NATIONAL INSTRUMENTS CORP
Form 10-K
February 16, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2016 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-25426

NATIONAL INSTRUMENTS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Preferred Stock Purchase Rights

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

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

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant at the close of business on June 30, 2016, was $2,437,444,734 based upon the last sales price reported for such date on the NASDAQ Stock Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant as of June 30, 2016, have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

At the close of business on February 10, 2017, registrant had outstanding 129,529,253 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant for its Annual Meeting of Stockholders to be held on May 9, 2017 (the “Proxy Statement”).

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PART I

This Form 10-K 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," "anticipat "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 13, and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

ITEM 1.BUSINESS

National Instruments Corporation (the "Company", "NI", "we", "us" or "our") designs, manufactures and sells systems to engineers and scientists that accelerate productivity, innovation and discovery. Our software-centric platform provides integrated software and modular hardware that speeds the development of systems needing measurement and control. We believe our long-term vision and focus on technology supports the success of our customers, employees, suppliers and stockholders.

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

Our website is www.ni.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act and every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T are available through our Internet website as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC, or upon written request without charge. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Industry Background

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

Systems that perform measurement and control can be generally categorized as test, measurement, and embedded systems. Technology is moving at a very fast pace. Engineers and scientists across many industries are experiencing technology convergence, resulting in increased complexity of their systems. This convergence is evidenced in numerous devices such as cars, smartphones, semiconductors and smart factories.

More and more of the functionality of these advanced technologies is being defined in software; therefore, system capabilities are rapidly changing. Engineers designing and testing highly complex systems are striving to create monitoring, control, and test systems that can improve at the rapid rate of these technologies and take advantage of industry trends in a way that enables them to get their jobs done faster and more efficiently.

NI has been addressing these industry challenges by creating highly productive systems that can access real world phenomena and can be used through the research, design, test, manufacture, and service phases of a wide variety of products and applications. We fundamentally believe that by making engineers and scientists more productive, our systems can have the greatest impact on their businesses.

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Our Approach to Measurement and Automation

NI equips engineers and scientists with systems that accelerate productivity, innovation and discovery. Our customers use our platform to develop test, measurement, control and embedded systems across multiple industries from design to production, for advanced research, and to teach engineering and science.

For more than 40 years, NI has been a catalyst in accelerating engineering innovation to meet industry challenges. NI pioneered a software-based approach to test, measurement, and control that has enabled its customers to build systems to meet the unique requirements of their applications. NI hardware and software leverages commercially available technology whenever possible to deliver performance and cost benefits to our customers. NI has been on the leading edge of technologies like graphical software, modular hardware standards, and FPGAs. Our mission has been to leverage the advancements in these technologies and deliver them to engineers and scientists in a way that accelerates their development of test, measurement, or control systems. For example, NI has been at the leading edge of using user-programmable FPGAs to design high-performance measurement and control systems; this capability has enabled the NI platform to become a leading solution for prototyping the next generation of communications systems in 5G wireless.

NI provides powerful, flexible technology solutions that accelerate productivity and drive rapid innovation. From daily tasks to grand challenges, NI helps engineers and scientists overcome complexity to exceed expectations. Customers in numerous industries—from healthcare and automotive to consumer electronics and particle physics, from 5G to the Industrial Internet of Things and the connected car—use NI's integrated hardware and software platform to improve our world.

Compared with traditional solutions, we believe our products and our platform-based approach provide the following significant benefits to our customers:

Simpler, Faster Development

Customers face changing requirements and technologies while having to create more intelligent systems with fewer resources than ever. Our software-based approach simplifies the complexity of creating these systems by providing higher level interfaces to access changing technology and a way to easily upgrade through software while other fixed function systems require new hardware. When hardware changes are required, our modular, reconfigurable platforms enable users to easily change only the functions they need while preserving software continuity over time. In this way, our graphical system design platform-based approach can accelerate the development of systems that need measurement and control.

Performance and Efficiency

Our software brings the power of commercial computers, handheld devices, networks and the Internet to instrumentation and embedded devices. With features such as graphical programming, automatic code generation, graphical tools libraries, ready-to-use example programs, libraries of specific instrumentation functions, and the ability to deploy applications on a range of platforms, scientists and engineers can quickly build a system that meets individual application needs. Because the continuous performance improvement of personal computers ("PCs"), Field Programmable Gate Arrays ("FPGAs") and networking technologies are the core platforms for our approach, scientists and engineers can quickly realize direct performance benefits, faster execution for measurement and automation applications, shorter test times, faster automation, higher performing embedded systems and higher manufacturing throughput.

Modularity, Reusability and Reconfigurability

Our products include reusable hardware and software modules to provide considerable flexibility in configuring systems. This ability to reconfigure measurement and automation systems allows users to quickly adapt their systems to new and changing needs, eliminate duplicated programming efforts, and ultimately improve their efficiency and productivity. In addition, these features help protect both hardware and software investments against obsolescence.

Lower Total Solution Cost

NI solutions offer price to performance and energy-efficiency advantages over traditional proprietary systems. Graphical system design allows customers to equip powerful industry-standard computers, with reusable system design software and modular cost-effective hardware. In addition, these systems give engineers and scientists the flexibility and portability to adapt to changing needs, while offering a smaller form factor that occupies less space on the manufacturing floor and consumes less energy than traditional instrumentation equipment.

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Products, Technology and Services

We offer an extensive line of measurement, automation and control products to work either separately, as stand-alone products or as an integrated system; however, customers generally purchase our software and hardware together. We believe that the flexibility, functionality and ease of use of our system design software promotes sales of our other software and hardware products. We offer volume licensing that helps customers maximize their system investment by reducing total cost of ownership and simplifying their software standardization, budgeting, purchasing and upgrading efforts.

System Design Software

For more than 30 years, NI has invested in its flagship software product, LabVIEW, which the company believes is the ultimate system design software for measurement, automation and control. LabVIEW promotes problem-solving, accelerates productivity, and empowers innovation. With LabVIEW, users program graphically and can design custom virtual instruments by connecting graphical icons with software wires to create “block diagrams” which are natural design notations for scientists and engineers. Users can customize front panels with knobs, buttons, dials and graphs to emulate control panels of instruments or add custom graphics to visually represent the control and operation of processes.

LabVIEW is a comprehensive development environment with hardware integration and wide-ranging compatibility that engineers and scientists need to design and deploy measurement, automation and control systems. The LabVIEW programming environment is graphical, with engineering-specific libraries of software engineering functions and hardware interfaces. It also offers data analysis, visualization, and sharing features. Engineers and scientists can bring their vision to life with LabVIEW, and have access to a vast ecosystem of partners and technology alliances, and a global and active user community. When customers use LabVIEW, combined with the modular hardware approach with NI data acquisition, NI CompactRIO and PCI Extensions for Instrumentation (“PXI”) platforms, they are able to quickly integrate system components and do their jobs faster, more efficiently, and at a lower cost.

LabVIEW Real-Time and LabVIEW FPGA are strategic modular software add-ons to LabVIEW. With LabVIEW Real-Time, the user can easily configure their application program to execute using a real-time operating system kernel instead of a general purpose operating system, so users can easily build deterministic solutions. In addition, with LabVIEW Real-Time, users can easily configure their programs to operate remotely on embedded processors in PXI-based systems, on embedded processors inside NI CompactRIO distributed I/O systems, or on processors embedded on plug-in PC data acquisition boards. With LabVIEW FPGA, the user can configure their application to execute directly in silicon via a FPGA residing on one of our reconfigurable I/O hardware products. LabVIEW FPGA allows users to build their own highly specialized, custom hardware devices for ultra high-performance requirements or for unique or proprietary measurement or control protocols.

The LabVIEW Communications System Design Suite is a targeted version of LabVIEW that we built specifically for wireless prototyping. This customized version includes new workflows, specialized IP, and offers a design environment closely integrated with NI software defined radio ("SDR") hardware for rapidly prototyping communications systems including FPGA-based SDR hardware. LabVIEW Communications simplifies the design process that is complicated by today's disparate hardware and software tools. Users define and manage the entire prototyping process with a single design tool, and rapidly deploy new algorithms to hardware. LabVIEW Communications also provides a plug-in architecture to offer productive starting points with open application frameworks for LTE, 802.11 and other key standards.

Programming Tools

In addition to LabVIEW, NI offers LabWindows/CVI and Measurement Studio as alternative programming environments. LabWindows/CVI users use the conventional, text-based programming language of C for creating test and control applications. LabWindows/CVI also provides a Real-Time module to allow for C-based development of real-time systems in automated test applications. Measurement Studio consists of measurement and automation add-on libraries and additional tools for programmers who prefer Microsoft's Visual Studio development environments.

Application Software

NI offers a suite of application software products, including NI TestStand, NI VeriStand, NI DIAdem, NI InsightCM Enterprise and NI Multisim, which are complementary to LabVIEW, LabWindows/CVI, Measurement Studio and 3rd party software.

NI TestStand. NI TestStand is targeted for test and measurement applications in a manufacturing environment. NI TestStand is a test management environment for organizing, controlling, and running automated prototype, validation, and manufacturing test systems. It also generates customized test reports and integrates product and test data across the customers' enterprise and across the Internet. NI TestStand manages tests that are written in LabVIEW, LabWindows/CVI, Measurement Studio, C and C++, and Microsoft Visual Basic, so test engineers can easily share and re-use test code throughout their organization and from one product to the next. NI TestStand is a key element of our strategy to broaden the reach of our application software products across the corporate enterprise.

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

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

NI InsightCM Enterprise. NI InsightCM Enterprise is a software solution with tightly integrated hardware options for monitoring critical and ancillary rotating equipment. With this solution, a user can acquire, analyze, and visualize data from a wide breadth of sensors to interpret the health of the user's machines with confidence. Companies can use this cost-effective, open, and flexible solution to monitor a larger percentage of their fleet and meet evolving maintenance requirements.

NI Multisim Circuit Design Software. NI Multisim is an advanced simulation environment utilizing the industry-standard Simulation Program with Integrated Circuit Emphasis ("SPICE") framework. It is the cornerstone of the NI circuits teaching solution to build expertise through practical application in designing, prototyping, and testing electrical circuits.

Modular Hardware Products and Related Driver Software

Using cutting-edge commercial technology, such as the latest microprocessors, Analog to Digital Converters ("ADCs"), FPGAs, and PC busses, our hardware delivers modular and easy-to-use solutions for a wide range of applications – from automated test and data logging to industrial control, and embedded design. Our hardware and related driver software products include data acquisition ("DAQ"), PXI chassis and controllers, modular instruments, image acquisition, motion control, distributed I/O, industrial communications interfaces, General Purpose Interface Bus ("GPIB") interfaces, embedded control hardware/software and VME Extension for Instrumentation ("VXI") Controllers. The high level of integration among our products provides users with the flexibility to mix and match hardware components when developing custom virtual instrumentation systems.

Data Acquisition (DAQ) Hardware/Driver Software. Our DAQ hardware and driver software products are "instruments on a board" that users can combine with sensors, signal conditioning hardware and software to acquire

analog data and convert it into a digital format that can be accepted by a computer. Computer-based DAQ products are typically a lower-cost solution than traditional instrumentation and exploit the processing power, display, and connectivity capabilities of industry-standard computers. Applications suitable for automation with computer-based DAQ products are widespread throughout many industries, and many systems currently using traditional instrumentation (either manual or computer-controlled) could be displaced by computer-based DAQ systems. We offer a range of computer-based DAQ products with a variety of form factors and degrees of performance. In 2006, we introduced NI CompactDAQ, a rugged, portable, USB data acquisition system designed for high-performance mixed-signal measurement systems. Since its introduction, we have expanded the CompactDAQ platform with wireless and Ethernet technologies that have extended the reach of computer-based DAQ from across the lab to around the world. The platform also offers high-performance stand-alone systems for embedded measurement and logging. NI DAQ products also include X Series DAQ which delivers state-of-the-art measurement, generation, timing and triggering on a single device.

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

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

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Machine Vision/Image Acquisition. Our machine vision platform includes a range of hardware platform options, from embedded NI Smart Cameras that integrate the sensor and processor in a single package to plug-in boards for PCI and PXI systems. We offer two scalable software options for use across the entire NI vision hardware portfolio. A user can configure a system with NI Vision Builder for Automated Inspection, an easy-to-use, stand-alone package for machine vision, or program it using the NI Vision Development Module, a comprehensive library of imaging functions. With NI Vision hardware, a user can build high-performance, PC based systems using the latest processor techniques with NI Frame Grabbers, save on cost and space by combining an image sensor and real-time embedded processors into one rugged, industrial package with NI Smart Cameras, or harness multicore performance with fanless designs, connectivity to multiple cameras and reconfigurable digital I/O with NI Vision systems.

Motion Control. By integrating flexible software with high-performance hardware, our motion control products offer a powerful solution for motion system design. From automating test equipment and research labs to controlling biomedical, packaging, and manufacturing machines, engineers use our motion products to meet a diverse set of application challenges. Our software tools for motion easily integrate with our other product lines, so users can combine motion control with image acquisition, test, measurement, data acquisition, and automation to create robust, flexible solutions. We introduced our first line of motion control hardware, software and peripheral products in 1997.

NI LabVIEW Reconfigurable I/O (RIO) Architecture. NI reconfigurable I/O (RIO) hardware combined with NI LabVIEW system design software provides a commercial off-the-shelf solution to simplify development and shorten time to market when designing advanced measurement and control systems. All RIO hardware systems, which include CompactRIO, NI Single-Board RIO, NI System on Module, R Series boards and PXI-based FlexRIO products, feature a standard, high-performance architecture that combines a powerful floating-point processor, reconfigurable FPGA, and modular I/O. Engineers can program all RIO hardware components with LabVIEW, including the LabVIEW FPGA Module, to rapidly create custom timing, signal processing and control for I/O without requiring expertise in low-level hardware description languages or board-level design. NI provides a breadth of RIO hardware targets that provide varying degrees of performance, cost, I/O rates, and ruggedness, to meet a wide variety of application needs. NI first released its LabVIEW RIO architecture in 2003 with its first R Series PXI plug-in board along with its first CompactRIO rugged, high-performance embedded system.

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

GPIB Interfaces/Driver Software. We began selling GPIB products in 1977 and are a leading supplier of GPIB interface boards and driver software to control traditional instruments. These traditional instruments are manufactured by a variety of third-party vendors and are used primarily in test and measurement applications. Our diverse portfolio of hardware and software products for GPIB instrument control is available for a wide range of computers. Our GPIB

product line also includes products for controlling GPIB instruments using the computer's standard parallel, USB, Ethernet, and serial ports.

Production Test Systems

In addition to modular software and hardware components that engineers combine to create systems, NI also offers complete, enclosed PXI-based systems targeted to specific applications.

NI Semiconductor Test System. The NI Semiconductor Test System ("STS") series combines modular instrumentation and system design software for RF and mixed-signal production test. These systems feature fully production-ready test systems that use NI technology in a form factor suitable for a semiconductor production test environment. The STS combines the NI PXI platform, TestStand test management software, and LabVIEW graphical programming inside a fully enclosed test head. Its "tester in a head" design houses all the key components of a production tester. Its compact design eliminates the extra floor space, power, and maintenance required by traditional automated test equipment testers. With the open, modular design, engineers can take advantage of the latest industry-standard PXI modules for more instrumentation and computing power.

NI Wireless Test System. Built on PXI, multicore, and FPGA technologies, the NI Wireless Test System ("WTS") offers industry-leading measurement speed to help our customers improve test throughput and lower the cost of wireless manufacturing test for devices such as mobile phones, tablets, data cards, and modules. With industry-leading measurement speed and the flexibility to engage in multi-standard, multiple device under test ("DUT"), and parallel test, the WTS integrates easily into a manufacturing line using ready-to-run reference test sequences, integrated DUT control, and remote automation control for quicker and more cost-effective system deployment.

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NI Education Platform

The NI education platform combines software, hardware and courseware designed to create engaging, authentic learning experiences that prepare students for the next generation of innovation. We have a continuum of products designed for education that allows students to start learning at the primary and secondary school levels using the programming language and platform they will use in engineering classes at the university level, for post-graduate research, and in the industry once they enter the engineering workforce. Our cost-effective, scalable solutions offer academic institutions flexible integration across multiple science and engineering disciplines.

Software Products for Teaching

NI Multisim Circuit Design Software. NI Multisim is an advanced simulation environment utilizing the industry-standard SPICE framework. It is the cornerstone of the NI circuits teaching solution to build expertise through practical application in designing, prototyping, and testing electrical circuits. Developed for the educator who needs to teach all aspects of circuits and electronics, Multisim Education Edition provides the ability to seamlessly move students from theory to simulation to the lab. Regardless of the application area, the powerful environment offers students the ability to visualize and interact with circuit theory and equations and focus on course-specific concepts with SPICE simulation.

NI LabVIEW for Education. LabVIEW is a graphical system design environment used on campuses all over the world to deliver hands-on learning to the classroom, enhance research applications, and foster the next generation of innovation. By teaching with LabVIEW, educators help students accomplish hands-on and system-based learning in a single environment with skills and methods they will use in their careers. With built-in I/O integration and instrument control, thousands of functions for math and signal processing, user interfaces to visualize and explore data, and deployment to multiple hardware targets, students access the power of graphical system design and can go from concept to prototype in one semester.

LabVIEW for LEGO® MINDSTORMS®. This version of LabVIEW is specifically designed to extend the LEGO MINDSTORM set’s teaching power, making it easier, and more fun, to manage robotics projects. This easy-to-learn programming environment provides access to tools exclusive to the NI Education Platform. LabVIEW for LEGO MINDSTORMS helps prepare students for university courses and engineering careers where LabVIEW is already in use.

Hardware Products for Teaching

National Instruments Educational Laboratory Virtual Instrumentation Suite (“NI ELVIS”). The NI ELVIS measurement and prototyping platform delivers hands-on lab experience with an integrated suite of the most commonly used instruments in one compact form factor specifically designed for education. Based on industry-standard NI LabVIEW graphical system design software, NI ELVIS, with powerful data acquisition and USB plug-and-play capabilities, offers users the flexibility of virtual instrumentation and allows for quick and easy measurement acquisition and instrumentation across multiple disciplines.

NI myDAQ Measurement and Instrumentation Device. This powerful, portable device allows students to measure and analyze the world around them. It is engineered to work with LabVIEW right out of the box. A user can start simply, with built-in virtual instruments, or get creative and connect the user’s own sensors and controls. NI myDAQ combines hardware with eight ready-to-run software-defined instruments, including a function generator, oscilloscope, and digital multimeter (“DMM”); these software instruments are also used on the NI ELVIS hardware platform so the lab experience can be extended to experiments anywhere, anytime. With NI LabVIEW graphical system design software, users can extend the instrument functionality into hundreds of custom applications.

NI myRIO. NI myRIO places dual-core real-time processing and FPGA customizable I/O into the hands of students. With its onboard devices, seamless software experience, and library of courseware and tutorials, NI myRIO provides an affordable tool that students can use to do real engineering in one semester. This device gives students the opportunity to learn on the same device that they will later use to build projects. Using industry-standard technology in a portable form factor, students can explore a variety of engineering concepts that scale to real-world projects.

NI roboRIO. NI roboRIO is built for advanced robotics and gives users the ability to quickly connect and change the components they need to build and test advanced systems. With the integration of LabVIEW graphical programming capabilities, roboRIO becomes a customizable controller for various applications.

NI Universal Software Radio Peripheral (“USRP”). The NI USRP is an affordable, flexible radio that turns a standard PC into a wireless prototyping platform. The NI USRP platform offers a new approach to RF and communications education, which has traditionally been limited to a focus on mathematical theory. With NI USRP and LabVIEW, students gain hands-on experience exploring a working communications system with live signals to gain a better understanding of the link between theory and practical implementation.

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NI Services

NI provides global services and support as part of our commitment to our customers' success in efficiently building and maintaining high-quality measurement and control systems using graphical system design.

Hardware Services and Maintenance

System Configuration and Deployment. Our NI System Assurance Program provides a fast, easy way to get our customer's new NI system up and running. Our trained technicians install software and hardware and configure our customers' PXI, PXI/SCXI combination, and NI CompactRIO system to their specifications.

Calibration. To help our customers' calibration needs, NI provides calibration solutions, including recalibration services, manual calibration procedures, and automated calibration software. In 2011, the American Association for Laboratory Accreditation (A2LA) accredited NI Calibration Services Austin to one of the highest international calibration standards in the industry, ISO/IEC 17025:2005 ("17025"). We now offer 17025 calibration services for OEMs and other organizations seeking to maintain compliance with the strictest governmental, medical, transportation and electronics regulations. The 17025 calibration service offering is designed for companies standardizing their automated test and measurement systems on PXI modular instrumentation, which provides some of the most advanced technology for addressing the latest engineering challenges.

Warranty and Repair. We offer standard and extended warranties to help meet project life-cycle requirements and provide repair services for our products, express repair, and advance replacement services.

Software Maintenance Services

Software Services for End Users: Our Standard Service Program ("SSP") is designed to help ensure that our end users are successful with our products. This software maintenance contract provides the end user with regular product upgrades and service packs, professional technical support from local engineers, 24-hour a day access to self-paced online product training, and access to older versions of their owned software.

Volume Licensing for Account-Level Services: Our NI Volume License Program ("VLP") and Enterprise Agreements ("EAs") are designed to meet the needs of the business in addition to the success of each end user. On top of access to the SSP program for each end user, businesses that invest in the VLP and EA programs receive account-level benefits

designed to help effectively manage their software assets and lower their total cost of ownership.

Training and Certification

NI Training Program. NI training helps the customer build the skills to more efficiently develop robust, maintainable applications, and certification confirms the customer's technical growth and skill using NI software. We offer fee-based training classes and self-paced online training for many of our software and hardware products. On-site courses are quoted per customer requests and we include on-line course offerings with live teachers.

NI Certification Program. We offer programs to certify programmers and instructors for our products.

Markets and Applications

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

Customers

We have a broad base of over 35,000 customers worldwide, with no customer accounting for more than 3%, 3%, and 5% of our sales in 2016, 2015, and 2014, respectively.

Marketing

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

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

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

Sales and Distribution

We 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 U.S. accounted for approximately 63%, 62% and 63%, of our revenues in 2016, 2015, and 2014, respectively. The vast majority of our foreign sales are denominated in the customers' local currency, which exposes us to the effects of changes in foreign currency exchange rates. We expect that a significant portion of our total revenues will continue to be derived from international sales. (See Note 13 – Segment and geographic information of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales and long-lived assets.)

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

The marketplace for our products dictates that many of our products be shipped very quickly after an order is received. As a result, we are required to maintain significant inventories. Therefore, inventory obsolescence is a risk for us due to frequent engineering changes, shifting customer demand, the emergence of new industry standards and rapid technological advances including the introduction by us or our competitors of products embodying new technology. We strive to mitigate this risk by monitoring inventory levels against product demand and technological changes. Additionally, many of our products have interchangeable parts and many have long lives. There can be no assurance that we will be successful in these efforts in the future.

Our foreign operations are subject to certain risks set forth under "We are Subject to Various Risks Associated with International Operations and Foreign Economies."

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

We have one operating segment and one reporting unit. For information regarding revenue, results of operations, and total assets for each of our last three fiscal years, please refer to our financial statements included in this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Form 10-K.

Competition

The markets in which we operate are characterized by intense competition from numerous competitors, some of which are divisions of large corporations having far greater resources than we have, and we may face further competition from new market entrants in the future. A key competitor is Keysight Technologies Inc. ("Keysight") which was formerly part of Agilent. Keysight offers hardware and software products that provide solutions that directly compete with our virtual instrumentation products including its own line of PXI based hardware. Keysight is aggressively advertising and marketing products that are competitive with our products. Because of Keysight's strong position in the instrumentation business, changes in its marketing strategy or product offerings could have a material adverse effect on our operating results.

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

- general market and economic conditions;
- our ability to maintain and grow our business with our very large customers;
- our ability to meet the volume and service requirements of our very large customers;
- industry consolidation, including acquisitions by our competitors;
- success in developing new products;
- timing of our new product introductions;
- new product introductions by competitors;
- the ability of competitors to more fully leverage low cost geographies for manufacturing and/or distribution;
- product pricing, including the impact of currency exchange rates;
- effectiveness of sales and marketing resources and strategies;
- adequate supply of components and materials;
- efficiency of manufacturing operations;
- strategic relationships with our suppliers;

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- product quality and performance;
- protection of our products by effective use of intellectual property laws;
- the financial strength of our competitors;
- the outcome of any future litigation or commercial dispute;
- barriers to entry imposed by competitors with significant market power in new markets; and,
- government actions throughout the world.

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

Research and Development

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

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

As of December 31, 2016, we employed 2,176 people in research and development. Our research and development expenses were $236 million, $225 million and $227 million in 2016, 2015, and 2014, respectively.

Intellectual Property

We rely on a combination of patent, trade secret, copyright and trademark law, contracts and technical measures to establish and protect our proprietary rights in our products. As of December 31, 2016, we held 858 U.S. patents (856 utility patents and 2 design patents) and 45 patents in foreign countries (41 patents registered in Europe, 1 patent in China, 2 patents in Japan, and 1 patent in Mexico), and had 137 patent applications pending in the U.S. and foreign countries. 264 of our issued U.S. patents are software patents related to LabVIEW, and cover fundamental aspects of the graphical programming approach used in LabVIEW. Our patents expire from 2017 to 2035. The expiration of any particular patent in the short term is not expected to have any significant negative impact on our business. No

assurance can be given that our pending patent applications will result in the issuance of patents. We also own certain registered trademarks in the United States and abroad. See further discussion regarding risks associated with our patents in ITEM 1A, Risk Factors, “Our Business Depends on Our Proprietary Rights and We Have Been Subject to Intellectual Property Litigation.”

Manufacturing and Suppliers

We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. In 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 contractors are used from time to time. The majority of our electronic cable assemblies are produced by contractors; however, we do manufacture some on an exception basis. Our software duplication, technical manuals and product support documentation is primarily produced by contractors.

Our manufacturing processes use large volumes of high-quality components and subassemblies supplied by outside sources. Several of these components are only available through limited sources. Limited source components purchased include custom ASICs, chassis and other components. We have in the past experienced delays and quality problems in connection with limited source components, and there can be no assurance that these problems will not recur in the future. Accordingly, our failure to receive components from limited suppliers could result in a material adverse effect on our revenues and operating results. See “Our Business is Dependent on Key Suppliers” at page 18 for additional discussion of the risks associated with limited source suppliers.

See “Our Operations are Subject to a Variety of Environmental Regulations and Costs” at page 20 for discussion of environmental matters as they may affect our business.

Backlog

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Backlog is a measure of orders that are received but that are not shipped to customers at the end of a quarter. We typically ship products shortly following the receipt of an order. Accordingly, our backlog typically represents less than 5 days sales. Backlog should not be viewed as an indicator of our future sales.

Employees

As of December 31, 2016, we had 7,552 employees worldwide, including 2,176 in research and development, 3,388 in sales and marketing and customer support, 1,127 in manufacturing and 861 in administration and finance. None of our employees are represented by a labor union and we have never experienced a work stoppage. We consider our employee relations to be good.

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ITEM 1A. RISK FACTORS

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

Uncertain Global Economic Conditions Could Materially Adversely Affect Our Business and Results of Operations. Our operations and performance are sensitive to fluctuations in general economic conditions, both in the U.S. and globally. The ongoing uncertainty created by volatile currency markets, the continued weakness in the PC and energy sectors, alone or in combination, may continue to have a material adverse effect on our net sales and the financial results of our operations. In addition, we remain concerned about the geopolitical and fiscal instability in the Middle East and some emerging markets as well as the continued volatility of the equity markets. The impending Brexit and results of the recent U.S. election may also create additional global economic uncertainty. These factors as well as others we may not contemplate could have a material adverse effect on the spending patterns of businesses including our current and potential customers which could have a material adverse effect on our net sales and our results of operations. Other factors that could adversely influence demand for our products include unemployment, labor and healthcare costs, access to credit, consumer and business confidence, and other macroeconomic factors that could have a negative impact on capital investment and spending behavior. See “Current business outlook” in this Form 10-K for information regarding recent business conditions.

We Have Established a Budget and Variations From Our Budget Will Affect Our Financial Results. We have an operating budget for 2017. Our budget was established based on the estimated revenue from sales of our products which are based on anticipated economic conditions in the markets in which we do business as well as the timing and volume of our new products and the expected penetration of both new and existing products in the marketplace. If demand for our products during 2017 is less than the demand we anticipated in setting our 2017 budget, our operating results could be negatively impacted.

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

- continued foreign currency fluctuations;
- less than expected capacity utilization of our manufacturing facility in Penang, Malaysia;
- increased manufacturing costs resulting from component supply shortages or component price fluctuations;
- additional marketing costs for new product introductions or for conferences and tradeshows;
- the timing, cost or outcome of any future intellectual property litigation or commercial disputes;
- additional unanticipated costs related to our acquisitions; or
- increased component costs resulting from vendors increasing their sales price.

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

In addition, the announcement of Brexit caused significant short-term volatility in the foreign currency markets and an approximately 14% devaluation of the GBP against the U.S. dollar. The ongoing uncertainty surrounding the implementation of Brexit, including the conditions and timing of the exit negotiation period, and uncertainty in relation to the relationship of the U.K with the remaining members of the E.U. (including in relation to trade) has caused and is likely to continue to cause continued volatility in the foreign currency markets. The continuing uncertainty following the U.K. vote may lead to broader negative business sentiment resulting in less demand for our products which would negatively impact our net sales and results of operations.

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Our Current Domestic Cash Position May Not Be Sufficient to Fund our Domestic Cash Needs in the Next Twelve Months and We May Need to Borrow Additional Amounts Under our Loan Agreement, Seek Funding from External Sources or Repatriate Foreign Earnings. Our Loan Agreement (the "Loan Agreement") with Wells Fargo Bank provides for a $125 million unsecured revolving line of credit. Proceeds of loans made under the Loan Agreement may be used for working capital and other general corporate purposes. (See "Note 14—Debt" in Notes to Consolidated Financial Statements for additional discussion of the Loan Agreement). We may choose to borrow additional funds against our line of credit in future periods to have sufficient domestic cash to fund continued dividends to our stockholders, to fund potential acquisitions, to purchase shares under our board authorized share repurchase program or other domestic general corporate purposes without the need to repatriate foreign cash, as we intend to permanently reinvest our undistributed earnings for the foreseeable future. Future dividends are subject to approval and declaration by our Board of Directors, and our share repurchase program does not obligate us to acquire any specific number of shares.

We may also seek to pursue additional financing or to raise additional funds by selling equity or debt to the public or in private transactions. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of our existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock. We may also choose to repatriate foreign earnings which would be subject to the U.S. federal statutory tax rate of 35% and therefore would likely have a material adverse effect on our effective tax rate and on our net income and earnings per share. We could also choose to reduce certain expenditures or payments of dividends or suspend our program to repurchase shares of our common stock.

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

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

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

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

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Orders With a Value of Greater than One Million Dollars Expose Us to Significant Additional Business and Legal Risks that Could Have a Material Adverse Impact on our Business, Results of Operations and Financial Condition. In recent years, we have made a concentrated effort to increase our net sales through the pursuit of orders with a value greater than $1.0 million. These types of orders expose us to significant additional business and legal risks compared to smaller orders. Our very large customers frequently require contract terms that vary substantially from our standard terms of sale. These orders can be accompanied by critical delivery commitments and severe contractual liabilities can be imposed on us if we fail to provide the required quantity of product at the required delivery times. These customers may also impose product acceptance requirements and product performance evaluations which create uncertainty with respect to the timing of our ability to recognize revenue from such orders. In addition, these larger orders are more volatile, are subject to greater discount variability and may contract at a faster pace during an economic downturn. These contracts may also have supply constraint requirements which mandate that we allocate large product inventories for a specific contract. These inventory requirements expose us to higher risks of inventory obsolescence and can adversely impact our ability to provide adequate product supply to other customers.

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

Revenue Derived from Large Orders Could Adversely Affect our Gross Margin and Could Lead to Greater Variability in our Quarterly Results. We define our large order business as orders with a value greater than $100,000. These orders may be more sensitive to changes in the global industrial economy, may be subject to greater discount variability, lower gross margins, and may contract at a faster pace during an economic downturn compared to orders valued at less than $100,000. To the extent that the amount of our net sales derived from large orders increases in future periods, either in absolute dollars or as a percentage of our overall business, our gross margins could decline, and we could experience greater volatility and see a greater negative impact from future downturns in the global industrial economy. This dynamic may also have an impact on the historical seasonal pattern of our net sales and our results of operations. These types of orders also make managing inventory levels more difficult as we have in the past and may have to in the future build large quantities of inventory in anticipation of future demand that may not materialize.

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

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

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

Our Reported Financial Results May be Adversely Affected by Changes in Accounting Principles Generally Accepted in the U.S. We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the Financial Accounting Standards Board (“FASB”) and the Securities and Exchange Commission. A change in these policies or interpretations could have a significant effect on our reported financial results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes and accounting systems. For example, in May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers which supersedes nearly all existing U.S. GAAP revenue recognition guidance. (See “Note 1 – Operations and summary of significant accounting policies” for additional discussion of the accounting changes).

We Operate in Intensely Competitive Markets. The markets in which we operate are characterized by intense competition from numerous competitors, some of which are divisions of large corporations having far greater resources than we have, and we may face further competition from new market entrants in the future. A key competitor is Keysight Technologies Inc. (“Keysight”) which was formerly part of Agilent. Agilent completed the spin off of Keysight in November 2014. Keysight offers hardware and software products that provide solutions that directly compete with our virtual instrumentation products including its own line of PXI based hardware. Keysight is aggressively advertising and marketing products that are competitive with our products. Because of Keysight’s strong position in the instrumentation business, changes in its marketing strategy or product offerings could have a material adverse effect on our operating results.

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

- general market and economic conditions;
- our ability to maintain and grow our business with our current largest customer;
- our ability to meet the volume and service requirements of our large customers;
- industry consolidation, including acquisitions by us or our competitors;
- capacity utilization and the efficiency of manufacturing operations;
- success in developing new products;

- timing of our new product introductions;
- new product introductions by competitors;
- the ability of competitors to more fully leverage low cost geographies for manufacturing or distribution;
- product pricing, including the impact of currency exchange rates;
- effectiveness of sales and marketing resources and strategies;
- adequate manufacturing capacity and supply of components and materials;
- strategic relationships with our suppliers;
- product quality and performance;
- protection of our products by effective use of intellectual property laws;
- the financial strength of our competitors;
- the outcome of any future litigation or commercial dispute;
- barriers to entry imposed by competitors with significant market power in new markets; and,
- government actions throughout the world.

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

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

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

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

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

Our Tax Returns and Other Tax Matters are Subject to Examination by the U.S. Internal Revenue Service and Other Tax Authorities and Governmental Bodies and the Results of These Examinations Could Have a Material Adverse Effect on Our Financial Condition. We account for uncertainty in income taxes recognized in our financial statements using prescribed recognition thresholds and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on our tax returns. These uncertain tax positions are subject to examination by the U.S. Internal Revenue Service and other tax authorities. There can be no assurance as to the outcome of any future examinations. If the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our operating results, cash flows, and financial condition could be materially adversely affected. Our tax years 2008 through 2016 remain open to examination by the major taxing jurisdictions to which we are subject.

Tax Law Changes in Hungary Could Have a Negative Impact on our Effective Tax Rate, Earnings and Results of Operations. The profit from our Hungarian operation benefits from the fact that it is subject to an effective income tax rate that is lower than the U.S. federal statutory tax rate of 35%. Our earnings in Hungary are subject to a statutory tax rate of 19%. In addition, effective January 1, 2010, certain qualified research and development expenses in Hungary became eligible for an enhanced tax deduction. These tax benefits may not be available in future years due to changes in political conditions in Hungary or changes in tax laws in Hungary or in the U.S. The reduction or elimination of these benefits in Hungary or future changes in U.S. law pertaining to the taxation of foreign earnings could result in an increase in our future effective income tax rate which could have a material adverse effect on our operating results. (See “Note 9 – Income taxes” of Notes to Consolidated Financial Statements for additional discussion regarding the impact of these matters on our income taxes).

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

Our Manufacturing Capacity, and a Substantial Majority of our Warehousing and Distribution Capacity is Located Outside of the U.S. We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. In order to enable timely shipment of products to our customers we maintain the substantial majority of our inventory at our international locations. In addition to being subject to the risks of maintaining such a concentration of manufacturing capacity and global inventory, these facilities and their operations are also subject to risks associated with doing business internationally, including:

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

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

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

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

Difficulties arising from the centralization of our distribution or delays in the implementation of the systems or processes to support this centralized distribution could result in an interruption of our normal operations, including our ability to process orders and ship products to our customers. Any failure or delay in distribution from our facilities in

Hungary and Malaysia could have a material adverse effect on our operating results.

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

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

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

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

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

We Rely on Management Information Systems and Interruptions in our Information Technology Systems or Cyber-Attacks on our Systems Could Adversely Affect our Business. We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. During 2016, we devoted significant resources to the consolidation and migration of our existing Oracle business application suites into a global single instance of Oracle EBS. During 2017, we plan to devote significant resources to completing this transition. Although the transition has proceeded to date without any material disruption in our business systems, the possibility exists that our migration to the new ERP system could adversely affect our operating results, internal controls over financial reporting, and other business processes. We rely on a primary global center for our management information systems and on multiple systems in branches not covered by our global center. As with any information system, unforeseen issues may arise that could affect our ability to receive adequate, accurate and timely financial information, which in turn could inhibit effective and timely decisions. Furthermore, it is possible that our global center for information systems or our branch operations could experience a complete or partial shutdown. A significant system or network disruption could be the result of new system implementations, computer viruses, cyber-attacks, security breaches, facility issues or energy blackouts. Threats to our information technology security can take a variety of forms and individuals or groups of hackers or sophisticated organizations including state-sponsored organizations, may take steps that pose threats to our customers and our infrastructure. If we were to experience a shutdown, disruption or attack, it would adversely impact our product shipments and net sales, as order processing and product distribution are heavily dependent on our management information systems. Such an interruption could also result in a loss of our intellectual property or the release of sensitive competitive information or partner, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by the disruptions or security breaches. In addition, changing laws and regulations governing our responsibility to safeguard private data could result in a significant increase in operating or capital expenditures needed to comply with these new laws or regulations. Accordingly, our operating results in such periods would be adversely impacted. From time to time, we have experienced attempts to breach our security and attempts to introduce malicious software into our information technology systems; however, such attacks have not previously resulted in any material damage to us.

We are continually working to maintain reliable systems to control costs and improve our ability to deliver our products in our markets worldwide. Our efforts include, but are not limited to the following: firewalls, antivirus protection, patches, log monitors, routine backups with offsite retention of storage media, system audits, data

partitioning and routine password modifications. Our internal information technology systems environment continues to evolve and our business policies and internal security controls may not keep pace as new threats emerge. No assurance can be given that our efforts to continue to enhance our systems will be successful.

We are Subject to Risks Associated with Our Website. We devote significant resources to maintaining our website, ni.com, as a key marketing, sales and support tool and expect to continue to do so in the future. In 2016, we devoted significant resources to implementing new platforms for ni.com and these efforts will continue in 2017. There can be no assurance that we will be successful in our attempt to leverage the Web to increase sales. Failure to properly maintain our Website may interrupt normal operations, including our ability to provide quotes, process orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations and otherwise run our business which would have a material adverse effect on our results of operations. We host our Website internally. Any failure to successfully maintain our Website or any significant downtime or outages affecting our Website could have a material adverse impact on our operating results.

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

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

Compliance With Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 is Costly and Challenging. As required by Section 302 of the Sarbanes-Oxley Act of 2002, this Form 10-K contains our management's certification of adequate disclosure controls and procedures as of December 31, 2016. This annual report on Form 10-K also contains a report by our management on our internal control over financial reporting including an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 and an attestation and report by our external auditors with respect to the effectiveness of our internal control over financial reporting under Section 404. While these assessments and reports did not reveal any material weaknesses in our internal control over financial reporting, compliance with Sections 302 and 404 is required for each future fiscal year end. We expect that the ongoing compliance with Sections 302 and 404 will continue to be both very costly and very challenging and there can be no assurance that material weaknesses will not be identified in future periods. Any adverse results from such ongoing compliance efforts could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

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

Our Business Depends on the Continued Service of Our Key Management and Technical Personnel. Our success depends upon the continued contributions of our key management, sales, marketing, research and development and operational personnel including Alex Davern, our President and Chief Executive Officer, and other members of our senior management and key technical personnel. In connection with his promotion to Chief Executive Officer in January 2017, we entered into an employment agreement with Mr. Davern. We have no other agreements providing for the employment of any of our key employees for any fixed term and our key employees may voluntarily terminate their employment with us at any time. The loss of the services of one or more of our key employees in the future could have a material adverse effect on our operating results. We also believe our future success will depend upon our ability to attract and retain additional highly skilled management, technical, marketing, research and development, and operational personnel with experience in managing large and rapidly changing companies, as well as training, motivating and supervising employees. The market for hiring and retaining certain technical personnel, including software engineers, has become more competitive and intense in recent years. Failure to attract a sufficient number of qualified technical personnel, including software engineers or retain our key personnel could have a material adverse effect on our operating results.

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

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

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

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ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

We own approximately 145 acres of land in the Austin, Texas area. Our principal corporate and research and development activities are conducted in three buildings we own in Austin, Texas; 232,000 square foot and 140,000 square foot office facilities, and a 380,000 square foot research and development facility. We also own a 136,000 square foot office building in Austin, Texas which is being leased to third parties.

Our principal manufacturing activities are conducted in Debrecen, Hungary and Penang, Malaysia. We own a 306,000 square foot manufacturing, distribution and general and administrative facility in Debrecen, Hungary and a 314,000 square foot manufacturing, research and development, and general and administrative facility in Penang, Malaysia. In total, we hold a 99 year lease on approximately 23 acres of land comprised of two tracts in an industrial park in Penang, Malaysia.

Our German subsidiary, National Instruments Engineering GmbH & Co. KG, owns a 25,500 square foot office building in Aachen, Germany in which a majority of its activities are conducted. National Instruments Engineering owns another 19,375 square foot office building in Aachen, Germany, which is partially leased to third-parties. National Instruments Corporation (UK) Limited, United Kingdom, owns a 29,270 square foot office building in Newbury, UK.

As of December 31, 2016, we also leased a number of sales and support offices in the U.S. and various countries throughout the world. We believe our existing facilities are adequate to meet our current requirements.

ITEM 3.LEGAL PROCEEDINGS

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

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock began trading on The NASDAQ Stock Market under the symbol NATI effective March 13, 1995. The high and low closing prices for our common stock, as reported by Nasdaq for the two most recent fiscal years, are as indicated in the following table:

	High	Low
2016		
First Quarter 2016	$ 30.26	$ 26.89
Second Quarter 2016	30.13	25.94
Third Quarter 2016	29.46	26.92
Fourth Quarter 2016	31.08	27.20
2015		
First Quarter 2015	$ 32.85	$ 29.31
Second Quarter 2015	32.92	28.36
Third Quarter 2015	29.80	27.10
Fourth Quarter 2015	31.54	27.55

At the close of business on February 10, 2017, there were approximately 362 holders of record of our common stock and approximately 31,624 beneficial holders of our common stock.

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

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

	Dividend Amount
2016	
March 7, 2016	$ 0.20
June 6, 2016	0.20
September 6, 2016	0.20
December 5, 2016	0.20
2015	
March 9, 2015	$ 0.19
June 1, 2015	0.19
August 30, 2015	0.19
November 30, 2015	0.19

Our policy as to whether any future dividends will be paid, and if so, the amount, will be based on, among other considerations, our balance of domestic cash, our ability to obtain external financing through a line of credit, or by selling equity or debt securities to the public or to selected investors, our views on changes in tax rates applied to dividend income, potential future capital requirements related to research and development, expansion into new market areas, strategic investments and business acquisitions, share dilution management, legal risks, and challenges to our business model. Future dividends are subject to approval and declaration by our Board of Directors.

On January 25, 2017, our Board of Directors declared a quarterly cash dividend of $0.21 per common share, payable on March 6, 2017, to stockholders of record on February 13, 2017.

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

Performance Graph

The following graph compares the cumulative total return to holders of NI's common stock from December 31, 2011 to December 31, 2016 to the cumulative return over such period of the (i) Nasdaq Composite Index and (ii) Russell 2000 Index. We use the Russell 2000 Index due to the fact that we have not been able to identify a published industry or line of business index that we believe appropriately reflects our industry or line of business. We considered that some of our primary competitors are or were divisions of large corporations that have other significant business operations such that any index comprised of such competitors would not be reflective of our industry or line of business. We have also considered using a peer group index but do not believe such index is appropriate as we have not been able to identify a sufficient number of public companies with multiple years of trading history as a standalone company that we believe are principally in the same line of business as we are.

The graph assumes that $100 was invested on December 31, 2011 in NI's common stock and in each of the other two indices and the reinvestment of all dividends, if any. Stockholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance.

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
National Instruments	100	102	128	127	120	133
Nasdaq	100	117	165	189	202	220
Russell 2000	100	116	162	169	162	196

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

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Issuer Purchase of Equity Securities

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

(1) For the past several years, we have maintained various stock repurchase programs. At December 31, 2016, there were 1,134,247 shares available for repurchase under the plan approved on April 21, 2010. This repurchase plan does not have an expiration date.

Unregistered Sales of Equity Securities

None.

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ITEM 6.SELECTED CONSOLIDATED FINANCIAL DATA

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

	For the years ended December 31, (in thousands, except per share data)				
	2016	2015	2014	2013	2012
Statements of Income Data:					
Net sales:					
Americas	$ 482,039	$ 496,746	$ 495,951	$ 483,603	$ 455,024
EMEIA	389,843	409,119	412,401	390,301	368,744
APAC	356,297	319,591	335,510	298,654	319,924
Consolidated net sales	1,228,179	1,225,456	1,243,862	1,172,558	1,143,692
Cost of sales:	313,121	316,956	318,132	305,243	280,274
Gross profit	915,058	908,500	925,730	867,315	863,418
Operating expenses:					
Sales and marketing	461,236	452,262	461,845	447,800	431,468
Research and development	235,706	225,131	227,433	234,796	222,994
General and administrative	98,390	93,935	91,265	87,418	85,239
Acquisition related adjustment	-	-	-	(1,316)	6,783
Total operating expenses	795,332	771,328	780,543	768,698	746,484
Operating income	119,726	137,172	145,187	98,617	116,934
Other income (expense):					
Interest income	1,122	1,403	1,133	679	716
Net foreign exchange loss	(4,632)	(7,075)	(2,250)	(2,578)	(2,246)
Other (expense) income, net	(1,581)	(221)	(69)	450	(567)
Income before income taxes	114,635	131,279	144,001	97,168	114,837
Provision for income taxes	31,901	36,017	17,668	16,655	24,700
Net income	$ 82,734	$ 95,262	$ 126,333	$ 80,513	$ 90,137
Basic earnings per share	$ 0.64	$ 0.74	$ 0.99	$ 0.65	$ 0.74
Weighted average shares outstanding - basic	128,453	127,997	127,030	124,558	121,973
Diluted earnings per share	$ 0.64	$ 0.74	$ 0.99	$ 0.64	$ 0.73
Weighted average shares outstanding - diluted	129,008	128,668	127,997	125,571	122,977

Cash dividends declared per common share	$ 0.80	$ 0.76	$ 0.60	$ 0.56	$ 0.56

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	December 31, (in thousands)				
	2016	2015	2014	2013	2012
Balance Sheet Data:					
Cash and cash equivalents	$ 285,283	$ 251,129	$ 274,030	$ 230,263	$ 161,996
Short-term investments	73,117	81,789	197,163	163,149	173,166
Working capital (1)	574,572	559,525	700,163	603,240	522,744
Total assets	1,496,564	1,453,856	1,455,491	1,343,551	1,284,769
Long-term debt, net of current portion	25,000	37,000	-	-	-
Total stockholders' equity	1,114,219	1,081,721	1,117,496	1,023,084	939,128

(1) Effective December 31, 2015, our working capital includes the effects of the adoption of ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, requiring all deferred tax assets and liabilities and any related valuation allowance to be classified as non-current on our Consolidated Balance Sheets. Prior periods were not retrospectively adjusted.

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

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Any statements contained herein regarding our future financial performance, operations, or other activities (including, without limitation, statements to the effect that we "believe," "expect," "plan,", "intend to","may," "will," "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 13, and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

Overview

We design, manufacture and sell tools 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 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. No single customer accounted for more than 3%, 3%, or 5% of our sales in 2016, 2015, and 2014, respectively.

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 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 by leveraging our core technologies such as custom 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 61% of our revenues in 2016, 59% of our revenues in 2015 and 60% of our revenues in 2014. The vast majority of our foreign sales are denominated in the customers' local currency, which exposes us to the effects of changes in foreign currency exchange rates. We expect that a significant portion of our total revenues will continue to be derived from international sales. (See Note 13 – Segment and geographic information of Notes to Consolidated Financial Statements for details concerning the geographic breakdown of our net sales and long-lived assets).

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We manufacture substantially all of our product volume at our facilities in Debrecen, Hungary and Penang, Malaysia. In 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 contractors are used from time to time. The majority of our electronic cable assemblies are produced by contractors; however, we do manufacture some on an exception basis. Our software duplication, technical manuals and product support documentation is primarily produced by contractors.

Delivering high quality, reliable products

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

Our operating results fluctuate from period to period due to changes in global economic conditions and a number of other factors. As a result, we believe our historical results of operations should not be relied upon as indications of future performance. There can be no assurance that our net sales will grow or 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. In the three month period ended December 31, 2016, the average of the PMI was 52.3 and the average of the new order element of the PMI was 53.1, both indicating accelerating expansion. For January 2017, the most recent PMI reading was 52.7, slightly above the most recent quarterly average and consistent with the December 2016 reading of 52.7. For January 2017, the new order element of the PMI was 53.9, also above the most recent quarterly average, and above the December 2016 new order element reading of 53.7. During the three month period ended December 31, 2016, the PMI in the U.S. and the Eurozone maintained readings above 50. 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 2017.

We are encouraged by improving trends in the industrial economy in early 2017 as well as continuing success in the market for semiconductor test systems. However, the ongoing uncertainty created by volatile currency markets and continued weakness in the PC and energy sectors remain concerning as we look ahead to 2017. During 2016, we saw a sharp and broad appreciation of the U.S. dollar against many of the currencies in which we do business with the U.S. dollar index trading at or near a fourteen year high. The strength of the U.S. dollar is expected to continue to have a negative impact on the U.S. dollar equivalent of our foreign currency denominated sales. For the first quarter of 2017, we expect the strong U.S. dollar will reduce the U.S. dollar equivalent of our foreign currency denominated sales by as much as 1%. The ongoing uncertainty created by volatile currency markets, a prolonged period of low oil prices, the new U.S. presidential administration, and continued weakness in the PC industry, alone or in combination, may continue to have a material adverse effect on our revenues and the financial results of our operations. In addition, we remain concerned about the geopolitical and fiscal instability in the Middle East and some Emerging Markets where we do business. These factors as well as others we may not contemplate could have a material adverse effect on the spending patterns of businesses including our current and potential customers which could have a material adverse effect our revenues and our results of operations. Other factors that could adversely influence demand for our products include unemployment, labor and healthcare costs, access to credit, consumer and business confidence, and other macroeconomic factors that could have a negative impact on capital investment and spending behavior.

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Results of Operations

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

	Years ended December 31,		
	2016	2015	2014
Net sales:			
Americas	39.2 %	40.5 %	39.8 %
EMEIA	31.7	33.4	33.2
APAC	29.1	26.1	27.0
Consolidated net sales	100.0	100.0	100.0
Cost of sales	25.5	25.9	25.6
Gross profit	74.5	74.1	74.4
Operating expenses:			
Sales and marketing	37.6	36.9	37.1
Research and development	19.2	18.4	18.3
General and administrative	8.0	7.6	7.3
Total operating expenses	64.8	62.9	62.7
Operating income	9.7	11.2	11.7
Other income (expense):			
Interest income	0.1	0.1	0.1
Net foreign exchange loss	(0.4)	(0.6)	(0.2)
Other expense, net	(0.1)	-	-
Income before income taxes	9.3	10.7	11.6
Provision for income taxes	2.6	2.9	1.4
Net income	6.7 %	7.8 %	10.2 %

Figures may not sum due to rounding.

Results of Operations for the years ended December 31, 2016, 2015, and 2014

Net Sales. The following table sets forth our net sales for the years ended December 31, 2016, 2015, and 2014 along with the changes between the corresponding periods.

	Years ended December 31,				
($ in millions)	2016	Change	2015	Change	2014
Product sales	1,116.7	0.3%	1,113.6	(2.6%)	1,143.0
Software maintenance sales	111.5	(0.3%)	111.9	11%	100.9
Total net sales	$ 1,228.2	0.2%	1,225.5	(1.5%)	1,243.9

In 2016, product and software maintenance sales were relatively flat compared to 2015. In 2015 compared to 2014, the decrease in product sales was due to a sharp and broad appreciation of the U.S. dollar in many of the markets in which we do business. Software maintenance sales grew at a faster rate than our overall net sales during 2015, primarily due to increased growth of our enterprise licensing agreements.

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.

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

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Large orders, defined as orders with a value greater than $100,000, increased by 7% year over year during 2016 compared to a year over year decrease of 2% in 2015. During 2016, orders from our largest customer increased by $3 million compared to 2015. During 2015, orders from this customer decreased by $31 million compared to 2014. Excluding the impact of our largest customer, large orders grew by 6%, 12% and 9% during 2016, 2015, and 2014, respectively. Orders from our largest customer are discussed in more detail below. Large orders were 23%, 23%, and 22% of our total orders for the years ended December 31, 2016, 2015, and 2014, respectively. Larger orders are more volatile, are subject to greater discount variability and may contract at a faster pace during an economic downturn.

With respect to our largest customer, we are serving several different applications for this customer, each involving the use of LabVIEW and the NI PXI platform. During 2016, we received new orders totaling $32 million from this customer and recognized $34 million in revenue related to orders from this customer. During 2015, we received $28 million in new orders from our largest customer and recognized net revenue of $29 million related to orders from this customer.

The following table sets forth our net sales by geographic region for the years ended December 31, 2016, 2015, and 2014 along with the changes between the corresponding periods and the region’s percentage of total net sales.

	Years ended December 31,				
($ in millions)	2016	Change	2015	Change	2014
Americas	$ 482.1	(3.0%)	496.8	0.2%	496.0
Percentage of total net sales	39%		41%		40%
EMEIA	$ 389.8	(4.7%)	409.1	(0.8%)	412.4
Percentage of total net sales	32%		33%		33%
APAC	$ 356.3	11.5%	319.6	(4.7%)	335.5
Percentage of total net sales	29%		26%		27%

We expect sales outside of the Americas to continue to represent a significant portion of our revenue. We intend to continue to expand our international operations by increasing our presence in existing markets, adding a presence in some new geographical markets and continuing the use of distributors to sell our products in some countries.

Almost all 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 calculations. 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 years ended December 31, 2015 and 2014, respectively). 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 years ended December 31, 2016 and 2015, respectively.

	Year Ended December 31, 2015	Change in Constant Dollars		Impact of changes in foreign currency exchange rates on net sales		Year Ended December 31, 2016
($ In millions)	GAAP Net Sales	Dollars	Percentage	Dollars	Percentage	GAAP Net Sales
Americas	$ 496.8	(11.2)	(2.3%)	(3.5)	(0.7%)	482.1
EMEIA	$ 409.1	10.2	2.5%	(29.5)	(7.2%)	389.8
APAC	$ 319.6	44.6	14.0%	(7.9)	(2.5%)	356.3
Total net sales	$ 1,225.5	43.6	3.6%	(40.9)	(3.3%)	1,228.2

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($ In millions)	Year Ended December 31, 2014 GAAP Net Sales	Change in Constant Dollars Dollars	Change in Constant Dollars Percentage	Impact of changes in foreign currency exchange rates on net sales Dollars	Impact of changes in foreign currency exchange rates on net sales Percentage	Year Ended December 31, 2015 GAAP Net Sales
Americas	$ 496.0	13.0	3%	(12.2)	(2.5%)	496.8
EMEIA	$ 412.4	35.5	8.6%	(38.8)	(9.4%)	409.1
APAC	$ 335.5	2.0	0.6%	(17.9)	(5.3%)	319.6
Total net sales	$ 1,243.9	50.5	4.1%	(68.9)	(5.5%)	1,225.5

To help protect against changes in the U.S. dollar equivalent value caused by fluctuations in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales, we hedge portions of our forecasted revenue denominated in foreign currencies with average rate forward contracts. (See Note 4 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impacted on our consolidated sales for 2016 and 2015).

Gross Profit. The following table sets forth our gross profit and gross profit as a percentage of net sales for the years ended December 31, 2016, 2015, and 2014 along with the percentage changes in gross profit for the corresponding periods. We continue to focus on cost control and cost reduction measures throughout our manufacturing cycle.

($ in millions)	Years Ended December 31, 2016	Change	2015	Change	2014
Gross Profit	$ 915.1	$ 0.7%	$ 908.5	(1.9%)	$ 925.7
Gross Profit as a percentage of net sales	74.5%		74.1%		74.4%

During the years ended December 31, 2016 and 2015 the change in exchange rates had the effect of decreasing our cost of sales by $3.0 million and $10.5 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 hedge portions of our forecasted costs of sales denominated in foreign currencies with average rate forward contracts. During the year ended December 31, 2016 and 2015, these hedges had the effect of increasing our cost of sales by $1.9 million and $2.3 million, respectively. (See Note 4 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for further discussion regarding our cash flow hedging program and its related impacted on our consolidated sales for 2016 and 2015).

Operating Expenses. The following table sets forth our operating expenses for the years ended December 31, 2016, 2015, and 2014 along with the percentage changes between the corresponding periods and the line item as a percentage of total net sales.

	Years Ended December 31,				
($ in thousands)	2016	Change	2015	Change	2014
Sales and marketing	$ 461,236	2%	$ 452,262	$ (2%)	$ 461,845
Percentage of total net sales	38%		37%		38%
Research and development	$ 235,706	5%	225,131	(1%)	227,433
Percentage of total net sales	19%		18%		18%
General and Administrative	$ 98,390	5%	93,935	3%	91,265
Percentage of total net sales	8%		8%		7%
Total operating expenses	$ 795,332	3%	771,328	(1%)	780,543
Percentage of total net sales	65%		63%		63%

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The increase in our operating expenses in 2016 was due to higher personnel related expenses of $32.5 million due to increased variable compensation in regions with strong local currency growth as well as raises for eligible employees, and increased building and outside services expenses of $4.2 million. This was partially offset by a decrease of $9.2 million due to the net impact of changes in foreign currency exchange rates and a decrease in travel expenses of $2.3 million related to cost-savings initiatives implemented in the second half of 2016.

In 2015, the net impact of changes in foreign currency exchange rates decreased our operating expense by $38 million. This was partially offset by higher personnel related expenses of $18 million, higher expenses for building and equipment of $11 million, and additional travel costs of $4 million. The increase in personnel costs was driven by an increase in headcount as well as raises for eligible employees. In addition, a $6 million decrease in operating expenses related to software development which coincides with the $6 million increase in our capitalized software compared to the year ended December 31, 2014.

The increase in our capitalized software is consistent with our focus on new product development to support future growth in our business. We capitalize software development costs when technological feasibility has been established and amortize those costs as a component of cost of sales once the corresponding product is available for general release to customers. (See Note 1 – Operations and summary of significant accounting policies and Note 7 – Intangible assets of Notes to Consolidated Financial Statements for further discussion related to the capitalization and amortization of software development costs.)

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 focused in areas and initiatives that will contribute to future growth in our business. The decrease in sales and marketing expenses in 2015 was driven by a decrease in commissions due to lower sales volume compared to 2014 as well as a $6.6 million decrease related to the net impact of changes in foreign currency exchange rates.

Operating Income. For the years ended December 31, 2016, 2015, and 2014, operating income was $120 million, $137 million and $145 million, respectively, a decrease of 13% in 2016, following a decrease of 6% in 2015. As a percentage of net sales, operating income was 10%, 11% and 12%, respectively, over the three year period. The decrease in operating income in absolute dollars and as a percent of sales in 2016 and 2015, is attributable to the factors discussed in Net Sales, Gross Profit and Operating Expenses above.

Interest Income. Interest income was $1.1 million, $1.4 million and $1.1 million for the years ended December 31, 2016, 2015, and 2014, respectively, a decrease of 20% in 2016, following an increase of 24% in 2015. We continue to see low yields for high quality investment alternatives that comply with our corporate investment policy. We expect yields in these types of investments to increase moderately in 2017.

Net Foreign Exchange Loss. Net foreign exchange loss was $(4.6) million, $(7.1) million, and $(2.3) million for the years ended December 31, 2016, 2015, and 2014, 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 2016 and 2015, there was sharp volatility in the exchange rates between the U.S. dollar and most of the major currencies in the markets in which we do business and such volatility was characterized by a broad and sharp strengthening of the U.S. dollar against most currencies. In 2015 net foreign exchange loss included a $3.1 million loss on Euro cash holdings that were subsequently used to fund our acquisition of M2 and its wholly-owned subsidiary, Microprocess. We cannot predict the direction or degree of future volatility in these exchange rates. In the past, we have noted that significant volatility in foreign currency exchange rates in the markets in which we do business has had a significant impact on the revaluation of our foreign currency denominated firm commitments, on our ability to forecast our U.S. dollar equivalent revenues and expenses and on the effectiveness of our hedging programs. In the past, these dynamics have also adversely affected our revenue 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 loss”. Our hedging strategy decreased our foreign exchange losses by $1.9 million, $4.3 million, and $2.5 million in 2016, 2015, and 2014, respectively. (See Note 4 - Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for a further description of our derivative instruments and hedging activities)

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Provision for Income Taxes. For the years ended December 31, 2016, 2015, and 2014, our provision for income taxes reflected an effective tax rate of 28%, 27% and 12%, respectively. The factors that caused our effective tax rates to change year-over-year are detailed in the table below:

	Years ended December 31,	
Effective tax rate for 2015	27	%
Increased profits in foreign jurisdictions with reduced income tax rates	(6)	
Change in valuation allowance	1	
Change in enhanced deduction for certain research and development expenses	5	
Change in intercompany prepaid tax asset	-	
Change in amortization of intangible assets	1	
Other	-	
Effective tax rate for 2016	28	%

	Years ended December 31,	
Effective tax rate for 2014	12	%
Decreased profits in foreign jurisdictions with reduced income tax rates	1	
Change in valuation allowance	(1)	
Change in enhanced deduction for certain research and development expenses	1	
Change in intercompany prepaid tax asset	2	
Change in unrecognized tax benefits	11	
Other	1	
Effective tax rate for 2015	27	%

(See Note 9 – Income taxes of Notes to Consolidated Financial Statements for further discussion regarding changes in our effective tax rate and a reconciliation of income taxes at the U.S. federal statutory income tax rate of 35% to our effective tax rate).

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Quarterly results of operations

The following quarterly results have been derived from unaudited consolidated financial statements that, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such quarterly information. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period. You should read the following tables presenting our quarterly results of operations in conjunction with the consolidated financial statements and related notes contained elsewhere in this Annual Report on Form 10-K. The unaudited quarterly financial data for each of the eight quarters in the two years ended December 31, 2016 and December 31, 2015 are as follows:

	Three months ended (in thousands, except per share data)			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Net sales	$ 287,177	306,105	306,365	328,532
Gross profit	211,031	228,597	229,630	245,800
Operating income	13,844	27,267	29,364	49,251
Net income	9,298	19,800	24,487	29,149
Basic earnings per share	$ 0.07	0.15	0.19	0.23
Weighted average shares outstanding - basic	127,595	128,282	128,815	129,108
Diluted earnings per share	$ 0.07	0.15	0.19	0.23
Weighted average shares outstanding - diluted	128,103	128,746	129,047	129,503
Dividends declared per share	$ 0.20	0.20	0.20	0.20

	Three months ended (in thousands, except per share data)			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales	$ 289,513	301,791	299,812	334,340
Gross profit	213,177	225,116	222,646	247,561
Operating income	20,133	34,687	32,351	50,001
Net income	15,004	24,942	23,178	32,138
Basic earnings per share	$ 0.12	0.19	0.18	0.25
	128,040	128,682	127,935	127,341

Weighted average shares outstanding - basic				
Diluted earnings per share	$ 0.12	0.19	0.18	0.25
Weighted average shares outstanding - diluted	128,676	129,337	128,229	127,798
Dividends declared per share	$ 0.19	0.19	0.19	0.19

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Other operational information

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 intangibles, acquisition related transaction costs, restructuring charges, foreign exchange loss on acquisitions, taxes levied on the transfer of acquired intellectual property, and acquisition-related fair value adjustments that were recorded in the line items indicated below (in thousands).

(In thousands)	Three Months Ended December 31, 2016	2015	Years Ended December 31, 2016	2015
Stock-based compensation				
Cost of sales	$ 568	$ 509	$ 2,210	$ 1,936
Sales and marketing	2,636	2,701	11,057	11,003
Research and development	2,131	2,240	8,876	9,004
General and administrative	859	888	3,623	3,544
Provision for income taxes	(1,125)	(1,870)	(7,322)	(7,289)
Total	$ 5,069	$ 4,468	$ 18,444	$ 18,198