of Judgment"), and this Section 16(f). If AAA's rules are inconsistent with this Agreement, the terms of this Agreement shall govern. If the parties are unable to mutually agree on an arbitrator within sixty (60) days following the date on which the Covered Claim is initially made, the party requesting arbitration shall submit the matter to AAA, and an arbitrator shall be selected pursuant to AAA's rules. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The Company and its Affiliates shall be responsible for their own costs and expenses, including without limitation, attorneys' fees; provided that the Company shall pay all costs unique to arbitration (as compared to the costs of adjudicating the same claims before a court), including the regular and customary arbitration fees and expenses. Any dispute as to whether a cost is unique to arbitration shall be resolved by the arbitrator. Pending the resolution of any Covered Claim, Executive (and his estate or beneficiaries) shall continue to receive all payments and benefits due under this

Agreement or otherwise to the extent not otherwise in dispute. The foregoing notwithstanding, in the event of any actual, threatened, or suspected breach hereof by Executive, the Company shall be entitled to seek injunctive and such other equitable relief with respect to such breach before a court of competent jurisdiction in Dallas County, Texas.

(g) Compliance with Code Section 409A. This Agreement is intended to comply with, or be exempt from, the applicable requirements of Code Section 409A and shall be construed and interpreted in accordance therewith. Notwithstanding anything herein to the contrary, (i) if at the time of Executive's termination of employment with the Company Executive is a "specified employee" as defined in Code Section 409A, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment that are considered a "deferral of compensation" within the meaning of Section Code 409A is necessary in order to prevent any accelerated or additional tax under Code Section 409A, then the Company will defer the commencement of the portion of such payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to Executive) to the extent necessary to comply with Section 409A until the first business day to occur following the date that is six (6) months following Executive's termination of employment with the Company (or the earliest date otherwise permitted under Code Section 409A); and (ii) if any other payments of money or other benefits due to Executive hereunder could cause the application of an accelerated or additional tax under Code Section 409A, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Code Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, mutually agreed upon between the Executive and the Board, that does not cause such an accelerated or additional tax. In the event that payments under this Agreement are deferred pursuant to this Section 16(g) in order to prevent any accelerated tax or additional tax under Code Section 409A, then such payments shall be paid at the time specified under this Section 16(g) without any interest thereon. The Company shall consult with Executive in good faith regarding the implementation of this Section 16(g); provided that neither the Company nor any of its employees or representatives shall have any liability to Executive with respect thereto. Notwithstanding anything to the contrary herein, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "resignation," "termination," "termination of employment" or like terms shall mean separation from service. For purposes of Code Section 409A, each payment made under this Agreement shall be designated as a "separate payment." Notwithstanding anything to the contrary herein, except to the extent any expense, reimbursement or in-kind benefit provided pursuant to this Agreement does not constitute a "deferral of compensation" within the meaning of Section Code 409A, (A) the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to Executive in any other calendar year; (B) the reimbursements for expenses for which Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred; and (C) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

(h) Severability of Invalid or Unenforceable Provisions. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(i) Advice of Counsel and Construction. Each Party acknowledges that such Party had the opportunity to be represented by counsel in the negotiation and execution of this Agreement. Accordingly, the rule of construction of contract language against the drafting party is hereby waived by each Party.

(j) Entire Agreement. This Agreement constitutes the entire agreement between the parties as of the Effective Date and supersedes all previous agreements and understandings between the parties with respect to the subject matter hereof, including, without limitation, the "RSU Vesting Acceleration Agreement" dated October 28, 2014 which is hereby superseded in its entirety by mutual agreement of the parties.

(k) Withholding Taxes. The Company shall be entitled to withhold from any payment due to Executive hereunder any amounts required to be withheld by applicable tax laws or regulations.

(l) Section Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(m) Cooperation. During the Term and at any time thereafter, Executive agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during Executive's employment with the Company; and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company. The Company will reimburse Executive for any reasonable travel and out of pocket expenses incurred by Executive in providing such cooperation.

(n) Survival. Sections 6 through 15, inclusive, shall survive and continue in full force in accordance with their terms notwithstanding any termination of the Term or of Executive's employment with the Company.

(o) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

THIS CONTRACT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.

[Remainder of page intentionally left blank]

The parties have executed this Agreement as of the date first above written.

Company

National Instruments Corporation

By: /s/ James J. Truchard

Name: James J. Truchard, Ph.D.

Title: Chief Executive Officer, President and Chairman of the Board

Executive

/s/ Alexander M. Davern
Alexander M. Davern

EXHIBIT A

DEFINED TERMS

1. "Accrued Obligations" shall mean, at any point in time and except as expressly provided herein, any amounts to which the executive is entitled to payment but have not yet been paid to Executive including, but not limited to, each of the following (but only to the extent such amounts are vested, earned or accrued at the time of payment): Base Salary, earned but unpaid incentive compensation amounts described in Sections 4(b) and 4(c) above, and any other payments, retention bonuses, entitlements or benefits vested, earned or accrued but unpaid under applicable benefit and compensation plans, programs and other arrangements with the Company and/or any of its subsidiaries.

2. "Affiliate" of a Person shall mean any other Person that directly or indirectly controls, is controlled by, or is under common control with, such Person.

3. "Board" shall mean the board of directors of National Instruments Corporation.

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

5. "Change in Control" shall mean the occurrence of any of the following events:

(p) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or

more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board as a result of which fewer than a majority of the directors are Incumbent Directors; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Notwithstanding the foregoing definition, any payment or benefit would be considered deferred compensation subject to, and not exempt from, Code Section 409A, payable or to be provided upon a Change in Control shall only be paid or provided to Executive to the extent such event also qualifies as an event described in Code Section 409A(a)(2)(A)(v).

(q) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(r) "Confidential Information" shall mean all confidential or proprietary information concerning the Company's business, including all trade secrets, know-how and other information generally retained on a confidential basis by the Company with respect to its products, methods, techniques, cost and pricing information (including bid prices), algorithms, advertising methods and methodologies, systems, software codes and specifications, formulae, inventions and discoveries, business plans, pricing, product plans and the identities of and nature of the Company's dealings with its employees, suppliers and customers, and includes Trade Secrets as defined in Tex. Civ. Prac. & Rem. Code Section 134A.002.(6), which is incorporated herein.

(s) "Disability" shall mean, for purposes of this Agreement, (a) Executive's entitlement to benefits under Company's long-term disability plan; or (b) if Executive does not participate in Company's long term-disability plan, Executive will be deemed to have a "Disability" if he is unable, due to physical or mental incapacity, to perform his duties under this Agreement for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six-month period. In conjunction with determining Disability for purposes of this Agreement, Executive hereby (i) consents to any such examinations, to be performed by a qualified medical provider selected by the Company and approved by the Executive (which approval shall not be unreasonably withheld), which are relevant to a determination of whether Executive has incurred a Disability; and (ii) agrees to furnish such medical information as may be reasonably requested.

(t) "Good Reason" shall mean the occurrence of any one or more of the following events without Executive's written consent:

(i) a material adverse change in the nature or scope of the Executive's duties, responsibilities, authorities, powers, functions or duties or change in the Executive's title to any position other than President and Chief Executive Officer, including, without limitation, any requirement that the Executive report to any person(s) other than the Board, provided that it will be considered a substantial reduction in duties and responsibilities if, after a Change in Control (as defined herein), the Executive is not appointed to serve as President and Chief Executive Officer, Chief Operating Officer, or Chief Financial Officer of the ultimate parent of the resulting company;

(ii) a material reduction in the Executive's annual Base Salary or Target Annual Cash Incentive other than:

(1) a reduction that is also applied to substantially all of the Company's other senior executives, provided that such reduction does not cause the reduction in any such compensation items to exceed fifteen percent (15%) from the level of any such compensation items in effect for the calendar year immediately prior to the reduction; or

(2) a reduction that is consistent with the reassignment of Executive to the role of President and Chief Executive Officer, Chief Operating Officer, or Chief Financial Officer of the ultimate parent of the resulting company following a Change in Control, provided that such reduction does not cause the reduction in any such compensation item to exceed fifteen percent (15%) from the level of such compensation item in effect immediately prior to the Change in Control;

(iii) the relocation of the Executive's principal place of employment by more than one hundred (100) miles, except for required travel on the Company's business to an extent substantially consistent with the Executive's business travel obligations; or

(iv) a material breach of this Agreement by the Company.

Notwithstanding the foregoing, an event described in this Section shall not constitute Good Reason unless it is communicated by the Executive to the Company in writing within ninety (90) days of the initial existence of such event and is not corrected by the Company in a manner which is reasonably satisfactory to such Executive within thirty (30) days of the Company's receipt of such written notice. If the purported Good Reason condition is not cured within the 30-day period described in the preceding sentence, Executive may submit a written notice of termination to the Chair of the Board in accordance with Section 6(e) above specifying a Termination Date that is no more than sixty (60) days following the final day of the Company's cure period. Executive will be deemed to have accepted the condition(s), or the Company's correction of such condition(s), that may have given rise to the existence of Good Reason if he fails to provide such written notice under Section 6(e) or fails to terminate his employment within the 60-day period described in the preceding sentence. Neither the failure of the Company's stockholders to elect or reelect Executive to the Board nor the expiration of the Term will constitute Good Reason for purposes of this Agreement.

(u) "Incumbent Directors" means directors who either (A) are directors on the Board as of the Effective Date, or (B) are elected, or nominated for election, to the Board with

the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(v) "Restricted Business" shall mean (i) any business conducted by the Company or its affiliates during the Term that relates to or concerns (directly or indirectly) any Confidential Information provided to Executive or Executive's duties or assignments for the Company, and/or (ii) any business competitive with the business conducted by the Company or its affiliates during the Term that relates to or concerns (directly or indirectly) any Confidential Information provided to Executive or Executive's duties or assignments for Company. [***]

***Confidential Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to this omitted information.

EXHIBIT B

FORM OF SEPARATION AND GENERAL RELEASE

This Separation and General Release ("Release") is made by and between NATIONAL INSTRUMENTS CORPORATION, including its officers, directors, employees, managers, predecessors, successors, subsidiaries, and affiliates (collectively, the "Company"), and ALEXANDER M. DAVERN ("Executive"). Executive and the Company are referred to individually as "Party," and collectively as the "Parties."

WHEREAS, the Company employed Executive pursuant to an Employment Agreement ("Agreement"), effective as of January 1, 2017;

WHEREAS, Executive's employment under the Agreement has been terminated with the Company, effective [ ] (the "Separation Date");

WHEREAS, as consideration for the conditions, covenants, and provisions in this Release, including to fully settle and resolve any and all issues and disputes arising out of Executive's employment with, and separation from, the Company, the Company agrees to pay Executive separation pay (as set forth in Paragraph 2 of this Release); and

WHEREAS, Executive acknowledges that the consideration received by Executive under the terms of this Release for the release and waiver contained herein is in addition to any consideration the Company is otherwise required to provide Executive.

NOW, THEREFORE, in consideration of the conditions, covenants, and provisions herein, the Parties acknowledge and agree as follows:

1. **Separation Date and Final Wages.** Executive's employment with the Company is terminated as of the Separation Date. In addition to the payments provided in Paragraph 2 below, regardless of whether Executive signs this Release, within the next regularly scheduled pay period following the Separation Date, Executive will receive payment for any unpaid final time worked through and including the Separation Date and other benefits to which Executive is entitled by virtue of Executive's service with the Company up to and including the Separation Date, pursuant to the terms of the Agreement and the Company's benefit plans, including payment for any accrued but unused vacation pay. Except as specifically provided in this Release regarding the separation pay in Paragraph 2 below, Executive understands that Executive shall not be entitled to any other payment, benefits, remuneration, or other consideration of any kind from the Company.

2. **Separation Payments and Other Consideration by the Company.** Following receipt by the Company of Executive's signature to this Release, and provided Executive does not revoke this Release as provided in Paragraph 14 below, as consideration for this Release, the Company will provide Executive with the severance pay and benefits ("Severance Benefit") as defined in Sections 6 and/or 7 of the Agreement, as applicable, in the total amount of [ ] dollars ($[ ]) which shall be paid or provided at the time and in the form as specified in the Agreement.

The Severance Benefit shall be paid (or commence to be paid) or provided herein and in the Agreement, following the seven (7) day revocation period referenced in Paragraph 14 below. Executive acknowledges that the payment under this Paragraph 2 is in addition to any services or amounts to which Executive would otherwise be entitled without signing this Release.

3. **Executive Waiver and Release of Rights and Release Not to Sue.** Executive (defined for the purpose of this Paragraph 3 to include Executive and Executive's agents, representatives, attorneys, assigns, heirs, executors, and administrators) fully and unconditionally releases the Released Parties (defined as the Company, its parent, subsidiaries, affiliates, and any of its or their respective past or present employees, agents, insurers, attorneys, administrators, officials, directors, shareholders, members, managers, managing members, divisions, parents, subsidiaries, predecessors, successors, employee benefit plans, and the sponsors, fiduciaries, or administrators of such employee benefit plans) from, and except as specifically provided herein, agrees not to bring any action, proceeding, or suit against any of the Released Parties regarding, any and all liability, claims, demands, actions, causes of action, suits, grievances, debts, sums of money, agreements, promises, damages, back and front pay, costs, expenses, attorneys' fees, and remedies of any type (collectively, "Claims"), directly or indirectly regarding any act or failure to act that occurred up to and including the date on which Executive signs this Release, including, without limitation, all Claims arising or that arose or may have arisen out of or in connection with Executive's employment with or separation from the Company, and including but not limited to Claims for:

(a) violation of any written or unwritten contract, the Agreement, any understanding, policy, benefit, retirement or pension plan, severance plan, or covenant of any kind, or failure to pay wages, bonuses, employee benefits, other compensation, attorneys' fees, damages, or any other remuneration of any kind, bonuses, stock, or stock options;

(b) discrimination or retaliation on the basis of any characteristic or trait protected under law (including, but not limited to, race, color, national origin, gender, sexual orientation, religion, disability, marital or parental status, age, union activity, or other protected activity), or other denial of protection or benefits under any statute, ordinance, executive order, or regulation (including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Act of 1866, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the Workers' Adjustment and Retraining Notification, the Employee Retirement Income Security Act of 1974, the Sarbanes-Oxley Act, the Texas Labor Code, the Texas Commission on Human Rights Act, the retaliation provision of the Texas Workers' Compensation Act, or any other federal, state, or local statute, ordinance, or regulation regarding employment, termination of employment, or discrimination in employment) as such acts may have been amended; and/or

(c) violation of any public policy or common law of any state relating to employment or personal injury, including, but not limited to, claims for wrongful discharge, defamation, invasion of privacy, infliction of emotional distress, negligence, interference with contractual or business relations.

Executive represents and warrants that Executive has no outstanding court, agency, or administrative claims for damages against any person or entity released herein. The Parties intend to release only all Claims which can legally be released in a private agreement. This Release does not include, and Executive does not waive, any rights or claims: (a) that may arise after Executive signs this Release; (b) for alleged workplace injuries or occupational disease that arise under any state's workers' compensation laws; (c) that cannot be released by law; (d) to enforce this Release or the Agreement; or (e) to participate in any proceedings before an administrative agency responsible for enforcing labor and/or employment laws, *e.g.*, the Equal Employment Opportunity Commission ("EEOC"), the Texas Workforce Commission ("TWC"), or the Securities and Exchange Commission ("SEC"). Executive agrees, however, to waive and release any right to receive any monetary award from any and all such proceedings. Nothing in this Release (including the non-disparagement provisions) shall be construed to limit Executive's right to respond accurately and fully to any question, inquiry, or request for information when required by legal process, or from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or state or federal regulatory authority regarding the Company, Executive's employment, or this Release. Executive is not required to contact the Company regarding the subject matter of any such communications before disclosing information to an administrative agency responsible for enforcing labor and/or employment laws, or providing information to an agency responsible for enforcing unemployment compensation laws. Further, nothing in this Release is intended to restrict Executive's legally protected right to discuss wages, hours, or other working conditions with co-workers, or to in any way limit Executive rights under applicable law, including the National Labor Relations Act and any whistleblower act.

4. **Non-Disparagement.** Executive's non-disparagement obligations in Paragraph 10 of the Agreement remain in full force and effect, and Executive reaffirms his obligations thereunder. Executive acknowledges that any failure to abide by Executive's obligations under Paragraph 10 of the Agreement and this Paragraph 4 shall constitute a material breach of this Release, and Executive shall forfeit any and all amounts to which Executive may otherwise be entitled in Paragraph 2 above.

5. **Return of Company Property.** Executive acknowledges that Executive has returned all property of the Company that is in Executive's possession, custody, or control including, without limitation, all computer hardware and software, credit cards, keys, computer or other access codes, communications devices (including, without limitation, all cellular phones, smart phones, BlackBerry devices, personal data assistants, or similar devices), computers, laptops, tablet devices, and all materials, papers, books, files, documents, records, policies, client and customer information and lists, marketing information, non-public financial information, database information and lists, mailing lists, notes, data, and any other property or information that Executive may have relating to the Company or its customers, clients, employees, policies, or practices (whether those materials exist in hard copy or digital form). Executive agrees not to retain any such property or information in any form, hard copy or digital, and not to give copies

of such property or information or disclose their contents to any other person. To the extent Executive has, or had retained access to Confidential Information, regardless of the form, and where such Confidential Information is retained or stored, including, but not limited to, on any computer, laptop, tablet, smart phone, flash or thumb drive, or on any cloud-type account, Executive shall fully delete and destroy all such digital forms, including all back-ups and copies, and by signing below, certifies his compliance with such obligation.

6. **Confidentiality of Company Information.** Executive acknowledges that during the course of employment with the Company, Executive has had access to and used confidential and proprietary information of the Company, including Confidential Information as defined in the Agreement, that is not known or in the public domain, including, without limitation, customer information, financial information, personnel information, and business plans. Except as may be specifically required by law and consistent with Paragraph 3 above, and for so long as it remains confidential (other than through any improper actions by Executive), Executive reaffirms his non-disclosure obligations under the Agreement, and agrees not to directly or indirectly use or disclose any such Confidential Information to, or on behalf of, any person, firm, corporation, or entity outside the Company.

7. **Non-Admission/Inadmissibility.** This Release does not constitute an admission by the Parties that any action taken regarding Executive was wrongful, unlawful, or in violation of any local, state, or federal act, statute, or constitution, or susceptible of inflicting any damages or injury on Executive, and the Company specifically denies any such wrongdoing or violation. This Release is entered into solely to resolve fully all matters related to or arising out of Executive's employment with and separation from the Company.

8. **Cooperation.** Executive agrees to cooperate fully with the Company and its counsel with respect to any matter (including litigation, investigation, government proceedings, and general claims) that relates to matters with which Executive was involved during the term of employment with the Company, subject to reimbursement of reasonable out-of-pocket travel costs and expenses. Such cooperation may include appearing from time to time at the offices of the Company or the Company's counsel, or telephonically, for conferences and interviews, and providing testimony in depositions, court proceedings, and administrative hearings as necessary for the Company to defend claims, and in general providing the Company and its counsel with the full benefit of Executive's knowledge with respect to any such matter. Executive agrees to render such cooperation in a timely fashion and at such times as may be mutually agreeable to the parties concerned.

9. **Severability.** The provisions of this Release shall be severable and the invalidity of any provision, or the performance of one Party's obligations under any provision, shall not affect the validity of the other provisions or the other Party's duty to perform its or Executive's obligations under any other provision; provided, however, that (a) upon a finding by a court of competent jurisdiction that any release or agreement in Paragraph 3 above is illegal, void, or unenforceable, Executive agrees, at the Company's option, to promptly execute a release and agreement that is legal and enforceable, and (b) Executive's failure to comply with the obligations to promptly execute such release will constitute a material breach of this Release, in which event the Company, in addition to its other rights and remedies, shall not be obligated to provide Executive with any of the consideration described in Paragraph 2 above.

10. **Governing Law and Jurisdiction/Consent to Jurisdiction/Waiver of Jury Trial.** This Release shall be governed by and construed in accordance with laws and judicial decisions of the State of Texas, without regard to its principles of conflicts of laws. Any action regarding this Release or Executive's employment with or separation from the Company must be brought as provided in the Agreement and prosecuted in Dallas County. The Parties reaffirm that any right to a jury trial is waived, as provided in the Agreement.

11. **Entire Release.** This Release and the Agreement represent the entire agreement and understanding concerning Executive's employment with and separation from the Company, and supersedes and replaces any and all prior agreements, understandings, discussions, proposals, or negotiations (whether written or oral) between Executive and the Company.

12. **Notice to Seek Counsel/Consideration Period/Revocation Period.** Executive acknowledges that Executive has been advised in writing to consult with an attorney before executing this Release, and that Executive has had at least twenty-one (21) days after receipt of this Release to consider whether to accept or reject this Release. Executive understands that Executive may execute this Release prior to the end of such twenty-one (21) day period, but is not required to do so. Executive has seven (7) days after execution of this Release to revoke it. Such revocation must be in writing and delivered either by hand, facsimile, or mailed and postmarked within the seven (7) day period, and sent to:

National Instruments Corporation
Attention: General Counsel
11500 Mopac Expressway
Austin, Texas 78759-3504

If Executive revokes this Release as provided herein, it shall be null and void and Executive will not be entitled to any of the consideration from the Company described in Paragraph 2 above. If Executive does not revoke this Release within seven (7) days of executing it, this Release shall become enforceable on the eighth (8th) day after execution of this Release. Executive understands that this Release is not intended to be a waiver of Claims arising after the date Executive executes this Release.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Release freely and voluntarily with the intention of being legally bound by it.

ALEXANDER M. DAVERN

____
[Signature]

____
Date

EXHIBIT C

RESTRICTED BUSINESSES

[***]

***Confidential Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to this omitted information.

EXHIBIT 31.1

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

I, James J. Truchard, 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: October 31, 2016

By: /s/ James J. Truchard
James J. Truchard
Chief Executive Officer

EXHIBIT 31.2

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

I, 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: October 31, 2016

By: /s/Alex M. Davern
Alex M. Davern
Chief Financial Officer

EXHIBIT 32.1

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

I, James J. Truchard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of National Instruments Corporation on Form 10-Q for the fiscal quarter ended September 30, 2016 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/ James J. Truchard
James J. Truchard
Chief Executive Officer
Date: October 31, 2016

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 September 30, 2016 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 Financial Officer
Date: October 31, 2016