NATIONAL INSTRUMENTS CORP /DE/
Form 10-K
February 17, 2010

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

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2009 or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-25426

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

Delaware	74-1871327
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
11500 North MoPac Expressway Austin, Texas	78759
(address of principal executive offices)	(zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes T No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T

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 T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. T

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 T 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 Act). Yes £ No T

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant at the close of business on June 30, 2009, was $974,659,387 based upon the last sales price reported for such date on the NASDAQ Stock Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant as of June 30, 2009 have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

At the close of business on February 16, 2010 registrant had outstanding 78,352,719 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant for its Annual Meeting of Stockholders to be held on May 11, 2010 (the "Proxy Statement").

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any statements contained herein regarding our future financial performance or operations (including, without limitation, statements to the effect that we "believe," "expect," "plan," "may," "will," "project," "continue," or "estimate" or other variations thereof or comparable terminology or the neg 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 10, and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

ITEM 1. BUSINESS

National Instruments Corporation ("we", "us" or "our") is a leading supplier of measurement and automation products that engineers and scientists use in a wide range of industries. These industries comprise a large and diverse market for design, control and test applications. We provide flexible application software and modular, multifunction hardware that users combine with industry-standard computers, networks and third-party devices to create measurement, automation and embedded systems, which we also refer to as "virtual instruments." Our approach gives customers the ability to quickly and cost-effectively design, prototype and deploy unique custom-defined solutions for their design, control and test application needs.

We are based in Austin, Texas and were incorporated under the laws of the State of Texas in May 1976 and were reincorporated in Delaware in June 1994. On March 13, 1995, we completed an initial public offering of our common stock. Our common stock, $0.01 par value, is quoted on the NASDAQ Stock Market under the trading symbol NATI.

Our Internet website address is http://www.ni.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available upon written request and without charge through our Internet website as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Industry Background

Engineers and scientists have long used instruments to observe, better understand and manage the real-world phenomena, events and processes related to their industries or areas of expertise. Instruments measure and control electrical signals, such as voltage, current and power, as well as physical phenomena, such as temperature, pressure, speed, flow, volume, torque and vibration. Common general-purpose instruments include voltmeters, signal generators, oscilloscopes, data loggers, spectrum analyzers, cameras, and temperature and pressure monitors and controllers. Some traditional instruments are also highly application specific, designed to measure specific signals for particular vertical industries or applications. Instruments used for industrial automation applications include data loggers, strip chart recorders, programmable logic controllers ("PLCs"), and proprietary turn-key devices and/or systems

designed to automate specific vertical applications. Measurement and control functionality is also used in a variety of embedded and/or real-time applications, such as machine monitoring, machine control, and embedded design and prototyping.

Measurement and automation applications can be generally categorized as either test and measurement ("T&M") or industrial/embedded. T&M applications generally involve testing during the research, design, manufacture and service of a wide variety of products. Industrial/embedded applications generally involve designing, prototyping and deploying the machinery and processes used in the production and distribution of a wide variety of products and materials.

Instruments and systems for design, control, and test applications have historically shared common limitations, including: fixed, vendor-defined functionality, proprietary, closed architectures that were generally difficult to program and integrate with other systems; and inflexible operator interfaces that were usually cumbersome to operate and change. Proprietary instrumentation systems have traditionally been very expensive, with industrial/embedded system prices ranging as high as several million dollars and T&M instrumentation system prices often ranging in the hundreds of thousands of dollars. In addition, the limitations on the programmability of traditional systems means that adapting these systems to changing requirements can be both expensive and time consuming, and users are often required to purchase multiple single-purpose instruments.

Our Approach to Measurement and Automation

A virtual instrument is a user-defined measurement and automation system that consists of an industry standard computer (which may be a mainstream general-purpose computer, workstation, handheld PDA device, or a version of an industry standard computer, workstation, or handheld PDA that is specially designed and packaged for harsh industrial or embedded environments) equipped with our user-friendly application software, cost-effective hardware and driver software. Virtual instrumentation represents a fundamental shift from traditional hardware-centered instrumentation systems to software-centered systems that exploit the computational, display, productivity and connectivity capabilities of computers, networks and the Internet. Because virtual instruments exploit these computation, connectivity, and display capabilities, users can define and change the functionality of their instruments, rather than being restricted by fixed-functions imposed by traditional instrument and automation vendors. Our products empower users to monitor and control traditional instruments, create innovative computer-based systems that can replace traditional instruments at a lower cost, and develop systems that integrate measurement functionality together with industrial and embedded capabilities. We believe that giving users flexibility to create their own user-defined virtual instruments for an increasing number of applications in a wide variety of industries, and letting users leverage the latest technologies from computers, networking and communications shortens system development time and reduces both the short- and long-term costs of developing, owning and operating measurement and automation systems, and improves the efficiency and precision of applications spanning research, design, production and service.

Compared with traditional solutions, we believe our products and computer-based, virtual instrumentation approach provide the following significant customer benefits:

Performance, Ease of Use and Efficiency

Our virtual instrument application software brings the power and ease of use of computers, PDAs, networks and the Internet to instrumentation. With features such as graphical programming, automatic code generation capabilities, graphical tools libraries, ready-to-use example programs, libraries of specific instrumentation functions, and the ability to deploy their applications on a range of platforms, users can quickly build a virtual instrument system that meets their individual application needs. In addition, the continuous performance improvement of PC and networking technologies, which are the core platform for our approach, results in direct performance benefits for virtual instrument users in the form of faster execution for software-based measurement and automation applications,

resulting in shorter test times, faster automation, and higher manufacturing throughput.

Modularity, Reusability and Reconfigurability

Our products include reusable hardware and software modules that offer considerable flexibility in configuring systems. This ability to reuse and reconfigure measurement and automation systems allows users to reduce development time and improve efficiency by eliminating duplicated programming efforts and to quickly adapt their systems to new and changing needs. In addition, these features help protect both hardware and software investments against obsolescence.

Lower Total Solution Cost

We believe that our products and solutions offer price/performance and energy efficiency advantages over traditional solutions. Virtual instrumentation provides users the ability to utilize industry standard computers and workstations, portable PDAs and other handheld devices, as well as ruggedized industrial computers equipped with modular and reusable application software, cost-effective hardware and driver software that together perform the functions that would otherwise be performed by costly, proprietary systems. In addition, virtual instrumentation gives users the flexibility and portability to adapt to changing needs, whereas traditional closed systems are both expensive and time consuming to adapt, if adaptable at all.

Products, Technology and Services

We offer an extensive line of measurement and automation products that empower engineers and scientists to more efficiently create automated test, industrial control, and embedded design applications. Our products consist of off-the-shelf application software and modular, cost-effective hardware components together with related driver software. We design our products to work either separately, as stand-alone products or as an integrated solution; however, customers generally purchase our software and hardware together. We believe that the flexibility, functionality and ease of use of our application software promotes sales of our other software and hardware products.

Application Software

For more than 20 years, we have pioneered measurement and automation application software for virtual instrumentation, which we believe plays an increasingly important role in the development of computer-based systems for test, control, and design applications. Our application software products leverage the increasing capability of computers, networks and the Internet for data analysis, connectivity and presentation power to bring increasing efficiency and precision to measurement and automation applications. Our application software products include LabVIEW, LabVIEW Real-Time, LabVIEW FPGA, Measurement Studio, LabWindows/CVI, DIAdem, NI TestStand, NI VeriStand, and Multisim. Our application software products are integrated with our hardware/driver software.

We offer a variety of software products for developing test, control, and design applications to meet our customer's programming and computer preferences. LabVIEW, LabWindows/CVI, and Measurement Studio are programming environments where users can design, prototype, and deploy systems. With these software products, users can design custom virtual instruments by creating a graphical user interface ("GUI") on the computer screen through which they operate the actual program and control selected hardware. Users can customize front panels with knobs, buttons, dials and graphs to emulate control panels of instruments or add custom graphics to visually represent the control and operation of processes. LabVIEW, LabWindows/CVI and Measurement Studio also have ready-to-use libraries for controlling thousands of programmable instruments, including our hardware products, as well as traditional serial, General Purpose Interface Bus ("GPIB"), VME extensions for instrumentation ("VXI"), PCI, PCI Express, PCI Extensions for Instrumentation ("PXI"), PXI Express, Ethernet and USB measurement and automation devices from other vendors.

The principal difference between LabVIEW, LabWindows/CVI, and Measurement Studio is in the way users develop programs. With LabVIEW, users program graphically, developing application programs by connecting icons to create "block diagrams" which are natural design notations for scientists and engineers. With LabVIEW Real-Time, the user can easily configure their application program to execute using a real-time operating system kernel instead of the Windows operating system, so users can easily build virtual instrument solutions for mission-critical applications that require highly reliable operation. In addition, with LabVIEW Real-Time, users can easily configure their programs to execute remotely on embedded processors inside PXI systems, on embedded processors inside CompactRIO distributed I/O systems, or on processors embedded on plug-in PC data acquisition boards. With LabVIEW FPGA, the user can configure their application to execute directly in silicon via a Field Programmable Gate Array ("FPGA") residing on one of our reconfigurable I/O hardware products. LabVIEW FPGA allows users to easily build their own highly specialized, custom hardware devices for ultra high-performance requirements or for unique or proprietary measurement or control protocols.

LabWindows/CVI users use the conventional, text-based programming language of C for creating test and control applications. Measurement Studio consists of measurement and automation add-on libraries and additional tools for programmers that use Microsoft's Visual Basic, Visual C++, Visual C#, and Visual Studio.NET development environments.

We offer a software product called NI TestStand targeted for T&M applications in a manufacturing environment. TestStand is a test management environment for organizing, controlling, and running automated prototype, validation, and manufacturing test systems. It also generates customized test reports and integrates product and test data across the customers' enterprise and across the Internet. TestStand manages tests that are written in LabVIEW, LabWindows/CVI, Measurement Studio, C and C++, and Visual Basic, so test engineers can easily share and re-use test code throughout their organization and from one product to the next. TestStand is a key element of our strategy to broaden the reach of our application software products across the corporate enterprise.

NI Multisim equips engineers, educators, and students with powerful and innovative circuit design technology. Educators and students can take advantage of easy-to-use teaching tools to overcome the traditional hurdles in electronics education. Professional engineers can improve productivity with intuitive capture tools, interactive simulation, board layout, and design validation. Multisim was added to our software offering in 2005, when we acquired Electronics Workbench and its suite of software for electronic design automation.

NI DIAdem offers users configuration-based technical data management, analysis, and report generation tools to interactively mine and analyze data. DIAdem helps users make informed decisions and meet the demands of today's testing environments, which require quick access to large volumes of scattered data, consistent reporting, and data visualization.

In 2009 we introduced NI VeriStand, a ready-to-use software environment for configuring real-time testing applications, including hardware-in-the-loop ("HIL") test systems. With NI VeriStand, users configure real-time I/O, stimulus profiles, data logging, alarming, and other tasks; implement control algorithms or system simulations by importing models from a variety of software environments; build test system user interfaces quickly; and add custom functionality using NI LabVIEW, NI TestStand, and other software environments.

Hardware Products and Related Driver Software

Using cutting-edge commercial technology, such as the latest ADCs, FPGSs, and PC busses, NI hardware delivers modular and easy-to-use solutions for a wide range of applications – from automated test and data logging to industrial control and embedded design. Our hardware and related driver software products include data acquisition ("DAQ"), PXI chassis and controllers, image acquisition, motion control, distributed I/O, modular instruments and embedded control hardware/software, industrial communications interfaces, GPIB interfaces, and VXI Controllers. The high level of integration between our products provides users with the flexibility to mix and match hardware components

when developing custom virtual instrumentation systems.

DAQ Hardware/Driver Software. Our DAQ hardware and driver software products are “instruments on a board” that users can combine with sensors, signal conditioning hardware and software to acquire analog data and convert it into a digital format that can be accepted by a computer. Computer-based DAQ products are typically a lower-cost solution than traditional instrumentation. Applications suitable for automation with computer-based DAQ products are widespread throughout many industries, and many systems currently using traditional instrumentation (either manual or computer-controlled) could be displaced by computer-based DAQ systems. We offer a range of computer-based DAQ products, including models for digital, analog and timing input-output, and for transferring data directly to a computer’s random-access memory. In 2006, we introduced NI CompactDAQ a rugged, portable, USB data acquisition system designed for high-performance mixed-signal measurement systems. In 2008, we introduced our first data acquisition devices that leverage wireless technologies, an extension of PC-based data acquisition for measurement applications where wiring is difficult or cost-prohibitive.

PXI Modular Instrumentation Platform. Our PXI modular instrument platform, which was introduced in 1997, is a standard PC packaged in a small, rugged form factor with expansion slots and instrumentation extensions. It combines mainstream PC software and PCI hardware with advanced instrumentation capabilities. In essence, PXI is an instrumentation PC with several expansion slots ideal for complete system-level opportunities and delivering a much higher percentage of the overall system content using our own products. We continue to expand our PXI product offerings with new modules, which address a wide variety of measurement and automation applications. The platform is now a testing standard, with 70 companies developing on the platform and investing in its future through the PXI System Alliance ("PXISA"). In 2006, we introduced our first PXI Express products which provide backward software compatibility with PXI while providing advanced capabilities for high-performance instrumentation, such as RF instrumentation.

Modular Instruments. We offer a variety of modular instrument devices used in general purpose test and communication test applications. These devices include digitizers, digital multimeters, signal generators, RF analyzers/generators, power supplies, and switch modules that users can configure through software to meet their specific measurement tasks. Because these instruments are modular and software-defined, they can be quickly interchanged and easily repurposed to meet evolving test needs. Additionally, NI modular instruments provide high-speed test execution by harnessing the power of industry-standard PC and advanced timing and synchronization technologies. Options are available for a variety of platforms including PXI, PXI Express, PCI, PCI Express, and USB.

Machine Vision/Image Acquisition. Our machine vision platform includes hardware ranging from plug-in devices for PCI and PXI systems to image processing on the sensor itself with the NI Smart Camera. Software options include image acquisition software to acquire images from thousands of cameras, a world-class image processing library, and a configurable interface for industrial machine vision applications. In 1996, we introduced our first image acquisition hardware which provides users with a cost-effective solution to integrate vision into their measurement and automation applications. Our vision software is designed to work with many different software environments, including LabVIEW. In 2003, we introduced our Vision Builder software for automated inspection and our Compact Vision System, which is a small, ruggedized, industrial vision system that can connect up to three IEEE-1394 cameras and that is easily programmed using Vision Builder. In 2007, we introduced our first integrated Smart Cameras which leverage our LabVIEW software to provide integrated solutions for many inspection and other industrial/embedded applications.

Motion Control. By integrating flexible software with high-performance hardware, our motion control products offer a powerful solution for motion system design. From automating test equipment and research labs to controlling biomedical, packaging, and manufacturing machines, engineers use our motion products to meet a diverse set of application challenges. Our software tools for motion easily integrate with our other product lines, so users can combine motion control with image acquisition, test, measurement, data acquisition, and automation to create robust,

flexible solutions. We introduced our first line of motion control hardware, software and peripheral products in 1997.

Distributed I/O and Embedded Control Hardware/Software. Our distributed I/O products, including Compact FieldPoint, and CompactRIO, are designed for remote measurement, industrial control, and embedded data-logging applications. Compact FieldPoint is an intelligent, distributed, and modular I/O system that gives industrial system developers an economical solution for distributed data acquisition, monitoring and control applications. Suitable for direct connection to industrial signals, Compact FieldPoint includes a wide array of rugged and isolated analog and digital I/O modules, terminal base options, and network modules. With LabVIEW Real-Time users can download their LabVIEW code and easily create networked systems of intelligent, real-time nodes for embedded measurement and control. In 2004, we introduced CompactRIO, an advanced embedded control and acquisition system powered by our reconfigurable I/O ("RIO") technology. CompactRIO leverages LabVIEW Real-Time and LabVIEW FPGA for industrial control, process monitoring, and embedded machine applications that require intelligent I/O products with a small form factor, a wide operating temperature, and resistance to shock and vibration. In 2008, we introduced Single-Board RIO, which is a board-only, lower-cost version of CompactRIO designed for higher volume system deployments.

Industrial Communications Interfaces. In 1995, we began shipping our first interface boards for communicating with serial devices, such as data loggers and PLCs targeted for industrial/embedded applications, and benchtop instruments, such as oscilloscopes, targeted for test and measurement applications. We offer hardware and driver software product lines for communication with industrial devices—Controller Area Network ("CAN"), DeviceNet, Foundation Fieldbus, and RS-485 and RS-232.

GPIB Interfaces/Driver Software. We began selling GPIB products in 1977 and are a leading supplier of GPIB interface boards and driver software to control traditional GPIB instruments. These traditional instruments are manufactured by a variety of third-party vendors and are used primarily in T&M applications. Our diverse portfolio of hardware and software products for GPIB instrument control is available for a wide range of computers. Our GPIB product line also includes products for controlling GPIB instruments using the computer’s standard parallel, USB, IEEE 1394 ("Firewire"), Ethernet, and serial ports.

VXI Controllers//Driver Software. We are a leading supplier of VXI computer controller hardware and the accompanying NI-VXI and NI-VISA driver software. We also offer LabVIEW, LabWindows/CVI, Measurement Studio and TestStand software products for VXI systems.

Services

Customer Training Courses. We offer fee-based training classes and self-paced course kits for many of our software and hardware products. On-site courses are quoted per customer requests and we include on-line course offerings with live teachers. We also offer programs to certify programmers and instructors for our products.

Software Maintenance

Software maintenance revenue is post contract customer support that provides the customer with unspecified upgrades/updates and technical support.

Markets and Applications

Our products are used across many industries in a variety of applications including research and development, simulation and modeling, product design and validation, production testing and industrial control and field and factory service and repair. We serve the following industries and applications worldwide: advanced research, automotive, automated test equipment, commercial aerospace, computers and electronics, continuous process manufacturing, education, government/defense, medical research/pharmaceutical, power/energy, semiconductors, telecommunications

and others.

Customers

We have a broad customer base, with no customer accounting for more than 3% of our sales in 2009, 2008 or 2007.

Marketing

Through our worldwide marketing efforts, we strive to educate engineers and scientists about the benefits of our virtual instrumentation philosophy, products and technology, and to highlight the performance, ease of use and cost advantages of our products. We also seek to present our position as a technological leader among producers of instrumentation software and hardware and to help promulgate industry standards that can benefit users of computer-based instrumentation.

We reach our intended audience through our Web site at ni.com as well as through the distribution of written and electronic materials including demonstration versions of our software products, participation in tradeshows and technical conferences and training and user seminars.

We actively market our products in higher education environments, and we identify many colleges, universities and trade and technical schools as key accounts. We offer special academic pricing and products to enable universities to utilize our products in their classes and laboratories. We believe our prominence in the higher education area can contribute to our future success because students gain experience using our products before they enter the work force.

Sales and Distribution

We 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 our products. Our Hungarian manufacturing facility sources a substantial majority of our sales throughout the world. We have sales offices in the United States and sales offices and distributors in key international markets. Sales outside of the U.S. accounted for approximately 61%, 61% and 59%, of our revenues in 2009, 2008 and 2007, respectively. We expect that a significant portion of our total revenues will continue to be derived from international sales. (See Note 12 – Segment information of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales, operating income, interest income and identifiable assets.)

We believe the ability to provide comprehensive service and support to our customers is an important factor in our business. We permit customers to return products within 30 days from receipt for a refund of the purchase price less a restocking charge. Our products are generally warranted against defects in materials and workmanship for one year from the date we ship the products to our customers. Historically, warranty costs have not been material.

The marketplace for our products dictates 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. We strive to mitigate this risk by monitoring inventory levels against product demand and technological changes. There can be no assurance that we will be successful in these efforts in the future.

Our foreign operations are subject to certain risks set forth on page 14 under “We are Subject to Various Risks Associated with International Operations and Foreign Economies.”

See discussion regarding fluctuations in our quarterly results and seasonality in ITEM 1A. Risk Factors, “Our Revenues are Subject to Seasonal Variations.”

Competition

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 Agilent Technologies Inc. (“Agilent”). Agilent offers hardware and software products that provide solutions that directly compete with our virtual instrumentation products. Agilent is aggressively advertising and marketing products that are competitive with our products. Because of Agilent's strong position in the instrumentation business, change in its marketing strategy or product offerings could have a material adverse effect on our operating results.

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

- new product introductions by competitors;
- product pricing;
- the impact of foreign exchange rates on product pricing;
- quality and performance;
- success in developing new products;
- adequate manufacturing capacity and supply of components and materials;
- efficiency of manufacturing operations;
- effectiveness of sales and marketing resources and strategies;
- strategic relationships with other suppliers;
- timing of our new product introductions;
- protection of our products by effective use of intellectual property laws;
- the outcome of any material intellectual property litigation;
- the financial strength of our competitors;
- barriers to entry imposed by competitors with significant market power in new markets;
- general market and economic conditions; and,
- government actions throughout the world.

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

Research and Development

We believe that our long-term growth and success depends on delivering high quality software and hardware products on a timely basis. We intend to 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 and price/performance characteristics.

Our research and development staff strives to build quality into products at the design stage in an effort to reduce overall development and manufacturing costs. Our research and development staff also designs proprietary application specific integrated circuits (“ASICs”), many of which are designed for use in several of our products. The goal of our ASIC design program is to further differentiate our products from competing products, to improve manufacturability and to reduce costs. We seek to reduce our time to market for new and enhanced products by sharing our internally developed hardware and software components across multiple products.

As of December 31, 2009, we employed 1,457 people in product research and development. Our research and development expenses were $133 million, $143 million and $127 million for 2009, 2008 and 2007, respectively.

Intellectual Property

We rely on a combination of patent, trade secret, copyright and trademark law, contracts and technical measures to establish and protect our proprietary rights in our products. As of December 31, 2009, we held 502 United States patents (495 utility patents and 7 design patents) and 20 patents in foreign countries (18 patents registered in Europe in various countries; and 2 patents in Japan), and had 296 patent applications pending in the United States and foreign countries. 124 of our issued United States patents are software patents related to LabVIEW, and cover fundamental aspects of the graphical programming approach used in LabVIEW. Our patents expire from 2011 to 2027. No assurance can be given that our pending patent applications will result in the issuance of patents. We also own certain registered trademarks in the United States and abroad. See further discussion regarding risks associated with our patents in ITEM 1A, Risk Factors, "Our Business Depends on Our Proprietary Rights and We are Subject to Intellectual Property Litigation."

Manufacturing and Suppliers

We manufacture a substantial majority of our products at our facility in Debrecen, Hungary. Additional production primarily of low volume or newly introduced products is done in Austin, Texas. 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. We manufacture most of the electronic circuit card assemblies, and modules in-house, although subcontractors are used from time to time. We currently use subcontractors in Asia to manufacture a significant portion of our chassis, but we review these arrangements periodically. We manufacture some of our electronic cable assemblies in-house, but many assemblies are produced by subcontractors. We primarily subcontract our software duplication, our technical manuals and product support documentation.

Our manufacturing processes use large volumes of high-quality components and subassemblies supplied by outside sources in the U.S., Europe and Asia. Several of these components are available through limited sources. Limited source components purchased include custom ASICs, chassis and other components. Any disruption of our supply of limited source components, whether resulting from business demand, quality, production or delivery problems, could adversely affect our ability to manufacture our products, which could in turn adversely affect our business and results of operations. See "Our Business is Dependent on Key Suppliers" at page 14 for additional discussion of the risks associated with limited source suppliers.

See "Our Manufacturing Operations are Subject to a Variety of Environmental Regulations and Costs" at page 15 for discussion of environmental matters as they may affect our business.

Backlog

Backlog is a measure of orders that are received but that are not shipped to customers at the end of the quarter. We typically ship products shortly following the receipt of an order. Accordingly, our backlog typically represents less than 5 days sales. Backlog should not be viewed as an indicator of our future sales. During the year ended December 31, 2009, our order backlog increased by approximately $8 million.

Employees

As of December 31, 2009, we had 5,120 employees worldwide, including 1,457 in research and development, 2,338 in sales and marketing and customer support, 755 in manufacturing and 570 in administration and finance. None of our employees are represented by a labor union and we have never experienced a work stoppage. We consider our employee relations to be good. For eleven consecutive years, from 1999 to 2009, we have been named among the 100 Best Companies to Work for in America according to FORTUNE magazine.

ITEM 1A. RISK FACTORS

Continuing Uncertainty in General Economic Conditions and Fluctuations in the Global Credit and Equity Markets Have Adversely Affected Our Financial Condition and Results of Operations. Our business is sensitive to changes in general economic conditions, both in the U.S. and globally. Due to the continued concerns regarding the availability of credit, our current or potential customers may delay or reduce purchases of our products which may continue to have an adverse effect on our revenues and therefore harm our business and results of operations. The continuing uncertainty in the credit markets is likely to continue to have an adverse effect on the U.S. and world economies, which could continue to negatively impact the spending patterns of businesses including our current and potential customers. Historically, our business cycles have corresponded to changes in the global Purchasing Managers Index ("PMI"). From June 2008 to July 2009, this index indicated a contracting industrial economy. Starting in August 2009, the index has had readings above 50 which are indicative of expansion in the industrial global economy; however, we continue to believe there is still a substantial amount of uncertainty about the global industrial economy. We are unable to predict whether the current expansion cycle, as measured by the PMI, will be sustained throughout 2010. This continuing uncertainty in the global industrial economy is likely to continue to have an adverse effect on the spending patterns of businesses including our current and potential customers which could adversely affect our revenues and therefore harm our business and result of operations.

Concentrations of Credit Risk and Negative Conditions in the Global Financial Markets May Adversely Affect Our Financial Condition and Result of Operations. By virtue of our holdings of 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 have policies relating to initial credit rating requirements and to exposure limits to counterparties, which are designed to mitigate credit and liquidity risk. There can be no assurance, however, 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.

Negative Conditions in the Global Credit Markets Have Impaired the Liquidity of a Portion of Our Investment Portfolio. Our short-term investments include auction rate securities backed by education loan revenue bonds. One of our auction rate securities is from the Vermont Student Assistance Corporation and has a par value of $2.2 million. The other of our auction rate securities is from the New Hampshire Health and Education Facilities Authority and has a par value of $6.4 million. On January 15, 2010, and in prior auction periods beginning in February 2008, the auction process for these securities failed. These auction rate securities are classified as available-for-sale. The auction rate market is not expected to provide liquidity for these securities in the foreseeable future. Should we need or desire to access the funds invested in those securities prior to their maturity or prior to our exercise period under our Rights agreement with UBS, we may be unable to find a buyer in a secondary market outside the auction process or if a buyer in a secondary market is found, we would likely realize a loss. See Note 3 – Fair value measurements in Notes to Consolidated Financial Statements for further discussion of our auction rate securities.

We Have Established a Budget and Variations From Our Budget Will Affect Our Financial Results. During the fourth quarter of 2009, we established an operating budget for 2010. Our budgets are established based on the estimated revenue from sales of our products which are based on 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. Historically, our business cycles have corresponded to changes in the global PMI. From June 2008 to July 2009, this index had indicated a contracting industrial economy. Starting in August 2009, the index has had readings above 50 which are indicative of expansion in the industrial global economy. We believe there is still a substantial amount of uncertainty about the global industrial economy. We are unable to predict whether the current expansion cycle, as measured by the PMI, will be sustained throughout 2010. This uncertainty as well as the

uncertainty as to how our business will be impacted by any future expansion or contraction in the global industrial economy, makes forecasting our results difficult. This uncertainty is reflected in key assumptions used to establish our 2010 budget. If demand for our products in 2010 is less than the demand we have anticipated in setting our 2010 budget, our operating results could be negatively impacted. If we exceed the level of expenses established in our 2010 operating budget or if we cannot reduce budgeted expenditures in response to a decreases in revenue, our operating results could be adversely affected. Our spending could exceed our budgets due to a number of factors, including:

- additional marketing costs for new product introductions and/or for conferences and tradeshows;
- increased costs from hiring more product development engineers or other personnel;
- additional costs associated with our incremental investment in our field sales force;
- additional costs associated with the expiration of temporary cost cutting measures, such as salary reductions, implemented in 2009;
- increased manufacturing costs resulting from component supply shortages and/or component price fluctuations;
- increased component costs resulting from vendors increasing prices in response to increased economic activity;
- additional expenses related to intellectual property litigation; and/or
- additional costs related to acquisitions, if any.

We are Subject to Risks Associated with Our Centralization of Inventory and Distribution. Currently, shipments to our customers worldwide are primarily sourced from our warehouse facility in Debrecen, Hungary. Shipments to some of our customers in Asia are currently made either out of local inventory managed by our branch operations in various Asian countries or from a centralized distribution point in Singapore. We will continue to devote resources to centralizing our distribution to a limited number of shipping points. Our planned centralization of inventory and distribution from a limited number of shipping points is subject to inherent risks, including:

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

No assurance can be given that our efforts will be successful. Any difficulties with the centralization of distribution or delays in the implementation of the systems or processes to support this centralized distribution could result in 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 facility in Hungary could have a material adverse effect on our operating results.

A Substantial Majority of Our Manufacturing Capacity is Located in Hungary. Our Hungarian manufacturing and warehouse facility sources a substantial majority of our sales. During the year ended December 31, 2009, we continued to maintain and enhance the systems and processes that support the direct shipment of product orders to our customers worldwide from our manufacturing facility in Hungary. In order to enable timely shipment of products to our customers we also maintain the vast majority of our inventory at our Hungary warehouse facility. In addition to being subject to the risks of maintaining such a concentration of manufacturing capacity and global inventory, this facility and its operation are also subject to risks associated with doing business internationally, including:

- difficulty in managing manufacturing operations in a foreign country;
- difficulty in achieving or maintaining product quality;
- interruption to transportation flows for delivery of components to us and finished goods to our customers;
- changes in the country’s political or economic conditions; and,
- changes in the country’s tax laws.

No assurance can be given that our efforts to mitigate these risks will be successful. Accordingly, a failure to deal with these factors could result in interruption in the facility’s operation or delays in expanding its capacity, either of which could have a material adverse effect on our operating results.

In response to significant and frequent changes in the corporate tax law, the unstable political environment, a restrictive labor code, the volatility of the Hungarian forint relative to the U.S. dollar and increasing labor costs, we have doubts as to the long term viability of Hungary as a location for our manufacturing and warehousing operations. As such, we may need to look for an alternative location for a substantial majority of our manufacturing and warehousing activities which could have a material adverse effect on our ability to meet current customer demands, our ability to grow our business as well as our liquidity, capital resources and results of operations. Our long term manufacturing and warehousing capacity planning contemplates a third manufacturing and warehousing facility in Malaysia. Deployment of this facility could be accelerated in response to an unfavorable change in the corporate taxation, regulatory or economic environment in Hungary. We can give no assurance that we would be successful in accelerating the deployment of a new facility in Malaysia. Our failure to accelerate the deployment of our manufacturing and warehousing facility in Malaysia in response to unfavorable changes in the corporate taxation, regulatory or economic environment in Hungary, could have a material adverse effect on our ability to meet current customer demands, our ability to grow our business as well as our liquidity, capital resources and results of operations.

Our Income Tax Rate is Affected by Tax Benefits in Hungary. As a result of certain foreign investment incentives available under Hungarian law, the profit from our Hungarian operation was subject to a reduced income tax rate. This special tax status terminated on January 1, 2008, with the merger of our Hungarian manufacturing operations with its Hungarian parent company. The tax position of our Hungarian operation continued to benefit from assets created by the restructuring of our operations in Hungary. Realization of these assets was based on our estimated future earnings in Hungary. Partial release of the valuation allowance on these assets resulted in income tax benefits of $18.3 million for the year ended December 31, 2007, and $8.7 million for the year ended December 31, 2008.

For the year 2009, we expected to recognize an additional tax benefit of $9.7 million related to these assets. Effective January 1, 2010, a new tax law in Hungary provides for an enhanced deduction for the qualified research and development expenses of NI Hungary Software and Hardware Manufacturing Kft. ("NI Hungary"). During the three months ended December 31, 2009, we obtained confirmation of the application of this new tax law for the qualified research and development expenses of NI Hungary. Based on the application of this new tax law to the qualified research and development expense of NI Hungary, we no longer expect to have sufficient future taxable income in Hungary to realize the benefits of these tax assets. As such, we recorded an income tax charge of $21.6 million during the three months ended December 31, 2009, $18.4 million of which was related to a valuation allowance on the previously recognized assets created by the restructuring and $3.2 million of which was related to tax benefits from other assets that we will no longer be able to realize as a result of this change. We do not expect to realize the tax benefit of the remaining assets created by the restructuring and therefore we have a full valuation allowance of $98.2 million against those assets at December 31, 2009.

Changes in Hungary’s political condition and/or tax laws could eliminate the enhanced tax deduction in the future. The reduction or elimination of this enhanced tax deduction in Hungary or future changes in U.S. law pertaining to 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.

We Rely on Management Information Systems and any Disruptions in Our Systems Would Adversely Affect Us. 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. If such a shutdown occurred, it could impact our product shipments and revenues, as order processing and product distribution are heavily dependent on our management information systems. Accordingly, our operating results in such periods would be adversely impacted. We are continually working to maintain reliable systems to control costs and improve our ability to deliver our products in our markets worldwide. No assurance can be given that our efforts will be successful.

During the year ended December 31, 2009, we continued to devote resources to the development of our systems for manufacturing, sales, product services and to the continued development of our web offerings. There can be no assurance that we will not experience difficulties with our systems. Difficulties with our systems may interrupt our normal operations, including our ability to provide quotes, process orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations and otherwise run our business. Any disruption occurring with these systems may have a material adverse effect on our operating results. In 2010, we will focus on upgrading our Americas business application suite to Oracle's version R12 and will continue to devote significant resources to the continued development of our web applications. Any failure to successfully implement these initiatives could have a material adverse effect on our operating results.

Our Quarterly Results are Subject to Fluctuations Due to Various Factors. Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a number of factors, including:

- changes in the economy or credit markets in the U.S. or globally;
- changes in the mix of products sold;
- the availability and pricing of components from third parties (especially limited sources);
- fluctuations in foreign currency exchange rates;
- the timing, cost or outcome of intellectual property litigation;
- the difficulty in maintaining margins, including the higher margins traditionally achieved in international sales; and,
- changes in pricing policies by us, our competitors or suppliers.

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 from the fourth quarter of the preceding year. This historical trend has been affected and may continue to be affected in the future by declines in the global industrial economy, the economic impact of larger orders as well as the timing of new product introductions and/or acquisitions, if any. For example, during the fourth quarter of 2008, we experienced a sequential decline in revenue from the third quarter of 2008 due to the severe contraction in the global industrial economy, which is contrary to the typical seasonality described above. In addition, our first quarter and second quarter of 2009 had sequential revenue declines from the fourth quarter of 2008 and first quarter of 2009, respectively, and the magnitude of the decline in the first quarter of 2009 was greater than what has occurred in the past. We cannot predict when or if we will return to our typical historical revenue pattern. We believe the historical pattern of seasonality of our revenue results from the international mix of our revenue and the variability of the budgeting and purchasing cycles of our customers throughout each international region. In addition, our total operating expenses have in the past tended to increase in each successive quarter and have fluctuated as a percentage of revenue based on the seasonality of our revenue. During the year ended December 31, 2009, we were able to reduce our operating costs compared to 2008. Some of the cost cutting measures implemented in 2009, such as salary reduction, may not be available to us in 2010. We cannot provide any assurance that the cost cutting measures implemented in 2009 can be sustained in 2010 as we plan to continue our strategic investments in research and development and field sales while limiting expense growth elsewhere.

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 Agilent Technologies Inc. ("Agilent"). Agilent offers hardware and software products that provide solutions that directly compete with our virtual instrumentation products. Agilent is aggressively advertising and marketing products that are competitive with our products. Because of Agilent'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.

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

- new product introductions by competitors;
- product pricing;
- the impact of foreign exchange rates on product pricing;
- quality and performance;
- success in developing new products;
- adequate manufacturing capacity and supply of components and materials;
- efficiency of manufacturing operations;
- effectiveness of sales and marketing resources and strategies;
- strategic relationships with other suppliers;
- timing of our new product introductions;
- protection of our products by effective use of intellectual property laws;
- the outcome of any material intellectual property litigation;
- the financial strength of our competitors;
- barriers to entry imposed by competitors with significant market power in new markets;
- general market and economic conditions; and,
- government actions throughout the world.

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

Our Product Revenues are Dependent on Certain Industries. Sales of our products are dependent on customers in certain industries, particularly the telecommunications, semiconductor, automotive, 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 have resulted and may continue to result in decreased sales, and a material adverse effect on our operating results.

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 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. 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.

Our Business is Dependent on Key Suppliers. Our manufacturing processes use large volumes of high-quality components and subassemblies supplied by outside sources. Several of these components are available through limited sources. Limited source components purchased include custom application specific integrated circuits (“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 revenues and operating results. In the event that any of our limited 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.

We May Experience Component Shortages. 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, and/or an increase in manufacturing costs, any of which would have a material adverse impact on our operating results.

We are Subject to Risks Associated with Our Web Site. We devote resources to maintain our Web site 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. We host our Web site internally. Any failure to successfully maintain our Web site or any significant downtime or outages affecting our Web site could have a material adverse impact on our operating results.

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 and/or cause our support costs to increase, either of which could have a material adverse impact on our operating results.

We are Subject to Various Risks Associated with International Operations and Foreign Economies. 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 in the repatriation of earnings; and,
- the burdens of complying with a wide variety of foreign laws.

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 and/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.

Sales made by our international direct sales offices 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. Net of hedging results, the change in exchange rates had the effect of decreasing our consolidated sales by $29 million or 4% for the year

ended December 31, 2009, compared to 2008. 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. Since most of our international operating expenses are also incurred in local currencies, the change in exchange rates had the effect of decreasing our operating expenses by $12 million or 2% for the year ended December 31, 2009, compared to 2008. Currently, we are experiencing significant volatility in foreign currency exchange rates in many of the markets in which we do business. This has had a significant impact on the revaluation of our foreign currency denominated firm commitments and on our ability to forecast our U.S. dollar equivalent revenues and expenses. In the past, these dynamics have also adversely affected our revenue growth in international markets and will likely pose similar challenges in the future.

Our Business Depends on Our Proprietary Rights and We are 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 existing intellectual property litigation or any intellectual property litigation initiated in the future, will not cause significant litigation 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 Reported Financial Results May be Adversely Affected by Changes in Accounting Principles Generally Accepted in the United States. 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 and the Securities and Exchange Commission. A change in these policies or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

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-K contains our managements' certification of adequate disclosure controls and procedures as of December 31, 2009. This 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, 2009. This 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.

Our Business Depends on the Continued Service of 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, and other members of our senior management and key technical personnel. We have no 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. Our failure to attract or retain key technical or managerial talent could have an adverse effect on our operating results. We also recruit and employ foreign nationals to achieve our hiring goals primarily for engineering and software positions. There can be no guarantee that we will continue to be able to recruit foreign nationals at the current rate. There can be no assurance that we will be successful in retaining our existing key personnel or attracting and retaining additional key personnel. Failure to attract and retain a sufficient number of our key personnel could have a material adverse effect on our operating results.

Our Manufacturing Operations are Subject to a Variety of Environmental Regulations and Costs. 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 manufacturing operations in the U.S. and in Hungary. 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 or bodily harm. 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" 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.

Our Acquisitions are Subject to a Number of Related Costs and Challenges. We have from time to time acquired, and may in the future acquire, complementary businesses, products or technologies. 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 two 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. The inability of our management to successfully integrate any future acquisition could harm our business. Some of the existing products previously sold by some of the entities we have acquired are of lesser quality than our products and/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 transaction.

Provisions in Our Charter Documents and Delaware Law and Our Stockholder Rights Plan 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 the 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. Our Board of Directors adopted a stockholders rights plan on January 21, 2004, pursuant to which we declared a dividend of one right for each share of our common stock outstanding as of May 10, 2004. This rights plan replaced a similar rights plan that had been in effect since our initial public offering in 1995. Unless redeemed by us prior to the time the rights are exercised, upon the occurrence of certain events, the rights will entitle the holders to receive upon exercise thereof shares of our preferred stock, or shares of an acquiring entity, having a value equal to twice the then-current exercise price of the right. The issuance of the rights could have the effect of delaying or preventing a change of control of us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal corporate and research and development activities are conducted at three buildings we own in Austin, Texas. We own approximately 69 acres of land in north Austin, Texas, on which are a 232,000 square foot office facility, a 140,000 square foot manufacturing and office facility, and a 380,000 square foot research and development facility. We also own a 136,000 square foot office building in Austin, Texas which is being leased to third-parties. Our principal manufacturing and distribution activities are conducted at our 239,000 square foot manufacturing and distribution facility in Debrecen, Hungary which we own. Our German subsidiary, National Instruments Engineering GmbH & Co. KG, owns a 25,500 square foot office building in Aachen, Germany in which a majority of its activities are conducted. National Instruments Engineering owns another 19,375 square foot office building in Aachen, Germany, which is partially leased to third-parties. We own approximately 17 acres of land in an industrial park in Penang, Malaysia.

As of December 31, 2009, we also leased a number of sales and support offices in the U. S. and various countries throughout the world. Our facilities are currently being utilized below maximum capacity to allow for future headcount growth and design/construction cycles, as needed. We believe our existing facilities are adequate to meet our current requirements.

ITEM 3. LEGAL PROCEEDINGS

We filed a patent infringement action on January 25, 2001, in the U.S. District Court, Eastern District of Texas (Marshall Division) claiming that The MathWorks, Inc. (“MathWorks”) infringed certain of our U.S. patents. On January 30, 2003, a jury found infringement by MathWorks of three of the patents involved and awarded us specified damages. On September 23, 2003, the District Court entered final judgment in favor of us and entered an injunction against MathWorks’ sale of its Simulink and related products and stayed the injunction pending appeal. Upon appeal, the judgment and the injunction were affirmed by the U.S. Court of Appeals for the Federal Circuit (September 3, 2004). Subsequently the stay of injunction was lifted by the District Court. In November 2004, the final judgment amount of $7.4 million which had been held in escrow pending appeal was released to us.

An action was filed by MathWorks against us on September 22, 2004, in the U.S. District Court, Eastern District of Texas (Marshall Division), claiming that on that day MathWorks had released modified versions of its Simulink and related products, and seeking a declaratory judgment that the modified products do not infringe the three patents adjudged infringed in the District Court's decision of September 23, 2003 (and affirmed by the Court of Appeals on September 3, 2004). On November 2, 2004, MathWorks served the complaint on us. We filed an answer to

MathWorks' declaratory judgment complaint, denying MathWorks' claims of non-infringement and alleging our own affirmative defenses. On January 5, 2005, the Court denied a contempt motion by us to enjoin the modified Simulink products under the injunction in effect from the first case. On January 7, 2005, we amended our answer to include counterclaims that MathWorks' modified products are infringing three of our patents, and requested unspecified damages and an injunction. MathWorks filed its reply to our counterclaims on February 7, 2005, denying the counterclaims and alleging affirmative defenses. On March 2, 2005, we filed a notice of appeal regarding the Court's denial of the contempt motion. On March 15, 2005, the Court stayed MathWorks' declaratory judgment action, pending a decision on the appeal by the Court of Appeals for the Federal Circuit. On February 9, 2006, the Court of Appeals for the Federal Circuit affirmed the District Court's January 2005 order. On November 22, 2006, the District Court lifted the stay. The case schedule has yet to be set in this action. During the fourth quarter of 2004, we accrued $4 million related to our probable loss from this contingency, which consists entirely of anticipated patent defense costs that are probable of being incurred. In the fourth quarter of 2006, we accrued an additional $600,000 related to this contingency. During the third quarter of 2009, we reduced the accrual by $2 million to reflect a decrease in the estimated costs that are probable of being incurred in this action. To date, we have charged a cumulative total of $623,000 against this accrual. At December 31, 2009, the remaining accrual was $2 million.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, $0.01 par value, began trading on The NASDAQ Stock Market under the symbol NATI effective March 13, 1995. Prior to that date, there was no public market for our common stock. The high and low closing prices for our common stock, as reported by Nasdaq for the two most recent fiscal years, are as indicated in the following table.

	High	Low
2009		
First Quarter 2009	$23.40	$15.82
Second Quarter 2009	23.61	18.41
Third Quarter 2009	28.42	21.26
Fourth Quarter 2009	29.85	26.52
2008		
First Quarter 2008	$31.95	$24.19
Second Quarter 2008	31.85	25.59
Third Quarter 2008	34.63	25.88
Fourth Quarter 2008	27.99	20.20

At the close of business on February 15, 2010, there were approximately 473 holders of record of our common stock and approximately 26,500 shareholders of beneficial interest.

We believe factors such as quarterly fluctuations in our results of operations, announcements by us or our competitors, technological innovations, new product introductions, governmental regulations, litigation, changes in earnings estimates by analysts or changes in our financial guidance may cause the market price of our common stock to fluctuate, perhaps substantially. In addition, stock prices for many technology companies fluctuate widely for reasons that may be unrelated to their operating results. These broad market and industry fluctuations may adversely affect the market price of our common stock.

Our cash dividend payments for the two most recent fiscal years are indicated in the following table on a per share basis. The dividends were paid on the dates set forth below;

2009	
March 2, 2009	$0.12
June 1, 2009	0.12
August 31, 2009	0.12
November 30, 2009	0.12
2008	
March 3, 2008	$0.11
June 2, 2008	0.11
September 2, 2008	0.11
December 1, 2008	0.11

Our policy as to future dividends will be based on, among other considerations, our views on potential future capital requirements related to research and development, expansion into new market areas, investments and acquisitions, share dilution management, legal risks, and challenges to our business model.

See Item 12 for information regarding securities authorized for issuance under our equity compensation plans.

Performance Graph

The following graph compares the cumulative total return to stockholders of NI's common stock from December 31, 2004 to December 31, 2009 to the cumulative return over such period of (i) Nasdaq Composite Index and (ii) Russell 2000 Index. We use the Russell 2000 Index due to the fact that we have not been able to identify a published industry or line of business index that we believe appropriately reflects our industry or line of business. We considered that our primary competitors are divisions of large corporations that have other significant business operations such that any index comprised of such competitors would not be reflective of our industry or line of business. We have also considered using a peer group index but do not believe such index is appropriate as we have not been able to identify other public companies that we believe are principally in the same line of business as we are.

The graph assumes that $100 was invested on December 31, 2004 in NI's common stock and in each of the other two indices and the reinvestment of all dividends, if any. Stockholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance.

The information contained in the Performance Graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, except to the extent that NI specifically incorporates it by reference into any such filing. The graph is presented in accordance with SEC requirements.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program	Maximum number of shares that may yet be purchased under the plan or program (1)
October 1, 2009 to October 31, 2009	—	—	—	2,262,168
November 1, 2009 to November 30, 2009	573,841	$28.55	573,841	1,688,327
December 1, 2009 to December 31, 2009	—	—	—	1,688,327
Total	573,841	$28.55	573,841	

(1) For the past several years, we have maintained various stock repurchase programs. This repurchase plan does not have an expiration date.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, including the Notes to Consolidated Financial Statements contained in this Form 10-K. The information set forth below is not necessarily indicative of the results of our future operations. The information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Years Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands, except per share data)				
Statements of Income Data:					
Net sales:					
Americas	$292,999	$355,878	$331,482	$317,780	$275,524
Europe .	210,188	267,373	230,940	193,364	171,499
Asia Pacific	173,407	197,286	177,956	149,263	124,818
Consolidated net sales	676,594	820,537	740,378	660,407	571,841
Cost of sales	169,884	207,109	185,267	173,348	151,939
Gross profit	506,710	613,428	555,111	487,059	419,902
Operating expenses:					
Sales and marketing	269,267	307,409	264,060	232,050	208,650
Research and development	132,974	143,140	126,515	113,095	87,841
General and administrative	57,938	67,162	62,445	54,192	45,199
Total operating expenses	460,179	517,711	453,020	399,337	341,690
Operating income	46,531	95,717	102,091	87,722	78,212
Other income (expense):					
Interest income	1,629	5,996	9,822	6,847	3,758
Net foreign exchange gain (loss)	734	(3,737)	1,672	740	(1,566)
Other income (expense), net	1,351	161	(158)	(7)	276
Income before income taxes	50,245	98,137	113,427	95,302	80,680
Provision for income taxes	33,160	13,310	6,394	22,594	19,163
Net income	$17,085	$84,827	$107,033	$72,708	$61,517
Basic earnings per share	$0.22	$1.08	$1.35	$0.91	$0.78
Weighted average shares outstanding - basic	77,520	78,567	79,468	79,519	78,552
Diluted earnings per share	$0.22	$1.07	$1.32	$0.89	$0.76
Weighted average shares outstanding - diluted	78,026	79,515	81,043	81,519	80,910

Cash dividends declared per common share	$0.48	$0.44	$0.34	$0.24	$0.20

	2009	2008	December 31, 2007	2006	2005
			(in thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$201,465	$229,400	$194,839	$100,287	$55,864
Short-term investments	87,196	6,220	93,838	150,190	119,846
Working capital	413,759	398,292	419,874	379,733	274,686
Total assets	813,029	832,591	818,812	721,220	608,336
Long-term debt, net of current portion	—	—	—	—	—
Total stockholders' equity	654,420	664,438	661,086	596,682	503,850

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any statements contained herein regarding our future financial performance or operations (including, without limitation, statements to the effect that we "believe," "expect," "plan," "may," "will," "proj "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 10, and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

Overview

National Instruments Corporation ("we", "us" or "our") is a leading supplier of measurement and automation products that engineers and scientists use in a wide range of industries. These industries comprise a large and diverse market for design, control and test applications. We provide flexible application software and modular, multifunctional hardware that users combine with industry-standard computers, networks and third party devices to create measurement, automation and embedded systems, which we also refer to as "virtual instruments". Our approach gives customers the ability to quickly and cost-effectively design, prototype and deploy unique custom-defined solutions for their design, control and test application needs. We sell to a large number of customers in a wide variety of industries. No single customer accounted for more than 3% of our sales in 2009, 2008 or 2007.

The key strategies that management focuses on in running our business are the following:

Expanding our broad customer base

We strive to increase our already broad customer base 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 in order 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 in order to preserve the customer's investment in our products. In this time of intense global competition, we believe it is crucial that we continue to offer products with quality and reliability, and that these products provide cost-effective solutions for our customers.

Leveraging external and internal technology

Our product strategy is to provide superior products by leveraging generally available technology, supporting open architectures on multiple platforms and by leveraging our core technologies such as custom application specific integrated circuits ("ASICs") across multiple products.

We sell into test and measurement ("T&M") and industrial/embedded applications in a broad range of industries and as such are subject to the economic and industry forces which drive those markets. It has been our experience that the performance of these industries and our performance is 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, defense, aerospace, automotive and others. In assessing our business, we consider the trends in the Global Purchasing Managers Index ("PMI") published by JP Morgan, global industrial production as well as industry reports on the specific vertical industries that we target. Starting in August 2009, the PMI has had readings above 50 which are indicative of expansion in the industrial global economy. However, we believe there is still a substantial amount of uncertainty about the global industrial economic conditions. We are unable to predict whether the current expansion cycle, as measured by the PMI, will be sustained throughout 2010. This continuing uncertainty in the global industrial economy is likely to continue to have an adverse effect on the spending patterns of businesses including our current and potential customers which could adversely affect our revenues and therefore harm our business and result of operations.

We distribute our software and hardware products primarily through a direct sales organization. We also use independent distributors, OEMs, VARs, system integrators and consultants to market 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 57%, 57% and 55% or our revenues in 2009, 2008 and 2007, respectively. The vast majority of our foreign sales are denominated in the customers' local currency, which exposes us to the effects of changes in foreign currency exchange rates. We expect that a significant portion of our total revenues will continue to be derived from international sales. (See Note 12 – Segment information of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales, operating income, interest income and long-lived assets).

We manufacture a substantial majority of our products at our facilities in Debrecen, Hungary. Additional production primarily of low volume or newly introduced products is done in Austin, Texas. 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. We manufacture most of the electronic circuit card assemblies, and modules in-house, although subcontractors are used from time to time. We currently use subcontractors in Asia to manufacture a significant portion of our chassis but we review these arrangements periodically. We manufacture some of our electronic cable assemblies in-house, but many assemblies are produced by subcontractors. We primarily subcontract our software duplication, our technical manuals and product support documentation.

We believe that our long-term growth and success depends 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 is dependent 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.

We have been profitable in every year since 1990. However, there can be no assurance that our net sales will grow or that we will remain profitable in future periods. 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 historical results of operations should not be relied upon as indications of future performance.

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:

	Years Ended December 31,		
	2009	2008	2007
Net sales:			
Americas	43.3 %	43.4 %	44.8 %
Europe	31.1	32.6	31.2
Asia Pacific	25.6	24.0	24.0
Consolidated net sales	100.0	100.0	100.0
Cost of sales	25.1	25.2	25.0
Gross profit	74.9	74.8	75.0
Operating expenses:			
Sales and marketing	39.8	37.5	35.7
Research and development	19.6	17.4	17.1
General and administrative	8.6	8.2	8.4
Total operating expenses	68.0	63.1	61.2
Operating income	6.9	11.7	13.8
Other income (expense):			
Interest income	0.2	0.7	1.3
Net foreign exchange gain (loss)	0.1	(0.5)	0.2
Other income (expense), net	0.2	—	—
Income before income taxes	7.4	11.9	15.3
Provision for income taxes	4.9	1.6	0.8
Net income	2.5 %	10.3 %	14.5 %

Net Sales. Consolidated net sales were $677 million, $821 million and $740 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 18% in 2009 compared to 2008 following an increase of 11% in 2008 compared to 2007. The decrease in 2009 can be attributed to declines in sales volume across all regions of our business. Instrument control products which comprised approximately 7% of our revenues for the year ended December 31, 2009, saw a year-over-year decline of 31%. Products in the areas of virtual instrumentation and graphical system design which comprised approximately 93% of our revenues for the year ended December 31, 2009, saw a year-over-year decline of 16%. Revenues from our instrument control products are the most sensitive to the cycles of the global industrial economy. For the year ended December 31, 2009, our order backlog increased by approximately $8 million. Backlog is a measure of orders that were received but that had not shipped to customers at the end of the quarter. We did not take any significant action with regard to pricing during the year ended December 31, 2009, and thus, the decrease in revenues is attributable to a decrease in customer orders. The increase in net sales in 2008, compared to 2007 can be attributed to volume growth in the areas of modular instruments, particularly RF test products, PXI, software and CompactRIO which performed very well in light of the industry contraction. The increases in these areas were offset by declines in revenue from instrument control products which are the most

sensitive to downturns in the Global PMI.

Sales in the Americas were $293 million, $356 million and $331 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 18% in 2009 compared to 2008 following an increase in of 8% in 2008 compared to 2007. Sales outside of the Americas, as a percentage of consolidated sales were 57%, 57% and 55% for the years ended December 31, 2009, 2008 and 2007, respectively. Sales in Europe were $210 million, $267 million and $231 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 21% in 2009 compared to 2008 following an increase of 16% in 2008 compared to 2007. Sales in Asia were $173 million, $197 million and $178 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 12% in 2009 compared to 2008 following an increase of 11% in 2008 compared to 2007. We expect sales outside of the Americas to continue to represent a significant portion of our revenue. 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 sales made by our direct sales offices in the Americas, outside of the U.S., in Europe and in Asia Pacific are denominated in local currencies, and accordingly, the U.S. dollar equivalent of these sales is affected by changes in foreign currency exchange rates. For 2009, net of hedging results, the change in exchange rates had the effect of decreasing our consolidated sales by $29 million or 4%, decreasing America's sales by $6 million or 2%, decreasing European sales by $17 million or 6%, and decreasing sales in Asia Pacific by $6 million or 3% compared to 2008. For 2008, net of hedging results, the change in exchange rates had the effect of increasing our consolidated sales by $34 million or 4%, increasing America's sales by $1.7 million or 0.5%, increasing European sales by $28 million or 12%, and increasing sales in Asia Pacific by $4.3 million or 2% compared to 2007.

Gross Profit. As a percentage of sales, gross margin was 75% in 2009, 75% in 2008 and 75% in 2007. In 2009, we were successful in implementing cost reduction strategies throughout our manufacturing cycle which allowed us to maintain a stable gross margin percentage despite the 18% decrease in sales volume in 2009. For the years ended December 31, 2009, 2008 and 2007, charges related to acquisition related intangibles and stock based compensation were $4.7 million, $4.7 million and $3.6 million, respectively. For the years ended December 31, 2009 and 2008, the net impact of the change in foreign currency exchange rates had the effect of decreasing our cost of goods sold by $3 million or 1%, and increasing our cost of goods sold by $1.1 million or 4%, respectively.

Sales and Marketing. Sales and marketing expenses were $269 million, $307 million and $264 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 12% in 2009 compared to 2008 following an increase of 16% in 2008 compared to 2007. As a percentage of net sales, sales and marketing expenses were 40%, 38% and 36% for 2009, 2008 and 2007, respectively. For 2009, the increase in sales and marketing expenses as a percentage of revenue was due to the 18% decrease in revenue. For 2009, the decrease in sales and marketing expenses in absolute dollars was due to a decrease in travel, tradeshows and advertising of $15 million, a decrease in variable compensation of $4.2 million and a decrease caused by the net impact of changes in foreign currency exchange rates of $9 million. Temporary cost cutting measures which included a company-wide wage reduction as well as a reduction in the number of accrued vacation hours that employees are allowed to carry beyond December 31, 2009, resulted in additional cost savings of $7 million compared to 2008. For 2008, the increase in sales and marketing expense, both in absolute dollars and as a percentage of sales, was consistent with our plan to make additional investments in our field sales force during 2008. Approximately 65% of the increase in 2008 over 2007, can be attributed to the increase in sales and marketing personnel, increases in stock-based compensation and the increase in variable compensation from higher sales volume. In addition, during 2008, the net impact of foreign currency exchange rates had the effect of increasing our sales and marketing expense by $10 million or 3%. We plan to continue to make additional investments in our field sales force in 2010. However, due to the continuing uncertainty in the industrial economy, the extent of our field sales expansion during 2010 will be dependent on our overall sales volumes in 2010. We expect sales and marketing expenses in future periods to continue to fluctuate as a percentage of sales based on recruiting, marketing and advertising campaign costs associated with major new product releases and entry into new market areas, investment in web sales and marketing efforts, increasing product demonstration costs

and the timing of domestic and international conferences and trade shows.

Research and Development. Research and development expenses were $133 million, $143 million and $127 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 7% in 2009 compared to 2008 following an increase of 13% in 2008 compared to 2007. As a percentage of net sales, research and development expenses were 20%, 17% and 17% for 2009, 2008 and 2007, respectively. For 2009, the increase in research and development expenses as a percentage of revenue was due to the 18% decrease in revenue. For 2009, the decrease in research and development expenses in absolute dollars was due to a decrease in variable compensation of $2.9 million and a decrease caused by the net impact of changes in foreign currency exchange rates of $327,000. Temporary cost cutting measures which included a company-wide wage reduction as well as a reduction in the number of accrued vacation hours that employees were allowed to carry beyond December 31, 2009, resulted in additional cost savings of $7 million. These decreases were offset by personnel costs related to a net headcount increase of 42 people during 2009. For 2008, the increase in research and development expenses in absolute dollars was primarily due to increases in personnel costs from the hiring of additional product development engineers as well as increases related to stock-based compensation and was consistent with our plan to continue to grow our research and development capacity in line with the overall revenue growth of the company. During 2008, we had a net headcount increase of 109 people in our worldwide research and development group. In addition, during 2008, the net impact of foreign currency exchange rates had the effect of increasing our research and development expense by $2.7 million or 2%. We plan to continue to make additional investments in research and development in 2010. However, due to the continuing uncertainty in the industrial economy, the extent of our research and development expansion during 2010 will be dependent on our overall sales volumes in 2010.

We capitalize software development costs in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985, Software (FASB ASC 985). We amortize such costs over the related product's estimated economic life, generally three years, beginning when a product becomes available for general release. Software amortization expense included in cost of goods sold totaled $9 million, $10 million and $9 million during 2009, 2008 and 2007, respectively. Internally developed software costs capitalized during 2009, 2008 and 2007 were $13 million, $10 million and $8 million, respectively. Capitalization of internally developed software costs varies depending on the timing of when each project reaches technological feasibility and the length and scope of the development cycle of each individual project. (See Note 7 - Intangibles of Notes to Consolidated Financial Statements for a description of intangibles).

General and Administrative. General and administrative expenses were $58 million, $67 million and $62 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 13% in 2009 compared to 2008 following an increase of 8% in 2008 compared to 2007. As a percentage of net sales, general and administrative expenses were 9%, 8% and 8% in 2009, 2008 and 2007. For 2009, the increase in general and administrative expenses as a percentage of revenue was due to the 18% decrease in revenue. For 2009, the decrease in general and administrative expenses was due to a decrease caused by the net impact of changes in foreign currency exchange rates of $2.6 million, a reduction of our patent litigation accrual which resulted in a non-cash decrease to our operating expenses of $2 million and a decrease in variable compensation of $948,000. Temporary cost cutting measures which include a company-wide wage reduction as well as a reduction in the number of accrued vacation hours that employees are allowed to carry beyond December 31, 2009, resulted in additional cost savings of $1.8 million. For 2008, the increase in absolute dollars compared to 2007 can primarily be attributed to the net impact of foreign currency exchange rates which had the effect of increasing our general and administrative expense by $2.4 million or 4%. We expect that general and administrative expenses in future periods will fluctuate in absolute dollars and as a percentage of revenue.

Interest Income. Interest income was $1.6 million, $6 million and $10 million for the years ended December 31, 2009, 2008 and 2007, respectively, a decrease of 73% in 2009 compared to 2008 following a decrease of 40% in 2008 compared to 2007. For 2009, the decrease is attributable to significant decreases in investment yields for high grade treasury, municipal and corporate bonds. For 2008, the decrease is attributable to a decrease in invested funds as well

as to the rapid rate of decrease in interest rates during the second half of 2008. The primary source of interest income is from the investment of our cash and short-term investments.

Net Foreign Exchange Gain (Loss). Net foreign exchange gain (loss) was $734,000, $(3.7) million and $1.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. These results are attributable to movements in the foreign currency exchange rates between the U.S. dollar and foreign currencies in countries where our functional currency is not the U.S. dollar. 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 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 hedge item attributable to the hedged risk is recognized in current earnings under the line item “net foreign exchange gain (loss)”. Our hedging strategy reduced our foreign exchange gains by $1.7 million in 2009, reduced our foreign exchange losses by $1.2 million in 2008 and reduced our foreign exchange gains by $1.1 million in 2007.

To 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 instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted revenue and forecasted expenses denominated in foreign currencies with forward and 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 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, British pound sterling and Hungarian forint) 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. (See Note 4 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for a description of our forward and purchased option contracts and hedged positions).

Provision for Income Taxes. Our provision for income taxes reflected an effective tax rate of 66%, 14% and 6% for the years ended December 31, 2009, 2008 and 2007, respectively. The increase in our effective tax rate in 2009 compared to 2008 was driven by changes in our valuation allowances, tax charges related to inter-company profits and an increase in equity compensation expense as a percentage of pre-tax book income. (See Note 9 – Income taxes of Notes to Consolidated Financial Statements for further discussion regarding changes in our effective tax rate and a reconciliation of income taxes at the U.S. federal statutory income tax rate of 35% to our effective tax rate).

Liquidity and Capital Resources

Working Capital, Cash and Cash Equivalents, Short-term Investments and Long-term Investments. The following table presents our working capital, cash and cash equivalents and marketable securities (in thousands):

	December 31, 2009	December 31, 2008	Increase/ (Decrease)

Working capital	$413,759	$398,292	$15,467
Cash and cash equivalents (1)	201,465	229,400	(27,935)
Short-term investments (1)	87,196	6,220	80,976
Long-term investments	—	10,500	(10,500)
Total cash, cash equivalents, short and long-term investments	$288,661	$246,120	$42,541

(1) Included in working capital

Our working capital increased by $15 million during the year ended December 31, 2009 compared to December 31, 2008, due to cash provided by operations offset by repurchases of shares of our common stock, dividend payments and capital expenditures.

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 cash and investments that are located outside of the U.S. are denominated in the U.S. dollar. 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. In some countries repatriation of certain foreign balances is restricted by local laws. 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 and (Used) in 2009 and 2008. Cash and cash equivalents decreased to $201 million at December 31, 2009 from $229 million at December 31, 2008. The following table summarizes the proceeds and (uses) of cash (in thousands):

	December 31,	
	2009	2008
Cash provided by operating activities	$135,651	$121,818
Cash (used in)/provided by investing activities	(111,915)	18,756
Cash (used in) financing activities	(51,671)	(106,013)
Net (decrease)/increase in cash equivalents	(27,935)	34,561
Cash and cash equivalents at beginning of year	229,400	194,839
Cash and cash equivalents at end of year	$201,465	$229,400

Our operating activities provided $136 million and $122 million for the years ended December 31, 2009 and 2008, respectively, a 11% increase. For 2009, cash provided by operating activities was the result of $17 million of net income, $77 million in net non-cash operating expenses which consisted of depreciation and amortization, stock-based compensation, benefits from deferred income taxes, and by $41 million in net cash provided by changes in operating assets and liabilities, principally a $18 million decrease in accounts receivable, a $21 million decrease in inventories and a $13 million decrease in prepaid expenses and other assets, offset by a decrease of $10 million in accounts payable, taxes and other liabilities. In 2008, cash provided by operating activities was primarily the result of $84.8

million in net income and $51.3 million in net non-cash operating expenses which primarily consisted of depreciation and amortization, stock-based compensation, and benefits from deferred income taxes, offset in part by $14.3 million in net cash used by changes in operating assets and liabilities, principally a $24.6 million increase in inventory.

Accounts receivable decreased to $104 million at December 31, 2009 from $122 million at December 31, 2008, as a result of lower sales volumes during 2009. This decrease in revenue also caused our days sales outstanding to increase to 61 days at December 31, 2009, compared to 57 days at December 31, 2008. We typically bill customers on an open account basis subject to our standard net thirty day payment terms. If, in the longer term, our revenue increases, it is likely that our accounts receivable balance will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers, both of which are more likely to occur during challenging economic times when our customers may face issues gaining access to sufficient funding or credit.

Consolidated inventory balances decreased to $87 million at December 31, 2009 from $107 million at December 31, 2008. Inventory turns decreased to 1.8 per year at December 31, 2009 compared to 2.1 per year at December 31, 2008. The decrease in inventory during 2009 was driven by a reduction in our manufacturing activities in response to the decreased demand for our products. Our inventory levels will continue to be determined based upon our anticipated demand for products and our need to keep sufficient inventory on hand to meet our customers' demands. We attempt to balance such considerations against the risk of obsolescence or potentially excess inventory levels. Rapid changes in industrial demand could have a significant impact on our inventory balances in future periods.

Investing activities used cash of $112 million during 2009, which was the result of the net purchase of short-term investments of $74 million, the purchase of property and equipment of $21 million, capitalization of internally developed software of $13 million and the acquisition of other intangibles of $5 million. For 2008, investing activities provided cash of $19 million which was primarily the result of the net sale of $77 million of short-term investments, offset by the purchase of property and equipment of $26 million, a net cash payment of $17 million related to the acquisition of microLEX Systems ApS (see Note 15 - Acquisitions of Notes to Consolidated Financial Statements), capitalization of internally developed software of $10 million and the acquisition of other intangibles of $3 million.

Financing activities used $52 million during 2009, which was the result of $35 million used to repurchase our common stock and $37 million used to pay dividends to our shareholders, offset by $22 million received as a result of the issuance of our common stock from the exercise of stock options and sales of our common stock through our employee stock purchase plan. For 2008, financing activities used $106 million which was the result of $104 million used to repurchase our common stock and $35 million used to pay dividends to our shareholders, offset by $31 million received as a result of the issuance of our common stock from the exercise of stock options and our employee stock purchase plan.

From time to time our Board of Directors has authorized various programs to repurchase shares of our common stock depending on market conditions and other factors. Under such programs, we repurchased a total of 1,443,441, 4,110,042 and 2,730,125 shares of our common stock at weighted average prices of $23.96, $25.22 and $29.20 per share, in the years ended December 31, 2009, 2008 and 2007, respectively.

On January 23, 2009, our Board of Directors approved a new share repurchase plan which increased the aggregate number of shares of common stock that we are authorized to repurchase from 591,324 to 3.0 million. At December 31, 2009, there were 1,688,327 shares remaining available for repurchase under this plan. This repurchase plan does not have an expiration date.

During 2009, we received reduced proceeds from the exercise of stock options compared to 2008. The timing and number of stock option exercises and the amount of cash proceeds we receive through those exercises are not within our control, and in the future we may not generate as much cash from the exercise of stock options as we have in the past. Moreover, it is now our practice to issue restricted stock units and not stock options to eligible employees which will reduce the number of stock options available for exercise in the future. Unlike the exercise of stock options, the

issuance of shares upon vesting of restricted stock units does not result in any cash proceeds to us.

Contractual Cash Obligations. The following summarizes our contractual cash obligations as of December 31, 2009 (in thousands):

		Payments Due by Period					
	Total	2010	2011	2012	2013	2014	Beyond
Long-term debt	$—	$—	$—	$—	$—	$—	$—
Capital lease obligations	—	—	—	—	—	—	—
Operating leases	51,701	14,415	9,898	6,982	4,611	3,665	12,130
Total contractual cash obligations	$51,701	$14,415	$9,898	$6,982	$4,611	$3,665	$12,130

The following summarizes our other commercial commitments as of December 31, 2009 (in thousands):

	Total	2010	2011	2012	2013	2014	Beyond
Guarantees	$5,200	$5,200	$—	$—	$—	$—	$—
Purchase obligations	6,500	6,500	—	—	—	—	—
Total commercial commitments	$11,700	$11,700	$—	$—	$—	$—	$—

We have commitments under non-cancelable operating leases primarily for office facilities throughout the world. Certain leases require us to pay property taxes, insurance and routine maintenance, and include escalation clauses. As of December 31, 2009, we have non-cancelable operating lease obligations of approximately $52 million compared to $50 million at December 31, 2008. Rent expense under operating leases was $12 million, $12 million and $10 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Purchase obligations primarily represent purchase commitments for customized inventory and inventory components. As of December 31, 2009, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $6.5 million over the next twelve months. At December 31, 2008, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $8.4 million.

Guarantees are related to payments of customs and foreign grants. As of December 31, 2009, we have outstanding guarantees for payment of customs and foreign grants totaling approximately $5.2 million. As of December 31, 2008, we have outstanding guarantees for payment of customs and foreign grants totaling approximately $2.4 million.

Off-Balance Sheet Arrangements. We do not have any debt or off-balance sheet debt. As of December 31, 2009, 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 marketable securities, together with cash generated from operations and from the exercise of employee stock options and the purchase of common stock through our employee stock purchase plan, will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments, payment of dividends to our shareholders and repurchases of our common stock for at least the next 12 months. However, we may choose or be required to raise additional funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial

institutions. Historically, we have not had to rely on debt, public or private, to fund our operating, financing or investing activities. We could also choose or be required to reduce certain expenditures, such as payments of dividends or repurchases of our common stock. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. 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 existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock.

Although we believe that we have sufficient capital to fund our 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:

- general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the industrial economy, current general economic volatility and trends in the industrial economy in various geographic regions in which we do business;
- the inability of certain of our customers who depend on credit to have access to their traditional sources of credit to finance the purchase of products from us, particularly in the current global economic environment, which may lead them to reduce their level of purchases or to seek credit or other accommodations from us;
- the overall levels of sales of our products and gross profit margins;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- repurchases of our common stock;
- required levels of research and development and other operating costs;
- litigation expenses, settlements and judgments;
- the levels of inventory and accounts receivable that we maintain;
- acquisitions of other businesses, assets, products or technologies;
- capital improvements for new and existing facilities;
- our relationships with suppliers and customers; and,
- the level of exercises of stock options and stock purchases under our employee stock purchase plan.

Recently Issued Accounting Pronouncements

In April 2009, the FASB updated FASB ASC 820 providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This update also includes guidance on identifying circumstances that indicate a transaction is not orderly. We adopted the update on April 1, 2009 as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

In September 2009, the FASB updated FASB ASC 105, Generally Accepted Accounting Principles (FASB ASC 105). The update establishes the FASB Standards Accounting Codification (“Codification”) as the source of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. This update is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the update on July 1, 2009, as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

In October 2009, the FASB updated FASB ASC 605, Revenue Recognition (FASB ASC 605) that amended the criteria for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third–party evidence if vendor-specific objective evidence is not

available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The amendments will change the application of the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price. This update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

In October 2009, the FASB updated FASB ASC 985, Software (FASB ASC 985) that changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605. In addition, the amendments require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. This update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the requirements of this update and have not yet determined the impact on our consolidated financial statements.

Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be materially different from the estimates.

Our critical accounting policies are as follows:

- Revenue recognition

We derive revenue primarily from the sale/licensing of integrated hardware and software solutions. Independent sales of application software licenses include post contract support services. In addition, training services are sold separately. The products and services are generally sold under standardized licensing and sales arrangements with payment terms ranging from net 30 days in the U.S. to net 30 days and up to net 90 days in some international markets. Approximately 83% of our product/license sales include both hardware and software in the customer arrangement, with a small percentage of sales including other services. We offer rights of return and standard warranties for product defects related to our products. The rights of return are generally for a period of up to 30 days after the delivery date. The standard warranties cover periods ranging from 90 days to three years. We do not generally enter into contracts requiring product acceptance from the customer.

Revenue is recognized in accordance with the provisions of FASB ASC 985, when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. We enter into certain arrangements where we are obligated to deliver multiple products and/or services ("multiple elements"). In these transactions, we allocate the total revenue among the elements based on vendor specific objective evidence ("VSOE") of fair value as determined by the sales price of each element when sold separately.

When VSOE of fair value is available for the undelivered element of a multiple element arrangements, sales revenue is generally recognized on the date the product is shipped, using the residual method under FASB ASC 985, with a portion of revenue recorded as deferred (unearned) due to applicable undelivered elements. Undelivered elements for our multiple element arrangements with a customer are generally restricted to post contract support and training and education. The amount of revenue allocated to these undelivered elements is based on the VSOE of fair value for those undelivered elements. Deferred revenue due to undelivered elements is recognized ratably on a straight-line basis over the service period or when the service is completed. When VSOE of fair value is not available for the undelivered element of a multiple element arrangement, sales revenue is generally recognized ratably, on a straight-line basis over the service period of the undelivered element, generally 12 months or when the service is completed in accordance with the subscription method under FASB ASC 985. Deferred revenue at December 31, 2009 and 2008 was $57 million and $46 million, respectively.

The application of FASB ASC 985, requires judgment, including whether a software arrangement includes multiple elements, and if so, whether VSOE of fair value exists for those elements. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, and changes to a product's estimated life cycle could materially impact the amount of our earned and unearned revenue. Judgment is also required to assess whether future releases of certain software represent new products or upgrades and enhancements to existing products.

- Estimating allowances for sales returns

The preparation of financial statements requires that we make estimates and assumptions of potential future product returns related to current period product revenue. We analyze historical returns, current economic trends, and changes in customer demand and acceptance of our products when evaluating the adequacy of our sales returns allowance. Significant judgments and estimates must be made and used in connection with establishing the sales returns allowance in any accounting period. A provision for estimated sales returns is made by reducing recorded revenue by the amount of the allowance. Accounts receivable is reported net of the allowance for sales returns. The allowance for sales returns was $1.9 million and $1.8 million at December 31, 2009 and 2008, respectively. Material differences may result in the amount and timing of our revenue for any period if we made different judgments or utilized different estimates or if actual results varied materially from our estimates.

- Estimating allowances, specifically the allowance for doubtful accounts and the adjustment for excess and obsolete inventories

In addition to estimating an allowance for sales returns, we must also make estimates about the uncollectability of our accounts receivables. We specifically analyze accounts receivable and analyze historical bad debts, customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of our allowance for doubtful accounts. Our allowance for doubtful accounts was $2.7 million and $3.9 million at December 31, 2009 and 2008, respectively. We also write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and estimated market value based on assumptions of future demand and market conditions. Our allowance for excess and obsolete inventories was $4.4 million and $4.4 million at December 31, 2009 and 2008, respectively. Significant judgments and estimates must be made and used in connection with establishing these allowances. Material differences may result in the amount and timing of our bad debt and inventory obsolescence if we made different judgments or utilized different estimates or if actual results varied materially from our estimates.

- Accounting for costs of computer software

We capitalize costs related to the development and acquisition of certain software products. Capitalization of costs begins when technological feasibility has been established and ends when the product is available for general release to customers. Technological feasibility for our products is established when the product is available for beta release.

Judgment is required in determining when technological feasibility of a product is established. Amortization is computed on an individual product basis for those products available for market and has been recognized based on the product's estimated economic life, generally three years. At each balance sheet date, the unamortized costs are reviewed by management and reduced to net realized value when necessary. As of December 31, 2009, unamortized capitalized software development costs were $18 million.

- Valuation of long-lived and intangible assets

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In accordance with FASB ASC 350, Intangibles – Goodwill and Other (FASB ASC 350), 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, 2009. No impairment of goodwill has been identified during the period presented. Goodwill is deductible for tax purposes in certain jurisdictions. We have defined our operating segment based on geographic regions. We sell our products in three geographic regions. Our sales to these regions share similar economic characteristics, similar product mix, similar customers, and similar distribution methods. Accordingly, we have elected to aggregate these three geographic regions into a single operating segment. As we have one reporting segment, we allocate goodwill to one reporting unit for goodwill impairment testing. Factors considered important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends; and,
- our market capitalization relative to net book value.

When it is determined that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the measurement of any impairment is determined and the carrying value is reduced as appropriate. As of December 31, 2009, we had net goodwill of approximately $65 million.

- Accounting for income taxes

We account for income taxes under the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position or our results of operations. In estimating future tax consequences, all expected future events are considered other than enactments of changes in tax laws or rates. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized.

As a result of certain foreign investment incentives available under Hungarian law, the profit from our Hungarian operation was subject to a reduced income tax rate. This special tax status terminated on January 1, 2008, with the merger of our Hungarian manufacturing operations with its Hungarian parent company. The tax position of our Hungarian operation continued to benefit from assets created by the restructuring of our operations in Hungary. Realization of these assets was based on estimated future earnings in Hungary. Partial release of the valuation allowance on these assets resulted in income tax benefits of $18.3 million for the year ended December 31, 2007, and $8.7 million for the year ended December 31, 2008.

For the year 2009, we expected to recognize an additional tax benefit of $9.7 million related to these assets. Effective January 1, 2010, a new tax law in Hungary provides for an enhanced deduction for the qualified research and

development expenses of NI Hungary Software and Hardware Manufacturing Kft. ("NI Hungary"). During the three months ended December 31, 2009, we obtained confirmation of the application of this new tax law for the qualified research and development expenses of NI Hungary. Based on the application of this new tax law to the qualified research and development expense of NI Hungary, we no longer expect to have sufficient future taxable income in Hungary to realize the benefits of these tax assets. As such, we recorded an income tax charge of $21.6 million during the three months ended December 31, 2009, $18.4 million of which was related to a valuation allowance on the previously recognized assets created by the restructuring and $3.2 million of which was related to tax benefits from other assets that we will no longer be able to realize as a result of this change. We do not expect to realize the tax benefit of the remaining assets created by the restructuring and therefore we have a full valuation allowance of $98.2 million against those assets at December 31, 2009.

For additional discussion about our income taxes including components of income before income taxes, our provision for income taxes charged to operations, components of our deferred tax assets and liabilities, a reconciliation of income taxes at the U.S. federal statutory rate of 35% to our effective tax rate and other tax matters, see Note 9 – Income taxes of Notes to Consolidated Financial Statements.

- Loss contingencies

We accrue for probable losses from contingencies including legal defense costs, on an undiscounted basis, in accordance with FASB ASC 450, Contingencies (FASB ASC 450), when such costs are considered probable of being incurred and are reasonably estimable. We periodically evaluate available information, both internal and external, relative to such contingencies and adjust this accrual as necessary. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position or our results of operation.

ITEM 7A. 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 in the repatriation of earnings and burdens of complying with a wide variety of foreign laws. The vast majority of our sales outside of North America 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. Net of hedging results, the change in exchange rates had the effect of decreasing our consolidated sales by $29 million or 4% for the year ended December 31, 2009, compared to 2008. 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. Since most of our international operating expenses are also incurred in local currencies, the change in exchange rates had the effect of decreasing our operating expenses by $12 million or 2% for the year ended December 31, 2009, compared to 2008. Currently, we are experiencing significant volatility in foreign currency exchange rates in many of the markets in which we do business. This has had a significant impact on the revaluation of our foreign currency denominated firm commitments and on our ability to forecast our U.S. dollar equivalent revenues and expenses. In the past, these dynamics have also adversely affected our revenue growth in international markets and will likely pose similar challenges in the future. Our foreign currency hedging program includes both foreign currency forward and purchased option contracts to reduce the effect of exchange rate fluctuations. However,

our hedging program will not eliminate all of our foreign exchange risks, particularly when market conditions experience the recent level of volatility. (See "Net Foreign Exchange Gain (Loss)" and Note 4 – Derivative instruments and hedging activities of Notes to Consolidated Financial Statements).

Inventory Management

The marketplace for our products dictates 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. 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.

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 December 31, 2009, we had $289 million in cash, cash equivalents and short-term investments. We maintain cash and cash equivalents with various financial institutions located in many countries throughout the world. Approximately $114 million or 39% of these amounts were held in domestic accounts with various financial institutions and $175 million or 61% was held in accounts outside of the U.S. with various financial institutions. At December 31, 2009, $85 million or 42% of our cash and cash equivalents was held in cash in various operating accounts throughout the world, and $116 million or 58% was held in money market accounts. The most significant of our operating accounts was our domestic operating account which held approximately $22 million or 11% of our total cash and cash equivalents at a bank that carried a A1 rating at December 31, 2009. Our short-term investment balance is comprised of $35 million held in our investment accounts in the U.S. and $52 million held in investment accounts of our foreign subsidiaries.

Short-term debt securities available-for-sale included auction rate securities backed by education loan revenue bonds. One of our auction rate securities is from the Vermont Student Assistance Corporation and has a par value of $2.2 million. The other of our auction rate securities is from the New Hampshire Health and Education Facilities Authority and has a par value of $6.4 million. At December 31, 2009, we reported these auction rate securities at their estimated fair market value of $8.2 million as a component of short-term debt securities available for sale. We are also a party to a UBS Auction Rate Securities Rights (the "Rights") agreement. The Rights agreement is a nontransferable right to sell our auction rate securities, at par value, back to UBS at any time during the period June 30, 2010, through July 2, 2012. At December 31, 2009, we reported the Rights agreement at its estimated fair market value of $423,000 as a component of short-term debt securities available for sale. See Note 3 – Fair value measurements in Notes to Consolidated Financial Statements for further discussion of our auction rate securities and our Rights agreement.

Due to the fact that our Rights agreement has an initial exercise date that is less than one year from now, we are now reporting our auction rate securities and the corresponding Rights agreement as short-term. We continue to have the ability to hold our auction rate securities to their ultimate maturities which are in excess of one year and we have not made a determination as to whether we will exercise our option under the Rights agreement or if we do choose to exercise our option, at what point during the period June 30, 2010 through July 2, 2012, we would exercise our option. We have recorded the unrealized loss related to the auction rate securities and the unrealized gain related to the Rights agreement as a component of other income (expense), in our Consolidated Statements of Income.

We do not anticipate that the auction rate market will provide liquidity for these securities in the foreseeable future. Should we need or desire to access the funds invested in those securities prior to their maturity or prior to our exercise period under the Rights agreement discussed above, we may be unable to find a buyer in a secondary market outside the auction process or if a buyer in a secondary market is found, we would likely realize a loss.

We maintain an investment portfolio of various types of security holdings and maturities. Pursuant to FASB ASC 820, cash equivalents and short-term investments available-for-sale are valued using a market approach (Level 1) based on the quoted market prices of identical instruments when available or other observable inputs such as trading prices of identical instruments in inactive markets. The estimated fair market value of both the auction rate securities and the Rights agreement was determined using significant unobservable inputs (Level 3) as prescribed by FASB ASC 820.

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. Other than our auction rate securities discussed above, at December 31, 2009, 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, variable rate demand notes 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 three years or less, with a weighted average maturity of no longer than 18 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. 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 shareholders’ 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 in debt securities at December 31, 2009 and December 31, 2008 was $87 million and $6 million, respectively. The increase was due to the net purchase of $74 million of short-term investments and the transfer of $8.6 related to our auction rate securities and our rights agreement from long-term investments to short-term investments during the year ended December 31, 2009. The net purchase of $74 million of short term investments was done to diversify our holdings from money market accounts to debt securities and to take advantage of higher yields associated with longer maturity debt securities. 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 (expense), net, in our Consolidated Statements of Income.

Long-Term Investments

At December 31, 2008, our long-term investments consisted primarily of Aaa/A/AAA rated investments in auction rate securities that we originally purchased for $8.6 million. These auction rate securities consist of education loan revenue bonds. Auction rate securities are variable rate debt instruments whose interest rates are typically reset approximately every 7 to 35 days. At December 31, 2008, we classified these investments as long-term due to the fact that the underlying securities have contractual maturities that are greater than one year. These contractual maturities are also in excess of the guidelines provided for in our corporate investment policy. The auction rate securities are

classified as available-for-sale. At December 31, 2008, we reported these long-term investments at their estimated fair market value of $7.0 million. In November 2008, we accepted the Rights agreement offered by UBS as a liquidity alternative to the failed auction process. The Rights agreement is a nontransferable right to sell our auction rate securities, at par value, back to UBS at any time during the period June 30, 2010, through July 2, 2012. At December 31, 2008, we reported the Rights agreement at its estimated fair market value of $1.6 million. At December 31, 2008 he estimated fair market value of both the auction rate securities and the Rights agreement was determined using significant unobservable inputs (Level 3) as prescribed by FASB ASC 820. These auction rate securities and the Rights agreement are now reported as a component of short-term investments as discussed above.

Interest Rate 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 in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in 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 the 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 shareholders' 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 investments, the current interest rate environment of low or declining rates will likely negatively impact 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 the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on our investment positions as of December 31, 2009, a 100 basis point increase or decrease in interest rates across all maturities would result in a $614,000 increase or decrease in the fair market value of the portfolio. As of December 31, 2008, a similar 100 basis point shift in the yield curve would have resulted in a $50,000 increase or decrease in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity or if there is a other than temporary impairment.

Actual future gains and losses associated with our investments may differ from the sensitivity analyses performed as of December 31, 2009 due to the inherent limitations associated with predicting the changes in the timing and level of interest rates and our actual exposures and positions.

Economic conditions in 2008 and 2009 had negative effects on the financial markets. In response to these conditions, we shifted a larger percentage of our portfolio to money market funds, U.S. Treasuries and time deposits toward the end of 2008. This had a negative impact on our investment income in 2009. As we noted some stabilization in the financial markets throughout 2009, we made net purchases of $74 million of short-term investments, primarily to diversify our holdings from money market accounts to debt securities and to take advantage of higher yields associated with longer maturity debt securities. However, yields, even at longer maturities, remained at or near historic lows throughout 2009. We cannot predict when 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. The principal currencies hedged are the Euro, British pound, Japanese yen and Hungarian forint. We monitor our foreign exchange exposures regularly to help ensure the overall effectiveness of our foreign currency hedge positions. There can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchanges rates on our results of operations and financial position. Based on the foreign exchange instruments outstanding at December 31, 2009 and December 31, 2008, 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 $22 million and $31 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 4 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for a further description of our derivative instruments and hedging activities).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the Consolidated Financial Statements set forth on pages F-1 through F-31 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with accountants on accounting and financial disclosure for the year ended December 31, 2009.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer, Dr. James Truchard, and our Chief Financial Officer, Alex Davern, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), required by paragraph (b) of Rule 13a – 15 or Rule 15d – 15, have concluded that our disclosure controls and procedures were effective at the reasonable assurance level, to ensure the timely collection, evaluation and disclosure of information relating to us that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated there under, and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our assessment of the effectiveness of our internal controls over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute assurance that the control system’s objectives will be met. We continue to enhance our internal control over financial reporting in key functional areas with the goal of monitoring our operations at the level of documentation, segregation of duties, and systems security necessary, as well as transactional control procedures required under Auditing Standard No. 5 issued by the Public Company Accounting Oversight Board. We discuss and disclose these matters to the audit committee of our board of directors and to our auditors.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial

statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2009, which was the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, Ernst & Young LLP, audited our consolidated financial statements, and independently assessed the effectiveness of our internal control over financial reporting. Ernst & Young LLP has issued their report, which is included in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2009, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Report in that we intend to file a definitive proxy statement pursuant to Regulation 14A with the Securities and Exchange Commission (the "Proxy Statement") relating to our annual meeting of stockholders not later than 120 days after the end of the fiscal year covered by this Report, and such information is incorporated by reference herein.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our directors required by this Item pursuant to Item 401 of Regulation S-K will appear in our Proxy Statement under the section "Election of Directors" and such information is incorporated herein by reference.

The information concerning our executive officers required by this Item pursuant to Item 401 of Regulation S-K will appear in our Proxy Statement under the section "Executive Officers" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 405 of Regulation S-K regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, will appear in our Proxy Statement under the section "Section 16(a) Beneficial Ownership Reporting Compliance" and such information is incorporated herein by reference.

The information concerning our code of ethics that applies to our principal executive officer, our principal financial officer, our controller or person performing similar functions required by this Item pursuant to Item 406 of Regulation S-K will appear in our Proxy Statement under the section "Code of Ethics" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 407(c)(3) of Regulation S-K regarding material changes, if any, to procedures by which security holders may recommend nominees to our board of directors will appear in our Proxy Statement under the section "Deadline for Receipt of Stockholder Proposals" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 407(d)(4) and Item 407(d)(5) of Regulation S-K regarding our Audit Committee and our audit committee financial expert(s), respectively, will appear in our Proxy Statement under the heading "Corporate Governance" and such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item pursuant to Item 402 of Regulation S-K regarding director compensation will appear in our Proxy Statement under the section "Board Compensation" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 402 of Regulation S-K regarding executive officer compensation, including our Compensation Discussion & Analysis, will appear in our Proxy Statement under the section "Executive Compensation" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 407(e)(4) of Regulation S-K will appear in our Proxy Statement under the section "Compensation Committee Interlocks and Insider Participation" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 407(e)(5) will appear in our Proxy Statement under the section "Compensation Committee Report" and such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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.

The information required by this Item pursuant to Item 403 of Regulation S-K concerning security ownership of certain beneficial owners and management will appear in our Proxy Statement under the section "Security Ownership" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 201(d) of Regulation S-K concerning securities authorized for issuance under equity compensation plans will appear in our Proxy Statement under the section "Equity Compensation Plans Information" and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

In addition, the information required by this Item pursuant to Item 404 of Regulation S-K will appear in our Proxy Statement under the section "Certain Relationships and Related Transactions" and such information is incorporated herein by reference.

The information required by this Item pursuant to Item 407(a) of Regulation S-K regarding the independence of our directors will appear in our Proxy Statement under the section "Corporate Governance" and such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information concerning principal accountant fees and services required by this Item is incorporated by reference to our Proxy Statement under the heading "Independent Public Accountants."

The information concerning pre-approval policies for audit and non-audit services required by this Item is incorporated by reference to our Proxy Statement under the heading "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed with Report

1. Financial Statements.

2. Financial Statement Schedules.

None

3. Exhibits.

Exhibit Number	Description
3.1(2)	Certificate of Incorporation, as amended, of the Company.
3.2(11)	Amended and Restated Bylaws of the Company.
3.3(4)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company.
4.1(1)	Specimen of Common Stock certificate of the Company.
4.2(3)	Rights Agreement dated as of January 21, 2004, between the Company and EquiServe Trust Company, N.A.
10.1(1)	Form of Indemnification Agreement.
10.2(5)	1994 Incentive Plan, as amended.*
10.3(9)	1994 Employee Stock Purchase Plan.*
10.5(7)	2005 Incentive Plan.*
10.6(8)	National Instruments Corporation Annual Incentive Program.*
10.7(6)	National Instruments Corporation Annual Incentive Program, as amended.*

10.8(10) Form of Restricted Stock Unit Award Agreement (Non-Employee Director).*

10.9(10) Form of Restricted Stock Unit Award Agreement (Performance Vesting).*

10.10(10) Form of Restricted Stock Unit Award Agreement (Current Employee).*

10.11(10) Form of Restricted Stock Unit Award Agreement (Newly Hired Employee).*

21.1 Subsidiaries of the Company.

23.1 Consent of Independent Registered Public Accounting Firm.

24.0 Power of Attorney (included on page 41).

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.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. 33-88386) declared effective March 13, 1995.

(2) Incorporated by reference to the same-numbered exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

(3) Incorporated by reference to exhibit 4.1 filed with the Company's Current Report on Form 8-K filed on January 28, 2004.

(4) Incorporated by reference to the same-numbered exhibit filed with the Company's Form 8-K on April 27, 2004.

(5) Incorporated by reference to the same-numbered exhibit filed with the Company's Form 10-Q on August 5, 2004.

(6) Incorporated by reference to exhibit 99.2 filed with the Company's Current Report on Form 8-K filed on October 28, 2008.

(7) Incorporated by reference to exhibit A of the Company's Proxy Statement dated and filed on April 4, 2005.

(8) Incorporated by reference to exhibit 99.2 filed with the Company's Current Report on Form 8-K filed on October 22, 2008.

(9) Incorporated by reference to exhibit 10.3 filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

(10) Incorporated by reference to the same-numbered exhibit filed with the Company's Form 10-Q on August 2, 2006.

(11)	Incorporated by reference to the same-numbered exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

* Management Contract or Compensatory Plan or Arrangement.

(b) Exhibits

See Item 15(a)(3) above.

(c) Financial Statement Schedules

See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Registrant

NATIONAL INSTRUMENTS CORPORATION

February 17, 2010

By: /s/ Dr. James J. Truchard
Dr. James J. Truchard
Chairman of the Board and President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dr. James J. Truchard and Alexander M. Davern, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity in Which Signed	Date
/s/ Dr. James J. Truchard Dr. James J. Truchard	Chairman of the Board and President (Principal Executive Officer)	February 17, 2010
/s/ Alex M. Davern Alex M. Davern	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 17, 2010
/s/ Jeffrey L. Kodosky Jeffrey L. Kodosky	Director	February 17, 2010
/s/ Dr. Donald M. Carlton Dr. Donald M. Carlton	Director	February 17, 2010

/s/ Charles J. Roesslein Charles J. Roesslein	Director	February 17, 2010
/s/ Duy-Loan T. Le Duy-Loan T. Le	Director	February 17, 2010
/s/ John Medica John Medica	Director	February 17, 2010

NATIONAL INSTRUMENTS CORPORATION

INDEX TO FINANCIAL STATEMENTS

All schedules are omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of National Instruments Corporation:

We have audited the accompanying consolidated balance sheets of National Instruments Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Instruments Corporation at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Instruments Corporation internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Austin, Texas
February 17, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of National Instruments Corporation:

We have audited National Instruments Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Instruments Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Instruments Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Instruments Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 17, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Austin, Texas
February 17, 2010

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$201,465	$229,400
Short-term investments	87,196	6,220
Accounts receivable, net	103,957	121,548
Inventories, net	86,515	107,358
Prepaid expenses and other current assets	36,523	43,062
Deferred income taxes, net	16,522	21,435
Total current assets	532,178	529,023
Long-term investments	—	10,500
Property and equipment, net	153,265	154,477
Goodwill, net	64,779	64,561
Intangible assets, net	43,390	41,915
Other long-term assets	19,417	32,115
Total assets	$813,029	$832,591
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$23,502	$30,876
Accrued compensation	14,934	22,012
Deferred revenue	57,242	45,514
Accrued expenses and other liabilities	8,560	18,848
Other taxes payable	14,181	13,481
Total current liabilities	118,419	130,731
Deferred income taxes	25,012	25,157
Liability for uncertain tax positions	11,062	9,364
	4,116	2,901

Other long-term liabilities		
Total liabilities	158,609	168,153
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; 180,000,000 shares authorized; 77,367,874 and 77,193,063 shares issued and outstanding, respectively	774	772
Additional paid-in capital	336,446	300,352
Retained earnings	303,655	352,831
Accumulated other comprehensive income	13,545	10,483
Total stockholders' equity	654,420	664,438
Total liabilities and stockholders' equity	$813,029	$832,591

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

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	For the Years Ended December 31,		
	2009	2008	2007
Net sales:			
Product	$623,736	$765,441	$701,589
Software maintenance	52,858	55,096	38,789
Total net sales	676,594	820,537	740,378
Cost of sales:			
Product	164,700	201,064	180,556
Software maintenance	5,184	6,045	4,711
Total cost of sales	169,884	207,109	185,267
Gross profit	506,710	613,428	555,111
Operating expenses:			
Sales and marketing	269,267	307,409	264,060
Research and development	132,974	143,140	126,515
General and administrative	57,938	67,162	62,445
Total operating expenses	460,179	517,711	453,020
Operating income	46,531	95,717	102,091
Other income (expense):			
Interest income	1,629	5,996	9,822
Net foreign exchange gain (loss)	734	(3,737)	1,672
Other income (expense), net	1,351	161	(158)
Income before income taxes	50,245	98,137	113,427
Provision for income taxes	33,160	13,310	6,394
Net income	$17,085	$84,827	$107,033
	$0.22	$1.08	$1.35

Basic earnings per share			
Weighted average shares outstanding - basic	77,520	78,567	79,468
Diluted earnings per share	$0.22	$1.07	$1.32
Weighted average shares outstanding – diluted	78,026	79,515	81,043
Dividends declared per share	$0.48	$0.44	$0.34

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

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,
	2009