MORGANS FOODS INC
Form 10-Q
October 01, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended August 17, 2008

or

o **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 1-08395

Morgan s Foods, Inc.

(Exact name of registrant as specified in its charter)

Ohio	34-0562210
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4829 Galaxy Parkway, Suite S, Cleveland, Ohio	44128
(Address of principal executive offices)	(Zip Code)

(216) 359-9000

(Registrant s telephone number, including area code)

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 þ No o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

(Do not check if a smaller reporting company)

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

As of September 29, 2008, the issuer had 2,934,995 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MORGAN S FOODS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended	
	August 17, 2008	**August 12, 2007**
Revenues	$23,049,000	$22,877,000
Cost of sales:		
Food, paper and beverage	7,506,000	6,977,000
Labor and benefits	6,557,000	6,196,000
Restaurant operating expenses	6,041,000	5,727,000
Depreciation and amortization	791,000	661,000
General and administrative expenses	1,364,000	1,380,000
Loss (gain) on restaurant assets	(9,000)	8,000
Operating income	799,000	1,928,000
Interest expense:		
Prepayment and deferred financing costs	428,000	
Bank debt and notes payable	734,000	803,000
Capital leases	27,000	29,000
Other income and expense, net	(79,000)	(128,000)
Income (loss) before income taxes	(311,000)	1,224,000
Provision for income taxes	330,000	354,000
Net income (loss)	$ (641,000)	$ 870,000
Basic net incomen (loss) per common share:	$ (0.22)	$ 0.30
Diluted net income (loss) per common share:	$ (0.22)	$ 0.29
Basic weighted average number of shares outstanding	2,934,995	2,888,999
Diluted weighted average number of shares outstanding	2,944,450	2,960,272

See notes to these consolidated financial statements.

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MORGAN S FOODS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Twenty-four Weeks Ended	
	August 17, 2008	**August 12, 2007**
Revenues	$44,802,000	$45,527,000
Cost of sales:		
Food, paper and beverage	14,470,000	13,916,000
Labor and benefits	12,795,000	12,247,000
Restaurant operating expenses	11,528,000	11,300,000
Depreciation and amortization	1,564,000	1,315,000
General and administrative expenses	2,714,000	2,760,000
Gain on restaurant assets	(4,000)	(8,000)
Operating income	1,735,000	3,997,000
Interest expense:		
Prepayment and deferred financing costs	428,000	
Bank debt and notes payable	1,558,000	1,650,000
Capital leases	53,000	58,000
Other income and expense, net	(169,000)	(172,000)
Income (loss) before income taxes	(135,000)	2,461,000
Provision for income taxes	412,000	761,000
Net income (loss)	$ (547,000)	$ 1,700,000
Basic net income (loss) per common share:	$ (0.19)	$ 0.59
Diluted net income (loss) per common share:	$ (0.19)	$ 0.57
Basic weighted average number of shares outstanding	2,934,995	2,884,997
Diluted weighted average number of shares outstanding	2,951,173	2,962,399

See notes to these consolidated financial statements.

MORGAN S FOODS, INC.
CONSOLIDATED BALANCE SHEETS

	August 17, 2008	March 02, 2008
ASSETS		
Current assets:		
Cash and equivalents	$ 7,397,000	$ 6,428,000
Receivables	405,000	423,000
Inventories	787,000	755,000
Prepaid expenses	382,000	679,000
Assets held for sale	508,000	
	9,479,000	8,285,000
Property and equipment:		
Land	9,994,000	10,798,000
Buildings and improvements	21,435,000	22,588,000
Property under capital leases	1,314,000	1,314,000
Leasehold improvements	10,889,000	10,110,000
Equipment, furniture and fixtures	20,597,000	21,047,000
Construction in progress	243,000	1,193,000
	64,472,000	67,050,000
Less accumulated depreciation and amortization	30,099,000	31,620,000
	34,373,000	35,430,000
Other assets	712,000	837,000
Franchise agreements, net	1,362,000	1,417,000
Deferred tax asset	404,000	766,000
Goodwill	9,227,000	9,227,000
	$ 55,557,000	$ 55,962,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current	$ 3,086,000	$ 3,190,000
Current maturities of capital lease obligations	37,000	34,000
Accounts payable	4,878,000	5,718,000
Accrued liabilities	3,623,000	4,678,000
	11,624,000	13,620,000
Deferred tax liabilities	1,963,000	1,853,000
Long-term debt	34,910,000	35,789,000
Long-term capital lease obligations	1,128,000	1,144,000
Other long-term liabilities	4,006,000	1,083,000

SHAREHOLDERS EQUITY		
Preferred shares, 1,000,000 shares authorized, no shares outstanding		
Common stock, no par value		
Authorized shares - 25,000,000		
Issued shares - 2,969,405	30,000	30,000
Treasury shares - 34,410	(81,000)	(81,000)
Capital in excess of stated value	29,344,000	29,344,000
Accumulated deficit	(27,367,000)	(26,820,000)
Total shareholders equity	1,926,000	2,473,000
	$ 55,557,000	$ 55,962,000

See notes to these consolidated financial statements.

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MORGAN S FOODS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(UNAUDITED)

	Common Shares		Treasury Shares		Capital in excess of stated value	Accumulated Deficit	Total Shareholders Equity
	Shares	Amount	Shares	Amount			
Balance March 2, 2008	2,969,405	$30,000	(34,410)	$(81,000)	$29,344,000	$(26,820,000)	$2,473,000
Net income (loss)						(547,000)	(547,000)
Balance August 17, 2008	2,969,405	$30,000	(34,410)	$(81,000)	$29,344,000	$(27,367,000)	$1,926,000

See notes to these consolidated financial statements.

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MORGAN S FOODS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Twenty-four Weeks Ended	
	August 17, 2008	August 12, 2007
Cash flows from operating activities:		
Net (loss) income	$ (547,000)	$ 1,700,000
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	1,564,000	1,315,000
Amortization of deferred financing costs	59,000	48,000
Amortization of supply agreement advances	(473,000)	(487,000)
Funding from supply agreements	38,000	107,000
Decrease in deferred tax assets	362,000	445,000
Increase in deferred tax liabilities	110,000	211,000
Gain on restaurant assets	(4,000)	(8,000)
Changes in assets and liabilities:		
Decrease (increase) in receivables	18,000	(55,000)
Increase in inventories	(32,000)	(59,000)
Decrease in prepaid expenses	297,000	185,000
Increase (decrease) in accounts payable	(840,000)	551,000
Increase in accrued liabilities and other	(819,000)	269,000
Net cash provided by operating activities	(267,000)	4,222,000
Cash flows from investing activities:		
Capital expenditures	(2,956,000)	(2,263,000)
Proceeds from sale/leasebacks	1,972,000	
Net cash used in investing activities	(984,000)	(2,263,000)
Cash flows from financing activities:		
Proceeds from long-term borrowings	3,000,000	
Principal payments on long-term debt	(1,532,000)	(1,488,000)
Principal payments on capital lease obligations	(13,000)	(16,000)
Bank debt repayment in advance	(2,451,000)	
Cash received for exercise of stock options		220,000
Deferred gain on sale/leaseback transactions	3,216,000	
Net cash provided by (used in) financing activities	2,220,000	(1,284,000)
Net change in cash and equivalents	969,000	675,000
Cash and equivalents, beginning balance	6,428,000	7,829,000
Cash and equivalents, ending balance	$ 7,397,000	$ 8,504,000

Interest paid was $1,604,000 and $1,725,000 in the first 24 weeks of fiscal 2009 and 2008 respectively
Cash payments for income taxes were $34,000 and $171,000 in the first 24 weeks of fiscal 2009 and 2008 respectively

See notes to these consolidated financial statements.

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MORGAN S FOODS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

The interim consolidated financial statements of Morgan s Foods, Inc. (the Company) have been prepared without audit. In the opinion of Company management, all adjustments have been included. Unless otherwise disclosed, all adjustments consist only of normal recurring adjustments necessary for a fair statement of results of operations for the interim periods. These unaudited financial statements have been prepared using the same accounting principles that were used in preparation of the Company s annual report on Form 10-K for the year ended March 2, 2008. Certain prior period amounts have been reclassified to conform to current period presentations. The results of operations for the quarter ended August 17, 2008 are not necessarily indicative of the results to be expected for the full year.

Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company s Form 10-K for the fiscal year ended March 2, 2008.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 apply under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities. The Company has determined that adoption of SFAS No. 157 did not have a material impact on its financial position, results of operations or related disclosures.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the year beginning March 3, 2008 for the Company. The Company did not elect the fair value option for any of its eligible financial assets or financial liabilities and the adoption of SFAS No. 159 did not have any material effect on the Company s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161 Disclosure About Derivative Instruments and Hedging Activities-an amendment to FASB Statement 133 (SFAS 161). SFAS 161 requires enhanced disclosures about derivatives and hedging activities and the reasons for using them. SFAS 161 is effective for fiscal years beginning after November 15, 2008, the year beginning March 2, 2009 for the Company. We are currently reviewing the provisions of SFAS 161 to determine any impact for the Company.

In December 2007, the FASB issued SFAS 141R Business Combinations. SFAS No. 141R modifies the accounting for business combinations by requiring that acquired assets and assumed liabilities be recorded at fair value, contingent consideration arrangements be recorded at fair value on the date of the acquisition and preacquisition contingencies be accounted for in purchase accounting at fair value. The pronouncement also requires that transaction costs be expensed as incurred, acquired research and development be capitalized as an indefinite-lived intangible asset and the requirements of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities be met at the acquisition date in order to accrue for a restructuring plan in purchase accounting. SFAS No. 141R is required to be adopted prospectively effective for fiscal years beginning after December 15, 2008.

NOTE 2 NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is based on the combined weighted average number of shares outstanding, which includes the assumed exercise, or conversion of options. In computing diluted net income (loss) per common share, the Company has utilized the treasury stock method.

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NOTE 3 DEBT

The Company s fixed rate debt arrangements require the maintenance of a consolidated fixed charge coverage ratio of 1.2 to 1 regarding all of the Company s loans, cross default and cross collateralization provisions and many require the maintenance of individual restaurant fixed charge coverage ratios of between 1.2 and 1.5 to 1. The Company s variable rate loans of which approximately $15.1 million is outstanding at August 17, 2008, require the maintenance of a consolidated fixed charge coverage ratio of 1.2 and a funded debt (debt balance plus a calculation based on operating lease payments) to EBITDAR ratio of 5.5, contain cross default and cross collateralization provisions and do not contain either individual restaurant fixed charge ratio requirements or provisions for prepayment penalties beyond the second year. Fixed charge coverage ratios are calculated by dividing the cash flow before rent and debt service for the previous 12 months by the debt service and rent due in the coming 12 months. The consolidated and individual coverage ratios are computed quarterly. As of August 17, 2008, the Company was in compliance with the consolidated fixed charge coverage ratio of 1.2. However, as of August 17, 2008, the Company was not in compliance with the individual fixed charge coverage ratio on certain of its restaurant properties and has obtained waivers of these violations.

On May 30, 2008, the Company completed a set of financing transactions involving: 1) the sale leaseback of five of its restaurant properties, 2) equipment debt supported by five additional restaurants and 3) the payment, before their maturity, of nine existing loans secured by certain of the properties. The Company retired approximately $1,532,000 of debt, paid $222,000 of prepayment charges and administrative fees and wrote off approximately $31,000 of deferred financing costs associated with the loans being retired early. The Company received approximately $5,188,000 of proceeds from the sale leasebacks, net of origination fees and costs, and approximately $2,961,000 of net proceeds from the equipment loan. In order to facilitate the sale leaseback transaction, the Company also purchased, for $350,000, a parcel, which it previously leased, adjacent to one of the restaurant locations. After restructuring the property, the Company intends to sell it. The leases are structured as operating leases and have a primary term of 18 years with annual rent ranging from approximately $448,000 to $577,000. The loan has a variable rate based on a spread over 90 day LIBOR, a term of five years and an amortization of ten years. The Company will use the remaining proceeds of the transactions for general corporate purposes, including funding of its image enhancement program. Additionally, the Company paid, before their maturity, four other fixed rate loans having a total principal balance of $919,000. In doing so, the Company incurred $165,000 of prepayment penalties and wrote off $9,000 of deferred financing costs related to the loans.

NOTE 4 STOCK OPTIONS

On April 2, 1999, the Board of Directors of the Company approved a Stock Option Plan for Executives and Managers. Under the plan 145,500 shares were reserved for the grant of options. The Stock Option Plan for Executives and Managers provides for grants to eligible participants of nonqualified stock options only. The exercise price for any option awarded under the Plan is required to be not less than 100% of the fair market value of the shares on the date that the option is granted. Options are granted by the Stock Option Committee of the Company. Options for the 145,150 shares were granted to executives and managers of the Company on April 2, 1999 at an exercise price of $4.125. The plan provides that the options are exercisable after a waiting period of 6 months and that each option expires 10 years after its date of issue.

At the Company s annual meeting on June 25, 1999 the shareholders approved the Key Employees Stock Option Plan. This plan allows the granting of options covering 291,000 shares of stock and has essentially the same provisions as the Stock Option Plan for Executives and Managers which was discussed above. Options for 129,850 shares were granted to executives and managers of the Company on January 7, 2000 at an exercise price of $3.00. Options for 11,500 shares were granted to executives on April 27, 2001 at an exercise price of $.85. As of August 17, 2008, options for a total of 150,000 shares were available for grant.

No options were granted during the twenty-four week period ended August 17, 2008. As of August 17, 2008, 70,000 options were outstanding, fully vested and exercisable at a weighted average exercise price of $4.00 per share. During the twenty-four weeks ended August 17, 2008 there was no unrecognized compensation expense for financial reporting purposes.

The following table summarizes information about stock options outstanding at August 17, 2008:

Exercise Prices	Number Outstanding at August 17, 2008	Average Remaining Life	Number of Shares Exercisable at August 17, 2008
$3.000	7,500	1.4	7,500
$4.125	62,500	0.6	62,500
	70,000	0.7	70,000

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NOTE 5 CAPITAL EXPENDITURES

The Company is required by its franchise agreements to periodically bring its restaurants into conformity with the franchisors required image. This typically involves a new dining room décor and seating package and exterior changes and related items but can, in some cases, require the relocation of the restaurant. If the Company deems a particular image enhancement expenditure to be inadvisable, it has the option to cease operations at that restaurant. Over time, the estimated cost and time deadline for each restaurant may change due to a variety of circumstances and the Company revises its requirements accordingly. Also, significant numbers of restaurants may have image enhancement deadlines that coincide, in which case, the Company will adjust the actual timing of the image enhancements in order to facilitate an orderly construction schedule. During the image enhancement process, each restaurant is closed for one to two weeks, which has a negative impact on the Company s revenues and operating efficiencies. At the time a restaurant is closed for a required image enhancement, the Company may deem it advisable to make other capital expenditures in addition to those required for the image enhancement.

The franchise agreements with KFC and Taco Bell Corporation require the Company to upgrade and remodel its restaurants to comply with the franchisors current standards within agreed upon timeframes. In the case of a restaurant containing two concepts, even though only one is required to be remodeled, additional costs will be incurred because the dual concept restaurant is generally larger and contains more equipment and signage than the single concept restaurant. If a property is of usable size and configuration, the Company can perform an image enhancement to bring the building to the current image of the franchisor. If the property is not large enough to fit a drive-thru or has some other deficiency, the Company would need to relocate the restaurant to another location within the trade area to meet the franchisor s requirements. In four of the Company s restaurants, one of the franchisors may have the ability to accelerate the deadline for image enhancements. In order to meet the terms and conditions of the franchise agreements, the Company has the following obligations:

Number of Units	Period	Type	Total (1)	Required (2)	Additional (3)
3	Fiscal 2009	IE	$ 980,000	$ 860,000	$ 120,000
1	Fiscal 2009	Rebuild	450,000	450,000	
1	Fiscal 2009	Relo (4)	400,000	400,000	
1	Fiscal 2010	IE	750,000	750,000	
18	Fiscal 2011	IE	6,400,000	5,680,000	720,000
1	Fiscal 2011	Relo (4)	1,400,000	1,400,000	
1	Fiscal 2012	Relo (4)	1,400,000	1,400,000	
0	Fiscal 2013	IE			
1	Fiscal 2014	Rebuild	1,000,000	1,000,000	
4	Fiscal 2015	Relo (4)	4,000,000	4,000,000	
1	Fiscal 2016	Relo (4)	500,000	500,000	
0	Fiscal 2017-2019	IE			
5	Fiscal 2020	Relo (4)	7,000,000	7,000,000	
2	Fiscal 2020	Rebuild	2,000,000	2,000,000	
39	Total		$ 26,280,000	$ 25,440,000	$ 840,000

(1) These amounts are based on current construction costs and actual

costs may vary.

(2) These amounts include only the items required to meet the franchisor s image requirements.

(3) These amounts are for capital upgrades performed on or which may be performed on the image enhanced restaurants which were or may be deemed by the Company to be advantageous to the operation of the units and which may be done at the time of the image enhancement.

(4) Relocations of fee owned properties are shown net of expected recovery of capital from the sale of the former location. Relocation of leased properties assumes the capital cost of only equipment because it is not known until each lease is finalized whether the

lease will be a
capital or
operating lease.

Capital expenditures to meet the image requirements of the franchisors and additional capital expenditures on those same restaurants being image enhanced are a large portion of the Company s annual capital expenditures. However, the Company also has made and may make capital expenditures on restaurant properties not included on the foregoing schedule for upgrades or replacement of capital items appropriate for the continued successful operation of its restaurants. Capital expenditures in the volume and time horizon required by the image enhancement deadlines cannot be financed solely from existing cash balances and existing cashflow and the Company expects that it will have to utilize financing for a portion of the capital expenditures. The Company may use both debt and sale leaseback financing but has no commitments for either.

There can be no assurance that the Company will be able to accomplish the image enhancements and relocations required in the franchise agreements on terms acceptable to the Company. If the Company is unable to meet the requirements of a franchise agreement, the franchisor may choose to extend the time allowed for compliance or may terminate the franchise agreement.

NOTE 6 ASSETS HELD FOR SALE

The Company owns the land and building of a closed KFC restaurant and the land and building adjacent to another of its restaurants, both of which are listed for sale and are shown on the Company s consolidated balance sheets as Assets Held for Sale as of August 17, 2008.

NOTE 7 SUBSEQUENT EVENTS

On September 14, 2008, subsequent to the end of the Company s fiscal 2009 second quarter, we closed an unprofitable KFC restaurant in the Youngstown, Ohio area. The restaurant location is fee owned and unencumbered and has been listed for sale. The net book value of the land and building of the restaurant location is approximately $115,000 and will be classified until sold as an Asset Held for Sale in subsequent financial statements.

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

Description of Business. Morgan s Foods, Inc. (the Company), which was formed in 1925, operates through wholly-owned subsidiaries KFC restaurants under franchises from KFC Corporation, Taco Bell restaurants under franchises from Taco Bell Corporation, Pizza Hut Express restaurants under licenses from Pizza Hut Corporation and an A&W restaurant under a license from A&W Restaurants, Inc. As of September 26, 2008, the Company operates 70 KFC restaurants, 6 Taco Bell restaurants, 13 KFC/Taco Bell 2n1 s under franchises from KFC Corporation and franchises or licenses from Taco Bell Corporation, 3 Taco Bell/Pizza Hut Express 2n1 s under franchises from Taco Bell Corporation and licenses from Pizza Hut Corporation, 1 KFC/Pizza Hut Express 2n1 under a franchise from KFC Corporation and a license from Pizza Hut Corporation and 1 KFC/A&W 2n1 operated under a franchise from KFC Corporation and a license from A&W Restaurants, Inc. The Company s fiscal year is a 52 53 week year ending on the Sunday nearest the last day of February.

Summary of Expenses and Operating Income as a Percentage of Revenues

	Quarter Ended		Twenty-four Weeks Ended	
	August 17, 2008	August 12, 2007	August 17, 2008	August 12, 2007
Cost of sales:				
Food, paper and beverage	32.6%	30.5%	32.3%	30.6%
Labor and benefits	28.4%	27.1%	28.6%	26.9%
Restaurant operating expenses	26.2%	25.0%	25.7%	24.8%
Depreciation and amortization	3.4%	2.9%	3.5%	2.9%
General and administrative expenses	5.9%	6.0%	6.1%	6.1%
Operating income	3.5%	8.4%	3.9%	8.8%

Revenues. The revenue increase of $172,000 in the quarter ended August 17, 2008 as compared to the comparable year earlier period was the result of a minor 0.2% increase in comparable restaurant revenues and the addition of a KFC/Taco Bell restaurant partially offset by the permanent closing of two restaurants, one of which was a Taco Bell restaurant that was replaced by the new KFC/Taco Bell. The comparable restaurant revenue decline of 2.23% in the twenty-four weeks ended August 17, 2008 from the twenty-four weeks ended August 12, 2007 was primarily the result of weak product promotions by the KFC system during the second quarter of the current fiscal year including the Toasted Wrap as well as difficult economic conditions for consumers in our market areas.

Cost of Sales Food, Paper and Beverage. Food, paper and beverage costs increased as a percentage of revenue to 32.6% for the quarter ended August 17, 2008 compared to 30.5% for the quarter ended August 12, 2007. The increase in the current year quarter was primarily the result of rapidly increasing commodity costs and a reduction in operating efficiencies coupled with relatively flat average restaurant volumes. The Company was unable to implement menu price increases rapidly enough to offset the rising costs. Food, paper and beverage costs for the twenty-four weeks ended August 17, 2008 increased to 32.3% compared to 30.6% in the prior year period primarily for the reasons discussed above.

Cost of Sales Labor and Benefits. Labor and benefits increased as a percentage of revenue for the quarter ended August 17, 2008 to 28.4% compared to 27.1% for the year earlier quarter. The increase was primarily due to increases in the minimum wage in substantially all of the areas in which the Company operates coupled with relatively flat average restaurant volumes. Labor and benefits increased to 28.6% of revenues for the twenty-four weeks ended August 17, 2008 compared to 26.9% in the comparable prior year period primarily for the reasons discussed above.

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Restaurant Operating Expenses. Restaurant operating expenses increased as a percentage of revenue to 26.2% in the second quarter of fiscal 2009 compared to 25.0% in the second quarter of fiscal 2008 primarily due to increases in utilities and advertising expenses. For the twenty-four weeks ended August 17, 2008, restaurant operating expenses increased to 25.7% from 24.8% in the comparable prior year period primarily for the reasons discussed above.

Depreciation and Amortization. Depreciation and amortization increased to $791,000 in the quarter and $1,564,000 in the twenty-four weeks ended August 17, 2008 compared to $661,000 for the quarter and $1,315,000 for the twenty-four weeks ended August 12, 2007 primarily due to the additional depreciation related to capital additions made during the prior fiscal year.

General and Administrative Expenses. General and administrative expenses were largely unchanged at $1,364,000 in the second quarter and $2,714,000 for the first twenty-four weeks of fiscal 2009 compared to $1,380,000 in the second quarter and $2,760,000 for the first twenty-four weeks of fiscal 2008.

Loss (gain) on Restaurant Assets. The Company experienced a gain on restaurant assets of $9,000 for the second quarter of fiscal 2009 compared to a loss of $8,000 for the second quarter of fiscal 2008. The amounts contain reductions in the reserve for closed restaurant locations, offset by losses on property disposed during restaurant remodeling. The gain on restaurant assets was $4,000 and $8,000 for the first twenty-four weeks of fiscal 2009 and fiscal 2008 respectively, primarily reflecting the same elements as the quarter amounts discussed above.

Operating Income. Operating income in the second quarter of fiscal 2009 decreased to $799,000, or 3.5% of revenues, compared to $1,928,000, or 8.4% of revenues, for the second quarter of fiscal 2008 primarily due to increases in food costs, labor costs and operating expenses. Operating income for the twenty-four weeks ended August 17, 2008 declined to $1,735,000, or 3.9% of revenues, from $3,997,000, or 8.8% of revenues, for the twenty-four weeks ended August 12, 2007 primarily for the same reasons.

Interest Expense. Interest expense on bank debt and notes payable decreased to $761,000 in the second quarter of fiscal 2009 from $832,000 in the second quarter of fiscal 2008 due to lower interest rates on debt which was refinanced during the fiscal 2008 fourth quarter. Interest expense on bank debt and notes payable for the twenty-four weeks ended August 17, 2008 was $1,611,000 compared to $1,708,000 for the comparable prior year period primarily for the reasons discussed above.

Other Income. Other income decreased to $79,000 for the second quarter and $169,000 for the first twenty-four weeks of fiscal 2009 from $128,000 for the second quarter and $172,000 for the first twenty-four weeks of fiscal 2008. The decreases were primarily due to decreased interest on invested cash balances.

Provision for Income Taxes. The provision for income taxes for the quarter ended August 17, 2008 was $330,000 on a pre-tax loss of $311,000 compared to $354,000 on a pre-tax profit of $1,224,000 for the comparable prior year period. The provision for income taxes is recorded at the Company s projected annual effective tax rate and consists of a current tax benefit of $73,000 and a deferred tax provision of $403,000. The current tax benefit is primarily a result of available employment tax credits that can be carried back to offset taxes previously paid. The deferred tax provision consists of $579,000, which is primarily the result of a change in the estimate of the future realization of various deferred items, offset by a deferred tax benefit of $176,000 associated with the prepayment and deferred financing costs incurred during the quarter ended August 17, 2008. The changes in deferred taxes are non-cash items and do not affect the Company s cash flow or cash balances. The components of the tax provision of $412,000 for the twenty-four weeks ended August 17, 2008 were a current tax benefit of $59,000 and a deferred tax provision of $471,000. The current tax benefit is primarily the result of available employment tax credits that can be carried back to offset taxes previously paid. The deferred tax provision consists of $647,000, primarily the result of a change in the estimate of the future realization of various deferred items offset by a deferred tax benefit of $176,000 associated with the prepayment and deferred financing costs incurred during the twenty-four weeks ended August 17, 2008.

Liquidity and Capital Resources. Cash provided by operating activities was $1,636,000 for the twenty-four weeks ended August 17, 2008 compared to cash provided by operating activities of $4,222,000 for the twenty-four weeks ended August 12, 2007. The decrease in operating cash flow resulted primarily from a decrease in net income. The Company paid scheduled long-term bank and capitalized lease debt of $1,545,000 in the first twenty-four weeks of fiscal 2009 compared to payments of $1,504,000 for the comparable period in fiscal 2008. Capital expenditures in the twenty-four weeks ended August 17, 2008 were $2,887,000, compared to $2,263,000 for the comparable period in fiscal 2008 as the Company has continued its image enhancement activity into fiscal 2009 to meet the requirements of its franchise agreements. Capital expenditure activity is discussed in more detail in Note 5 to the consolidated financial statements. The Company owns the land and building of a closed KFC restaurant and the land and building adjacent to another of its restaurants, both of which are listed for sale and are shown on the Company s consolidated balance sheets as Assets Held for Sale as of August 17, 2008.

The Company s fixed rate debt arrangements require the maintenance of a consolidated fixed charge coverage ratio of 1.2 to 1 regarding all of the Company s loans, cross default and cross collateralization provisions and many require the maintenance of individual restaurant fixed charge coverage ratios of between 1.2 and 1.5 to 1. The Company s variable rate loans of which

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approximately $15.1 million is outstanding at August 17, 2008, require the maintenance of a consolidated fixed charge coverage ratio of 1.2 and a funded debt (debt balance plus a calculation based on operating lease payments) to EBITDAR ratio of 5.5, contain cross default and cross collateralization provisions and do not contain either individual restaurant fixed charge ratio requirements or provisions for prepayment penalties beyond the second year. Fixed charge coverage ratios are calculated by dividing the cash flow before rent and debt service for the previous 12 months by the debt service and rent due in the coming 12 months. The consolidated and individual coverage ratios are computed quarterly. As of August 17, 2008, the Company was in compliance with the consolidated fixed charge coverage ratio of 1.2. However, as of August 17, 2008, the Company was not in compliance with the individual fixed charge coverage ratio on certain of its restaurant properties and has obtained waivers of these violations.

On May 30, 2008, the Company completed a set of financing transactions involving: 1) the sale leaseback of five of its restaurant properties, 2) equipment debt supported by five additional restaurants and 3) the payment, before their maturity, of nine existing loans secured by certain of the properties. The Company retired approximately $1,532,000 of debt, paid $222,000 of prepayment charges and administrative fees and wrote off approximately $31,000 of deferred financing costs associated with the loans being retired early. The Company received approximately $5,188,000 of proceeds from the sale leasebacks, net of origination fees and costs, and approximately $2,961,000 of net proceeds from the equipment loan. In order to facilitate the sale leaseback transaction, the Company also purchased, for $350,000, a parcel, which it previously leased, adjacent to one of the restaurant locations. After restructuring the property, the Company intends to sell it. The leases are structured as operating leases and have a primary term of 18 years with annual rent ranging from approximately $448,000 to $577,000. The loan has a variable rate based on a spread over 90 day LIBOR, a term of five years and an amortization of ten years. The Company will use the remaining proceeds of the transactions for general corporate purposes, including funding of its image enhancement program. Additionally, the Company paid, before their maturity, four other fixed rate loans having a total principal balance of $919,000. In doing so, the Company incurred $165,000 of prepayment penalties and wrote off $9,000 of deferred financing costs related to the loans.

The Company s image enhancement requirements have created an unusually active construction schedule in which there has been at least one restaurant closed in most weeks of the Company s recent and current fiscal periods. For each week that a restaurant is closed, the Company loses approximately $20,000 in revenue and $5,000 of profit. In addition, the management team of each closed restaurant either fills in at a restaurant nearby or engages in non-revenue generating activities to prepare for reopening and this has a negative impact on the overall labor cost of the Company. Also, in closing and reopening a restaurant, certain amounts of food and shortening are lost to waste, having a negative impact on the Company s food cost.

New Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 apply under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities. The Company has determined that adoption of SFAS No. 157 did not have a material impact on its financial position, results of operations or related disclosures.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the year beginning March 3, 2008 for the Company. The Company did not elect the fair value option for any of its eligible financial assets or financial liabilities and the adoption of SFAS No. 159 did not have any material effect on the Company s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161 Disclosure About Derivative Instruments and Hedgiew Roman" SIZE="2">*David G. Hugley* joined NI in 1991 as General Counsel, was appointed Secretary of NI in 1996, and became Vice President in January 2003. Mr. Hugley received his bachelor s degree in Business Administration and JD from UT Austin and is a licensed attorney in Texas.

Robert R. Porterfield joined NI in April 1993 and currently serves as Vice President, Manufacturing. His earlier positions with NI include Director of International Operations and Global Supply Chain, Director of International Operations and Global Planning, Planning Manager, Materials Manager and Warehousing Supervisor. Mr. Porterfield received his bachelor s degree in Aerospace Engineering from Auburn University and a master s degree in Business Administration from UT Austin.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Philosophy and Objectives

NI s philosophy towards compensation for its principal executive officer, principal financial officer, and the three most highly compensated executives other than the principal executive officer and the principal financial officer whose total compensation exceeded $100,000 (the named executives) and other executives reflect the following principles:

Total compensation opportunities should be competitive. NI believes that its total compensation programs should be competitive so that NI can attract, retain and motivate talented executives.

Total compensation should be related to NI s performance. NI believes that a significant portion of its executives total compensation should be directly linked to achieving specified financial objectives that NI believes will create stockholder value.

Total compensation should be related to individual performance. NI believes that executives total compensation should reward individual performance achievements and encourage individual contributions to NI s performance.

Equity awards help executives think like stockholders. NI believes that executives total compensation should have a significant equity component because stock based equity awards help reinforce the executive s long-term interest in NI s overall performance and thereby align the interests of the executive with the interests of NI s stockholders.

NI s overall amount of equity awards should be related to its revenue growth. NI believes that its use of equity awards must be sensitive to the dilutive impact that such equity compensation will have on its stockholders. As a result, NI s overall amount of equity awards for each year is linked to its revenue growth in the prior year.

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The same compensation programs should generally apply to both executive and non-executive employees whenever possible. NI values the contributions of all employees and, to the extent practicable, NI designs its compensation programs to apply to all employees. NI seeks to minimize the number of compensation programs that apply only to its executives and disfavors the use of executive perks.

Determining Executive Compensation

In establishing NI s overall program for executive compensation, the Compensation Committee of the Board of Directors (the Compensation Committee) works closely with NI s senior management including its chief executive officer and vice president of human resources. However, NI s executives do not participate in any Board or Compensation Committee deliberations relating to their own compensation.

As described below, NI utilizes survey information to help determine whether the total compensation package for its executives is competitive to comparable companies. NI exercises judgment in allocating compensation among specific programs in view of its overall compensation philosophy, objectives and business results.

Radford Surveys, a leading provider of survey information regarding executive compensation of technology companies, provides NI with executive compensation information of companies in the high technology industry that have annual revenues ranging from $500 million to $1.5 billion. The Compensation Committee determined to use a higher range of revenue in 2008 for the Radford data compared to prior years to reflect the increase in NI s revenue. NI believes the information from such range is appropriate because it affords an adequate sample size of comparable high technology companies and because the average annual revenue of the companies in such range is comparable to NI s annual revenue. NI compares the compensation of its executive officers with that of the executive officers in the Radford Surveys as a whole rather than any individual company within such survey.

NI believes that total compensation at or around the 50^{th} percentile of the peer companies provided in the Radford Surveys as a group is the appropriate starting point for benchmarking the compensation of its executives. Though NI uses such 50^{th} percentile as a reference point, NI does not target a specific percentile in the range of comparative information for each individual executive or for each component of compensation. Instead, NI structures a total compensation package in view of the comparative information and such other factors specific to the individual, including level of responsibility, prior experience and expectations of future performance. NI uses information obtained from Radford Surveys to test for reasonableness and competitiveness of its compensation package as a whole, but exercises judgment in allocating compensation among executives and within each element of an individual s total compensation package. Other than the use of the Radford Surveys described above, NI does not use peer group executive compensation information. Set forth on Exhibit A is each of the companies that are covered by the relevant portion of the Radford Surveys information utilized by NI.

NI does not have specific policies for allocating between long-term and currently paid out compensation nor policies for allocating between cash and non-cash compensation, and among different forms of non-cash compensation. Other than NI s President and Chief Executive Officer, who does not participate in the Annual Incentive Plan and has not received any equity awards, each NI executive may receive a mix of compensation comprised of base salary, cash bonuses and equity awards. The amount of compensation allocated to each element of compensation is determined on a case-by-case basis.

With respect to each of the annual incentive cash bonus program and the long term incentive program, NI sets cash bonus targets based on information provided through the Radford Surveys regarding cash bonus levels of executives at similarly-situated companies, the recommendation of NI s Chief Executive Officer, and each executive s function and past performance. The amount of cash bonus ultimately paid depends on the extent to which performance goals are achieved, in each case subject to adjustment at the discretion of the Compensation Committee.

As described in greater detail below in the Analysis of Elements of Executive Compensation, the Compensation Committees considers both NI performance and individual performance when determining the level of compensation for a number of the elements of executive compensation. For example, in determining the grants of RSUs and any increases in base salary, the Compensation Committee takes into consideration, among other things, the prior individual performance of an executive officer, as well as NI s performance. Similarly, the Annual Incentive Plan is an at risk bonus designed to induce NI s executive officers to accomplish a set of goals based upon individual performance and NI s business goals and reflects NI s philosophy that total compensation should be related both to individual performance and NI s performance. Amounts, if any, awarded under the discretionary cash program are determined solely on individual performance. For some of NI s other elements of executive compensation, such as the Annual Company Cash Performance Bonus Program and the long term incentive plan, NI s performance as whole is determinative of the compensation payable to the participants. The Compensation Committee believes that the various elements of executive compensation work together to promote NI s objective that total compensation should be related both to individual performance and NI s performance.

Elements of Executive Compensation

The components of NI s executive compensation for 2008 were as follows:

- Base salary;
- Annual company cash performance bonus program;
- Annual incentive program for executives;
- Discretionary cash bonus program;
- RSU grants under the NI 2005 Incentive Plan;
- Long term incentive plan for executives; and
- Service award cash bonus program.

A broad base of NI s employees participate in the compensation programs enumerated above with the exception of the annual incentive program for executives and the long term incentive plan for executives. In addition, NI s Senior Vice President, Sales and Marketing, participates in a sales commission program based upon growth and profitability performance measures approved by the Compensation Committee.

NI s executive and non-executive employees who meet the relevant eligibility requirements may also participate in the following programs:

- Employee stock purchase plan. This plan is a tax-qualified plan pursuant to which some participants can purchase NI stock at a 15% discount to the market price. Under this plan, a participant can invest a maximum amount equal to 15% of base salary and commissions, provided that such amount cannot exceed $25,000 in any year.

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A tax-qualified, employee-funded 401(k) plan. NI makes matching contributions under the plan in an amount equal to 50% of the amount of the employee s contribution up to 6% of the employee s base salary. The plan does not permit the purchase of shares of NI common stock.

Health and welfare benefits. Under this plan, the cost to NI is dependent on the level of benefits coverage an employee elects.

NI seeks to reward shorter-term performance through base salary, its annual bonus programs and its discretionary bonus program. Longer-term performance is incentivized through RSU grants, the long term incentive plan and the service award program.

Analysis of Elements of Executive Compensation

Base Salary

NI s goal is to provide its executives with competitive base salaries. NI uses independent survey information to help evaluate the reasonableness and competitiveness of its base salaries. NI determines base salary for each executive based on the level of job responsibilities, consideration of the prior performance of the executive and the company, the executive s experience and tenure, consideration of the expected future contributions of the executive, and general compensation trends and practices in the technology industry, including pay levels and programs provided by comparable companies. In setting base salaries, NI does not utilize any particular formula but instead exercises judgment in view of its overall compensation philosophy and objectives. Individual base salaries are reviewed annually. In response to the adverse economic and business conditions facing NI and the industry, a 5% reduction in annual salary was implemented for executives effective January 1, 2009.

Annual Cash Bonus Programs

NI rewards achievement of shorter term performance objectives through its cash bonus programs described below:

Annual Company Cash Performance Bonus Program. NI maintains a cash performance bonus program under which substantially all regular full-time and part-time employees, including executives, participate (the Annual Performance Bonus Program). To receive the maximum payout under the plan, NI must achieve pre-determined goals for revenue growth and profitability. These goals, as provided in the plan, were 40% year over year organic revenue growth and 18% operating profit as a percent of revenue. The same goals apply to all participants in the plan including executive and non-executive employees. The amount of the Annual Performance Bonus Program is based on a bonus payment percentage multiplied by the eligible earnings of each participant. Eligible earnings include base salary, overtime pay and commissions but exclude bonuses, equity awards, relocation payments and previous cash performance bonus payments. For 2008, the bonus payment percentage for executives was determined by multiplying 40% by two variables: (x) NI s actual organic revenue growth divided by the targeted level of revenue growth of 40% and (y) NI s actual operating profit as a percentage of revenue multiplied by the target operating profit of 18%. The bonus payments percentage for non-executives was determined in the same manner except that the multiplier is 15% not 40%. Expressed as a formula, the bonus calculation for executives is as follows:

$$\frac{\text{Calendar Year Organic Revenue Growth}}{.40} \times \frac{\text{Calendar Year Operating Profit}}{.18} \times .40 = \text{Bonus Percentage}$$

For fiscal 2008, NI s named executives received individual payments under the Annual Performance Bonus Program in the range of approximately $14,644 to $25,885. Amounts under the Annual Performance Bonus Program are customarily made in two payments, one in the fourth quarter and the other upon the completion of the annual financial statement audit in the first quarter of the following year.

Annual Incentive Program. NI maintains an annual incentive cash bonus program (the AIP) under which only executives and Business and Technology Fellows and Research and Development Fellows participate. Dr. Truchard, NI s President and Chief Executive Officer, does not participate in the program. Under this program, payments are made based upon the achievement of individual performance criteria and NI business goals approved by the NI Board. Program participants are designated by NI s President and approved by the Compensation Committee. The participants under the AIP and the AIP goals are determined annually.

The AIP is intended to increase stockholder value and promote NI s success by providing incentive and reward for the accomplishment of key objectives by NI executives. Under the AIP, an executive is eligible to receive a maximum amount equal to 30% of base salary for Senior Vice Presidents (or, in case of the Senior Vice President of Sales and Marketing, salary plus targeted commission) and a maximum of 20% of base salary for Vice President, Business and Technology Fellows, and Research and Development Fellows. For the purposes of the AIP, the base salary amount is the amount set by the Compensation Committee for base salaries effective as of October 1st of the year immediately preceding the applicable AIP year, and as such, the base salary amount utilized for calculating the maximum amount payable under the applicable AIP in a given year may be less than or more than the base salary actually paid to NI executives if the Compensation Committee subsequently raises or reduces such base salary in October of the applicable AIP year. Payments are made based on whether the individual executive has achieved his or her specified objectives for the year. Each executive typically has 5 or 6 objectives that are targeted to reward achievements in the executive s functional area or NI business goals. The objectives are presented and approved by NI s President and then submitted for approval each year to the NI Board. The amount of the bonus which is allocated to each specific objective is approved each year by the Compensation Committee.

Following the end of NI s fiscal year, NI s President reviews with each executive whether the objectives for such executive were met. Based on these reviews, the President makes recommendations to the Compensation Committee as to the amount (if any) to be paid to each AIP participant. The Compensation Committee reviews and considers these recommendations and approves the amount of the AIP payments. NI s President and the Compensation Committee, acting together, have the discretion to pay all or a portion of an amount to an AIP participant even if such participant did not met a particular objective if the President and the Compensation Committee believe that such payment is appropriate to achieve the objectives of the program.

For fiscal 2008, NI made cash bonus payments to named executives under the AIP in the range of approximately $21,600 to $66,373 per executive.

On October 22, 2008, the Compensation Committee approved an amendment to the AIP. Prior to amendment, the AIP provided that payment of any cash incentive bonus under the program would be made as soon as administratively practicable following the calendar year once the Company s books have been closed and audited. The amendment modifies the AIP to provide that the Compensation Committee shall also have the discretion to make payments of any cash incentive bonus in the fourth quarter of the calendar year based upon projected achievement levels (Estimated Payment) rather than waiting until following the calendar year once the Company s books have been closed and audited. The payment of an Estimated Payment is subject to a reconciliation after the Company s books have been closed and audited. If the Estimated Payment is less than the final amount due to the AIP participant, an additional payment equal to the amount of the shortfall shall be made to such participant. If the Estimated Payment is more than the final amount due to the AIP participant, such participant shall remit to the Company the amount of the overpayment. Thus, the amendment may change the timing of the payments but will not result in any increase in the total payments to any participant under the AIP.

On March 24, 2009, the Compensation Committee amended the AIP to allow executive salaries for purposes of the AIP to be as determined by the Committee when participant goals are approved. For 2009, the salaries of each executive for the purposes of AIP will be the salary in effect on December 31, 2008. In addition, in response to the adverse economic and business conditions facing NI and the industry, the Committee reduced the bonus amounts to be paid under the AIP to senior vice presidents from 30% to 27% and vice presidents from 20% to 18% of their respective salaries.

The tables below set forth the performance criteria, potential awards and actual awards under the AIP as well as the weightings assigned to the objectives for 2008 for each of the named executives, except Dr. Truchard, NI s President and Chief Executive Officer, who does not participate in the program:

2008 Annual Incentive Program Goals and Awards for the Named Executives

Alexander Davern, Chief Financial Officer, Senior Vice President Manufacturing & IT

Operations; Treasurer

2008 Officer Bonus Goals	% Goal Weighting	Goal Value (2)	2008 Actual Payout
1) Achieve worldwide on-time delivery goal rate[(1)]	20%	$ 18,300	$ 18,300
2) Improve designated virtual system quality[(1)]	10%	$ 9,150	$ 0
3) Improve second designated virtual system quality[(1)]	10%	$ 9,150	$ 9,150
4) Improve overall quality[(1)]	10%	$ 9,150	$ 0
5) Achieve gross margin goal[(1)]	20%	$ 18,300	$ 0
6) Ensure 2008 spending within budget	20%	$ 18,300	$ 18,300
7) Receipt of attestation report from NI s independent registered public accounting firm indicating no material weaknesses in NI s internal control over financial reporting for the fiscal year ended December 31, 2008	10%	$ 9,150	$ 9,150
Total	**100%**	**$ 91,500**	**$ 54,900**

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(1) NI is not disclosing the specific targets level with respect to this specific performance goal because such information represents confidential trade secrets or confidential commercial or financial information, the disclosure of which would cause NI competitive harm. The specific performance goals were set to be a moderately difficult, or stretch goal, but not unachievable.

(2) Under the AIP, Mr. Davern was eligible to receive a maximum amount of $91,500, which was equal to 30% of his base salary, $305,000, effective as of October 1, 2007.

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Peter Zogas, Senior Vice President, Sales & Marketing

2008 Officer Bonus Goals	% Goal Weighting	Goal Value (2)	2008 Actual Payout
1) Achieve goal rate for new product revenue in relation to total revenue[(1)]	15%	$ 12,690	$ 8,528
2) Achieve hiring plan for Field and SE sales force[(1)]	15%	$ 12,690	$ 12,690
3) Create repeatable process for POCs[(1)]	10%	$ 8,460	$ 0
4) Meet revenue goals for two specified products[(1)]	15%	$ 12,690	$ 11,104
5) Meet revenue goal for two additional specified products[(1)]	10%	$ 8,460	$ 4,442
6) Meet 2008 worldwide sales and marketing budget	25%	$ 21,150	$ 21,150
7) Report Monthly Revenue Forecast based on Opportunity Tracking System	10%	$ 8,460	$ 8,460
Total	**100%**	**$ 84,600**	**$ 66,373**

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(1) NI is not disclosing the specific targets level with respect to this specific performance goal because such information represents confidential trade secrets or confidential commercial or financial information, the disclosure of which would cause NI competitive harm. The specific performance goals were set to be a moderately difficult, or stretch goal, but not unachievable.

(2) Under the AIP, Mr. Zogas was eligible to receive a maximum amount of $84,600, which was equal to 30% of the sum of his base salary and commission target, an aggregate of $282,000, effective as October 1, 2007.

John Graff, Vice President, Marketing, Customer Operations and Investor Relations

2008 Officer Bonus Goals	% Goal Weighting	Goal Value (2)	2008 Actual Payout
1) Achieve goal rate for revenue from new products in relation to total revenue[(1)]	10%	$ 5,000	$ 3,360
2) Successful marketing of 4 new products[(1)]	10%	$ 5,000	$ 5,000
3) Achieve expense management goals[(1)]	20%	$ 10,000	$ 5,000
4) Achieve web traffic growth[(1)]	20%	$ 10,000	$ 5,000
5) Achieve sales operations implementation goals[(1)]	15%	$ 7,500	$ 6,250
6) Achieve business growth for revenue goals within specified order ranges and achieve opportunity growth at specified values[(1)]	15%	$ 7,500	$ 4,550
7) Implement Sustainability Program Goal and achieve user Contributive Content[(1)]	10%	$ 5,000	$ 5,000
Total	**100%**	**$ 50,000**	**$ 34,160**

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(1) NI is not disclosing the specific targets level with respect to this specific performance goal because such information represents confidential trade secrets or confidential commercial or financial information, the disclosure of which would cause NI competitive harm. The specific performance goals were set to be a moderately difficult, or stretch goal, but not unachievable.

(2) Under the AIP, Mr. Graff was eligible to receive a maximum amount of $50,000 which was equal to 20% of his base salary, $250,000, effective as of October 1, 2007.

Raymond C. Almgren, Vice President, Product Marketing and Academic Relations

2008 Officer Bonus Goals	% Goal Weighting	Goal Value (2)	2008 Actual Payout
1) Achieve revenue growth in Software[(1)]	20%	$ 9,600	$ 6,965
2) Achieve resale revenue growth[(1)]	20%	$ 9,600	$ 9,600
3) Achieve certain results from resale Lead User activities[(1)]	20%	$ 9,600	$ 9,600
4) Achieve adoption goal for software[(1)]	20%	$ 9,600	$ 7,200
5) Achieve Academic hardware Growth[(1)]	20%	$ 9,600	$ 5,190
Total	**100%**	**$ 48,000**	**$ 38,555**

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(1) NI is not disclosing the specific targets level with respect to this specific performance goal because such information represents confidential trade secrets or confidential commercial or financial

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information, the disclosure of which would cause NI competitive harm. The specific performance goals were set to be a moderately difficult, or stretch goal, but not unachievable.

(2) Under the AIP, Mr. Almgren was eligible to receive a maximum amount of $48,000, which was equal to 20% of his base salary, $240,000, effective as of October 1, 2007.

Timothy Dehne, Former Senior Vice President, Research & Development

2008 Officer Bonus Goals	% Goal Weighting	Goal Value (2)	2008 Actual Payout (3)
1) Achieve scheduled product development release goals(1)	30%	$ 25,380	$ 21,572
2) Improve designated virtual system quality(1)	5%	$ 4,230	$ 0
3) Improve second designated virtual system quality(1)	5%	$ 4,230	$ 4,230
4) Improve overall quality(1)	10%	$ 8,460	$ 0
5) Achieve goal rate for new product revenue in relation to total revenue(1)	15%	$ 12,690	$ 8,693
6) Achieve gross margin goal(1)	20%	$ 16,920	$ 0
7) Meet worldwide engineering recruiting goals(1)	10%	$ 8,460	$ 8,460
8) Achieve revenue and profitability goals for one designated subsidiary(1)	5%	$ 4,230	$ 0
Total	**100%**	**$ 84,600**	**$ 42,955**

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(1) NI is not disclosing the specific targets level with respect to this specific performance goal because such information represents confidential trade secrets or confidential commercial or financial information, the disclosure of which would cause NI competitive harm. The specific performance goals were set to be a moderately difficult, or stretch goal, but not unachievable.

(2) Under the AIP, Mr. Dehne was eligible to receive a maximum amount of $84,600, which was equal to 30% of his base salary, $282,000, effective as of October 1, 2007.

(3) Mr. Dehne left NI effective December 12, 2008.

In assessing performance against the objectives for each named executive participating in the AIP, NI s President considered the actual results for 2008 against the specific deliverables associated with each objective, the extent to which the objective was a significant stretch goal for the organization, and whether significant unforeseen obstacles or favorable circumstances altered the expected difficulty in achieving the desired results. Based on the foregoing factors, NI s President recommended, and the Compensation Committee approved, an amount of cash payment for each objective for each named executive. As demonstrated by the total amounts set forth under the column heading 2008 Actual Payout, the actual payouts to NI s named executive officers ranged from 51% to 80% of the total amount they were eligible to receive under the AIP in 2008.

Sales Commission Program Applicable to Senior Vice President of Sales and Marketing. For 2008, Mr. Zogas annual target sales commission was set on September 20, 2006 at $50,000 by the Compensation Committee to be effective October 1, 2006. On September 17, 2008, the Compensation Committee reviewed the target of $50,000 and reaffirmed such target as the basis for determining actual payments to Mr. Zogas under the sales commission program for 2008. The amount of the sales commission actually paid to Mr. Zogas is based on two variables: (x) NI s actual quarterly year over year revenue growth compared to the target quarterly year over year revenue growth as set forth in the operating budget (revenue factor) and (y) NI s actual quarterly operating profit compared to the target quarterly operating profit as set forth in the operating budget (the profit factor). The profit factor may not exceed 1 for the purposes of computing the commission. NI s Board of Directors approves the operating budget which sets the target quarterly year over year revenue growth and target quarterly profit used for the purposes of calculating the actual commission payments made to

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Mr. Zogas. Expressed as a formula, the commission calculation for each quarter of the last fiscal year was as follows:

$$2 \text{ X } \frac{[\text{Actual Qtr Rev. Growth \%} \quad \text{Target Qtr Rev. Growth \%} + 20]}{40} \text{ X } \frac{\text{Actual Qtr. Profit \%}}{\text{Target Qtr. Profit \%}} \text{ X } \$12{,}500$$

NI is not disclosing the specific target levels utilized in the formula set forth above for determining Mr. Zogas sales commission payouts because they represent confidential information that NI does not disclose to the public and NI believes that disclosure of such information would cause it competitive harm. The specific target levels were set to be a moderately difficult, or stretch goals, but not unachievable.

Under this sales commission program, Mr. Zogas earned for 2008 an aggregate of $44,941, which represents approximately 89.8% of the annual target commission amount of $50,000 set by the Compensation Committee.

Discretionary Cash Bonus Program

NI maintains a discretionary cash performance bonus program under which all employees, including executives, are eligible to receive awards. NI s President does not participate in the program. Under this program, awards are made in recognition of a special achievement by the employee. Awards under this program have typically been in the range of $100 to $2,000 per award. The average award under the discretionary cash performance program in 2008 for employees was approximately $841. The purpose of this program is to award a specific accomplishment that is not covered by NI s other compensation programs. The amount of the award for executives is determined by NI s President and the amount of the award for non-executive employees is determined by the departmental supervisors.

During 2008, none of the named executives received an award under this program.

Restricted Stock Unit (RSU) Awards

Determining the Overall Level of Equity Compensation Awards. NI uses equity compensation to incentivize a large number of its employees. In 2008, 46% of all U.S. based regular, full-time professional employees received equity based compensation. NI s use of stock based equity compensation for a large number of its employees is driven by NI s goal of aligning the long-term interests of its employees with its overall performance and the interests of its stockholders. NI s equity compensation program is also driven by NI s desire to be sensitive to the dilutive impact that such equity compensation will have on its stockholders. As a result, NI s overall level of equity awards for each year is linked to its revenue growth during the prior year. In this regard, the following table sets forth the relationship between the level of equity awards and NI s year over year revenue growth for the past several years:

		Options			**Restricted Stock Units**	
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Revenue Growth (prior year)	1.40%	9.00%	20.7%	9.09%(1)	12.8%(2)	12.1%
Shares underlying equity awards issued	675,207	1,262,599	244,725	693,805	801,780	763,182
% of Outstanding shares	0.9%	1.6%	0.3%	0.9%	1.0%	0.9%
Outstanding shares	78,269,000	78,946,000	79,276,000	79,884,000	79,806,681	77,225,387

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(1) The number used for revenue growth was adjusted down from 11.2% to reflect organic growth (growth without the effect of acquisition revenue).
(2) The number used for revenue growth was adjusted down from 15.5% to reflect organic growth (growth without the effect of acquisition revenue).

Allocation of Equity Compensation Awards. In 2008, NI granted a total of 763,182 RSUs to all employees which represented 0.9% of NI s shares outstanding. Of such amount, a total of 41,000 RSUs were granted to NI named executives, representing 5.4% of all RSUs granted in 2008. RSUs granted to executives vest over a period of ten years, subject to acceleration based on NI s performance.

A set formula for allocating RSUs to executives as a group or to any particular executive is not utilized. Instead, NI exercises its judgment and discretion and considers, among other things, the role and responsibility of the executive, competitive factors, the amount of stock based equity compensation already held by the executive, the non-equity compensation received by the executive and the total number of RSUs to be granted to all participants during the year.

In 2008, NI issued a total of 41,000 RSUs to its named executives. The number of RSUs granted to each named executive is set forth in the Grants of Plan-Based Awards Table. The value of such grants, as determined in accordance with FAS 123R for each individual named executive is set forth in the column entitled Full Grant Date Fair Value of Stock and Option Awards in the Grants of Plan Based Awards Table.

Timing of Equity Awards. The Compensation Committee grants RSUs to executives and current employees once per year. Such grants are made at a meeting of the Compensation Committee held in the second quarter of the year. RSU grants to new employees are typically made eight times per year at Compensation Committee meetings. NI does not have any program, plan or practice to time RSU grants in coordination with the release of material non-public information. NI does not time, nor does NI plan to time, the release of material non-public information for the purposes of affecting the value of executive compensation. NI s 2005 Incentive Plan provides that the value of RSUs be the market closing price of NI stock on the date immediately prior to the grant date.

Executive Equity Ownership. NI s President and Chief Executive Officer, Dr. Truchard, is NI s largest stockholder. NI encourages its executives to hold a significant equity interest in NI. However, NI does not have specific share retention and ownership guidelines for its executives. NI does not permit executives to sell short its stock. NI prohibits named executives from holding NI stock in a margin account and prohibits the purchase or sale of exchange traded options on its stock by executives.

Type of Equity Awards. Prior to 2005, the long-term equity incentive component of NI s compensation program consisted solely of stock options. Beginning in 2005, NI began to utilize RSUs as its principal equity compensation incentive. Under the 2005 Incentive Plan, NI is permitted to issue RSUs and restricted stock but not stock options.

Long Term Incentive Program

In 2004, the Compensation Committee established the NI Long Term Incentive Program (LTIP) as a further means of motivating and rewarding executives to maximize stockholder value over the longer-term. Under the LTIP, there was a five year performance period beginning on January 1, 2004 and ending on December 31, 2008. Only participants who were still employed by NI on the day of the bonus payout were eligible to receive payments under the program.

The incentive cash bonuses awarded under the LTIP are calculated by multiplying (i) the participant s annualized salary (and, in the case of NI s Senior Vice President, Sales and Marketing, targeted commissions) on the effective date of the participant s participation in the program by (ii) a percentage (Payout Factor) determined by a payout matrix based upon the compound annual revenue growth rate (CAGR) and NI s average operating profit during the performance period. The Compensation Committee constructed the payout matrix based upon the belief that if CAGR and operating profit over the performance period was less than 10% in each case, then no payments should be made from the LTIP. Upon the achievement of 10% CAGR and 10% operating profit over the performance period, LTIP participants earn a cash bonus equal to approximately 28% of the participant s annualized salary on the effective date of the participant s participation in the program. The payout matrix was structured so that with incrementally higher CAGR or operating profit results over the performance period, the Payout Factor increases incrementally up to a maximum of 333% of the participant s annualized salary (and targeted commissions, as applicable) upon achieving a threshold of 40% CAGR and 20% operating profit. The payout matrix is targeted so that 18% operating profit over the performance period combined with 20% CAGR, 30% CAGR and 40% CAGR would yield a payout of 1X base salary, 2.0X salary and 3.0X base salary, respectively.

The CAGR and operating profit for the performance period was determined according to generally acceptable accounting principles. However, the Compensation Committee has the discretion to make adjustments to the CAGR and operating profit calculation as it deems appropriate. Such adjustments may exclude patent litigation or other extraordinary charges when determining operating profit and include/exclude incremental revenue growth during the performance period attributable to acquisitions or mergers. As a general guideline, the Compensation Committee is inclined to exclude from the CAGR calculation revenue growth during the performance period resulting from an acquisition or merger exceeding 1% of the previous year s revenue. The CAGR approved by the Committee on December 17, 2008 was 14.9%.

On October 22, 2008, the Compensation Committee approved an amendment to the LTIP. Prior to the amendment, the LTIP provided that payment of cash incentive bonus would be made as soon as administratively practicable following the release of final earnings for the last quarter of the Performance Period. The LTIP also provided that the Compensation Committee, in its sole discretion, could permit a requesting LTIP participant to receive in December 2008, one half of the estimated cash incentive bonus, with any remaining payout of the cash incentive bonus paid in early 2009 as normally scheduled. The amendment modifies the LTIP to provide that the Compensation Committee, in its sole discretion, may approve a payment in December 2008 of 90% of the estimated cash incentive bonus, regardless of whether a LTIP participant requests to receive payment in December 2008. The amendment changed the timing of the payments but did not result in any increase in the total payments to any participant under the LTIP. The total payout to the executives pursuant to the LTIP is shown on the Summary Compensation Table under number 4.

The initial payment under the LTIP was made on December 31, 2008 with the true-up final payment on February 15, 2009. The LTIP expired as of the date of the final payment. In considering the adverse economic and business conditions facing NI and the industry and in light of the other compensation programs NI has in place, the Compensation Committee determined not to implement another LTIP program in 2009.

Service Award Program

NI maintains a service award bonus program under which all employees, including executives, are eligible to receive awards based on to the number of years of continued employment with NI. NI s President does not participate in the program. Under this program, an employee receives a cash award based upon achieving a five year period of continuous employment with NI and a $100 dinner gift certificate, as well as other non-monetary awards such as plaque or lunch with NI s President, Vice President of Human Resources or another NI executive. Awards under this program have historically been in the range of $100 to $1,000 in cash per award, with employees receiving $100 in cash at their 5th and 15th anniversary of service with NI and $1,000 in cash at their 10th and 20th anniversary of service with NI.

During 2008, none of the named executives received an award under this program.

Performance Based Compensation and Financial Restatement

To date, NI has not experienced a financial restatement and has not considered or implemented a policy regarding retroactive adjustments to any cash or equity based incentive compensation paid to its executives and other employees where such payments were predicated upon the achievement of certain financial results that would subsequently be the subject of a restatement.

Change of Control Considerations

All NI executives are employed at will and do not have employment agreements, severance payment arrangements or payment arrangements that would be trigged by a merger or other change of control of NI. However, NI s Amended and Restated 1994 Incentive Plan and 2005 Incentive Plan provide that in the event of a change of control of NI, all unvested RSUs and stock options held by executive and non-executive employees shall immediately vest in full.

Effect of Accounting and Tax Treatment on Compensation Decisions

In the review and establishment of NI s compensation programs, NI considers the anticipated accounting and tax implications to NI and its executives. In this regard, in 2005, the NI Board of Directors and Compensation Committee determined to change NI s equity compensation program from the use of stock options to the use of RSUs in response to changes in the accounting treatment of equity awards under FAS 123R. While NI considers the applicable accounting and tax treatment, these factors alone are not dispositive, and NI also considers the cash and non-cash impact of the programs and whether a program is consistent with NI s overall compensation philosophy and objectives.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), imposes a limit on the amount of compensation that NI may deduct in any one year with respect to its named executive officers, unless certain criteria are satisfied. Performance-based compensation, as defined in the Code, is fully deductible if the programs are approved by stockholders and meet other requirements. NI believes that grants of equity awards under its 2005 Incentive Plan qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting NI to receive a federal income tax deduction in connection with such awards. In general, NI has determined that it will not seek to limit executive compensation so that it is deductible under Section 162(m). However, from time to time, NI monitors whether it might be in its interests to structure its compensation programs to satisfy the requirements of Section 162(m). NI seeks to maintain flexibility in compensating its executives in a manner designed to promote its corporate goals and therefore the Compensation Committee has not adopted a policy requiring all compensation to be deductible. The Compensation Committee will continue to assess the impact of Section 162(m) on NI s compensation practices and determine what further action, if any, is appropriate.

Role of Executives in Executive Compensation Decisions

The Compensation Committee seeks input from NI s President and Chief Executive Officer, Dr. Truchard, when discussing the performance of, and compensation levels for executives other than himself. The Compensation Committee also works closely with Dr. Truchard and with NI s vice president of human resources and others, as required, in evaluating the financial, accounting, tax and retention implications of its various compensation programs. Neither Dr. Truchard nor any of NI s other executives participates in deliberations relating to his own compensation.

Summary Compensation Table

Summary Compensation Table. The following table shows the total compensation paid by NI during the years ended December 31, 2008, December 31, 2007, and December 31, 2006 to its named executives and to one former executive officer:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	All Other Compensation (5)	Total
James J. Truchard	2008	$ 200,000	$	$	$	$ 131,900	$ 6,240	$ 338,140
Chairman of the Board and President (6)	2007	200,000				22,320	6,240	228,560
	2006	200,000				22,720	6,240	228,960
Alexander M. Davern	2008	310,000		151,978	72,403	219,025	7,366	760,772
Chief Financial Officer; Senior Vice	2007	293,750		115,330	169,077	112,736	8,050	698,943
President, IT and Manufacturing	2006	278,750		81,102	150,317	100,141	7,269	617,579
Operations; Treasurer								
Peter Zogas, Jr	2008	235,250		151,978	48,908	267,190	7,519	665,904
Senior Vice President, Sales and	2007	225,250		115,330	118,876	125,909	8,050	593,415
Marketing	2006	214,750	2,000	81,102	96,963	114,837	7,800	517,452
John M. Graff	2008	252,500		78,373	29,260	167,564	7,500	535,197
Vice President, Marketing, Customer	2007	238,750	1,000	57,665	76,912	64,245	8,037	446,609
Operations and Investor Relations	2006	227,500	2,000	40,551	77,479	54,251	7,158	408,939
Raymond C. Almgren	2008	242,500		75,989	29,000	157,876	7,253	512,618
Vice President, Product Marketing and	2007	228,750	1,000	57,665	41,904	53,653	7,874	390,848
Academic Relations	2006	217,500		40,551	56,338	24,708	6,786	345,883
Timothy R. Dehne (7)	2008	272,013		54,723	50,170	204,268	8,050	589,224
Former Senior Vice President, Research	2007	275,250	1,000	115,330	122,756	78,083	8,050	600,469
and Development	2006	264,750	2,000	81,102	95,232	81,080	7,800	531,964

(1) These amounts reflect cash payments under NI s discretionary cash bonus program and service award program. See Compensation Discussion and Analysis for a description of these programs. In 2007, each of Messrs. Dehne, Graff and

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Almgren received $1,000 under the service award program for having reached 20 years of employment with NI. In 2006, each of Messrs. Dehne, Graff and Zogas received $2,000 under the discretionary cash bonus program.

(2) The amounts included in the table for stock awards is the dollar amount recognized for financial statement reporting purposes with respect to the applicable fiscal year in accordance with FAS 123R and thus may include amounts from awards granted in and prior to the applicable fiscal year. These dollar amounts reflect NI s accounting expense for these stock awards and may not correspond to the actual value that will be recognized by the named executives. The dollar amount recognized for financial statement reporting purposes is the grant date fair value divided by the monthly estimated life of the RSU grant. The value of the monthly estimated life of the RSU grant is expensed monthly. The monthly estimated life of grants of RSUs to named executive officers is 100 months.

(3) No options were awarded in 2008, 2007, and 2006. The amounts included in the table for option awards is the dollar amount recognized for financial statement reporting purposes with respect to the applicable fiscal year in accordance with FAS 123R and thus may include amounts from awards granted in prior years. These dollar amounts reflect NI s accounting expense for these option awards and may not correspond to the actual value that will be recognized by the named executives. For information on the valuation assumptions with respect to option grants made in prior years which are included in the calculation, please refer to the assumptions for (i) fiscal years ended December 31, 2003 and 2004 stated in Note 8: Stockholder s equity to NI s audited financial statements for the fiscal year ended December 31, 2005, included in NI s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2006, (ii) fiscal years ended December 31, 2000, 2001 and 2002 stated in Note 7: Stockholders equity to NI s audited financial statements for the fiscal year ended December 31, 2002, included in NI s Annual Report on Form 10-K filed with the Securities and Exchange Commission on January 28, 2003 and (iii) fiscal years ended December 31, 1998 and 1999 stated in Note 9: Stockholders equity to NI s audited financial statements for the fiscal year ended December 31, 1999, included in NI s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2000.

(4) These amounts reflect the sum of the amounts paid to named executives under NI s Annual Performance Bonus Program, Annual Incentive Plan for 2008, 2007 and 2006, and Long Term Incentive Program for 2008 as shown in the table below, except that Dr. Truchard s total only includes amounts from NI s Annual Performance Bonus Program and Long Term Incentive Program because he does not participate in NI s Annual Incentive Program and Mr. Zogas total also includes amounts from the Sales Commission Program in which he is the only participant among the named executives:

Named Executive Officer	Year	Annual Performance Bonus Program	Annual Incentive Plan	Long Term Incentive Program	Sales Commission Program	Total
James J. Truchard	2008	$ 16,700	$	$ 115,200	$	$ 131,900
	2007	22,320				22,320
	2006	22,720				22,720
Alexander M. Davern	2008	25,885	54,900	138,240		219,025
	2007	32,783	79,953			112,736
	2006	31,666	68,475			100,141
Timothy R. Dehne	2008	26,113	42,955	135,200		204,268
	2007	30,718	47,365			78,083
	2006	30,076	51,004			81,080
Peter Zogas, Jr.	2008	23,396	66,373	132,480	44,941	267,190
	2007	30,501	47,348		48,060	125,909
	2006	30,598	29,640		54,599	114,837
John M. Graff	2008	21,084	34,160	112,320		167,564
	2007	26,645	37,600			64,245
	2006	25,844	28,407			54,251
Raymond C. Almgren	2008	20,249	38,555	99,072		157,876
	2007	25,528	28,125			53,653
	2006	24,702	24,596			49,304

(5) Represents NI contributions to the 401(k) Plan on behalf of the named executives and the full dollar value of premiums paid by NI for term life insurance on behalf of the named executives for 2008, 2007 and 2006 in the amounts shown below:

Named Executive Officer	Year	NI Contributions to 401(k) Plan	Term Life Insurance Premium Paid by NI for Benefit of the Insured	Total
James J. Truchard	2008	$ 6,000	$ 240	$ 6,240
	2007	6,000	240	6,240
	2006	6,000	240	6,240
Alexander M. Davern	2008	7,066	300	7,366
	2007	7,750	300	8,050
	2006	6,969	300	7,269
Timothy R. Dehne	2008	7,750	300	8,050
	2007	7,750	300	8,050
	2006	7,500	300	7,800
Peter Zogas, Jr.	2008	7,237	282	7,519
	2007	7,750	300	8,050
	2006	7,500	300	7,800
John M. Graff	2008	7,200	300	7,500
	2007	7,750	287	8,037
	2006	6,885	273	7,158
Raymond C. Almgren	2008	6,962	291	7,253
	2007	7,600	274	7,874
	2006	6,525	261	6,786

Other than the foregoing for 2006, 2007 and 2008, NI did not provide its named executives with any form of compensation that would be reportable under Item 402(k)(2)(vii) of Regulation S-K. NI does not pay or accrue cash dividends on unvested RSUs.

(6) As an employee director, Dr. Truchard does not receive any additional compensation for his service as a director.

(7) Mr. Dehne left NI effective December 12, 2008. His compensation amounts for 2008 included the following payments which were made to him in connection with his separation: $255,289 severance, $28,365 in vacation payout, and $141,756 as an RSU equivalency payment.

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Grants of Plan-Based Awards

For Fiscal Year Ended December 31, 2008

Name	Grant Date (1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold (2)	Target (3)	Maximum (4)	All Other Stock Awards: Number of Shares of Stock or Units (5)	Full Grant Date Fair Value of Stock and Option Awards (6)
James J. Truchard (7)						
Annual Performance Bonus Program			$ 16,700			
Long Term Incentive Program			115,200	115,200		
Alexander M. Davern						
Annual Incentive Program			54,900	$ 91,500		
Annual Performance Bonus Program			25,885			
2005 Incentive Plan	4/25/08				10,000	$ 284,900
Long Term Incentive Program			138,240	138,240		
Peter Zogas, Jr.						
Annual Incentive Program			66,373	84,600		
Annual Performance Bonus Program			23,396			
Sales Commission Program (8)			50,000			
2005 Incentive Plan	4/25/08				10,000	284,900
Long Term Incentive Program			132,480	132,480		
John M. Graff						
Annual Incentive Program			34,160	50,000		
Annual Performance Bonus Program			21,084			
2005 Incentive Plan	4/25/08				6,000	170,940
Long Term Incentive Program			112,320	112,320		
Raymond C. Almgren						
Annual Incentive Program			38,555	48,000		
Annual Performance Bonus Program			20,249			
2005 Incentive Plan	4/25/08				5,000	142,450
Long Term Incentive Program			99,072	99,072		
Timothy R. Dehne (9)						
Annual Incentive Program			42,955	84,600		
Annual Performance Bonus Program			26,113			
2005 Incentive Plan	4/25/08				10,000	284,900
Long Term Incentive Program			135,200	135,200		

(1) In accordance with Item 402(d)(2)(ii) of Regulation S-K, only grant dates for equity-based awards are reported in this table.

(2) The Annual Incentive Program, the Annual Performance Bonus Program and Sale Commission Program do not set a threshold amount. See Compensation Discussion and Analysis for a description of these programs.

(3) The Annual Incentive Program, the Annual Performance Bonus Program and the Long Term Incentive Program did not set target amounts. See Compensation Discussion and Analysis for a further description of these programs. In accordance with Instruction 2 to Item 402(d) of Regulation S-K, the amounts included under the Target column represent the amounts earned in the fiscal year ended December 31, 2008 by the named executive under the Annual Incentive Program, the Annual Performance Bonus Program and the Long Term Incentive Program, as applicable.

(4) The Annual Performance Bonus Program does not set maximum amounts. See Compensation Discussion and Analysis for a further description of this program. The maximum amounts under the Annual Incentive Program for each of Messrs. Davern and Dehne were determined by multiplying 0.30 by their respective base salaries, effective as of October 1, 2007, of $305,000 and $282,000, respectively. The maximum amount under the NI 2008 Annual Incentive Program for Mr. Zogas was determined by multiplying 0.30 by the sum of his base salary and commission target, effective as of October 1, 2007, which totaled $282,000, and for Messrs. Graff and Almgren, by multiplying 0.20 by their respective base salaries, effective as of October 1, 2007, of $250,000 and $240,000, respectively. See Compensation Discussion and Analysis for a further description of the Annual Incentive Program. For 2008, the Sales Commission Program was set at $50,000 by the Compensation Committee for Mr. Zogas, who achieved 89.8% of such target, or $44,941, as reported in footnote 4 to the Summary Compensation Table. Pursuant to the LTIP, the maximum amount is limited to 3x of the executive s base salary as of January 1, 2004. For additional information regarding the LTIP, see Compensation Discussion and Analysis.

(5) The RSU grants to the named executives vest as to 1/10th of the RSUs on each anniversary of the vesting commencement date, which was May 1, 2008, subject to acceleration of vesting in the event that NI achieves certain financial performance goals. The maximum amount of vesting acceleration is an additional 10% of the award per year. The number of RSUs that can have vesting acceleration each year is determined based upon the extent to which NI attains 40% year over year revenue growth and 18% operating profit as a percent of revenue. Specifically, if NI achieves 40% year over year revenue growth and 18% operating profit as a percent of revenue, then 10% of total number of RSUs subject to the award shall accelerate. The earliest an award may fully vest is in five years. The RSUs have a term of ten years.

(6) This column shows the full grant date fair value of RSUs under SFAS 123R granted to the named executives. For RSUs, fair value is calculated using the closing price of NI s common stock on the day before the date of grant, which was $28.49 per share.

(7) Dr. Truchard does not participate in the Annual Incentive Program and does not receive grants of RSUs under the 2005 Incentive Plan.

(8) The Sales Commission Program for Mr. Zogas does not include thresholds or maximum amounts. See Compensation Discussion and Analysis for a further description of this program.

(9) Mr. Dehne left NI effective December 12, 2008.

Summary Compensation Table and Grants of Plan-Based Awards Table Discussion

The level of salary and bonus in proportion to total compensation ranged from approximately 35% to 47% for each of the named executives in 2008, except for Dr. Truchard. Since Dr. Truchard does not receive RSU awards and has never received any grants of stock options by NI, his salary and bonus represented approximately 59% of his total compensation in 2008.

All NI employees, including executives, are employed at will and do not have employment agreements, severance payment arrangements or payment arrangements that would be trigged by a merger or other change of control of NI. However, NI s 2005 Incentive Plan and Amended and Restated 1994 Incentive Plan provide that in the event of a change of control of NI, all unvested RSUs and stock options held by executive and non-executive employees shall immediately vest in full.

NI has not repriced any stock options or made any material modifications to any equity-based awards to its executive officers.

Outstanding Equity Awards at Fiscal 2008 Year-End

	Option Awards				Stock Awards	
Named Executive Officer	**Number of Securities Underlying Unexercised Options (#) Exercisable (1)**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (2)**	**Market Value of Shares or Units That Have Not Vested (3)**
James J. Truchard						
Alexander M. Davern	18,778		$ 12.2222	03/24/2009		
	112,500		32.0833	03/22/2010		
	13,500	1,500	21.0417	03/21/2011		
	8,178	3,822	20.1200	04/16/2013		
	11,700	8,300	29.8500	03/24/2014		
					38,693	$ 942,561
Peter Zogas, Jr.	9,000		12.2222	03/24/2009		
	30,000		32.0833	03/22/2010		
	13,501	1,499	21.0417	03/21/2011		
	8,278	3,722	20.1200	04/16/2013		
	11,698	8,302	29.8500	03/24/2014		
					38,693	942,561
John M. Graff	2,184		12.2222	03/24/2009		
	30,000		32.0833	03/22/2010		
	13,501	1,499	21.0417	03/21/2011		
	5,172	2,328	20.1200	04/16/2013		
	5,849	4,151	29.8500	03/24/2014		
					20,345	495,604
Raymond C. Almgren	15,000		32.0833	03/22/2010		
	13,502	1,498	21.0417	03/21/2011		
	5,236	2,264	20.1200	04/16/2013		
	5,849	4,151	29.8500	03/24/2014		
					19,345	471,244
Timothy R. Dehne	30,000		32.0833	03/22/2010		
	13,283		21.0417	03/21/2011		
			20.1200	04/16/2013		
	11,535		29.8500	03/24/2014		

(1) These options were granted under the Amended and Restated 1994 Incentive Plan, which terminated in May 2005 except with respect to outstanding awards. These options vest as to 1/120 of the award on each monthly anniversary of the vesting commencement date, subject to acceleration based upon NI s financial performance. The maximum amount of accelerated vesting per year based on NI s financial performance is 10% of the total number of shares subject to the option. The actual number of shares subject to the option that can be accelerated each year based on NI s financial performance is determined based upon the year over year percentage revenue growth and the percentage operating profit as a percent of revenue. To achieve the maximum of 10% option acceleration, NI would have to achieve 40% year over year revenue growth and 18% operating profit as a percent of revenue. The earliest an award may fully vest is in five years. The vesting commencement dates for these awards are set forth in the table below.

Named Executive Officer	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Option Exercise Price	Vesting Commencement Date
Alexander M. Davern	18,778		12.2222	03/24/1999
	112,500		32.0833	03/22/2000
	13,500	1,500	21.0417	03/21/2001
	8,178	3,822	20.1200	04/16/2003
	11,700	8,300	29.8500	03/24/2004
Peter Zogas, Jr.	9,000		12.2222	03/24/1999
	30,000		32.0833	03/22/2000
	13,501	1,499	21.0417	03/21/2001
	8,278	3,722	20.1200	04/16/2003
	11,698	8,302	29.8500	03/24/2004
John M. Graff	2,184		12.2222	03/24/1999
	30,000		32.0833	03/22/2000
	13,501	1,499	21.0417	03/21/2001
	5,172	2,328	20.1200	04/16/2003
	5,849	4,151	29.8500	03/24/2004
Raymond C. Almgren	15,000		32.0833	03/22/2000
	13,502	1,498	21.0417	03/21/2001
	5,236	2,264	20.1200	04/16/2003
	5,849	4,151	29.8500	03/24/2004
Timothy R. Dehne	30,000		32.0833	03/22/2000
	13,283		21.0417	03/21/2001
			20.1200	04/16/2003
	11,535		29.8500	03/24/2004

(2) These RSU awards were made under the 2005 Incentive Plan and vest as to 1/10th of the RSUs on each anniversary of the vesting commencement date, subject to acceleration of vesting in the event that NI achieves certain financial performance goals. The maximum amount of vesting acceleration is an additional 10% of the award per year. The number of RSUs that can have vesting acceleration each year is determined based upon the extent to which NI attains 40% year over year revenue growth and 18% operating profit as a percent of revenue. Specifically, if NI achieves 40% year over year revenue growth and 18% operating profit as a percent of revenue, then 10% of the total number of RSUs subject to the award shall accelerate. The earliest an award may fully vest is in five years. The RSUs have a term of ten years. The vesting commencement dates for these awards are set forth in the table below.

Named Executive Officer	Number of Shares or Units of Stock That Have Not Vested (#)	Grant Date	Vesting Commencement Date
Alexander M. Davern	10,000	4/25/2008	5/1/2008
	8,716	4/25/2007	5/1/2007
	7,437	4/19/2006	5/1/2006
	12,535	5/10/2005	5/1/2005
Peter Zogas, Jr.	10,000	4/25/2008	5/1/2008
	8,716	4/25/2007	5/1/2007
	7,437	4/19/2006	5/1/2006
	12,535	5/10/2005	5/1/2005
John M. Graff	6,000	4/25/2008	5/1/2008
	4,360	4/25/2007	5/1/2007
	3,718	4/19/2006	5/1/2006
	6,267	5/10/2005	5/1/2005
Raymond C. Almgren	5,000	4/25/2008	5/1/2008
	4,360	4/25/2007	5/1/2007
	3,718	4/19/2006	5/1/2006
	6,267	5/10/2005	5/1/2005
Timothy R. Dehne		4/25/2008	5/1/2008
		4/25/2007	5/1/2007
		4/19/2006	5/1/2006
		5/10/2005	5/1/2005

(3) Amounts shown are valued at the closing price of NI s Common Stock on December 31, 2008 of $24.36 per share.

Option Exercises and Stock Vested

For Fiscal Year Ended December 31, 2008

	Option Awards		Stock Awards	
Named Executive Officer	Number of Shares Acquired on Exercise	Value Realized on Exercise (1)	Number of Shares Acquired on Vesting	Value Realized on Vesting (2)
James J. Truchard				
Alexander M. Davern	10,000	$ 232,878	5,116	$ 154,145
Peter Zogas, Jr	25,875	257,055	5,116	154,145
John M. Graff	12,768	211,270	2,559	77,103
Raymond C. Almgren	5,525	99,880	2,559	77,103
Timothy R. Dehne	15,453	160,160	5,116	154,145

(1) These amounts equal the difference between the market price of the underlying securities at exercise and the exercise price of the options.
(2) Based on the closing price of NI Common Stock on May 1, 2008, the vesting date, of $30.13 per share.

Pension Benefits and Nonqualified Deferred Compensation

NI does not have any pension plans, non-qualified defined contribution plans or non-qualified deferred compensation plans.

Potential Payments Upon Termination or Change of Control

As described in the Compensation Discussion and Analysis, NI does not have employment, severance or change in control agreements with its employees, including its named executives. However, NI s Amended and Restated 1994 Incentive Plan and 2005 Incentive Plan each provides for acceleration of all unvested stock options and RSUs, respectively, in the event of a change of control of

NI or the award recipient s death or disability (each, an acceleration event). A change of control under each of the Amended and Restated 1994 Incentive Plan and 2005 Incentive Plan means any of the following events:

any person becomes the beneficial owner of fifty percent (50%) or more of the total voting power represented by NI s outstanding voting securities;

existing members of NI s Board of Directors cease to constitute at least a majority of the Board of Directors;

a public announcement is made of a tender or exchange offer for fifty percent (50%) or more of the outstanding voting securities of the Company;

the stockholders of NI approve a merger or consolidation of NI with any other corporation or partnership, unless NI stockholders prior to such transaction will hold a majority of the voting power of the surviving or acquiring entity; or

the stockholders of NI approve a plan of complete liquidation of NI or an agreement for the sale or disposition by NI of all or substantially all of NI s assets.

In the case of disability, unvested stock options under the Amended and Restated 1994 Incentive Plan may only be exercised within the six month period following the date of disability and any award not exercised before the expiration of such period shall terminate. Unless an optionee s legal representatives, heirs, legatees or distributee exercise outstanding awards issued under the Amended and Restated 1994 Incentive Plan in the six month period following the date of such optionee s death, any unexercised awards shall terminate upon the expiration of such six month period.

In the case of unvested RSUs under the 2005 Incentive Plan, 100% of the RSUs that have not vested as of the date of death or disability will immediately vest.

The following table shows the estimated benefits that would have been received by the named executives if an acceleration event had occurred on December 31, 2008.

Name	**Stock Option Acceleration (1)**	**RSU Acceleration (2)**	**Total**
James J. Truchard (3)			
Alexander M. Davern	$ 328,578	$ 942,561	$ 1,271,139
Peter Zogas, Jr	209,895	942,561	1,152,456
John M. Graff	108,083	495,604	603,687
Raymond C. Almgren	81,574	471,244	552,818
Timothy R. Dehne	44,077		44,077

(1) In calculating estimated benefits from acceleration of outstanding stock option awards, NI assumed each named executive exercised all in-the-money options at $24.36 per share (the closing market price for NI s common stock on December 31, 2008). If the exercise price for an option is above the quoted closing price of NI common stock, it has a zero value for the purpose of calculating the estimate benefit to the named executive.

(2) The amounts represent the number of unvested RSUs multiplied by per share closing market price of NI s common stock on December 31, 2008, which was $24.36 for each of the outstanding unvested RSUs held by such named executive.

(3) Dr. Truchard has not received any stock options under the Amended and Restated 1994 Incentive Plan and does not receive grants of RSUs under the 2005 Incentive Plan.

COMPENSATION COMMITTEE REPORT*

The Compensation Committee of NI has reviewed and discussed the Compensation Discussion and Analysis required by Regulation S-K Item 402(b) (the CD&A) with management and based upon such review and discussion, the Compensation Committee recommended to the Board of Directors that the CD&A be included in NI s Proxy Statement.

Respectfully Submitted,

R. Gary Daniels

Ben G. Streetman

Charles J. Roesslein

Duy-Loan T. Le

* *The foregoing Compensation Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other NI filing under the Securities Act or the Exchange Act, except to the extent that NI specifically incorporates this Compensation Committee Report by express reference therein.*

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires NI s officers and directors, and persons who own more than 10% of a registered class of NI s equity securities, to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% stockholders are also required by SEC rules to furnish NI with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, NI believes that, during the fiscal year ended December 31, 2008, all Section 16(a) filing requirements applicable to its officers, directors and 10% stockholders were satisfied.

EQUITY COMPENSATION PLANS INFORMATION

The number of shares issuable upon exercise of outstanding options and RSUs granted to employees and non-employee directors, as well as the number of shares remaining available for future issuance, under NI s equity compensation plans as of December 31, 2008 are summarized in the following table:

Plan category	Number of shares to be issued upon exercise of outstanding options or RSUs	Weighted-average exercise price of outstanding options	Number of shares remaining for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	6,437,795 (1)	$ 25.9707	5,132,797 (2)
Equity compensation plans not approved by stockholders			
Total	6,437,795	$ 25.9707	5,132,797

(1) Includes 4,272,567 shares to be issued upon exercise of outstanding options and 2,165,228 shares to be issued upon vesting of outstanding RSUs.

(2) Includes 2,539,190 shares available for future issuance under NI s 2005 Incentive Plan and 2,593,607 shares available for future issuance under NI s Employee Stock Purchase Plan.

REPORT OF THE AUDIT COMMITTEE*

The Audit Committee is composed of four independent directors and operates under a written charter adopted by the Board of Directors. The members of the Audit Committee are Donald M. Carlton, Chairman, Ben G. Streetman, R. Gary Daniels and Charles J. Roesslein. All members of the Audit Committee meet the independence standards of Rule 4200(a)(15) of the Nasdaq listing standards.

Management is responsible for National Instruments internal controls and the financial reporting process. National Instruments independent registered public accounting firm is responsible for performing an independent audit of National Instruments consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) and for issuing opinions on the conformity of those audited financial statements with U.S. generally accepted accounting principles, the effectiveness of NI s internal control over financial reporting and managements assessment of internal control over financial reporting. The Audit Committee s responsibility is to monitor and oversee these processes.

The Audit Committee schedules its meetings and conference calls with a view to ensuring it devotes appropriate attention to all of its tasks. The Audit Committee met 13 times during fiscal 2008 to carry out its responsibilities. The Audit Committee regularly meets privately with NI s independent registered public accounting firm, internal audit personnel, and management, each of whom has unrestricted access to the Audit Committee. The Audit Committee evaluated the performance of the items enumerated in the Audit Committee Charter.

As part of its oversight of NI s financial statements, the Audit Committee reviewed and discussed with both management and the independent registered public accounting firm NI s quarterly and audited fiscal year financial statements, including a review of National Instruments Annual Report on Form 10-K. The Audit Committee also reviewed and approved the independent registered public accounting firm s work plan, audit fees, and all non-audit services performed by the independent registered public accounting firm. The Audit Committee also discussed with the independent registered public accounting firm any matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended.

The Audit Committee has also received the written disclosures from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee has discussed the independence of Ernst & Young LLP with that firm. The Audit Committee has implemented a procedure to monitor the independence of NI s independent registered public accounting firm.

Based upon the Audit Committee s discussion with management and Ernst & Young LLP and the report of Ernst & Young LLP to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in National Instruments Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC.

AUDIT COMMITTEE

Donald M. Carlton, Chairman

Ben G. Streetman

R. Gary Daniels

Charles J. Roesslein

**The foregoing Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other NI filing under the Securities Act or the Exchange Act, except to the extent NI specifically incorporates this Report of the Audit Committee by express reference therein.*

INDEPENDENT PUBLIC ACCOUNTANTS

In June 2005, Ernst & Young LLP (E&Y) was appointed as NI s independent registered public accounting firm. A representative of E&Y is expected to be available at the Annual Meeting to make a statement if such representative desires to do so and to respond to appropriate questions.

Audit Fees

The aggregate fees billed for professional services rendered for the integrated audits of NI s annual financial statements for the fiscal years ended December 31, 2008 and 2007, for the reviews of the financial statements included in NI s Quarterly Reports on Form 10-Q for those fiscal years, for the testing of NI s internal control over financial reporting pursuant to Section 404(a) of the Sarbanes-Oxley Act of 2002 for those fiscal years, and for statutory audits in various countries were approximately $1,060,000 and $827,000, respectively.

Audit-Related Fees

The aggregate fees billed for other audit-related services were $42,000 and $26,000 in 2008 and 2007, respectively. The services rendered related to the audit of NI s benefit plans.

Tax Fees

The aggregate fees billed for professional tax services rendered for 2008 and 2007 were approximately $245,000 and $153,000, respectively. Included in the foregoing tax fees are such services as tax compliance, tax advice and tax planning.

All Other Fees

The aggregate fees billed for all other services rendered for 2008 and 2007 were approximately $0 and $0, respectively.

The charter of the Audit Committee provides that the Audit Committee shall appoint, compensate, retain and oversee NI s independent registered public accounting firm. The Audit Committee has selected E&Y as its independent registered public accounting firm for NI s fiscal year ending December 31, 2009.

AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE

NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The Audit Committee s policy is to pre-approve all services provided by NI s independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may also pre-approve particular services on a case-by-case basis. The independent registered public accounting firm is required to periodically report to the Audit Committee regarding the extent of services provided by such firm in accordance with such pre-approval. The Audit Committee may also delegate pre-approval authority to one of its members. Such members(s) must report any decisions to the Audit Committee at the next scheduled meeting.

E&Y has not received approval to perform any prohibited activities as such term is defined in Section 201 of the Sarbanes Oxley Act of 2002. During 2008, the Audit Committee approved in advance all audit, audit-related, and tax services to be provided by E&Y.

CODE OF ETHICS

In March 2004, NI s Board of Directors adopted a Code of Ethics (Code) that applies to all directors and employees, including NI s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code incorporated several corporate policies which had been in effect since 1994. The Code is available on NI s website at www.ni.com/nati/corporategovernance/code_of_ethics.htm. NI intends to disclose future amendments to provisions of the Code, or waivers of such provisions granted to executive officers, on NI s website within four business days following the date of such amendment or waiver.

OTHER MATTERS

NI knows of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the Board of Directors may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

David G. Hugley

Secretary

Austin, Texas

March 31, 2009

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Exhibit A

COMPANIES FROM RADFORD SURVEY INFORMATION

UTILIZED BY NATIONAL INSTRUMENTS CORPORATION

3COM
ACXIOM
ADC
AKAMAI TECHNOLOGIES
ALTERA
ASPECT SOFTWARE
AVANADE
AVID TECHNOLOGY
BAE SYSTEMS- NETWORK SYSTEMS
BIO-RAD LABORATORIES
BMC SOFTWARE
BROOKS AUTOMATION
CALLAWAY GOLF
CARL ZEISS MEDITEC
CARL ZEISS VISION
CHECKFREE
CITRIX SYSTEMS
COHERENT
COMCAST ENTERTAINMENT GROUP
COMPUWARE
CONEXANT SYSTEMS
CRICKET COMMUNICATIONS
CUBIC CORPORATION
CYMER
DJO
DOLBY LABORATORIES
EARTHLINK
ECC
EDWARDS LIFESCIENCES
ELECTRONICS FOR IMAGING
EMDEON BUSINESS SERVICES
ENTEGRIS
F5 NETWORKS
FLIR SYSTEMS
FOUNDRY NETWORKS
FOX INTERACTIVE MEDIA
FUJITSU AMERICA MANAGEMENT
SERVICES OF AMERICA
GENENCOR A DANISCO DIVISION
GENERAL ATOMICS
GETTY IMAGES
GSI COMMERCE
HARRIS STRATEX NETWORKS
HOLOGIC
HOWARD HUGHES MEDICAL
HUGHES NETWORK SYSTEMS
HUTCHINSON TECHNOLOGY
HYPERCOM
IAC SEARCH & MEDIA
ICF INTERNATIONAL
IM FLASH TECHNOLOGIES
INFINEON TECHNOLOGIES
INTEGRATED DEVICE TECHNOLOGY
INTERMEC
INTERNATIONAL RECTIFIER
INTERSIL
INTUITIVE SURGICAL
ITG
ITRON
KAISER PERMANENTE-KPIT
KRONOS
KULICKE AND SOFFA
LAWSON SOFTWARE
LIFESCAN
LUCASFILM LTD
MANTECH INTERNATIONAL
MCAFEE
MEGGITT-USA
MENTOR GRAPHICS
MITEL NETWORKS
MITSUBISHI DIGITAL ELECTRONICS AMERICA
MONSTER WORLDWIDE
MOVIUS
NATIONAL INSTRUMENTS
NAVTEQ

A-1

NCS PEARSON
NDS
NETFLIX
NOVELL
NUANCE COMMUNICATIONS
NXP SEMICONDUCTORS-US
OCE NORTH AMERICA
OMNIVISION TECHNOLOGIES
OPEN TEXT
ORBITAL SCIENCES
ORBITZ WORLDWIDE
PALM
PANDUIT
PLANTRONICS
POLYCOM
POWERWAVE TECHNOLOGIES
QLOGIC
QUANTUM
RCN
REALNETWORKS
RED HAT
RESMED
RF MICRO DEVICES
RICOH ELECTRONICS
SAGE SOFTWARE
SALESFORCE.COM
SAMSUNG AUSTIN SEMICONDUCTOR
SAVVIS COMMUNICATIONS
SENSATA TECHNOLOGIES
SENSUS METERING SYSTEMS
SIEMENS PLM SOFTWARE
SKYWORKS SOLUTIONS
SMART MODULAR TECHNOLOGIES
SPACE SYSTEMS/LORAL
SPIRENT COMMUNICATIONS
STERLING COMMERCE
STMICROELECTRONICS
SUMCO USA PHOENIX
SUNPOWER
SVB FINANCIAL GROUP
SYBASE
SYNOPSYS
TAKE TWO INTERACTIVE SOFTWARE
TELCORDIA TECHNOLOGIES
TERADYNE
THALES
THE MITRE CORPORATION
THQ
TIBCO SOFTWARE
TOSHIBA AMERICA BUSINESS SOLUTIONS
TOSHIBA AMERICA MEDICAL SYSTEM
TRIMBLE NAVIGATION
UNITED ONLINE
VARIAN
VARIAN SEMICONDUCTOR EQUIPMENT
VERIGY
VERISIGN
VIASAT
VIRGIN MOBILE
VISHAY - SILICONIX
VMWARE
VONAGE
WALMART.COM USA
WELCH ALLYN
WMS GAMING
XEROX INTERNATIONAL PARTNERS
XO HOLDINGS
XYRATEX INTERNATIONAL
ZEBRA TECHNOLOGIES
ZORAN

NATIONAL INSTRUMENTS CORPORATION

11500 N. MOPAC EXPRESSWAY

BUILDING B

AUSTIN, TX 78759

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to National Instruments Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: NATIN1 KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

Vote On Director

1. Election of Director

Nominee:	**For**	**Against**	**Abstain**
1a) Duy-Loan T. Le	¨	¨	¨

And to transact such other business, in their discretion, as may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and write them on the back where indicated. ¨

	Yes	**No**
Please indicate if you plan to attend this meeting.	¨	¨

Please sign exactly as name(s) appear(s) hereon. All holders must sign. When signing in a fiduciary capacity, please indicate full title as such. If a corporation or partnership, please sign in full corporate or partnership name by authorized person.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

PROXY

NATIONAL INSTRUMENTS CORPORATION

2009 ANNUAL MEETING OF STOCKHOLDERS

MAY 12, 2009

This Proxy is solicited on behalf of the Board of Directors

The undersigned stockholder of NATIONAL INSTRUMENTS CORPORATION, a Delaware corporation (NI), hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement, each dated March 31, 2009, and the 2008 Annual Report to Stockholders and hereby appoints James J. Truchard and Jeffrey L. Kodosky, and each of them, proxies and attorneys-in-fact, with full power of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2009 Annual Meeting of Stockholders of NATIONAL INSTRUMENTS CORPORATION to be held on May 12, 2009 at 9:00 a.m. local time, at the Company s headquarters at 11500 North Mopac Expressway, Building C, Austin, Texas 78759, and at any adjournments thereof, and to vote all shares of Common Stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth on the reverse side.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND AS SAID PROXIES DEEM ADVISABLE, ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

Address Changes/Comments: ____
____

____
____

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

SEE REVERSE SIDE	**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**	**SEE REVERSE SIDE**