NATIONAL INSTRUMENTS CORP /DE/
Form 10-Q
May 07, 2009

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

FORM 10-Q

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

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

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

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

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

Class	Outstanding at May 6, 2009
Common Stock - $0.01 par value	77,725,916

NATIONAL INSTRUMENTS CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	March 31, 2009	December 31, 2008
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 227,448	$ 229,400
Short-term investments	14,044	6,220
Accounts receivable, net	90,917	121,548
Inventories, net	102,618	107,358
Prepaid expenses and other current assets	45,827	43,062
Deferred income taxes, net	22,430	21,435
Total current assets	503,284	529,023
Long-term investments	10,500	10,500
Property and equipment, net	150,793	154,477
Goodwill, net	64,168	64,561
Intangible assets, net	42,688	41,915
Other long-term assets	35,215	32,115
Total assets	$ 806,648	$ 832,591
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 25,129	$ 30,876
Accrued compensation	19,408	22,012
Deferred revenue	44,965	45,514
Accrued expenses and other liabilities	13,298	18,848
Other taxes payable	10,269	13,481
Total current liabilities	113,069	130,731
Deferred income taxes	25,422	25,157
Other long-term liabilities	12,380	12,265
Total liabilities	150,871	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; 77,173,376 and 77,193,063 shares issued and outstanding, respectively	772	772

Additional paid-in capital	42,972	39,673
Retained earnings	604,583	613,510
Accumulated other comprehensive income	7,450	10,483
Total stockholders' equity	655,777	664,438
Total liabilities and stockholders' equity	$ 806,648	$ 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)
(unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales:		
Product	$ 143,450	$ 181,790
Software maintenance	14,349	11,128
Total net sales	157,799	192,918
Cost of sales:		
Product	$ 39,556	$ 47,667
Software maintenance	1,327	1,402
Total cost of sales	40,883	49,069
Gross profit	116,916	143,849
Operating expenses:		
Sales and marketing	68,826	73,517
Research and development	34,789	35,604
General and administrative	15,780	16,663
Total operating expenses	119,395	125,784
Operating income (loss)	(2,479)	18,065
Other income (expense):		
Interest income	589	2,137
Net foreign exchange gain (loss)	(702)	1,548
Other income (expense), net	163	61
Income before income taxes	(2,429)	21,811
Provision for (benefit from) income taxes	(2,787)	4,195
Net income	$ 358	$ 17,616
Basic earnings per share	$ 0.00	$ 0.22

Weighted average shares outstanding – basic		77,277		78,840
Diluted earnings per share	$	0.00	$	0.22
Weighted average shares outstanding – diluted		77,436		79,825
Dividends declared per share	$	0.12	$	0.11

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

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

	Three Months Ended March 31, 2009	2008
Cash flow from operating activities:		
Net income	$ 358	$ 17,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,385	10,675
Stock-based compensation	5,082	4,739
Benefit from deferred income taxes	(1,486)	(2,711)
Tax expense (benefit from) stock option plans	242	(161)
Changes in operating assets and liabilities:		
Accounts receivable	30,631	5,112
Inventories	4,740	(7,099)
Prepaid expenses and other assets	(5,766)	(5,677)
Accounts payable	(5,747)	5,241
Deferred revenue	(549)	3,574
Taxes and other liabilities	(11,084)	(867)
Net cash provided by operating activities	24,806	30,442
Cash flow from investing activities:		
Capital expenditures	(3,004)	(5,051)
Capitalization of internally developed software	(3,114)	(1,528)
Additions to other intangibles	(1,340)	(431)
Acquisition, net of cash received	—	(17,055)
Purchases of short-term and long-term investments	(11,850)	(12,638)
Sales and maturities of short-term and long-term investments	4,026	66,208
Purchases of foreign currency option contracts	—	(1,481)
Net cash (used by) provided by investing activities	(15,282)	28,024
Cash flow from financing activities:		
Proceeds from issuance of common stock	7,237	10,197

Repurchase of common stock	(9,186)	(49,081)
Dividends paid	(9,285)	(8,717)
Tax expense (benefit from) stock option plans	(242)	161
Net cash (used by) financing activities	(11,476)	(47,440)
Net change in cash and cash equivalents	(1,952)	11,026
Cash and cash equivalents at beginning of period	229,400	194,839
Cash and cash equivalents at end of period	$ 227,448	$ 205,865

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

NATIONAL INSTRUMENTS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008, included in our annual report on Form 10-K, filed with the Securities and Exchange Commission. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at March 31, 2009 and December 31, 2008, and the results of our operations and cash flows for the three month periods ended March 31, 2009 and March 31, 2008. Operating results for the three month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Certain prior year amounts have been reclassified to conform to the 2009 presentation as shown in the following tables:

	Three Months Ended March 31, 2008 (unaudited)
Cost of sales as previously reported	$ 48,247
Technical support costs previously reported as sales and marketing (a)	822
Cost of sales adjusted for reclassification	$ 49,069
Sales and marketing as previously reported	$ 74,339
Technical support costs as previously reported as sales and marketing (a)	(822)
Sales and marketing adjusted for reclassification	$ 73,517

(a) We are separately reporting software maintenance revenue and cost of software maintenance revenue in our Consolidated Statements of Income. We have added this disclosure due to the increasing percentage of our revenue coming from software maintenance. As part of this expanded disclosure, some technical support costs previously reported as a component of sales and marketing expense are now reported as cost of software maintenance. This change has had no impact on our operating income, net income or earnings per share.

NOTE 2 – Earnings Per Share

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

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three month periods ended March 31, 2009 and 2008, respectively, are as follows (in thousands):

	March 31, (unaudited)	
	2009	2008
Weighted average shares outstanding-basic	77,277	78,840
Plus: Common share equivalents		
Stock options, restricted stock units	159	985
Weighted average shares outstanding-diluted	77,436	79,825

Stock options to acquire 5,495,000 shares and 2,877,000 shares for the three month periods ended March 31, 2009 and 2008, respectively, were excluded in the computations of diluted EPS because the effect of including the stock options would have been anti-dilutive.

NOTE 3 – Cash, Cash Equivalents, Short-Term and Long-Term Investments

Cash, cash equivalents, short-term and long-term investments consist of the following (in thousands):

	As of March 31, 2009 (unaudited)	As of December 31, 2008
Cash and cash equivalents:		
Cash	$ 71,188	$ 100,967
Cash equivalents:		
Debt securities	—	—
Time deposits	—	73,400
Money market accounts	156,260	55,033
Total cash and cash equivalents	$ 227,448	$ 229,400
Short-term investments:		
Debt securities	$ 14,044	$ 6,220
Auction rate securities	—	—
Long-term investments:		
Auction rate securities	8,343	6,964
Auction rate securities put option	257	1,636
Other long-term investments	1,900	1,900
Total investments	$ 24,544	$ 16,720
Total cash, cash equivalents and investments	$ 251,992	$ 246,120

The following table summarizes unrealized gains and losses related to our investments designated as available-for-sale (in thousands):

	As of March 31, 2009 (unaudited)			
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Debt securities	$ 14,083	$ 40	$ (79)	$ 14,044
Auction rate securities	8,600	—	(257)	8,343
Auction rate securities put option	—	257	—	257
Other long-term investments	1,900	—	—	1,900
Total investments	$ 24,583	$ 297	$ (336)	$ 24,544

	As of December 31, 2008			
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Municipal securities	$ 6,199	$ 28	$ (7)	$ 6,220
Auction rate securities	8,600	—	(1,636)	6,964
Auction rate securities put option	—	1,636	—	1,636
Other long-term investments	1,900	—	—	1,900
Total investments	$ 16,699	$ 1,664	$ (1,643)	$ 16,720

NOTE 4 – Fair Value Measurements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. Effective January 1, 2009, in accordance with Financial Accounting Standards Board ("FASB") Staff Position ("FSP") FAS 157-2, Effective Date of FASB Statement 157, we adopted SFAS 157 for our nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The adoption of SFAS 157-2 did not have a material impact on our fair value measurements.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value (in thousands).

		Fair Value Measurements at Reporting Date Using (unaudited)		
Description	March 31, 2009	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)

		for Identical Assets (Level 1)	(Level 2)	
Assets				
Money Market Funds	$ 156,260	$ 156,260	$ —	—
Short-term investments available for sale	14,044	14,044	—	—
Long-term investments available for sale	8,600	—	—	8,600
Derivatives	20,094	—	20,094	—
Total Assets	$ 198,998	$ 170,304	$ 20,094	$ 8,600
Liabilities				
Derivatives	(3,229)	—	(3,229)	—
Total Liabilities	$ (3,229)	$ —	$ (3,229)	$ —

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Long-term investments available for sale (unaudited)
Beginning Balance	$ 8,600
Total gains or (losses) (realized/unrealized)	
Included in earnings	257
Included in other comprehensive income	—
Total losses (realized/unrealized)	
Included in earnings	(257)
Included in other comprehensive income	—
Purchases, issuances and settlements	—
Transfer in and/or out of Level 3	—
Ending Balance	$ 8,600
The amount of total gains or (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	—
	$ —

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.

Derivatives include foreign currency forward and option contracts. Our foreign currency forward contracts are valued using an income approach (Level 2) based on the spot rate less the contract rate multiplied by the notional amount. Our foreign currency option contracts are valued using a market approach based on the quoted market prices which are derived from observable inputs including current and future spot rates, interest rate spreads as well as quoted market prices of identical instruments.

Long-term investments included in Level 3 are reported at their fair market value and consist of 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. The ratings for these securities at March 31, 2009, were Baa1/A/AAA and Aaa/NR/AAA, respectively. We note that the bonds from the Vermont Student Assistance Corporation carried ratings of Aa3/A/AAA at December 31, 2008. Historically, we reported the fair market value of these securities at par as differences between par value and the purchase price or settlement value were historically comprised of accrued interest. Auction rate securities are variable rate debt instruments whose interest rates are typically reset approximately every 7 to 35 days. On April 13, 2009, and in prior auction periods beginning in February 2008, the auction process for these securities failed. Prior to the failure of the auction process, we had classified these investments as short-term but are now reporting them as long-term due to the fact that the underlying securities generally have longer dated contractual maturities which are in excess of the guidelines provided for in our corporate investment policy. The auction rate securities are classified as available-for-sale.

At March 31, 2009, we reported these long-term investments at their estimated fair market value of $8.3 million. In November 2008, we accepted the UBS Auction Rate Securities Rights (“the Rights”) agreement offered by UBS as a liquidity alternative to the failed auction process. This Rights agreement is related to the auction rates securities discussed above. 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 March 31, 2009, we reported the Rights agreement at its estimated fair market value of $0.3 million. We continue to have the ability to hold the debt instruments to their ultimate maturity and have not made a determination as to whether we will exercise our right under the Rights agreement described above. As such, 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. The estimated fair market value of the Rights agreement is also included as a component of our long-term investments.

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 SFAS 157, Fair Value Measurements. We considered many factors in determining the fair market value of the auction rate securities as well as our corresponding Rights agreement at March 31, 2009, including the fact that the debt instruments underlying the auction rate securities have redemption features which call for redemption at 100% of par value, current credit curves for like securities and discount factors to account for the illiquidity of the market for these securities.

NOTE 5 – Derivative Instruments and Hedging Activities

SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133(R),) requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

We have operations in over 40 countries. Approximately 57% of our revenues are generated outside the Americas. Our activities expose us to a variety of market risks, including the effects of changes in foreign-currency exchange rates. These financial risks are monitored and managed by us as an integral part of our overall risk management program.

We maintain a foreign-currency risk management strategy that uses derivative instruments (foreign currency forward and purchased options contracts) to protect our earnings and cash flows from fluctuations caused by the volatility in currency exchange rates. Movements in foreign-currency exchange rates pose a risk to our operations and competitive position, since exchange rate changes may affect our profitability and cash flow, and the business or pricing strategies of our non-U.S. based competitors.

The vast majority of our foreign sales are denominated in the customers' local currency. We purchase foreign currency forward and purchased options contracts as hedges of forecasted sales that are denominated in foreign currencies and as hedges of foreign currency denominated receivables. These contracts are entered into to protect against the risk that the eventual dollar-net-cash inflows resulting from such sales or firm commitments will be adversely affected by changes in exchange rates. We also purchase foreign currency forward contracts as hedges of forecasted expenses that are denominated in foreign currencies. These contracts are entered into to protect against the risk that the eventual dollar-net-cash outflows resulting from foreign currency operating and cost of revenue expenses will be adversely affected by changes in exchange rates.

In accordance with SFAS 133(R), we designate foreign currency forward and option contracts as cash flow hedges of forecasted revenues or forecasted expenses. In addition, we hedge our foreign currency denominated balance sheet exposures using foreign currency forward contracts. These derivatives are not designated as hedging instruments under SFAS 133(R). None of our derivative instruments contain a credit-risk-related contingent feature.

Cash flow hedges

To protect against the reduction in value caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales over the next one to 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 option contracts, when the dollar strengthens significantly against the foreign currencies, the change in the present value of future foreign currency cash flows may be offset by the change in the fair value of the option contracts net of the premium paid designated as hedges. Our foreign currency purchased option contracts are purchased "at-the-money" or "out-of-the-money". We purchase foreign currency forward and option contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, British pound sterling, South Korean won and Hungarian forint) and limit the duration of these contracts to 40 months or less.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income ("OCI") and reclassified into earnings in the same line item (net sales, operating expenses, or cost of sales) associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings or expenses during the current period and are classified as a component of "net foreign exchange gain (loss)". Hedge effectiveness of foreign currency forwards and option contracts designated as cash flow hedges are measured by comparing the hedging instrument's cumulative change in fair value from inception to maturity to the forecasted transaction's terminal value.

We held forward contracts with a notional amount of $28.6 million dollar equivalent of Euro, $10.6 million dollar equivalent of British pound sterling, $32.1 million dollar equivalent of Japanese yen, $2.6 million dollar equivalent of South Korean won and $36.6 million dollar equivalent of Hungarian forint at March 31, 2009. We held forward contracts with a notional amount of $54.9 million dollar equivalent of Euro, $6.2 million dollar equivalent of British pound sterling, $18.9 million dollar equivalent of Japanese yen, $4.7 million dollar equivalent of South Korean won and $21.7 million dollar equivalent of Hungarian forint at December 31, 2008. These contracts are for terms up to 24 months.

We held option contracts with a notional amount of $95.5 million dollar equivalent of Euro at March 31, 2009. We held option contracts with a notional amount of $111.3 million dollar equivalent of Euro at December 31, 2008. These contracts are for terms up to 24 months.

At March 31, 2009, we expect to reclassify $7.8 million of gains and $264,000 of losses on derivative instruments from accumulated other comprehensive income to net sales during the next twelve months when the hedged international sales occur. At March 31, 2009, we expect to reclassify $114,000 of gains and $1.2 million of losses on derivative instruments from accumulated OCI to cost of sales and $83,000 of gains and $694,000 of losses on derivative instruments from accumulated OCI to operating expenses during the next twelve months when the hedged international expenses occur. Expected amounts are based on derivative valuations at March 31, 2009. Actual results may vary as a result of changes in the corresponding exchange rate subsequent to this date.

During the three months ended March 31, 2009, hedges with a notional amount of $14.4 million were determined to be ineffective. As a result, we recorded a net gain of $417,000 related to these hedges as a component of “net foreign exchange gain (loss)”. We did not record any ineffectiveness during the three months ended March 31, 2008.

Other Derivatives

Other derivatives not designated as hedging instruments under SFAS 133(R) consist primarily of foreign currency forward contracts that we use to hedge our foreign denominated net receivable or net payable 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 receivables or net payables and typically limit the duration of these foreign currency forward contracts to approximately 90 days. The gain or loss on the derivatives as well as the offsetting gain or loss on the hedge item attributable to the hedged risk is recognized in current earnings under the line item “net foreign exchange gain (loss)”. As of March 31, 2009 and December 31, 2008, we held forward contracts with a notional amount of $62.5 million and $67.1 million, respectively.

The following table presents the fair value of derivative instruments on our consolidated balance sheets and the effect of derivative instruments on our Consolidated Statements of Income.

Fair Values of Derivative Instruments (in thousands):

In thousands	Asset Derivatives					
	March 31, 2009			December 31, 2008		
	Balance Sheet Location	Fair Value (unaudited)		Balance Sheet Location	Fair Value	
Derivatives designated as hedging instruments under Statement 133(R)						
Foreign exchange contracts – ST forwards	Prepaid expenses and other current assets	$	4,508	Prepaid expenses and other current assets	$	5,260
Foreign exchange contracts – LT forwards	Other long-term assets		4,362	Other long-term assets		2,654

Foreign exchange contracts – ST options	Prepaid expenses and other current assets		6,801	Prepaid expenses and other current assets		5,705
Foreign exchange contracts – LT options	Other long-term assets		3,172	Other long-term assets		3,838
Total derivatives designated as hedging instruments under Statement 133(R)		$	18,843		$	17,457
Derivatives not designated as hedging instruments under Statement 133(R)						
Foreign exchange contracts – ST forwards	Prepaid expenses and other current assets	$	2,190	Prepaid expenses and other current assets	$	2,745
Total derivatives not designated as hedging instruments under Statement 133(R)		$	2,190		$	2,745
Total derivatives		$	21,033		$	20,202

	Liability Derivatives					
	March 31, 2009			December 31, 2008		
	Balance Sheet Location		Fair Value (unaudited)	Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments under Statement 133(R)						
Foreign exchange contracts – ST forwards	Accrued expenses and other liabilities	$	(2,549)	Accrued expenses and other liabilities	$	(1,803)
Foreign exchange contracts – LT forwards	Other long-term liabilities		—	Other long-term liabilities		—
Foreign exchange contracts – ST options	Accrued expenses and other liabilities		—	Accrued expenses and other liabilities		—
Foreign exchange contracts – LT options	Other long-term liabilities		—	Other long-term liabilities		—
Total derivatives designated as		$	(2,549)		$	(1,803)

hedging instruments under Statement 133(R)						
Derivatives not designated as hedging instruments under Statement 133(R)						
Foreign exchange contracts – ST forwards	Accrued expenses and other liabilities	$	(1,087)	Accrued expenses and other liabilities	$	(3,280)
Total derivatives not designated as hedging instruments under Statement 133(R)		$	(1,087)		$	(3,280)
Total derivatives		$	(3,636)		$	(5,083)

The following unaudited table shows the effect of derivative instruments on the Consolidated Statements of Income for the three-months ended March 31, 2009 and 2008 (in thousands):

Derivatives in Statement 133(R) Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) (in thousands) 2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (in thousands) 2009	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) 2009
Foreign exchange contracts – forwards and options	$ 3,796	Net sales	$ 2,633	Net foreign exchange gain (loss)	$ 940
Foreign exchange contracts – forwards and options	(2,746)	Cost of sales	(255)	Net foreign exchange gain (loss)	(523)
Foreign exchange contracts – forwards and options	(888)	Operating expenses	(266)	Net foreign exchange gain (loss)	—
Total	$ 162		$ 2,112		$ 417

Amount of Gain (Loss)

Derivatives not Designated as Hedging Instruments under Statement 133(R)	Location of Gain (Loss) Recognized in Income on Derivative	Recognized in Income on Derivative 2009
Foreign exchange contracts – forwards	Net foreign exchange gain/(loss)	$ 3,089
Total		$ 3,089

NOTE 6 – Inventories

Inventories, net consist of the following (in thousands):

	March 31, 2009 (unaudited)	December 31, 2008
Raw materials	$ 45,120	$ 48,004
Work-in-process	2,109	4,150
Finished goods	55,389	55,204
	$ 102,618	$ 107,358

NOTE 7 – Intangibles

Intangibles at March 31, 2009 and December 31, 2008 are as follows:

	March 31, 2009 (unaudited)			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	$ 28,724	$ (13,453)	$ 15,271	$ 25,610	$ (11,344)	$ 14,266
Acquired technology	27,418	(17,690)	9,728	27,503	(16,804)	10,699
Patents	17,371	(4,691)	12,680	16,068	(4,506)	11,562
Leasehold equipment and other	11,439	(6,430)	5,009	11,401	(6,013)	5,388
	$ 84,952	$ (42,264)	$ 42,688	$ 80,582	$ (38,667)	$ 41,915

Software development costs capitalized for the three months ended March 31, 2009 and March 31, 2008 were $3.1 million and $1.5 million, respectively. Capitalized software amortization expense was $2.1 million and $2.5 million for the three months ended March 31, 2009 and March 31, 2008, respectively. Amortization of capitalized software development costs is computed on an individual product basis for those products available for market and is recognized based on the product's estimated economic life, generally three years. Patents are amortized using the straight-line method over their estimated period of benefit, generally ten to seventeen years. Total intangible assets amortization expenses were $3.6 million and $3.9 million for the three months ended March 31, 2009 and March 31, 2008, respectively.

Acquired core technology and intangible assets are amortized over their useful lives, which range from three to eight years. Amortization expense for intangible assets acquired was approximately $1.0 million and $1.0 million for the three months ended March 31, 2009 and March 31, 2008, respectively, of which approximately $887,000 and

$850,000 was recorded in cost of sales for the three months ended March 31, 2009 and March 31, 2008, respectively, and approximately $126,000 and $150,000 was recorded in operating expenses for the three months ended March 31, 2009 and March 31, 2008, respectively. The estimated amortization expense of intangible assets acquired for the current fiscal year and in future years will be recorded in the consolidated statements of income as follows (in thousands):

Fiscal Year	Cost of Sales	Acquisition related costs and amortization, net	Total
2009	3,300	502	3,802
2010	2,765	341	3,106
2011	2,121	214	2,335
2012	1,212	282	1,494
Thereafter			
Total	9,398	1,339	10,737

NOTE 8 – Goodwill

The carrying amount of goodwill for 2009 is as follows:

	Amount (in thousands)
Balance as of December 31, 2008	$ 64,561
Acquisitions	—
Divestitures	—
Foreign currency translation impact	(393)
Balance as of March 31, 2009	$ 64,168

The excess purchase price over the fair value of assets acquired is recorded as goodwill. As we have one operating segment, we allocate goodwill to one reporting unit for goodwill impairment testing. In accordance with SFAS 142, Goodwill and Other Intangible Assets, 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.

NOTE 9 – Income Taxes

In July 2006, the FASB issued FASB Interpretation (“FIN”) 48, Accounting for Uncertainty in Income Taxes – an interpretation of Statement of Financial Accounting Standards 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. We had $9.5 million and $8.7 million of unrecognized tax benefits at March 31, 2009 and March 31, 2008, respectively, all of which would affect our effective income tax rate if recognized. As of March 31, 2009, it is deemed reasonable that we will recognize tax benefits in the amount of $1.6 million in the next twelve months due to the closing of open tax years. The nature of the uncertainty is related to deductions taken on returns that have not been examined by the applicable tax authority. Our continuing policy is to recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2009, we have approximately $646,000 accrued for interest related to uncertain tax positions. We recognized no material adjustment to the liability for unrecognized income tax benefits. The tax years 2002 through 2008 remain open to examination by the major taxing jurisdictions to which we are subject.

Our provision for income taxes reflected an effective tax rate of 115% for the three months ended March 31, 2009, and 19% for the three months ended March 31, 2008. For the three months ended March 31, 2009, our effective tax rate was higher than the U.S. federal statutory rate of 35% as a result of certain stock-based compensation expenses that do not result in a tax deduction and are a greater percentage of net income in the three months ended March 31, 2009, than they were during the same period in 2008. Non-deductible stock-based compensation expense accounted for 16 percentage points of the difference between the statutory rate and the effective rate. In addition, during the three months ended March 31, 2009, 18 percentage points of the difference was due to a valuation allowance related to the deferred tax assets for which tax benefits were previously recognized and 43 percentage points was due to the partial release of a deferred tax asset valuation allowance. The partial release of the valuation allowance had the effect of increasing our effective tax rate in the three months ended March 31, 2009, because we reported a net loss before taxes in that period. The increase in our effective tax rate for the three months ended March 31, 2009, compared to March 31, 2008, was primarily the result of the following; 13 percentage points due to an increase in non-deductible stock-based compensation expense as a percentage of net income, 20 percentage points due to a change in the valuation allowance related to deferred tax assets for which tax benefits were previously recognized and 53 percentage points due to the partial release of a deferred tax asset valuation allowance. For the three months ended March 31, 2008, our effective tax rate was lower than the U.S. federal statutory rate of 35% primarily as a result of tax exempt interest, reduced tax rates in certain foreign jurisdictions, and the partial release of a deferred tax asset valuation allowance.

NOTE 10 – Comprehensive Income

Our comprehensive income is comprised of net income, foreign currency translation, unrealized gains and losses on forward and option contracts and securities available for sale. Comprehensive income for the three month periods ended March 31, 2009 and March 31, 2008, was as follows (in thousands):

	Three Months Ended March 31, (unaudited)	
	2009	2008
Comprehensive income:		
Net income	$ 358	$ 17,616
Foreign currency translation gains (losses), net of taxes	(2,775)	5,703
Unrealized losses on derivative instruments, net of taxes	(78)	(2,107)
Unrealized (losses) on available for sale securities, net of taxes	(180)	(355)
Total comprehensive income	$ (2,675)	$ 20,857

NOTE 11 – Stock-Based Compensation Plans

Stock option plans

Our stockholders approved the 1994 Incentive Stock Option Plan (the “1994 Plan”) on May 9, 1994. At the time of approval, 9,112,500 shares of our common stock were reserved for issuance under this plan. In 1997, an additional 7,087,500 shares of our common stock were reserved for issuance under this plan, and an additional 750,000 shares were reserved for issuance under this plan, as amended, in 2004. The 1994 Plan terminated in May 2005, except with respect to outstanding awards previously granted thereunder. Awards under the plan were either incentive stock options within the meaning of Section 422 of the Internal Revenue Code or nonqualified options. The right to purchase shares vests over a five to ten-year period, beginning on the date of grant. Vesting of ten year awards may accelerate based on the Company's previous year's earnings and growth but shares cannot accelerate to vest over a period of less than five years. Stock options must be exercised within ten years from date of grant. Stock options were issued at the market price at the grant date. As part of the requirements of SFAS 123R, Share-Based Payment, we are required to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Transactions under all stock option plans are summarized as follows:

	Number of shares under option	Weighted average Exercise price
Outstanding at December 31, 2008	4,272,567	$ 25.97
Exercised	(249,969)	12.72
Canceled	(66,567)	29.12
Granted	—	—
Outstanding at March 31, 2009	3,956,031	$ 26.76

The aggregate intrinsic value of stock options at exercise, represented in the table above, was $1.5 million for the three months ended March 31, 2009. Total unrecognized stock-based compensation expense related to non-vested stock options was approximately $5.0 million as of March 31, 2009, related to approximately 348,000 shares with a per share weighted average fair value of $16.75. We anticipate this expense to be recognized over a weighted average period of approximately 4.3 years.

Outstanding and Exercisable by Price Range as of March 31, 2009

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Number outstanding as of 3/31/2009	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable as of 3/31/2009	Weighted average exercise price
12.36 – $ $ 21.04	1,333,833	2.43	$ 20.63	1,224,727	$ 20.64
21.25 – $ $ 29.85	1,353,962	4.58	$ 27.89	1,125,849	$ 27.82
30.51 – $ $ 34.38	1,268,236	1.23	$ 31.99	1,257,424	$ 31.99
12.36 – $ $ 34.38	3,956,031	2.78	$ 26.76	3,608,000	$ 26.84

The weighted average remaining contractual life of options exercisable as of March 31, 2009 was 2.6 years. The aggregate intrinsic value of options outstanding as of March 31, 2009 was $(32.1) million. The aggregate intrinsic value of options currently exercisable as of March 31, 2009 was $(29.5) million. No options were granted in the three months ended March 31, 2009 as our 1994 Plan terminated in May 2005.

Restricted stock plan

Our stockholders approved the 2005 Incentive Plan on May 10, 2005. At the time of approval, 2,700,000 shares of our common stock were reserved for issuance under this plan, as well as the number of shares which had been reserved but not issued under the 1994 Plan (our incentive stock option plan which terminated in May 2005), and any shares that returned to the 1994 Plan as a result of termination of options or repurchase of shares issued under such plan. The 2005 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of restricted stock and restricted stock units (“RSUs”) to directors, executive officers and employees of the Company and its subsidiaries. Awards vest over a three, five or ten-year period, beginning on the date of grant. Vesting of ten year awards may accelerate based on the Company’s previous year’s earnings and growth but ten year awards cannot accelerate to vest over a period of less than five years. Shares available for grant at March 31, 2009 were 2,620,700. As part of the requirements of SFAS 123R, we are required to estimate potential forfeitures of RSUs and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Transactions under the 2005 Incentive Plan are summarized as follows:

	RSUs	
	Number of RSUs	Weighted Average Grant Price
Balance at December 31, 2008	2,165,228	$ 26.99
Granted	24,725	19.77
Earned	—	—
Canceled	(9,761)	27.23
Balance at March 31, 2009	2,180,192	$ 26.90

Total unrecognized stock-based compensation expense related to non-vested RSUs was approximately $54.5 million as of March 31, 2009, related to 2,180,192 shares with a per share weighted average fair value of $26.90. We anticipate this expense to be recognized over a weighted average period of approximately 7.0 years.

Employee stock purchase plan

Our employee stock purchase plan permits substantially all domestic employees and employees of designated subsidiaries to acquire our common stock at a purchase price of 85% of the lower of the market price at the beginning or the end of the purchase period. The plan has quarterly purchase periods on February 1, May 1, and November 1 of each year. During our annual shareholders meeting held on May 7, 2007, shareholders approved an additional 3.0 million shares of common stock to be reserved for issuance under this plan. Employees may designate up to 15% of their compensation for the purchase of common stock. Common stock reserved for future employee purchases aggregated 2,364,886 shares at March 31, 2009. Shares issued under this plan were 228,721 in the three month period ended March 31, 2009. The weighted average fair value of the employees’ purchase rights was $18.25 and was estimated using the Black-Scholes model with the following assumptions:

	2009
Dividend expense yield	0.3%
Expected life	3 months
Expected volatility	45%
Risk-free interest rate	1.7%

For the three months ended March 31, 2009 and March 31, 2008, stock-based compensation recorded as a component of cost of sales, sales and marketing, research and development, and general and administrative was as follows:

	Three Months Ended March 31, (unaudited)	
	2009	2008
Stock-based compensation		
Cost of sales	$ 310	$ 244
Sales and marketing	2,185	2,007
Research and development	1,737	1,727
General and administrative	799	754
Provision for income taxes	(3,014)	(1,083)
Total	$ 2,017	$ 3,649

Authorized Preferred Stock and Preferred Stock Purchase Rights Plan

We have 5,000,000 authorized shares of preferred stock. On January 21, 2004, our Board of Directors designated 750,000 of these shares as Series A Participating Preferred Stock in conjunction with its adoption of a Preferred Stock Rights Agreement (the "Rights Agreement") and declaration of a dividend of one preferred share purchase right (a "Right") for each share of common stock outstanding held as of May 10, 2004 or issued thereafter. Each Right will entitle its holder to purchase one one-thousandth of a share of National Instruments' Series A Participating Preferred Stock at an exercise price of $200, subject to adjustment, under certain circumstances. The Rights Agreement was not adopted in response to any effort to acquire control of National Instruments.

The Rights only become exercisable in certain limited circumstances following the tenth day after a person or group announces acquisitions of or tender offers for 20% or more of our common stock. In addition, if an acquirer (subject to certain exclusions for certain current stockholders of National Instruments, an "Acquiring Person") obtains 20% or more of our common stock, then each Right (other than the Rights owned by an Acquiring Person or its affiliates) will entitle the holder to purchase, for the exercise price, shares of our common stock having a value equal to two times the exercise price. Under certain circumstances, our Board of Directors may redeem the Rights, in whole, but not in part, at a purchase price of $0.01 per Right. The Rights have no voting privileges and are attached to and automatically traded with our common stock until the occurrence of specified trigger events. The Rights will expire on the earlier of May 10, 2014 or the exchange or redemption of the Rights.

NOTE 12 – Commitments and Contingencies

We offer a one-year limited warranty on most hardware products, which is included in the sales price of many of our products. Provision is made for estimated future warranty costs at the time of sale pursuant to SFAS 5, Accounting for Contingencies, for the estimated costs that may be incurred under the basic limited warranty. Our estimate is based on historical experience and product sales during this period.

The warranty reserve for the three month periods ended March 31, 2009 and 2008, respectively, was as follows (in thousands):

	Three Months Ended March 31, (unaudited)	
	2009	2008
Balance at the beginning of the period	$ 952	$ 750
Accruals for warranties issued during the period	496	436
Settlements made (in cash or in kind) during the period	(602)	(414)
Balance at the end of the period	$ 846	$ 772

As of March 31, 2009, we have outstanding guarantees for payment of foreign operating leases, customs and foreign grants totaling approximately $2.0 million.

As of March 31, 2009, we have non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $7.7 million over the next twelve months.

NOTE 13 – Segment Information

In accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information, we determine operating segments using the management approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our operating segments. It also requires disclosures about products and services, geographic areas and major customers.

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. Revenue from the sale of our products which are similar in nature and software maintenance are reflected as total net sales in our Consolidated Statements of Income.

Total net sales, operating income, interest income and long-lived assets, classified by the major geographic areas in which we operate, are as follows (in thousands):

	Three Months Ended March 31, (unaudited)	
	2009	2008
Net sales:		
Americas:		
Unaffiliated customer sales	$ 68,439	$ 83,585
Geographic transfers	21,361	30,983
	89,800	114,568
Europe:		
Unaffiliated customer sales	49,480	59,144
Geographic transfers	50,153	50,584
	99,633	109,728

Asia Pacific:		
Unaffiliated customer sales	39,880	50,190
Eliminations	(71,514)	(81,567)
	$ 157,799	$ 192,919

	Three Months Ended March 31, (unaudited)	
	2009	2008
Operating income (loss):		
Americas	$ 5,307	$ 15,253
Europe	16,780	21,038
Asia Pacific	10,223	17,378
Unallocated:		
Research and development expenses	(34,789)	(35,604)
	$ (2,479)	$ 18,065

	Three Months Ended March 31, (unaudited)	
	2009	2008
Interest income:		
Americas	$ 294	$ 1,056
Europe	274	1,050
Asia Pacific	21	31
	$ 589	$ 2,137

	March 31, 2009 (unaudited)	December 31, 2008
Long-lived assets:		
Americas	$ 106,226	$ 107,701
Europe	37,518	39,280
Asia Pacific	7,049	7,496
	$ 150,793	$ 154,477

Total sales outside the United States for the three month periods ended March 31, 2009 and 2008 were $96.2 million and $116.7 million, respectively.

NOTE 14 – Acquisitions

On February 1, 2008, we acquired all of the outstanding shares of microLEX Systems A/S, a premier provider of virtual instrumentation-based video, audio and mixed-signal test solutions. This acquisition was accounted for as a business combination. The total purchase price of the acquisition, which included legal and accounting fees, was $17.8 million in cash. The allocation of the purchase price was determined using the fair value of assets and liabilities acquired as of February 1, 2008. We funded the purchase price from existing cash balances. Our consolidated financial statements include the operating results from the date of acquisition. Pro-forma results of operations have not been presented because the effects of those operations were not material. The following table summarizes the initial allocation of the purchase price of microLEX (in thousands):

Goodwill	$ 10,818
Acquired core technology	