NATIONAL INSTRUMENTS CORP
Form 10-Q
October 31, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2017 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) 683-0100

____

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

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

Class	Outstanding at October 24, 2017

Common Stock - $0.01 par value 130,745,022

NATIONAL INSTRUMENTS CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
NATIONAL INSTRUMENTS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$294,194	$285,283
Short-term investments	91,223	73,117
Accounts receivable, net	235,177	228,686
Inventories, net	184,641	193,608
Prepaid expenses and other current assets	50,325	53,953
Total current assets	855,560	834,647
Property and equipment, net	254,918	260,456
Goodwill	265,091	253,197
Intangible assets, net	122,681	108,663
Other long-term assets	32,878	39,601
Total assets	$1,531,128	$1,496,564
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$51,274	$48,800
Accrued compensation	45,231	27,743
Deferred revenue - current	120,271	115,577
Other current liabilities	17,802	32,997
Other taxes payable	30,832	34,958
Total current liabilities	265,410	260,075
Long-term debt	15,000	25,000
Deferred income taxes	37,074	45,386
Liability for uncertain tax positions	9,284	11,719
Deferred revenue - long-term	31,405	29,752
Other long-term liabilities	9,156	10,413
Total liabilities	367,329	382,345
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: par value $0.01; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock: par value $0.01; 360,000,000 shares authorized; 130,745,022 shares and 129,202,979 shares issued and outstanding, respectively	1,307	1,292
Additional paid-in capital	816,152	771,346
Retained earnings	365,021	376,202
Accumulated other comprehensive loss	(18,681)	(34,621)
Total stockholders' equity	1,163,799	1,114,219
Total liabilities and stockholders' equity	$1,531,128	$1,496,564

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales:				
Product	$291,891	$278,521	$853,219	$816,486
Software maintenance	29,030	27,843	86,416	83,161
Total net sales	320,921	306,364	939,635	899,647
Cost of sales:				
Product	81,641	74,734	235,989	225,261
Software maintenance	2,110	1,998	6,744	5,126
Total cost of sales	83,751	76,732	242,733	230,387
Gross profit	237,170	229,632	696,902	669,260
Operating expenses:				
Sales and marketing	116,661	116,662	358,335	346,230
Research and development	56,526	59,066	171,701	178,244
General and administrative	26,468	24,537	78,400	74,308
Total operating expenses	199,655	200,265	608,436	598,782
Operating income	37,515	29,367	88,466	70,478
Other income:				
Interest income	657	276	1,509	787
Net foreign exchange gain (loss)	1,096	(760)	1,624	(1,471)
Other (loss) gain, net	(1,153)	301	(957)	(2,052)
Income before income taxes	38,115	29,184	90,642	67,742
Provision for income taxes	4,726	4,695	13,949	14,155
Net income	$33,389	$24,489	$76,693	$53,587
Basic earnings per share	$0.26	0.19	0.59	0.42
Weighted average shares outstanding - basic	130,660	128,815	130,103	128,233
Diluted earnings per share	$0.25	$0.19	$0.59	0.42
Weighted average shares outstanding - diluted	131,617	129,047	131,050	128,738
Dividends declared per share	$0.21	$0.20	$0.63	$0.60

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$33,389	$24,489	$76,693	$53,587
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	6,226	3,964	21,890	12,130
Unrealized gain (loss) on securities available-for-sale	162	(70)	187	479
Unrealized (loss) gain on derivative instruments	(3,136)	976	(9,470)	4,541
Other comprehensive gain, before tax	3,252	4,870	12,607	17,150
Tax (benefit) expense related to items of other comprehensive income	(1,186)	967	(3,333)	4,242
Other comprehensive gain, net of tax	4,438	3,903	15,940	12,908
Comprehensive income	$37,827	$28,392	$92,633	$66,495

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

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

	Nine Months Ended September 30, 2017		2016	
Cash flow from operating activities:				
Net income	$ 76,693		$ 53,587	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	54,794		55,164	
Stock-based compensation	21,272		19,635	
Tax expense from deferred income taxes	(4,290	)	(7,321	)
Changes in operating assets and liabilities	(1,013	)	28,951	
Net cash provided by operating activities	147,456		150,016	
Cash flow from investing activities:				
Capital expenditures	(24,084	)	(34,408	)
Capitalization of internally developed software	(34,406	)	(24,048	)
Additions to other intangibles	(1,379	)	(1,969	)
Acquisitions, net of cash received	—		(549	)
Purchases of short-term investments	(62,845	)	(9,054	)
Sales and maturities of short-term investments	45,582		38,566	
Net cash used in investing activities	(77,132	)	(31,462	)
Cash flow from financing activities:				
Proceeds from revolving line of	—		15,000	

credit		
Principal payments on revolving line of credit	(10,000)	(27,000)
Proceeds from issuance of common stock	22,870	22,157
Repurchase of common stock	—	(5,635)
Dividends paid	(82,051)	(77,056)
Net cash used in financing activities	(69,181)	(72,534)
Effect of exchange rate changes on cash	7,768	3,503
Net change in cash and cash equivalents	8,911	49,523
Cash and cash equivalents at beginning of period	285,283	251,129
Cash and cash equivalents at end of period	$ 294,194	$ 300,652

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

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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, 2016, included in our annual report on Form 10-K, filed with the Securities and Exchange Commission. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at September 30, 2017 and December 31, 2016, the results of our operations and comprehensive income for the three and nine months ended September 30, 2017 and 2016, and the cash flows for the nine months ended September 30, 2017 and 2016. Our operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Starting January 1, 2017, we began separately presenting the effect of exchange rate changes on cash and cash equivalents in our condensed consolidated statements of cash flows due to growing operations in foreign currency environments. Amounts in the comparable prior period have been reclassified to conform to the current period presentation. The reclassifications resulted in the disaggregation of the amount attributable to the “Effect of exchange rate changes on cash” of $3.5 million, with a corresponding decrease to “Net cash provided by operating activities” for the nine months ended September 30, 2016. We believe the reclassification is immaterial to the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-16, Income Taxes – Intra-Entity Transfers of Assets Other Than Inventory. The standard is intended to address diversity in practice and complexity in financial reporting, particularly for intra-entity transfers of intellectual property. We early adopted ASU 2016-16 effective January 1, 2017. Using the modified retrospective method, the impact of the adoption of the standard was to increase deferred tax assets by $0.4 million, decrease other assets, net by $6.2 million and decrease retained earnings by $5.8 million. The adoption of the amendments had the effect of increasing our diluted earnings per share by $0.01 and $0.03 for the three and nine months ended September 30, 2017, respectively.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU simplifies certain aspects of hedge accounting and improves disclosures of hedging arrangements through the elimination of the requirement to separately measure and report hedge ineffectiveness. The ASU generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item in order to align financial reporting of hedge relationships with economic results. Entities must apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements must be applied prospectively. Our effective date for adoption of this guidance is our fiscal year beginning January 1, 2019. We are currently evaluating the effect that this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. The guidance requires lessees to recognize most lease liabilities on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The update states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The update is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures. Based on our initial assessment, we expect that the adoption of this standard will have a material impact on our balance sheet but that it will not have a material impact on our ongoing results of operations. We do not expect to adopt the new standard prior to the required effective date.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The update is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. We intend to adopt this standard as of January 1, 2018 by applying the modified retrospective transition method. Consequently, the cumulative effect of applying the new standard to existing contracts as of January 1, 2018 will be recognized as an adjustment to the opening balance of equity in the first quarter of 2018.

We have reached initial conclusions on our key accounting matters related to the new standard and believe adoption of the new standard will generally result in revenue recognition earlier or at the same time as existing US GAAP. The most significant impact of the standard relates to our accounting for certain software arrangements. We primarily license software on a perpetual basis. However, we also license software under enterprise agreements which includes an unlimited quantity of certain software licenses for a fixed-term bundled with software maintenance, technical support, and a specified amount of training and service credits. Currently, we defer revenue for software licensed under our enterprise agreements and certain perpetual arrangements due to a lack of vendor specific objective evidence (“VSOE”) for certain elements in the contract. Under the new standard, we are no longer required to establish VSOE to recognize software license revenue separately from the other elements, and we will be able to recognize software license revenue once the customer obtains control of the license, which will generally occur at the start of each license term. Due to the complexity of our enterprise agreement contracts, the actual revenue recognition treatment required under the new standard will be dependent on contract-specific terms, and may vary in some instances from recognition at the time of billing. Additionally, we expect the new standard will impact the way we allocate the transaction price for arrangements with separately-priced extended warranty offerings.

ASU 2014-09, as amended, could have a material impact on our consolidated financial statements and disclosures. While we are still evaluating the matter we believe the impact of the change to the timing of revenue recognition for our limited offerings mentioned above may have a material impact on our deferred revenue balance on the adoption date under the application of the modified retrospective transition method. However, it is not expected to have a material impact to our results of operations in subsequent annual periods.

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 includes restricted stock units ("RSUs"), is computed using the treasury stock method.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and nine months ended September 30, 2017 and 2016, are as follows:

	Three Months Ended September 30, (In thousands) (Unaudited)		Nine Months Ended September 30, (In thousands) (Unaudited)	
	2017	2016	2017	2016
Weighted average shares outstanding-basic	130,660	128,815	130,103	128,233
Plus: Common share equivalents				
RSUs	957	232	947	505
Weighted average shares outstanding-diluted	131,617	129,047	131,050	128,738

Stock awards to acquire 40,700 shares and 1,068,800 shares for the three months ended September 30, 2017 and 2016, respectively, and 22,300 shares and 58,000 shares for the nine months ended September 30, 2017 and 2016, respectively, were excluded in the computations of diluted EPS because the effect of including the stock awards would have been anti-dilutive.

Note 3 – Short-term investments

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

(In thousands)	As of September 30, 2017 (Unaudited)				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Corporate bonds	$90,817	$ 170	$ (76)	$ (1,448)	$89,463
Time deposits	1,760	—	—	—	1,760
Short-term investments	$92,577	$ 170	$ (76)	$ (1,448)	$91,223

(In thousands)	As of December 31, 2016				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Corporate bonds	$72,986	$ 89	$ (182)	$ (1,536)	$71,357
Time deposits	1,760	—	—	—	1,760
Short-term investments	$74,746	$ 89	$ (182)	$ (1,536)	$73,117

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

(In thousands)	As of September 30, 2017 (Unaudited)	
	Adjusted Cost	Fair Value
Due in less than 1 year	$15,838	$15,833
Due in 1 to 5 years	76,739	75,390
Total available-for-sale debt securities	$92,577	$91,223

Due in less than 1 year	Adjusted Cost	Fair Value
Corporate bonds	$14,078	$14,073
U.S. treasuries and agencies	—	—
Time deposits	1,760	1,760
Total available-for-sale debt securities	$15,838	$15,833

Due in 1 to 5 years	Adjusted Cost	Fair Value
Corporate bonds	$76,739	$75,390
Total available-for-sale debt securities	$76,739	$75,390

Note 4 – Fair value measurements

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

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

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

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

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

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

(In thousands)	Fair Value Measurements at Reporting Date Using (Unaudited)			
Description	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	$43,982	$43,982	$—	$ —
U.S. treasuries and agencies	64,064	—	64,064	—
Short-term investments available for sale:				
Corporate bonds	89,463	—	89,463	—
Time deposits	1,760	1,760	—	—
Derivatives	6,574	—	6,574	—
Total Assets	$205,843	$45,742	$160,101	$ —
Liabilities				
Derivatives	$(11,700)	$—	$(11,700)	
Total Liabilities	$(11,700)	$—	$(11,700)	$ —

(In thousands)	Fair Value Measurements at Reporting Date Using			
Description	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	$68,577	$68,577	$—	$ —
Short-term investments available for sale:				
Corporate bonds	71,357	—	71,357	—
Time deposits	1,760	1,760	—	—
Derivatives	15,113	—	15,113	—
Total Assets	$156,807	$70,337	$86,470	$ —
Liabilities				
Derivatives	$(8,199)	$—	$(8,199)	$ —
Total Liabilities	$(8,199)	$—	$(8,199)	$ —

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

Derivatives include foreign currency forward and option contracts. Our foreign currency forward contracts are valued using an income approach (Level 2) based on the spot rate less the contract rate multiplied by the notional amount. Our foreign currency option contracts are valued using a market approach based on the quoted market prices which are derived from observable inputs including current and future spot rates, interest rate spreads as well as quoted market prices of similar instruments. We consider counterparty credit risk in the valuation of our derivatives. However, counterparty credit risk did not impact the valuation of our derivatives during the nine months ended September 30, 2017. There were no transfers in or out of Level 1 or Level 2 during the nine months ended September 30, 2017.

As of September 30, 2017, our short-term investments did not include sovereign debt from any country other than the United States.

We did not have any items that were measured at fair value on a nonrecurring basis at September 30, 2017 and December 31, 2016. The carrying value of net accounts receivable, accounts payable, and long-term debt contained in the consolidated balance sheets approximates fair value.

Note 5 – Derivative instruments and hedging activities

We recognize all of our derivative instruments as either assets or liabilities in our statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

We have operations in over 50 countries. Sales outside of the Americas accounted for approximately 58% and 58% of our net sales during the three months ended September 30, 2017 and 2016, respectively, and approximately 60% and 61% of our net sales during the nine months ended September 30, 2017 and 2016, respectively. Our activities expose us to a variety of market risks, including the effects of changes in foreign currency exchange rates. These financial risks are monitored and managed by us as an integral part of our overall risk management program.

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

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

We designate foreign currency forward and purchased option contracts as cash flow hedges of forecasted net sales or forecasted expenses. In addition, we hedge our foreign currency denominated balance sheet exposures using foreign currency forward contracts that are not designated as hedging instruments. None of our derivative instruments contain a credit-risk-related contingent feature.

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Cash flow hedges

To help protect against the reduction in value caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales over the next one to three years, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted net sales and forecasted expenses denominated in foreign currencies with forward and purchased option contracts. For forward contracts, when the dollar strengthens significantly against the foreign currencies, the change in the present value of future foreign currency cash flows may be offset by the change in the fair value of the forward contracts designated as hedges. For option contracts, when the dollar strengthens significantly against the foreign currencies, the change in the present value of future foreign currency cash flows may be offset by the change in the fair value of the option contracts net of the premium paid designated as hedges. Our foreign currency purchased option contracts are purchased “at-the-money” or “out-of-the-money.” We purchase foreign currency forward and option contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, Hungarian forint, British pound, Malaysian ringgit and Chinese yuan) and limit the duration of these contracts to 36 months or less.

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

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

(In thousands)	US Dollar Equivalent	
	As of September 30, 2017 (Unaudited)	As of December 31, 2016
Chinese yuan	$27,760	$27,414
Euro	158,490	123,522
Japanese yen	23,726	44,982
Hungarian forint	48,722	57,077
Malaysian ringgit	32,438	42,510
Total forward contracts notional amount	$291,136	$295,505

The contracts in the foregoing table had contractual maturities of 36 months or less at September 30, 2017 and December 31, 2016.

At September 30, 2017, we expect to reclassify $4.1 million of losses on derivative instruments from accumulated OCI to net sales during the next twelve months when the hedged international sales occur, $0.6 million of gains on derivative instruments from accumulated OCI to cost of sales during the next twelve months when the cost of sales are incurred and $0.5 million of gains on derivative instruments from accumulated OCI to operating expenses during the next twelve months when the hedged operating expenses occur. Expected amounts are based on derivative valuations at September 30, 2017. Actual results may vary materially as a result of changes in the corresponding exchange rates subsequent to this date.

The gains and losses recognized in earnings due to hedge ineffectiveness were not material for each of the nine months ended September 30, 2017 and 2016 and are included as a component of net income under the line item “net foreign exchange gain (loss).”

Other Derivatives

Other derivatives not designated as hedging instruments consist primarily of foreign currency forward contracts that we use to hedge our foreign denominated net receivable or net payable positions to help protect against the change in value caused by a fluctuation in foreign currency exchange rates. We typically attempt to hedge up to 90% of our outstanding foreign denominated net receivables or net payables and typically limit the duration of these foreign currency forward contracts to approximately 90 days or less. The gain or loss on the derivatives as well as the offsetting gain or loss on the hedge item attributable to the hedged risk is recognized in current earnings under the line item “net foreign exchange gain (loss).” As of September 30, 2017 and December 31, 2016, we held foreign currency forward contracts that were not designated as hedging instruments with a notional amount of $59 million and $60 million, respectively.

The following tables present the fair value of derivative instruments on our Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, respectively.

	Asset Derivatives			
(In thousands)	September 30, 2017 (Unaudited)		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$3,695	Prepaid expenses and other current assets	$9,378
Foreign exchange contracts - LT forwards	Other long-term assets	2,702	Other long-term assets	3,866
Total derivatives designated as hedging instruments		$6,397		$13,244
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Prepaid expenses and other current assets	$177	Prepaid expenses and other current assets	$1,869
Total derivatives not designated as hedging instruments		$177		$1,869
Total derivatives		$6,574		$15,113

(In thousands)	Liability Derivatives September 30, 2017 (Unaudited)		December 31, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts - ST forwards	Other current liabilities	$(6,695)	Other current liabilities	$(4,672)
Foreign exchange contracts - LT forwards	Other long-term liabilities	(4,082)	Other long-term liabilities	(3,352)
Total derivatives designated as hedging instruments		$(10,777)		$(8,024)
Derivatives not designated as hedging instruments				
Foreign exchange contracts - ST forwards	Other current liabilities	$(923)	Other current liabilities	$(175)
Total derivatives not designated as hedging instruments		$(923)		$(175)
Total derivatives		$(11,700)		$(8,199)

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The following tables present the effect of derivative instruments on our Consolidated Statements of Income for three month periods ended September 30, 2017 and 2016, respectively:

September 30, 2017
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$ (5,804)	Net sales	$ (1,401)	Net foreign exchange gain/(loss)	$ —
Foreign exchange contracts - forwards and options	1,421	Cost of sales	(105)	Net foreign exchange gain/(loss)	—
Foreign exchange contracts - forwards and options	1,247	Operating expenses	(148)	Net foreign exchange gain/(loss)	—
Total	$ (3,136)		$ (1,654)		$ —

September 30, 2016
(In thousands)
(Unaudited)

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

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income September 30, 2017 (Unaudited)	Amount of Gain (Loss) Recognized in Income September 30, 2016 (Unaudited)
Foreign exchange contracts - forwards	Net foreign exchange gain/(loss)	$ (887)	(814)
Total		$ (887)	$ (814)

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The following tables present the effect of derivative instruments on our Consolidated Statements of Income for the nine months ended September 30, 2017 and 2016, respectively:

September 30, 2017
(In thousands)
(Unaudited)

Derivatives in Cash Flow Hedging Relationship	Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Foreign exchange contracts - forwards and options	$ (20,601)	Net sales	$ 1,348	Net foreign exchange gain/(loss)	$ —
Foreign exchange contracts - forwards and options	5,901	Cost of sales	(1,083)	Net foreign exchange gain/(loss)	—
Foreign exchange contracts - forwards and options	5,230	Operating expenses	(1,127)	Net foreign exchange gain/(loss)	—
Total	(9,470)		$ (862)		$ —

September 30, 2016
(In thousands)
(Unaudited)

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

(In thousands)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income September 30, 2017 (Unaudited)	Amount of Gain (Loss) Recognized in Income September 30, 2016 (Unaudited)
Foreign exchange contracts - forwards	Net foreign exchange gain/(loss)	$ (4,065)	(1,005)
Total		$ (4,065)	$ (1,005)

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Note 6 – Inventories, net

Inventories, net consist of the following:

(In thousands)	September 30, 2017 (Unaudited)	December 31, 2016
Raw materials	$ 93,023	$ 92,906
Work-in-process	9,095	9,125
Finished goods	82,523	91,577
	$ 184,641	$ 193,608

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Note 7 – Intangible assets, net

Intangible assets at September 30, 2017 and December 31, 2016 are as follows:

(In thousands)	September 30, 2017 (Unaudited)			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	$116,760	$ (32,701)	$84,059	$103,887	$ (39,180)	$64,707
Acquired technology	95,963	(85,573)	10,390	94,124	(79,485)	14,639
Patents	32,678	(19,424)	13,254	31,513	(17,573)	13,940
Other	45,212	(30,234)	14,978	42,848	(27,471)	15,377
	$290,613	$ (167,932)	$122,681	$272,372	$ (163,709)	$108,663

Software development costs capitalized for the three month periods ended September 30, 2017 and 2016 were $10.1 million and $9.1 million, respectively, and related amortization expense was $5.7 million and $4.9 million, respectively. For the nine months ended September 30, 2017 and 2016, capitalized software development costs were $35.8 million and $25.0 million, respectively, and related amortization expense was $16.5 million and $14.0 million, respectively. Capitalized software development costs for the three month periods ended September 30, 2017 and 2016 included costs related to stock based compensation of $487,000 and $445,000, respectively. For the nine months ended September 30, 2017 and 2016, capitalized software development costs included costs related to stock based compensation of $1.4 million and $1.0 million, respectively. The related amounts in the table above are net of fully amortized assets.

Amortization of capitalized software development costs is computed on an individual product basis for those products available for market and is recognized based on the product's estimated economic life, generally three to six years. Acquired technology and other intangible assets are amortized over their useful lives, which range from three to eight years. Patents are amortized using the straight-line method over their estimated period of benefit, generally 10 to 17 years. Total intangible assets amortization expenses were $8.7 million and $8 million for the three month periods ended September 30, 2017 and 2016, respectively, and $25.7 million and $27 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 8 – Goodwill

The carrying amount of goodwill as of September 30, 2017, was as follows:

	Amount (In thousands)
Balance as of December 31, 2016	$ 253,197
Acquisitions	—
Foreign currency translation impact	11,894
Balance as of September 30, 2017 (unaudited)	$ 265,091

The excess purchase price over the fair value of assets acquired is recorded as goodwill. As we have one operating segment comprised of components with similar economic characteristics, we allocate goodwill to one reporting unit for goodwill impairment testing. Goodwill is tested for impairment on an annual basis, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach based on the market capitalization of the reporting unit. Our annual impairment test was performed as of February 28, 2017. No impairment of goodwill was identified during 2017 or 2016.

Note 9 – Income taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. We had a valuation allowance of $62 million at September 30, 2017 and December 31, 2016, and $102 million at December 31, 2015. A majority of the valuation allowance is related to the deferred tax assets of National Instruments Hungary Kft. ("NI Hungary"). The decrease in the valuation allowance from 2015 to 2016 was primarily due to the revaluation of NI Hungary's gross deferred tax assets following the reduction in the Hungarian corporate income tax rate from 19% to 9%.

We account for uncertainty in income taxes recognized in our financial statements using prescribed recognition thresholds and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on our tax returns. We had $9.3 million and $11.7 million of unrecognized tax benefits at September 30, 2017 and December 31, 2016, respectively, all of which would affect our effective income tax rate if recognized. We recorded a gross increase in unrecognized tax benefits of $0.5 million and $1 million for the three and nine month periods ended September 30, 2017, respectively, as a result of the tax positions taken during these periods. We recorded a gross decrease in unrecognized tax benefits of $3.7 million for each of the three and nine month periods ended September 30, 2017 as a result of closing open tax years. As of September 30, 2017, it is reasonably possible that we will recognize tax benefits in the amount of $1.5 million in the next twelve months due to the closing of open tax years. The nature of the uncertainty is related to deductions taken on returns that have not been examined by the applicable tax authority. Our continuing policy is to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2017, we had approximately $1 million accrued for interest related to uncertain tax positions. The tax years 2008 through 2017 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 12% and 16% for the three month periods ended September 30, 2017 and 2016, respectively, and 15% and 21% for the nine months ended September 30, 2017 and 2016, respectively. For the three and nine month periods ended September 30, 2017, our effective tax rate was lower than the U.S. federal statutory rate of 35% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, the research and development tax credit, a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit, and excess tax benefits from share-based compensation. For the three and nine month periods ended September 30, 2016, our effective tax rate was lower than the U.S. federal statutory rate of 35% as a result of an enhanced deduction for certain research and development expenses, profits in foreign jurisdictions with reduced income tax rates, the research and development tax credit, and a tax benefit from disqualifying dispositions of equity awards that do not ordinarily result in a tax benefit.

Our earnings in Hungary are subject to a statutory tax rate of 9%. In addition, our research and development activities in Hungary benefit from a tax law in Hungary that provides for an enhanced deduction for qualified research and development expenses. The tax position of our Hungarian operations resulted in income tax benefits of $4.3 million and $4.5 million for the three month periods ended September 30, 2017 and 2016, respectively, and $11.6 million and $10.3 million for the nine months ended September 30, 2017 and 2016, respectively.

Earnings from our operations in Malaysia are free of tax under a tax holiday effective January 1, 2013. This tax holiday expires in 2027. If we fail to satisfy the conditions of the tax holiday, this tax benefit may be terminated early. The income tax benefits of the tax holiday for the three and nine months ended September 30, 2017 were approximately $0.8 million and $1.9 million, respectively. The impact of the tax holiday on a per share basis for each of the three and nine months ended September 30, 2017 was a benefit of $0.01 per share. The income tax benefits of the tax holiday for the three and nine months ended September 30, 2016 were approximately $0.8 million and $1.9 million, respectively. The impact of the tax holiday on a per share basis for each of the three and nine months ended September 30, 2016 was a benefit of $0.01 per share.

No other taxing jurisdictions had a significant impact on our effective tax rate. We have not entered into any advanced pricing or other agreements with the IRS with regard to any foreign jurisdictions.

Note 10 – Comprehensive income

Our comprehensive income is comprised of net income, foreign currency translation, unrealized gains and losses on forward and option contracts and securities classified as available-for-sale. The accumulated OCI, net of tax, for the nine months ended September 30, 2017 and 2016, consisted of the following:

	September 30, 2017 (Unaudited)			
(In thousands)	Currency translation adjustment	Investments	Derivative instruments	Accumulated other comprehensive income/(loss)
Balance as of December 31, 2016	$(37,174)	$ (669)	3,222	$ (34,621)
Current-period other comprehensive income (loss)	21,890	187	(10,332)	11,745
Reclassified from accumulated OCI into income	—	—	862	862
Income tax (benefit) expense	13	14	(3,360)	(3,333)
Balance as of September 30, 2017	$(15,297)	$ (496)	$ (2,888)	$ (18,681)

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

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

Authorized shares of common and preferred stock

Following approval by the Company’s Board of Directors and stockholders, on May 14, 2013, the Company’s certificate of incorporation was amended to increase the authorized shares of common stock by 180,000,000 shares to a total of 360,000,000 shares. As a result of this amendment, the total number of shares which the Company is authorized to issue is 365,000,000 shares, consisting of (i) 5,000,000 shares of preferred stock, par value $.01 per share, and (ii) 360,000,000 shares of common stock, par value $.01 per share.

Restricted stock plan

Our stockholders approved our 2005 Incentive Plan (the "2005 Plan") in May 2005. At the time of approval, 4,050,000 shares of our common stock were reserved for issuance under this plan, as well as the number of shares which had been reserved but not issued under our 1994 Incentive Plan which terminated in May 2005 (the "1994 Plan"), and any shares that returned to the 1994 Plan as a result of termination of options or repurchase of shares issued under such plan. The 2005 Plan, administered by the Compensation Committee of the Board of Directors, provided for granting of incentive awards in the form of restricted stock and RSUs to directors, executive officers and employees of the Company and its subsidiaries. Awards vest over a three, five or ten-year period, beginning on the date of grant. Vesting of ten year awards may accelerate based on the Company's previous year's earnings and growth but ten year awards cannot accelerate to vest over a period of less than five years. The 2005 Plan terminated on May 11, 2010, except with respect to outstanding awards previously granted thereunder. There were 3,362,304 shares of common stock that were reserved but not issued under the 2005 Plan as of May 11, 2010.

Our stockholders approved our 2010 Incentive Plan (the "2010 Plan") on May 11, 2010. At the time of approval, 3,000,000 shares of our common stock were reserved for issuance under this plan, as well as the 3,362,304 shares of common stock that were reserved but not issued under the 1994 Plan and the 2005 Plan as of May 11, 2010, and any shares that are returned to the 1994 Plan and the 2005 Plan as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under these plans. The 2010 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards vest over a three, five or ten-year period, beginning on the date of grant. Vesting of ten year awards may accelerate based on the Company's previous year's earnings and growth but ten year awards cannot accelerate to vest over a period of less than five years. The 2010 Plan terminated on May 12, 2015, except with respect to the outstanding awards previously granted thereunder. There were 2,518,416 shares of common stock that were reserved but not issued under the 2010 Plan as of May 12, 2015.

Our stockholders approved our 2015 Equity Incentive Plan (the "2015 Plan") on May 12, 2015. At the time of approval, 3,000,000 shares of our common stock were reserved for issuance under this plan, as well as the 2,518,416 shares of common stock that were reserved but not issued under the 2010 Plan as of May 12, 2015, and any shares that were returned to the 1994, 2005, and the 2010 Plans as a result of the forfeiture or termination of options or RSUs or repurchase of shares issued under these plans. The 2015 Plan, administered by the Compensation Committee of the Board of Directors, provides for the granting of incentive awards in the form of restricted stock and RSUs to employees, directors and consultants of the Company and employees and consultants of any parent or subsidiary of the Company. Awards vest over a three, four, five or ten-year period, beginning on the date of grant. Vesting of ten year awards may accelerate based on the Company's previous year's earnings and growth but ten year awards cannot accelerate to vest over a period of less than five years. There were 3,848,515 shares available for grant under the 2015 Plan at September 30, 2017.

During the three month period ended September 30, 2017, we did not make any changes in accounting principles or methods of estimates related to the 2005, 2010 and 2015 Plans.

Employee stock purchase plan

Our employee stock purchase plan permits substantially all domestic employees and employees of designated subsidiaries to acquire our common stock at a purchase price of 85% of the lower of the market price at the beginning or the end of the purchase period. The plan has quarterly purchase periods generally beginning on February 1, May 1, August 1 and November 1 of each year. Employees may designate up to 15% of their compensation for the purchase of common stock under this plan. On May 9, 2017, our stockholders approved an additional 3,000,000 shares for issuance under our employee stock purchase plan. At September 30, 2017, we had 3,069,958 shares of common stock reserved for future issuance under this plan. We issued 863,093 shares under this plan in the nine months ended September 30, 2017 and the weighted average purchase price of the employees' purchase rights was $26.5 per share. During the nine months ended September 30, 2017, we did not make any changes in accounting principles or methods of estimates with respect to such plan.

Authorized Preferred Stock and Preferred Stock Purchase Rights Plan

We have 5,000,000 authorized shares of preferred stock. On January 21, 2004, our Board of Directors designated 750,000 of these shares as Series A Participating Preferred Stock in conjunction with the adoption of a Preferred Stock Rights Agreement which expired on May 10, 2014. There were no shares of preferred stock issued and outstanding at September 30, 2017.

Stock repurchases and retirements

From time to time, our Board of Directors has authorized various programs for our repurchase of shares of our common stock depending on market conditions and other factors. Under the current program, we did not make any share repurchases during the nine months ended September 30, 2017 or the three months ended September 30, 2016. We repurchased a total of 206,780 shares of our common stock at a weighted average price per share of $27.25 during the nine months ended September 30, 2016. At September 30, 2017, there were 1,134,247 shares remaining available for repurchase under this program. This repurchase program does not have an expiration date.

Note 12 – Segment and geographic information

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

We sell our product in three geographic regions which consist of Americas; Europe, Middle East, India, and Africa (EMEIA); and Asia-Pacific (APAC). Our sales to these regions share similar economic characteristics, similar product mix, similar customers, and similar distribution methods. Revenue from the sale of our products, which are similar in nature, and software maintenance is reflected as total net sales in our Consolidated Statements of Income.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	(Unaudited)		(Unaudited)	
	2017	2016	2017	2016
Net sales:				
Americas	$133,191	$129,710	$373,277	$354,806
EMEIA	93,277	92,232	288,565	278,616
APAC	94,453	84,422	277,793	266,225
	$320,921	$306,364	$939,635	$899,647

Based on the billing location of the customer, total sales outside the U.S. for the three months ended September 30, 2017 and 2016 were $195 million and $184 million, respectively, and $588 million and $564 million for the nine months ended September 30, 2017 and 2016, respectively.

Total property and equipment, net, outside the U.S. was $133 million as of September 30, 2017 and December 31, 2016.

Note 13 - Debt

On May 9, 2013, we entered into a Loan Agreement (the “Loan Agreement”) with Wells Fargo Bank (the “Lender”). The Loan Agreement provided for a $50 million unsecured revolving line of credit with a scheduled maturity date of May 9, 2018 (the “Maturity Date”). On October 29, 2015, we entered into a First Amendment to Loan Agreement (the “Amendment”) with the Lender, which amended our Loan Agreement to among other things, (i) increase the unsecured revolving line of credit from $50 million to $125 million, (ii) extend the Maturity Date of the line of credit from May

9, 2018 to October 29, 2020, and (iii) provide us with an option to request increases to the line of credit of up to an additional $25 million in the aggregate, subject to consent of the Lender and terms and conditions to be mutually agreed between us and the Lender.

The loans bear interest, at our option, at a base rate determined in accordance with the Loan Agreement, plus a spread of 0.0% to 0.50%, or a LIBOR rate plus a spread of 1.13% to 2.00%, in each case with such spread determined based on a ratio of consolidated indebtedness to EBITDA, determined in accordance with the Loan Agreement. Principal, together with all accrued and unpaid interest, is due and payable on the Maturity Date. We are also obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments at a rate of 0.18% to 0.30%, with such rate determined based on the ratio described above. The Loan Agreement contains customary affirmative and negative covenants. The affirmative covenants include, among other things, delivery of financial statements, compliance certificates and notices; payment of taxes and other obligations; maintenance of existence; maintenance of properties and insurance; and compliance with applicable laws and regulations. The negative covenants include, among other things, limitations on indebtedness, liens, mergers, consolidations, acquisitions and sales of assets, investments, changes in the nature of the business, affiliate transactions and certain restricted payments. The Loan Agreement also requires us to maintain a ratio of consolidated indebtedness to EBITDA equal to or less than 3.25 to 1.00, and a ratio of consolidated EBITDA to interest expense greater than or equal to 3.00 to 1.00, in each case determined in accordance with the Loan Agreement. As of September 30, 2017, we were in compliance with all covenants in the Loan Agreement.

The Loan Agreement contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and insolvency events, judgment defaults and change in control events, subject to grace periods in certain instances. Upon an event of default, the lender may declare all or a portion of the outstanding obligations payable by us to be immediately due and payable and exercise other rights and remedies provided for under the Loan Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Loan Agreement at a per annum rate of interest equal to 2.00% above the otherwise applicable interest rate.

Proceeds of loans made under the Loan Agreement may be used for working capital and other general corporate purposes. We may prepay the loans under the Loan Agreement in whole or in part at any time without premium or penalty. Certain of our existing and future material domestic subsidiaries are required to guaranty our obligations under the Loan Agreement.

As of September 30, 2017, we had outstanding $15 million in borrowings under this line of credit. During the three month periods ended September 30, 2017 and September 30, 2016, we incurred interest expense related to our outstanding borrowings of $176,000 and $167,000, respectively. During the nine months ended September 30, 2017 and September 30, 2016, we incurred interest expense related to our outstanding borrowings of $519,000 and $377,000, respectively. As of September 30, 2017 and September 30, 2016, the weighted-average interest rate on the revolving line of credit was 2.4% and 1.6%, respectively. These charges are included in “Other income (loss), net” in our Consolidated Statements of Income.

Note 14 – Commitments and contingencies

We offer a one-year limited warranty on most hardware products which is included in the terms of sale of such products. We also offer optional extended warranties on our hardware products for which the related revenue is recognized ratably over the warranty period. Provision is made for estimated future warranty costs at the time of the sale for the estimated costs that may be incurred under the standard warranty. Our estimate is based on historical experience and product sales during the period. The warranty reserve for the nine months ended September 30, 2017 and 2016 was as follows:

(In thousands)	Nine Months Ended September 30, (Unaudited)

	2017	2016
Balance at the beginning of the period	$2,686	$1,755
Accruals for warranties issued during the period	1,929	1,764
Accruals related to pre-existing warranties	193	690
Settlements made (in cash or in kind) during the period	(1,983)	(2,088)
Balance at the end of the period	$2,825	$2,121

As of September 30, 2017, we had non-cancelable purchase commitments with various suppliers of customized inventory and inventory components totaling approximately $7.8 million over the next twelve months.

As of September 30, 2017, we had outstanding guarantees for payment of customs and foreign grants totaling approximately $3.1 million, which are generally payable over the next twelve months.

Note 15 – Restructuring

Since the first quarter of 2017, we have been taking steps to reduce our overall employee headcount by approximately 2% by the end of 2017 in an effort to minimize job duplication or evaluate where we should shift and centralize activities, improve efficiencies, and rebalance our resources on higher return activities. The timing and scope of our headcount reductions will vary. A summary of the charges in the consolidated statement of operations resulting from our restructuring activities is shown below:

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2017	2016	2017	2016
Cost of sales	$ 79	—	$ 986	—
Research and development	86	—	1,382	—
Sales and marketing	1,618	—	7,997	—
General and Administration	207	—	801	—
Total restructuring and other related costs	$ 1,990	—	$ 11,166	—

A summary of balance sheet activity related to the restructuring activity is shown below:

	Restructuring Liability (in thousands)
Balance as of December 31, 2016	$ —
Income statement expense	11,166
Cash payments	(7,714)
Balance as of September 30, 2017	$ 3,452

The restructuring liability of $3.5 million at September 30, 2017 relating to the restructuring activity is recorded in the “accrued compensation” line item of the consolidated balance sheet.

Note 16 – Litigation

We are not currently a party to any material litigation. However, in the ordinary course of our business, we are involved in a limited number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. We also periodically receive notifications from various third parties related to alleged infringement of patents or intellectual property rights, commercial disputes or other matters. No assurances can be given with respect to the extent or outcome of any future litigation or dispute.

Note 17 – Subsequent events

On October 25, 2017, our Board of Directors declared a quarterly cash dividend of $0.21 per common share, payable on December 4, 2017, to stockholders of record on November 13, 2017.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements contained herein regarding our future financial performance, operations or other matters (including, without limitation, statements to the effect that we "believe," "expect," "plan," "may," "will," "intend to," "project," "anticipate," "continue," or "estimate" or other variations thereof or comparable terminology or the negative thereof) should be considered forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of important factors, including those set forth under the heading "Risk Factors" beginning on page 41, and in the discussion below. Readers are also encouraged to refer to the documents regularly filed by us with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2016, for further discussion of our business and the risks attendant thereto.

Overview

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

The key strategies that we focus on in running our business are the following:

Expanding our broad customer base

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

Maintaining a high level of customer satisfaction

To maintain a high level of customer satisfaction we strive to offer innovative, modular and integrated products through a global sales and support network. We strive to maintain a high degree of backwards compatibility across different platforms to preserve the customer's investment in our products. In this time of intense global competition, we believe that it is crucial that we continue to offer products with high quality and reliability, and that our products provide cost-effective solutions for our customers.

Leveraging external and internal technology

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

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

Leveraging a worldwide sales, distribution and manufacturing network

We distribute and sell our software and hardware products primarily through a direct sales organization. We also use independent distributors, OEMs, VARs, system integrators, and consultants to market and sell our products. We have sales offices in the U.S. and sales offices and distributors in key international markets. Sales outside of the Americas accounted for approximately 58% and 58% of our net sales during the three month periods ended September 30, 2017 and 2016, respectively. The vast majority of our foreign sales are denominated in the customers' local currency, which exposes us to the effects of changes in foreign currency exchange rates. We expect that a significant portion of our total net sales will continue to be derived from international sales. (See "Note 12 – Segment and geographic information" of Notes to consolidated financial statements for details concerning the geographic breakdown of our net sales).

We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. In the remainder of 2017, our site in Malaysia is expected to produce approximately 35% of our global production and our site in Hungary is expected to produce approximately 65% of our global production. Our product manufacturing operations can be divided into four areas: electronic circuit card and module assembly; chassis and cable assembly; technical manuals and product support documentation; and software duplication. Most of our electronic circuit card assemblies, modules and chassis are manufactured in house, although subcontractors are used from time to time. The majority of our electronic cable assemblies are produced by subcontractors; however, we do manufacture some on an exception basis. Our software duplication, technical manuals and product support documentation is primarily produced by subcontractors.

Delivering high quality, reliable products

We believe that our long-term growth and success depend on delivering high quality software and hardware products on a timely basis. Accordingly, we focus significant efforts on research and development. We focus our research and development efforts on enhancing existing products and developing new products that incorporate appropriate features and functionality to be competitive with respect to technology, price and performance. Our success also depends on our ability to obtain and maintain patents and other proprietary rights related to technologies used in our products. We have engaged in litigation and where necessary, will likely engage in future litigation to protect our intellectual property rights. In monitoring and policing our intellectual property rights, we have been and may be required to spend significant resources.

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

Current business outlook

Many of the industries we serve have historically been cyclical and have experienced periodic downturns. In assessing our business, we consider the trends in the Global Purchasing Managers' Index ("PMI"), global industrial production as well as industry reports on the specific vertical industries that we target. Historically, our business cycles have generally followed the expansion and contraction cycles in the global industrial economy as measured by the Global PMI. In the three month period ended September 30, 2017, the average of the Global PMI was 53.0 and the average of the new order element of the Global PMI was 53.8. As of September 30, 2017, the Global PMI was at its highest readings in over six years. Although these readings are indicative of expansion in the industrial sector we are unable to predict whether the industrial economy, as measured by the PMI, will remain above the neutral reading of 50, strengthen or contract during the remainder of 2017.

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We are pleased with our disciplined execution which allowed us to deliver record revenue for a third quarter while improving our operating profitability compared to the third quarter of 2016. Since the first quarter of 2017 we have been taking steps to reduce our overall employee headcount by approximately 2% in an effort to reduce job duplication or evaluate where we should shift and centralize activities, improve efficiencies, and rebalance our resources on higher return activities. We expect to incur $8 million to $9 million in severance and other restructuring-related charges, net of tax, by the end of 2017, as a result of these actions of which approximately $1 million will be incurred in the fourth quarter of 2017. We remain concerned about the geopolitical instability in the Middle East and the Korean peninsula, the ongoing uncertainty created by the execution of the exit by the U.K. from the European Union (“Brexit”) as well as uncertainty created by the various policy proposals by the new administration in the U.S. While we remain cautious in the short-term due to uncertain economic conditions, we are optimistic about our long-term position in the industry through the sustained differentiation we deliver to our customers through our platform-based approach. In the third quarter of 2017, we saw a 1% year over year increase from orders under $20,000, an 8% year over year increase from orders between $20,000 and $100,000, and a 9% year over year increase from orders over $100,000. We continue to see growth in our orders above $20,000 which we believe reflects our focus on developing highly differentiated products, particularly for complex test and measurement systems. Excluding our largest customer, orders over $100,000 were up 5 % year over year. The timing and amount of orders from our largest customer are unpredictable and therefore can cause unusual variations in the results and trends of our business. See “Results of Operations” below for additional discussion on the impact of orders from our largest customer on our business for the three month period ended September 30, 2017.
During the third quarter of 2017, we saw a moderate and broad decline in the value of the U.S. dollar in many of the currency markets where we have exposure, although the year over year impact of this change in the value of the dollar was not significant to our results of operations. As of the date of this filing, the U.S. dollar index, as tracked by the St. Louis Federal Reserve, remains above its ten year average. See “Results of Operations” below for additional discussion on the impact of foreign exchange rates on our business for the three month period ended September 30, 2017. See “Our Revenues are Subject to Seasonal Variations” under “Risk Factors” for additional discussion of potential fluctuations in our net sales.

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

Results of Operations

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

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2017	2016	2017	2016
Net sales:				
Americas	41.5 %	42.3 %	39.7 %	39.4 %
EMEIA	29.1	30.1	30.7	31.0
APAC	29.4	27.6	29.6	29.6
Total net sales	100.0	100.0	100.0	100.0
Cost of sales	26.1	25.0	25.8	25.6
Gross profit	73.9	75.0	74.2	74.4
Operating expenses:				
Sales and marketing	36.4	38.1	38.1	38.5
Research and development	17.6	19.3	18.3	19.8
General and administrative	8.2	8.0	8.3	8.3
Total operating expenses	62.2	65.4	64.7	66.6
Operating income	11.7	9.6	9.4	7.8
Other income (expense):				
Interest income	0.2	0.1	0.2	0.1
Net foreign exchange loss	0.3	(0.2)	0.2	(0.2)
Other income, net	(0.4)	0.1	(0.1)	(0.2)
Income before income taxes	11.8	9.6	9.7	7.5
Provision for income taxes	1.5	1.5	1.5	1.5
Net income	10.4 %	8.0 %	8.2 %	6.0 %

Figures may not sum due to rounding.

Results of Operations for the three and nine month periods ended September 30, 2017 and 2016

Net Sales. The following table sets forth our net sales for the three and nine month periods ending September 30, 2017 and 2016 along with the changes between the corresponding periods.

	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 30, (Unaudited)			
(In millions)	2017	2016	Change Dollars	Percentage	2017	2016	Change Dollars	Percentage
Product sales	$291.9	$278.5	13.4	5%	$853.2	$816.5	36.7	4%
Software maintenance sales	29.0	27.8	1.2	4%	86.4	83.2	3.2	4%
Total net sales	$320.9	$306.4	14.5	5%	$939.6	$899.6	40.0	4%

Figures may not sum due to rounding.

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Large orders, defined as orders with a value greater than $100,000, increased by 9% year over year during the three months ended September 30, 2017, compared to the year over year increase of 28% in the three month period ended September 30, 2016. In the nine month period ended September 30, 2017, large orders increased by 16% year over year compared to the year over year increase of 10% during the nine month period ended September 30, 2016. A significant factor in the continued expansion of our large orders in the three and nine months ended September 30, 2017, compared to the comparable periods in 2016 was strong demand for our RF products, 5G prototyping solutions and semiconductor test systems. Year over year, orders from our largest customer were up 68% in the three months ended September 30, 2017. Excluding the impact of our largest customer, large orders increased by 5% year over year during the three month period ended September 30, 2017, and increased by 21% year over year during the nine month period ended September 30, 2017. Orders from our largest customer are discussed in more detail below. During each of the three month periods ended September 30, 2017 and 2016, large orders were 24% of our total orders, and for the nine month periods ended September 30, 2017 and 2016, large orders were 25% and 23% of our total orders, respectively. Large orders are more volatile, are subject to greater discount variability and may contract at a faster pace during an economic downturn compared to our other orders.

During the three month periods ended September 30, 2017 and 2016, we received $8.1 million and $4.8 million, respectively, in orders from our largest customer. During the nine month periods ended September 30, 2017 and 2016, we received $24.7 million and $29.5 million, respectively, in orders from our largest customer. In the three month periods ended September 30, 2017 and 2016, we recognized net sales of $7.8 million and $7.9 million, respectively, from orders from our largest customer, and in the nine month periods ended September 30, 2017 and 2016, we recognized net sales of $22 million and $31 million, respectively, from these orders.

The following table sets forth our net sales by geographic region for the three and nine month periods ending September 30, 2017 and 2016 along with the changes between the corresponding periods and the region's percentage of total net sales.

	Three Months Ended September 30, (Unaudited)				Nine Months Ended September 30, (Unaudited)			
			Change				Change	
(In millions)	2017	2016	Dollars	Percentage	2017	2016	Dollars	Percentage
Americas	$133.2	$129.7	3.5	3%	$373.3	$354.8	18.5	5%
Percentage of total net sales	41.5 %	42.3 %			39.7 %	39.4 %		
EMEIA	93.3	$92.2	1.1	1%	288.6	278.6	10.0	4%
Percentage of total net sales	29.1 %	30.1 %			30.7 %	31.0 %		
APAC	$94.5	$84.4	10.1	12%	277.8	266.2	11.6	4%
Percentage of total net sales	29.4 %	27.6 %			29.6 %	29.6 %		

We expect sales outside of the Americas to continue to represent a significant portion of our net sales. We intend to continue to expand our international operations by increasing our presence in existing markets, adding a presence in some new geographical markets and continuing the use of distributors to sell our products in some countries. Almost all of the sales made by our direct sales offices in the Americas (excluding the U.S.), EMEIA, and APAC are denominated in local currencies, and accordingly, the U.S. dollar equivalent of these sales is affected by changes in foreign currency exchange rates. In order to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency fluctuations between periods, we compare the percentage change in our results from period to period using constant currency disclosure. To calculate the change in constant currency, current and comparative prior period results for entities reporting in currencies other than U.S. Dollars are converted into U.S. Dollars at constant exchange rates (i.e., the average rates in effect during the three and nine month periods ended September 30, 2016). The following tables present this information, along with the impact of changes in foreign currency exchange rates on sales denominated in local currencies, for the three and nine month periods ended September 30, 2017.

	Three Months ended September 30, 2016	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Three Months ended September 30, 2017
(In millions)	GAAP Net Sales	Dollars	Percentage	Dollars	Percentage	GAAP Net Sales
Americas	$ 129.7	3.2	2.5%	0.3	0.2%	133.2
EMEIA	$ 92.2	1.3	1.4%	(0.2)	(0.2)%	93.3
APAC	$ 84.4	10.2	12.1%	(0.2)	(0.2)%	94.5
Total net sales	$ 306.3	14.7	4.8%	(0.1)	(0.1)%	320.9

	Nine Months ended September 30, 2016	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Nine Months ended September 30, 2017
(In millions)	GAAP Net Sales	Dollars	Percentage	Dollars	Percentage	GAAP Net Sales
Americas	$ 354.8	18.0	5.1%	0.4	—%	373.3
EMEIA	$ 278.6	14.9	5.3%	(5.0)	(1.8)%	288.6
APAC	$ 266.2	12.8	4.8%	(1.2)	(0.5)%	277.8
Total net sales	$ 899.6	45.7	5.1%	(5.8)	(0.6)%	939.6

Figures may not sum due to rounding.

To help protect against changes in U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted net sales denominated in foreign currencies with average rate forward contracts. During the three month periods ended September 30, 2017 and 2016, these hedges had the effect of decreasing our net sales by $(1.4) million and decreasing our net sales by $(0.2) million, respectively. During the nine month periods ended September 30, 2017 and 2016, these hedges had the effect of increasing our net sales by $1.3 million and decreasing our net sales by $(1.3) million, respectively. (See “Note 5 - Derivative instruments and hedging activities” of Notes to consolidated financial statements for further discussion regarding our cash flow hedging program and its related impact on our net sales for 2017 and 2016).

Gross Profit. Our gross profit as a percentage of sales is impacted by many factors including changes in the amount of revenues from our largest customer and changes in the foreign currency exchange markets. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle. The following table sets forth our gross profit and gross profit as a percentage of net sales for the three and nine month periods ending September 30, 2017 and 2016 along with the percentage changes in gross profit for the corresponding periods.

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
(In millions)	2017	2016	2017	2016
Gross Profit	$237.2	$229.6	$696.9	$669.3
% change compared with prior period	3.3%		4.1%	
Gross Profit as a percentage of net sales	73.9%	75.0%	74.2%	74.4%

For the three month periods ended September 30, 2017 and 2016, the change in exchange rates had the effect of increasing our cost of sales by $0.1 million and decreasing our cost of sales by $0.5 million, respectively. For the nine month periods ended September 30, 2017 and 2016, the change in exchange rates had the effect of decreasing our cost of sales by $1.4 million and $3.2 million, respectively. To help protect against changes in our cost of sales caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows, we have a foreign currency cash flow hedging program. We hedge portions of our forecasted costs of sales denominated in foreign currencies with average rate forward contracts. During the three month periods ended September 30, 2017 and 2016, these hedges had the effect of increasing our cost of sales by $0.1 million and $0.4 million, respectively. During the nine month periods ended September 30, 2017 and 2016, these hedges had the effect of increasing our cost of sales by $1.1 million and $1.4 million, respectively. (See "Note 5 - Derivative instruments and hedging activities" of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impact on our cost of sales for 2017 and 2016).

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

Operating Expenses. The following table sets forth our operating expenses for the three and nine month periods ending September 30, 2017 and 2016 along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

	Three Months Ended September 30, (Unaudited)			Nine Months Ended September 30, (Unaudited)		
(In thousands)	2017	2016	Change	2017	2016	Change
Sales and marketing	$116,661	$116,662	—%	$358,335	$346,230	3%
Percentage of total net sales	36 %	38 %		38 %	38 %	
Research and development	$56,526	59,066	(4)%	171,701	178,244	(4)%
Percentage of total net sales	18 %	19 %		18 %	20 %	
General and Administrative	$26,468	24,537	8%	78,400	74,308	6%
Percentage of total net sales	8 %	8 %		8 %	8 %	

Total operating expenses	$199,655	200,265	(0.3)%	608,436	598,782	2%
Percentage of total net sales	62 %	65 %		65 %	67 %	

During the three month period ending September 30, 2017, operating expenses were relatively flat year over year, indicative of our disciplined expense management. In the three month period ended September 30, 2017, we capitalized $10 million of software development costs compared to $9 million in the three month period ended September 30, 2016. The year over year change in exchange rates had a minimal effect on our operating expenses during the period.

During the nine month period ending September 30, 2017, the year over year increase in operating expenses was primarily the result of $24 million in personnel-related expenses due to increased variable compensation in regions with strong sales growth, accrual of a potential payment under our annual company profit sharing program, an increase in our employer matching contribution for our defined contribution retirement plan, and $10 million in severance and other related costs associated with our restructuring initiative. These increases were partially offset by a decrease in software development costs of $10 million due to an increase in capitalization of software development costs compared to the nine month period ending September 30, 2016. During the nine month period ending September 30, 2017, the year over year change in exchange rates had the effect of decreasing our operating expenses by $4 million.

We believe that our long-term growth and success depends on developing high quality software and hardware products on a timely basis. We are focused on leveraging recent investments in research and development and in our field sales force and taking actions to help ensure that those resources are concentrated in areas and on initiatives that will contribute to future growth in our business. The decreases in our research and development expenses for the three and nine month periods ended September 30, 2017, compared to the three and nine month periods ended September 30, 2016 were primarily driven by an increase in capitalized software development from expenditures related to LabVIEW NXG, a redesign of the software platform underlying our flagship application, LabVIEW. The increase in our sales and marketing expenses for the three and nine month periods ended September 30, 2017, compared to the three and nine month periods ended September 30, 2016, was primarily driven by increased variable compensation in regions with strong sales growth and the timing of our annual global sales conference and NIWeek conference in May 2017. Previously, these events were held in the third quarter.

Operating Income. For the three month periods ended September 30, 2017 and 2016, operating income was $38 million and $29 million, respectively, an increase of 28%. As a percentage of net sales, operating income was 11.7% and 9.6% for the three month periods ended September 30, 2017 and 2016, respectively. For the nine month periods ended September 30, 2017 and 2016, operating income was $88 million and $70 million, respectively, an increase of 26%. As a percentage of net sales, operating income was 9.4% and 7.8% for the nine month periods ended September 30, 2017 and 2016, respectively. The increases in operating income in absolute dollars for the three month period ended September 30, 2017, compared to the three month period ended September 30, 2016, and for the nine month period ended September 30, 2017, compared to the nine month period ended September 30, 2016, are attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Interest Income. For the three month periods ended September 30, 2017 and 2016, interest income was $0.7 million and $0.3 million, respectively. For the nine month periods ended September 30, 2017 and 2016, interest income was $1.5 million and $0.8 million, respectively. We are seeing improving yields for high quality investment alternatives that comply with our corporate investment policy.

Net Foreign Exchange Gain/(Loss). For the three month periods ended September 30, 2017 and 2016, net foreign exchange gain/(loss) was $1.1 million and $(0.8) million, respectively. During the nine month periods ended September 30, 2017 and 2016, net foreign exchange gain/(loss) was $1.6 million and $(1.5) million, respectively. These results are attributable to movements in the foreign currency exchange rates between the U.S. dollar and foreign currencies in subsidiaries for which our functional currency is not the U.S. dollar. During the third quarter of 2017, we saw a moderate and broad decline in the value of the U.S. dollar in many of the currency markets where we have exposure, although the year over year impact of this change in the value of the dollar was not significant to our results of operations. As of the date of this filing, the U.S. dollar index, as tracked by the St. Louis Federal Reserve, remains above its ten year average. The ongoing uncertainty surrounding the implementation of Brexit, including the conditions and timing of the exit negotiation period, and uncertainty in relation to the relationship of the U.K. with the remaining members of the E.U. (including in relation to trade) may cause volatility in the foreign currency markets. We cannot predict the direction or degree of future volatility in the foreign exchange markets or the impact the impending implementation of the Brexit U.K. referendum will have in future periods. In the past, we have noted that significant volatility in the foreign currency exchange markets in which we do business has had a significant impact on the revaluation of our foreign currency denominated firm commitments, on our ability to forecast our U.S. dollar equivalent net sales and expenses and on the effectiveness of our hedging programs. We cannot predict to what degree foreign currency markets will fluctuate in the future.In the past, these dynamics have also adversely affected our net sales growth in international markets and may pose similar challenges in the future. We recognize the local currency as the functional currency in virtually all of our international subsidiaries.

We utilize foreign currency forward contracts to hedge our foreign denominated net foreign currency balance sheet positions to help protect against the change in value caused by a fluctuation in foreign currency exchange rates. We typically hedge up to 90% of our outstanding foreign denominated net receivable or payable positions and typically limit the duration of these foreign currency forward contracts to approximately 90 days. The gain or loss on these derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in current earnings under the line item “Net foreign exchange gain (loss).” Our hedging strategy decreased our foreign exchange gain by $(0.9) million and increased our foreign exchange loss by $(0.8) million in the three month periods ended September 30, 2017 and September 30, 2016, respectively. Our hedging strategy decreased our foreign exchange gain by $(4.1) million and increased our foreign exchange loss by $(1.0) million in the nine month periods ended September 30, 2017 and 2016, respectively. (See “Note 5 - Derivative instruments and hedging activities” of Notes to Consolidated Financial Statements for a further description of our derivative instruments and hedging activities).

Provision for Income Taxes. For the three month periods ended September 30, 2017 and 2016, our provision for income taxes reflected an effective tax rate of 12% and 16%, respectively. For the nine month periods ended September 30, 2017 and 2016, our provision for income taxes reflected an effective tax rate of 15% and 21%, respectively. The factors that caused our effective tax rate to change year over year are detailed in the table below:

	Three Months Ended September 30, 2017 (Unaudited)	Nine months Ended September 30, 2017 (Unaudited)
Effective tax rate at September 30, 2016	16 %	21 %
Change in profit in foreign jurisdictions with reduced tax rates	(6)%	(5)%
Change in enhanced deduction for certain research and development expenses	5 %	5 %
Change in intercompany prepaid tax asset	(4)%	(4)%
Change in unrecognized tax benefits	1 %	— %
Change in tax benefit from equity awards	— %	(2)%
Effective tax rate at September 30, 2017	12 %	15 %

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

Other operational metrics

We believe that the following additional unaudited operational metrics assist investors in assessing our operational performance relative to others in our industry and to our historical results. The following tables provide details with respect to the amount of GAAP charges related to stock-based compensation, amortization of acquisition-related intangibles, acquisition-related transaction costs, restructuring charges, foreign exchange loss on acquisitions, and taxes levied on the transfer of acquired intellectual property that were recorded in the line items indicated below (in thousands).

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2017	2016	2017	2016
Stock-based compensation				

Cost of sales	$689	$556	$1,914	$1,643
Sales and marketing	3,014	2,635	8,523	8,422
Research and development	2,328	2,027	6,552	6,745
General and administrative	1,514	921	4,358	2,764
Provision for income taxes	(2,369)	(2,092)	(7,388)	(6,202)
Total	$5,176	$4,047	$13,959	$13,372

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2017	2016	2017	2016
Amortization of acquired intangibles				
Cost of sales	$1,502	$1,599	$4,648	$7,621
Sales and marketing	515	502	1,479	2,141
Research and development	283	276	813	815
Provision for income taxes	(546)	854	(1,656)	1,312
Total	$1,754	$3,231	$5,284	$11,889

(In thousands)	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2017	2016	2017	2016
Acquisition transaction costs, restructuring charges, and other				
Cost of sales	$79	$74	$988	$253
Sales and marketing	1,618	42	8,018	141
Research and development	235	236	1,816	648
General and administrative	207	97	803	317
Foreign exchange gain (loss)[1]	—	—	—	94
Other income (loss), net[2]	—	—	—	2,475
Provision for income taxes	(720)	(156)	(3,655)	(1,358)
Total	$1,419	$293	$7,970	$2,570

(1) Foreign exchange losses on acquisitions were $0 and $94 for the nine month periods ended September 30, 2017 and 2016, respectively

(2) Taxes levied on the transfer of acquired intellectual property were $0 and $2,475 for the nine months ended September 30, 2017 and 2016, respectively

Liquidity and Capital Resources

Overview

At September 30, 2017, we had $385 million in cash, cash equivalents and short-term investments. Our cash and cash equivalent balances are held in numerous financial institutions throughout the world, including substantial amounts held outside of the U.S., however, the majority of our short-term investments that are located outside of the U.S. are denominated in the U.S. dollar with the exception of $5 million U.S. dollar equivalent of corporate bonds that are denominated in Euro. The following table presents the geographic distribution of our cash, cash equivalents, and short-term investments as of September 30, 2017 (in millions):

	Domestic	International	Total
Cash and Cash Equivalents	$61	$233	$294
	21%	79%	
Short-term Investments	$—	$91	$91
	—	100%	
Cash, Cash Equivalents and Short-term Investments	$61	$324	$385
	16%	84%	

Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal income tax payments in future years. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

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

September 30, 2017	December 31,	Increase/