

TERADYNE, INC  
Form 10-Q  
August 07, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended June 29, 2008

OR

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

Commission File No. 001-06462

**TERADYNE, INC.**

(Exact name of registrant as specified in its charter)

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|  |  |
|--|--|
| <b>Massachusetts</b><br>(State or Other Jurisdiction of<br>Incorporation or Organization)            | <b>04-2272148</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>600 Riverpark Drive, North Reading, Massachusetts</b><br>(Address of Principal Executive Offices) | <b>01864</b><br>(Zip Code)                                   |
| <b>978-370-2700</b><br>(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 the filing requirements for the past 90 days. Yes  No

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

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

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

The number of shares outstanding of the registrant's only class of Common Stock as of August 1, 2008 was 168,861,816 shares.

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**Table of Contents****PART I****Item 1: Financial Statements****TERADYNE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | June 29,<br>2008 | December 31,<br>2007 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 286,094       | \$ 562,371           |
| Marketable securities   | 19,780           | 75,593               |
| Accounts receivable, net of allowance for doubtful accounts of \$4,256 and \$4,493 on June 29, 2008 and December 31, 2007, respectively | 212,458          | 189,487              |
| Inventories:  |                  |                      |
| Parts   | 50,288           | 27,627               |
| Assemblies in process   | 42,486           | 31,272               |
| Finished Goods  | 25,667           | 21,414               |
| Net inventories   | 118,441          | 80,313               |
| Deferred tax asset  | 30,779           | 3,216                |
| Prepayments and other current assets  | 39,805           | 33,953               |
| Total current assets  | 707,357          | 944,933              |
| Property, plant, and equipment, at cost   | 830,809          | 825,771              |
| Less: accumulated depreciation  | 477,704          | 473,064              |
| Net property, plant, and equipment  | 353,105          | 352,707              |
| Marketable securities   | 108,462          | 104,978              |
| Goodwill  | 241,730          | 69,147               |
| Intangible assets, net  | 96,593           | 5,992                |
| Other assets  | 25,632           | 24,855               |
| Long-term deferred tax assets   |                  | 6,280                |
| Retirement plans assets   | 48,028           | 46,396               |
| Total assets  | \$ 1,580,907     | \$ 1,555,288         |
| <b>LIABILITIES</b>  |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable  | \$ 80,456        | \$ 57,426            |
| Accrued employees' compensation and withholdings  | 70,991           | 71,691               |
| Deferred revenue and customer advances  | 53,781           | 41,928               |
| Other accrued liabilities   | 46,330           | 47,002               |
| Accrued income taxes  | 2,366            | 5,187                |
| Total current liabilities   | 253,924          | 223,234              |
| Retirement plans liabilities  | 77,876           | 80,388               |
| Deferred tax liabilities  | 20,495           |                      |
| Long-term other accrued liabilities   | 30,705           | 22,492               |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities  | 383,000      | 326,114      |
| Commitments and contingencies (Note N)   |              |              |
| <b>SHAREHOLDERS EQUITY</b>   |              |              |
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 167,822 and 173,088 shares issued and outstanding at June 29, 2008 and December 31, 2007, respectively | 20,977       | 21,636       |
| Additional paid-in capital   | 1,103,956    | 1,105,441    |
| Accumulated other comprehensive loss   | (46,930)     | (46,028)     |
| Retained earnings  | 119,904      | 148,125      |
| Total shareholders equity  | 1,197,907    | 1,229,174    |
| Total liabilities and shareholders equity  | \$ 1,580,907 | \$ 1,555,288 |

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007 are an integral part of the condensed consolidated financial statements.

**Table of Contents****TERADYNE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | For the Three Months Ended               |              | For the Six Months Ended |              |
|---|--|--------------|--------------------------|--------------|
|   | June 29, 2008                            | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|   | (in thousands, except per share amounts) |              |                          |              |
| Net revenues:   |  |              |                          |              |
| Products  | \$ 248,779                               | \$ 229,504   | \$ 481,770               | \$ 424,137   |
| Services  | 68,926                                   | 59,206       | 133,250                  | 118,266      |
| Net revenues  | 317,705                                  | 288,710      | 615,020                  | 542,403      |
| Cost of revenues:                                     |  |              |                          |              |
| Cost of products                                      | 124,925                                  | 112,338      | 243,232                  | 212,329      |
| Cost of services                                      | 38,932                                   | 39,152       | 79,437                   | 79,457       |
| Total cost of revenues                                | 163,857                                  | 151,490      | 322,669                  | 291,786      |
| Gross profit  | 153,848                                  | 137,220      | 292,351                  | 250,617      |
| Operating expenses:                                   |  |              |                          |              |
| Engineering and development                           | 56,154                                   | 52,417       | 111,303                  | 101,679      |
| Selling and administrative                            | 65,463                                   | 62,182       | 130,684                  | 125,129      |
| Acquired intangible asset amortization                | 4,774                                    | 955          | 8,637                    | 1,866        |
| In-process research and development                   |  |              | 1,100                    | 16,700       |
| Restructuring and other, net                          | 12,726                                   | 568          | 24,511                   | 2,815        |
| Operating expenses                                    | 139,117                                  | 116,122      | 276,235                  | 248,189      |
| Income from operations                                | 14,731                                   | 21,098       | 16,116                   | 2,428        |
| Interest income                                       | 2,932                                    | 9,299        | 7,544                    | 19,398       |
| Interest expense and other                            | (484)                                    | 303          | (14)                     | 2,545        |
| Income from continuing operations before income taxes | 17,179                                   | 30,700       | 23,646                   | 24,371       |
| Provision for income taxes                            | 6,100                                    | 3,454        | 10,200                   | 4,839        |
| Income from continuing operations                     | 11,079                                   | 27,246       | 13,446                   | 19,532       |
| Income from discontinued operations before taxes      |  | 618          |                          | 711          |
| Provision for income taxes                            |  | 210          |                          | 225          |
| Income from discontinued operations                   |  | 408          |                          | 486          |
| Net income  | \$ 11,079                                | \$ 27,654    | \$ 13,446                | \$ 20,018    |
| Income from continuing operations per common share:   |  |              |                          |              |
| Basic   | \$ 0.06                                  | \$ 0.14      | \$ 0.08                  | \$ 0.10      |
| Diluted   | \$ 0.06                                  | \$ 0.14      | \$ 0.08                  | \$ 0.10      |
| Net income per common share:                          |  |              |                          |              |
| Basic   | \$ 0.06                                  | \$ 0.15      | \$ 0.08                  | \$ 0.11      |

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|                                       |         |         |         |         |
|---------------------------------------|---------|---------|---------|---------|
| Diluted                               | \$ 0.06 | \$ 0.14 | \$ 0.08 | \$ 0.10 |
| Weighted average common share basic   | 170,644 | 189,391 | 172,203 | 189,508 |
| Weighted average common share diluted | 174,096 | 191,405 | 174,909 | 191,184 |

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007 are an integral part of the condensed consolidated financial statements.

**Table of Contents****TERADYNE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | For the Six Months<br>Ended |                 |
|---|-----------------------------|-----------------|
|   | June 29,<br>2008            | July 1,<br>2007 |
|   | (in thousands)              |                 |
| Cash flows from operating activities:   |                             |                 |
| Net income  | \$ 13,446                   | \$ 20,018       |
| Income from discontinued operations   |                             | 486             |
| Income from continuing operations   | 13,446                      | 19,532          |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities:        |                             |                 |
| Depreciation  | 39,077                      | 30,965          |
| Amortization  | 9,720                       | 3,904           |
| Stock-based compensation  | 10,821                      | 14,068          |
| In-process research and development charge  | 1,100                       | 16,700          |
| Gain on sale of land and building   | (1,682)                     |                 |
| Gain on sale of product lines   |                             | (906)           |
| Provision for inventory   | 3,254                       | 1,062           |
| Non-cash charge for the sale of inventories revalued at the date of acquisition                     | 4,346                       |                 |
| Other non-cash items, net   | (291)                       | 1,312           |
| Changes in operating assets and liabilities, net of businesses and product lines acquired and sold: |                             |                 |
| Accounts receivable   | 4,488                       | (55,795)        |
| Inventories   | (1,223)                     | 24,327          |
| Other assets  | (6,195)                     | (3,435)         |
| Accounts payable, deferred revenue and accrued expenses   | 10,410                      | (10,016)        |
| Retirement plans contributions  | (3,717)                     | (1,644)         |
| Income taxes payable  | (2,608)                     | (25,953)        |
| Net cash provided by continuing operations  | 80,946                      | 14,121          |
| Net cash used for discontinued operations   |                             | (2,998)         |
| Net cash provided by operating activities   | 80,946                      | 11,123          |
| Cash flows from investing activities:   |                             |                 |
| Investments in property, plant and equipment  | (56,702)                    | (44,611)        |
| Acquisition of technology   |                             | (17,600)        |
| Proceeds from sale of product lines and business  |                             | 906             |
| Proceeds from sale of land and building   | 17,716                      |                 |
| Acquisition of business, net of cash acquired   | (285,324)                   |                 |
| Purchases of available-for-sale marketable securities   | (40,581)                    | (243,352)       |
| Proceeds from sale and maturities of available-for-sale marketable securities                       | 89,777                      | 132,244         |
| Net cash used for continuing operations   | (275,114)                   | (172,413)       |
| Net cash used for discontinued operations   |                             | (189)           |
| Net cash used for investing activities  | (275,114)                   | (172,602)       |
| Cash flows from financing activities:   |                             |                 |
| Repurchase of common stock  | (91,191)                    | (27,610)        |



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|   |            |            |
|---|------------|------------|
| Issuance of common stock under employee stock option and stock purchase plans | 9,082      | 14,279     |
| Net cash used for financing activities  | (82,109)   | (13,331)   |
| Decrease in cash and cash equivalents   | (276,277)  | (174,810)  |
| Cash and cash equivalents at beginning of period                              | 562,371    | 568,025    |
| Cash and cash equivalents at end of period                                    | \$ 286,094 | \$ 393,215 |

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007 are an integral part of the condensed consolidated financial statements.

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**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**A. The Company**

Teradyne, Inc. is a leading global supplier of automatic test equipment.

Teradyne's automatic test equipment products and services include:

semiconductor test ( Semiconductor Test ), and

military/aerospace ( Mil/Aero ) test instrumentation and systems, circuit-board test and inspection systems ( Commercial Board Test ) and automotive diagnostic and test systems ( Diagnostic Solutions ), collectively Systems Test Group

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in Teradyne's filings with the Securities and Exchange Commission (the SEC ). See also Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations Certain Factors That May Affect Future Results and Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007.

**B. Accounting Policies**

*Basis of Presentation*

The condensed consolidated interim financial statements include the accounts of Teradyne and its subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair statement of such interim financial statements. Certain prior year's amounts were reclassified to conform to the current year presentation. The December 31, 2007 condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by generally accepted accounting principles.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne's Annual Report on Form 10-K, filed with the SEC on February 28, 2008 for the year ended December 31, 2007.

On August 1, 2007, Teradyne completed the sale of Broadband Test Systems, its voice and broadband access network test division. The results of operations of Broadband Test Systems as well as cash flow amounts pertaining to this business have been classified as discontinued operations in the condensed consolidated financial statements.

*Preparation of Financial Statements*

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the financial statements. Actual results may differ significantly from these estimates.

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**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**C. Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations*. (SFAS No. 141(R)) This Statement replaces FASB Statement No. 141, *Business Combinations*. SFAS No. 141(R) establishes new principles and requirements for how an acquiring company 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations occurring in the fiscal year beginning on or after December 15, 2008. Teradyne is currently evaluating the impact of adopting this standard.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161), an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 expands the current disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, such that entities must now provide enhanced disclosures on a quarterly basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for under SFAS No. 133 and how derivatives and related hedged items affect the entity's financial position, performance and cash flow. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. Teradyne will adopt SFAS No. 161 in fiscal year 2009.

In April 2008, the FASB issued Staff Position No.142-3 (FSP No. 142-3), *Determination of the Useful Life of Intangible Assets*. This FSP amends the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, about estimating useful lives of recognized intangible assets and requires additional disclosures related to renewing or extending the terms of a recognized intangible asset. In estimating the useful life of a recognized intangible asset, the FSP requires companies to consider their historical experience in renewing or extending similar arrangements together with the asset's intended use, regardless of whether the arrangements have explicit renewal or extension provisions. The FSP is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets.

**D. Financial Instruments**

Effective January 1, 2008, Teradyne has adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157) for financial assets and liabilities. As defined in SFAS No.157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Teradyne uses the market approach technique to value its financial instruments and there were no changes in valuation techniques during the quarter or six months ended June 29, 2008. SFAS No.157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets as of the reporting date.

Level 2: Inputs other than Level 1, that are observable either directly or indirectly as of the reporting date. For example, a common approach for valuing fixed income securities is the use of matrix pricing. Matrix pricing is a mathematical technique used to value securities by relying on the securities' relationship to other benchmark quoted prices, and therefore is considered a Level 2 input.

Level 3: Unobservable inputs that are not supported by market data. Unobservable inputs are developed based on the best information available, which might include Teradyne's own data.

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Teradyne's marketable securities consist primarily of high quality, corporate debt securities that are valued using matrix pricing. Teradyne has reviewed and agrees with the valuation methodologies and procedures utilized by these parties. The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of June 29, 2008.

|                                  | Level 1  | June 29, 2008<br>Level 2      Level 3<br>(in thousands) |    | Total      |
|----------------------------------|----------|---|----|------------|
| <b>Assets:</b>                   |          |   |    |            |
| Short-term marketable securities | \$       | \$ 19,780   | \$ | \$ 19,780  |
| Long-term marketable securities  | 9,390    | 99,072  |    | 108,462    |
| Total                            | \$ 9,390 | \$ 118,852  | \$ | \$ 128,242 |

**E. Product Warranty**

Teradyne generally provides a one-year warranty on its products commencing upon installation or shipment. A provision is recorded upon revenue recognition to cost of revenues for estimated warranty expense based on historical experience. Related costs are charged to the warranty accrual as incurred. The following represents the activity in the warranty accrual and is included in other accrued liabilities.

|   | For the Three Months<br>Ended |                 | For the Six Months<br>Ended |                 |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
|   | June 29,<br>2008              | July 1,<br>2007 | June 29,<br>2008            | July 1,<br>2007 |
|   | (in thousands)                |                 |                             |                 |
| Balance at beginning of period  | \$ 9,933                      | \$ 11,327       | \$ 9,340                    | \$ 12,897       |
| Acquisition   |                               |                 | 492                         |                 |
| Accruals for warranties issued during the period                            | 3,606                         | 3,529           | 7,209                       | 6,829           |
| Accruals related to pre-existing warranties (includes changes in estimates) | 577                           | (873)           | 1,182                       | (1,870)         |
| Settlements made during the period  | (4,334)                       | (3,734)         | (8,441)                     | (7,607)         |
| Balance at end of period  | \$ 9,782                      | \$ 10,249       | \$ 9,782                    | \$ 10,249       |

When Teradyne receives revenue for extended warranties beyond one year, it is deferred and recognized on a straight-line basis over the contract period. Related costs are expensed as incurred. The following represents the activity in the extended warranty and is included in short-term deferred revenue and long-term other accrued liabilities.

|   | For the Three Months<br>Ended |                 | For the Six Months<br>Ended |                 |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
|   | June 29,<br>2008              | July 1,<br>2007 | June 29,<br>2008            | July 1,<br>2007 |
|   | (in thousands)                |                 |                             |                 |
| Balance at beginning of period            | \$ 6,612                      | \$ 7,777        | \$ 6,610                    | \$ 8,350        |
| Deferral of new extended warranty revenue | 1,686                         | 1,115           | 2,880                       | 1,934           |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Recognition of extended warranty deferred revenue | (1,195)  | (1,290)  | (2,387)  | (2,682)  |
| Balance at end of period                          | \$ 7,103 | \$ 7,602 | \$ 7,103 | \$ 7,602 |

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****F. Stock-Based Compensation**

During the six months ended June 29, 2008, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 3.1 million at the weighted average grant date fair value of \$10.66. Service based awards granted to employees and executives vest in equal installments over four years. A significant number of awards granted to executive officers were performance-based restricted stock units. The performance based restricted stock units granted to the executives in January 2008 cliff vest on the third anniversary of the grant. The amount of actual performance-based awards that will vest will be determined on the first anniversary of the grant. Awards granted to non-employee directors vest on the first anniversary of the grant date.

During the six months ended July 1, 2007, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 2.0 million at the weighted average grant date fair value of \$15.27. Service based awards granted to employees and executives vest in equal installments over four years. A significant number of awards granted to executive officers were performance-based restricted stock units. The performance-based restricted stock units granted to the executives in January 2007 vest in equal installments over four years. The amount of actual performance-based awards that will vest was determined on the first anniversary of the grant. Awards granted to non-employee directors vested on the first anniversary of the grant date.

**G. Comprehensive Income**

Comprehensive income is calculated as follows:

|   | For the Three Months Ended |              | For the Six Months Ended |              |
|---|----------------------------|--------------|--------------------------|--------------|
|   | June 29, 2008              | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|   | (in thousands)             |              |                          |              |
| Net income  | \$ 11,079                  | \$ 27,654    | \$ 13,446                | \$ 20,018    |
| Foreign currency translation adjustments  | (233)                      | 256          | (1,055)                  | 234          |
| Change in unrealized loss on foreign exchange contracts                                   |                            | 55           |                          | 55           |
| Change in unrealized loss on marketable securities, net of taxes of \$0, \$0, \$0 and \$0 | (672)                      | 596          | (3,126)                  | 2,165        |
| Retirement plans net gain, net of taxes of \$431, \$22, \$447 and \$60                    | 2,643                      | 2,582        | 2,988                    | 3,744        |
| Retirement plans prior service benefit, net of taxes of \$0, \$0, \$0 and \$0             | 153                        | 154          | 307                      | 307          |
| Retirement plans net transition asset, net of taxes of \$(2), \$(11), \$(5) and \$(18)    | (16)                       | (46)         | (16)                     | (24)         |
| Comprehensive income  | \$ 12,954                  | \$ 31,251    | \$ 12,544                | \$ 26,499    |

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****H. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill by segment are as follows:

|                                 | Semiconductor<br>Test | Systems Test<br>Group<br>(in thousands) | Total      |
|---------------------------------|-----------------------|---|------------|
| Balance at December 31, 2007    | \$                    | \$ 69,147                               | \$ 69,147  |
| Goodwill acquired during period | 172,583               |   | 172,583    |
| Balance at June 29, 2008        | \$ 172,583            | \$ 69,147                               | \$ 241,730 |

Amortizable intangible assets consist of the following and are included in intangible and other assets:

|   | Gross<br>Carrying<br>Amount | June 29, 2008<br>Accumulated<br>Amortization |  | Net<br>Carrying<br>Amount | Weighted<br>Average<br>Useful Life |
|---|-----------------------------|--|--|---------------------------|------------------------------------|
|   |                             | (in thousands)                               |  |                           |                                    |
| Completed technology  | \$ 72,793                   | \$ 20,875                                    |  | \$ 51,918                 | 6.2 years                          |
| Customer relationships and service and software maintenance contracts | 50,679                      | 6,812  |  | 43,867                    | 6.9 years                          |
| Trade names and trademarks  | 4,100                       | 3,292  |  | 808                       | 7.5 years                          |
| Total intangible assets   | \$ 127,572                  | \$ 30,979                                    |  | \$ 96,593                 | 6.5 years                          |

|   | Gross<br>Carrying<br>Amount | December 31, 2007<br>Accumulated<br>Amortization |  | Net<br>Carrying<br>Amount | Weighted<br>Average<br>Useful Life |
|---|-----------------------------|--|--|---------------------------|------------------------------------|
|   |                             | (in thousands)                                   |  |                           |                                    |
| Completed technology  | \$ 19,193                   | \$ 15,734  |  | \$ 3,459                  | 7.5 years                          |
| Customer relationships and service and software maintenance contracts | 4,779                       | 3,678  |  | 1,101                     | 8.0 years                          |
| Trade names and trademarks  | 3,800                       | 2,929  |  | 871                       | 8.0 years                          |
| Acquired workforce  | 700                         | 139  |  | 561                       | 4.0 years                          |
| Total intangible assets   | \$ 28,472                   | \$ 22,480  |  | \$ 5,992                  | 7.6 years                          |

Aggregate intangible asset amortization expense was \$4.8 million for the three months ended June 29, 2008 and \$1.0 million for the three months ended July 1, 2007. Aggregate intangible asset amortization expense was \$8.6 million for the six months ended June 29, 2008 and \$1.9 million for the six months ended July 1, 2007. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

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| <b>Year</b>      | <b>Amount<br/>(in thousands)</b> |
|------------------|----------------------------------|
| 2008 (remainder) | \$ 10,068                        |
| 2009             | 19,368                           |
| 2010             | 16,697                           |
| 2011             | 15,239                           |
| 2012             | 13,112                           |



**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****I. Net Income per Common Share**

The following table sets forth the computation of basic and diluted net income per common share:

|  | For the Three Months Ended               |                  | For the Six Months Ended |                  |
|--|--|------------------|--------------------------|------------------|
|  | June 29, 2008                            | July 1, 2007     | June 29, 2008            | July 1, 2007     |
|  | (in thousands, except per share amounts) |                  |                          |                  |
| Income from continuing operations                  | \$ 11,079                                | \$ 27,246        | \$ 13,446                | \$ 19,532        |
| Income from discontinued operations                |  | 408              |                          | 486              |
| <b>Net income</b>                                  | <b>\$ 11,079</b>                         | <b>\$ 27,654</b> | <b>\$ 13,446</b>         | <b>\$ 20,018</b> |
| Shares used in income per common share basic       | 170,644                                  | 189,391          | 172,203                  | 189,508          |
| Effect of dilutive potential common shares:        |  |                  |                          |                  |
| Employee and director stock options                | 1,986                                    | 1,169            | 1,582                    | 1,057            |
| Restricted stock units                             | 1,269                                    | 742              | 999                      | 552              |
| Employee stock purchase rights                     | 197                                      | 103              | 125                      | 67               |
| <b>Dilutive potential common shares</b>            | <b>3,452</b>                             | <b>2,014</b>     | <b>2,706</b>             | <b>1,676</b>     |
| Shares used in net income per common share diluted | 174,096                                  | 191,405          | 174,909                  | 191,184          |
| <b>Net income per common share basic</b>           |  |                  |                          |                  |
| Continuing operations                              | \$ 0.06                                  | \$ 0.14          | \$ 0.08                  | \$ 0.10          |
| Discontinued operations                            |  | 0.01             |                          | 0.01             |
|  | \$ 0.06                                  | \$ 0.15          | \$ 0.08                  | \$ 0.11          |
| <b>Net income per common share diluted</b>         |  |                  |                          |                  |
| Continuing operations                              | \$ 0.06                                  | \$ 0.14          | \$ 0.08                  | \$ 0.10          |
| Discontinued operations                            |  |                  |                          |                  |
|  | \$ 0.06                                  | \$ 0.14          | \$ 0.08                  | \$ 0.10          |

The computation of diluted net income per common share for the three and six months ended June 29, 2008 excludes the effect of the potential exercise of options to purchase approximately 13.6 million and 14.2 million shares and restricted stock units of 1.2 million and 1.3 million shares, respectively, because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and six months ended July 1, 2007 excludes the effect of the potential exercise of options to purchase approximately 14.4 million and 14.6 million shares, respectively, because the effect would have been anti-dilutive.

**J. Restructuring and Other, Net**

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The tables below represent activity related to restructuring and other, net, in the six months ended June 29, 2008. The accrual for severance payments and employees' benefits is reflected in accrued employees' compensation and withholdings and is expected to be paid by the end of the fourth quarter of 2008. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2012. Teradyne expects to pay approximately \$3.2 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$8.9 million as of June 29, 2008.

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***2008 Activities*

| (in thousands)                     | Gain on<br>Sale<br>of Real<br>Estate | Facility<br>Related | Severance<br>and<br>Benefits | Long-Lived<br>Asset<br>Impairment | Total    |
|------------------------------------|--------------------------------------|---------------------|------------------------------|-----------------------------------|----------|
| Balance at December 31, 2007       | \$                                   | \$                  | \$                           | \$                                | \$       |
| Charges/ (Credits)                 | (1,682)                              | 10,344              | 12,949                       | 550                               | 22,161   |
| Cash payments                      |                                      | (593)               | (8,822)                      |                                   | (9,415)  |
| Accelerated depreciation and other | 1,682                                | (8,975)             |                              | (550)                             | (7,843)  |
| Balance at June 29, 2008           | \$                                   | \$ 776              | \$ 4,127                     | \$                                | \$ 4,903 |

During the six months ended June 29, 2008, Teradyne recorded the following restructuring activities:

\$12.9 million of severance charges across all functions and segments related to headcount reductions of 261 people;

\$9.0 million of facility charges across both segments related to the accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$0.4 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK;

\$0.7 million of facility charges in the Semiconductor Test segment related to the early exit of a facility in Ontario, Canada;

\$1.7 million gain on the sale of real estate in the Semiconductor Test segment for a facility in Agoura Hills, CA; and

\$0.6 million charge in the Semiconductor Test segment for a long-lived asset impairment related to acquired intangible assets.

*2007 Activities*

| (in thousands)               | Severance<br>and<br>Benefits |
|------------------------------|------------------------------|
| Balance at December 31, 2007 | \$ 1,108                     |
| Credits                      | (194)                        |
| Cash payments                | (556)                        |

Balance at June 29, 2008

\$ 358

*Pre-2007 Activities*

| <b>(in thousands)</b>        | <b>Facility<br/>Related</b> | <b>Severance<br/>and<br/>Benefits</b> | <b>Total</b> |
|------------------------------|-----------------------------|---------------------------------------|--------------|
| Balance at December 31, 2007 | \$ 7,802                    | \$ 250                                | \$ 8,052     |
| Charges/ (Credits)           | 2,676                       | (132)                                 | 2,544        |
| Cash payments                | (895)                       | (62)                                  | (957)        |
| Balance at June 29, 2008     | \$ 9,583                    | \$ 56                                 | \$ 9,639     |

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the six months ended June 29, 2008, Teradyne recorded the following adjustment to its pre-2007 restructuring activities:

\$2.7 million facility related charge in the Systems Test Group segment for changes in the estimated amount and timing of sublease income on a facility in Westford, MA.

**K. Stock Repurchase Program**

In November 2007, Teradyne's Board of Directors authorized a \$400 million stock repurchase program. During the three months ended June 29, 2008, Teradyne repurchased 4.7 million shares of common stock for \$58.2 million at an average price of \$12.46. For the six months ended June 29, 2008, Teradyne repurchased 7.5 million shares of common stock for \$91.2 million at an average price of \$12.20 per share. The cumulative repurchases as of June 29, 2008 total 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14.

**L. Acquisitions****Business**

On January 24, 2008, Teradyne completed its acquisition of Nextest Systems Corporation ( Nextest ) of San Jose, California, for a total purchase price of \$401.6 million, which consisted of \$367.8 million of cash paid to acquire the outstanding common stock of Nextest, at a price of \$20.00 per share, \$27.7 million in fair value of assumed vested stock options and restricted stock units, which were converted into stock options and restricted stock units to purchase Teradyne's common stock, and \$6.1 million of acquisition related transaction costs, which primarily consisted of fees incurred for financial advisory and legal services. The fair value of stock options was estimated using the following weighted average assumptions:

|                         |           |
|-------------------------|-----------|
| Expected life           | 3.6 years |
| Expected volatility     | 40.6%     |
| Risk-free interest rate | 2.8%      |
| Dividend yield          | 0.0%      |

Nextest designs, develops, manufactures, sells and services low-cost, high throughput automated test equipment systems for the semiconductor industry. Nextest competes in the flash memory, flash card, and flash memory based system-on-chip ( SOC ) markets. Nextest's products are used to test flash memory, microcontrollers, image sensors, smart cards and field programmable logic devices. The acquisition allows Teradyne to enter the flash memory test segment. Nextest is included within Teradyne's Semiconductor Test segment.

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Nextest acquisition was accounted for as a purchase business combination and, accordingly, the results have been included in Teradyne's consolidated results of operation from the date of acquisition. The allocation of the total purchase price of Nextest's net tangible and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The purchase price allocation is preliminary pending the final determination of the fair value of certain acquired tax assets and assumed tax liabilities and the completion of facility exit and restructuring plans. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of \$172.6 million was allocated to goodwill, which is not deductible for tax purposes. The following represents the preliminary allocation of the purchase price:

|  | <b>Amount<br/>(in thousands)</b> |
|--|----------------------------------|
| Goodwill   | \$ 172,583                       |
| Other intangible assets                                  | 99,800                           |
| <b>Tangible assets acquired and liabilities assumed:</b> |                                  |
| Cash and cash equivalents                                | 88,513                           |
| Other current assets                                     | 55,332                           |
| Non-current assets                                       | 16,306                           |
| Accounts payable and current liabilities                 | (26,487)                         |
| Other long-term liabilities                              | (5,542)                          |
| In-process research and development                      | 1,100                            |
| <br>Total purchase price                                 | <br>\$ 401,605                   |

Teradyne estimated the fair value of other intangible assets using the income approach. Acquired other intangible assets will be amortized on a straight-line basis over their estimated useful lives. The following table represents components of these other intangible assets and their estimated useful lives at the acquisition date:

|                             | <b>Fair Value<br/>(in thousands)</b> | <b>Estimated Useful<br/>Life<br/>(in years)</b> |
|-----------------------------|--------------------------------------|---|
| Developed technology        | \$ 53,600                            | 5.8   |
| Customer relationships      | 45,900                               | 6.8   |
| Tradenames                  | 300                                  | 1.0   |
| <br>Total intangible assets | <br>\$ 99,800                        | <br>6.2   |

The following pro forma information gives effects of the acquisition as if the acquisition occurred on January 1, 2008 and 2007. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisitions been in effect for the periods presented:

|                   | <b>For the Three Months<br/>Ended</b> | <b>For the Six Months<br/>Ended</b> |                         |
|-------------------|---------------------------------------|-------------------------------------|-------------------------|
|                   | <b>July 1,<br/>2007</b>               | <b>June 29,<br/>2008</b>            | <b>July 1,<br/>2007</b> |
| Revenue           | \$ 302,490                            | \$ 624,751                          | \$ 577,335              |
| Net income (loss) | 19,246                                | 13,086                              | (145)                   |

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|                              |    |      |         |         |
|------------------------------|----|------|---------|---------|
| Net income per common share: |    |      |         |         |
| Basic                        | \$ | 0.10 | \$ 0.08 | \$ 0.00 |
| Diluted                      | \$ | 0.10 | \$ 0.07 | \$ 0.00 |

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The six months pro forma results above include the following non recurring expense items: in-process research and development charge of \$1.1 million and acquired inventory fair value adjustment of \$4.3 million, in both six months periods presented.

**Technology**

On March 7, 2007, Teradyne purchased in-process enabling test technology and hired certain engineers from MOSAID Technologies Inc. ( MOSAID ) for \$17.6 million, which included \$0.6 million in fees directly related to the acquisition. Of the purchase price, \$16.7 million was allocated to in-process research and development and therefore was immediately charged to the statement of operations. The balance of the purchase price was allocated to acquired workforce and fixed assets. In the three months ended June 29, 2008, Teradyne recorded an impairment charge of \$0.6 million to write-off the acquired workforce asset.

**M. Retirement Plans*****Defined Benefit Pension Plans***

Teradyne has defined benefit pension plans covering a portion of domestic employees and employees of certain non-U.S. subsidiaries. Benefits under these plans are based on employees' years of service and compensation. Teradyne's funding policy is to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of the plans consist primarily of equity and fixed income securities. In addition, Teradyne has an unfunded supplemental executive defined benefit plan in the United States to provide retirement benefits in excess of levels allowed by the Employment Retirement Income Security Act and the Internal Revenue Code, as well as unfunded foreign plans.

Components of net periodic pension cost for all plans for the three and six months ended June 29, 2008 and July 1, 2007 are as follows:

|                                | For the Three Months Ended |              | For the Six Months Ended |              |
|--------------------------------|----------------------------|--------------|--------------------------|--------------|
|                                | June 29, 2008              | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|                                | (in thousands)             |              |                          |              |
| Net Periodic Benefit Cost:     |                            |              |                          |              |
| Service cost                   | \$ 1,107                   | \$ 1,268     | \$ 2,490                 | \$ 2,811     |
| Interest cost                  | 4,418                      | 4,118        | 8,856                    | 8,274        |
| Expected return on plan assets | (5,167)                    | (4,879)      | (10,345)                 | (9,762)      |
| Amortization of unrecognized:  |                            |              |                          |              |
| Net transition obligation      | (7)                        | (17)         | (15)                     | (33)         |
| Prior service cost             | 212                        | 213          | 424                      | 424          |
| Net loss                       | 346                        | 847          | 713                      | 1,822        |
| Curtailement gain              | (357)                      |              | (357)                    |              |
| Total expense                  | \$ 552                     | \$ 1,550     | \$ 1,766                 | \$ 3,536     |

Teradyne contributed \$0.8 million to its United Kingdom Pension Plan, \$0.6 million to its Japan Pension Plan, \$0.6 million to its U.S. Pension Plan and \$0.3 million to its other foreign Pension Plans in the six months ended June 29, 2008.



**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Post-Retirement Benefit Plans**

In addition to receiving pension benefits, Teradyne's U.S. employees who meet specific retirement eligibility requirements as of their termination dates may participate in Teradyne's Welfare Plan, which includes death benefits, and medical and dental benefits up to age 65. Death benefits provide a fixed amount to retirees' survivors and are available to all retirees.

Substantially all of Teradyne's current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

Components of net periodic postretirement benefits cost are as follows:

|                               | For the Three Months Ended |               | For the Six Months Ended |               |
|-------------------------------|----------------------------|---------------|--------------------------|---------------|
|                               | June 29, 2008              | July 1, 2007  | June 29, 2008            | July 1, 2007  |
|                               | (in thousands)             |               |                          |               |
| Net Periodic Benefit Cost:    |                            |               |                          |               |
| Service cost                  | \$ 22                      | \$ 71         | \$ 84                    | \$ 127        |
| Interest cost                 | 291                        | 317           | 613                      | 658           |
| Amortization of unrecognized: |                            |               |                          |               |
| Prior service cost            | (59)                       | (59)          | (117)                    | (118)         |
| Net loss                      | 17                         | 50            | 70                       | 143           |
| <b>Total expense</b>          | <b>\$ 271</b>              | <b>\$ 379</b> | <b>\$ 650</b>            | <b>\$ 810</b> |

Teradyne contributed \$1.4 million to its U.S. Post-Retirement Benefits Plan in the six months ended June 29, 2008.

**N. Commitments and Contingencies****Legal Claims**

On September 5, 2001, after Teradyne's August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of our then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs' claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. Teradyne petitioned the Ninth Circuit for a rehearing of the ruling that it reversed. In October 2007, the Ninth Circuit denied Teradyne's petition for rehearing. Teradyne continues to defend the claim that was sent back to the District Court.

In 2001, Teradyne was designated as a Potentially Responsible Party ( PRP ) at a clean-up site in Los Angeles, California. This claim arose out of Teradyne's acquisition of Perception Laminates in August 2000. Prior to that date, Perception Laminates had itself acquired certain assets of Alco Industries Inc. under an asset purchase agreement in 1992. Neither Teradyne nor Perception Laminates have ever conducted any operations at the Los Angeles site. Teradyne asked the State of California to drop the PRP designation, but California has not yet agreed to do so.

Teradyne believes that it has meritorious defenses against the above unsettled claims and intends to vigorously contest them. While it is not possible to predict or determine the outcomes of the unsettled claims or



**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to provide possible ranges of losses that may arise, Teradyne believes the potential losses associated with all of these actions will not have a material adverse effect on its consolidated financial position or liquidity, but could possibly be material to its consolidated results of operations of any one period.

In addition, Teradyne is subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. Although there can be no assurance, there are no such matters pending that Teradyne expects to be material with respect to its business, financial position or results of operations.

**O. Segment Information**

Teradyne's two reportable segments are Semiconductor Test and Systems Test Group. The Semiconductor Test segment includes operations related to the design, manufacturing and marketing of semiconductor test products and services. The Systems Test Group segment includes operations related to the design, manufacturing and marketing of military/aerospace instrumentation test products and services, circuit-board test and inspection products and services, and automotive diagnostic and test products and services.

Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income from continuing operations before taxes. The accounting policies of the business segments are the same as those described in Note B: Accounting Policies in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007. Due to the sale of Broadband Test Systems on August 1, 2007, its results have been excluded from segment reporting and included in discontinued operations for the three and six months ended July 1, 2007. Segment information for the three and six months ended June 29, 2008 and July 1, 2007 is as follows:

|  | Semiconductor<br>Test | Systems<br>Test<br>Group | Corporate<br>and<br>Eliminations | Consolidated |
|--|-----------------------|--------------------------|----------------------------------|--------------|
|  | (in thousands)        |                          |                                  |              |
| <b>Three months ended June 29, 2008:</b>             |                       |                          |                                  |              |
| Net sales  | \$ 263,588            | \$ 54,117                | \$                               | \$ 317,705   |
| Income from continuing operations before taxes(1)(2) | 18,983                | (3,898)                  | 2,094                            | 17,179       |
| <b>Three months ended July 1, 2007:</b>              |                       |                          |                                  |              |
| Net sales  | \$ 230,681            | \$ 58,029                | \$                               | \$ 288,710   |
| Income from continuing operations before taxes(1)(2) | 15,279                | 5,621                    | 9,800                            | 30,700       |
| <b>Six months ended June 29, 2008:</b>               |                       |                          |                                  |              |
| Net sales  | \$ 511,251            | \$ 103,769               | \$                               | \$ 615,020   |
| Income from continuing operations before taxes(1)(2) | 23,542                | (6,607)                  | 6,711                            | 23,646       |
| <b>Six months ended July 1, 2007:</b>                |                       |                          |                                  |              |
| Net sales  | \$ 424,649            | \$ 117,754               | \$                               | \$ 542,403   |
| Income from continuing operations before taxes(1)(2) | (6,387)               | 9,451                    | 21,307                           | 24,371       |

(1) Net interest income is included in Corporate and Eliminations.

(2) Included in the income from continuing operations before taxes for each of the segments for the three and six months ended June 29, 2008 and July 1, 2007 are charges that include restructuring and other, net, in-process research and development and inventory charges,

as follows:

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**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Included in the Semiconductor Test segment are charges for the following:

|                                     | For the Three Months Ended |              | For the Six Months Ended |              |
|-------------------------------------|----------------------------|--------------|--------------------------|--------------|
|                                     | June 29, 2008              | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|                                     | (in thousands)             |              |                          |              |
| Cost of revenues inventory charges  | \$ 884                     | \$ 304       | \$ 2,039                 | \$ 354       |
| Restructuring and other, net        | 8,901                      | 1,483        | 19,033                   | 2,572        |
| In-process research and development |                            |              | 1,100                    | 16,700       |
| Total                               | \$ 9,785                   | \$ 1,787     | \$ 22,172                | \$ 19,626    |

Included in the Systems Test Group segment are charges for the following:

|                                    | For the Three Months Ended |              | For the Six Months Ended |              |
|------------------------------------|----------------------------|--------------|--------------------------|--------------|
|                                    | June 29, 2008              | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|                                    | (in thousands)             |              |                          |              |
| Cost of revenues inventory charges | \$ 1,022                   | \$ 297       | \$ 1,215                 | \$ 708       |
| Restructuring and other, net       | 3,311                      | (1,056)      | 4,745                    | (296)        |
| Total                              | \$ 4,333                   | \$ (759)     | \$ 5,960                 | \$ 412       |

Included in the Corporate and Eliminations segment are charges for the following:

|                              | For the Three Months Ended |              | For the Six Months Ended |              |
|------------------------------|----------------------------|--------------|--------------------------|--------------|
|                              | June 29, 2008              | July 1, 2007 | June 29, 2008            | July 1, 2007 |
|                              | (in thousands)             |              |                          |              |
| Restructuring and other, net | \$ 514                     | \$ 141       | \$ 733                   | \$ 539       |
| Total                        | \$ 514                     | \$ 141       | \$ 733                   | \$ 539       |

**Table of Contents****Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations****Critical Accounting Policies and Estimates**

We have identified the policies which are critical to understanding our business and our results of operations. Management believes that there have been no significant changes during the six months ended June 29, 2008 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

**SELECTED RELATIONSHIPS WITHIN THE CONDENSED CONSOLIDATED****STATEMENTS OF OPERATIONS**

|   | For the Three Months<br>Ended |                 | For the Six Months<br>Ended |                 |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
|   | June 29,<br>2008              | July 1,<br>2007 | June 29,<br>2008            | July 1,<br>2007 |
| Percentage of total net revenues:                     |                               |                 |                             |                 |
| Products  | 78%                           | 79%             | 78%                         | 78%             |
| Services  | 22                            | 21              | 22                          | 22              |
| Total net revenues                                    | 100                           | 100             | 100                         | 100             |
| Cost of revenues:                                     |                               |                 |                             |                 |
| Cost of products                                      | 39                            | 39              | 39                          | 39              |
| Cost of services                                      | 13                            | 13              | 13                          | 15              |
| Total cost of revenues                                | 52                            | 52              | 52                          | 54              |
| Gross profit  | 48                            | 48              | 48                          | 46              |
| Operating expenses:                                   |                               |                 |                             |                 |
| Engineering and development                           | 18                            | 18              | 18                          | 19              |
| Selling and administrative                            | 21                            | 22              | 21                          | 23              |
| Acquired intangible asset amortization                | 1                             |                 | 2                           |                 |
| In-process research and development                   |                               |                 |                             | 3               |
| Restructuring and other, net                          | 4                             |                 | 4                           | 1               |
| Operating expenses                                    | 44                            | 40              | 45                          | 46              |
| Income from operations                                | 4                             | 8               | 3                           |                 |
| Interest & Other                                      | 1                             | 3               | 1                           | 4               |
| Income from continuing operations before income taxes | 5                             | 11              | 4                           | 4               |
| Provision for income taxes                            | 2                             | 1               | 2                           |                 |
| Income from continuing operations                     | 3                             | 10              | 2                           | 4               |
| Income from discontinued operations                   |                               |                 |                             |                 |
| Provision for income taxes                            |                               |                 |                             |                 |
| Income from discontinued operations                   |                               |                 |                             |                 |
| Net income  | 3%                            | 10%             | 2%                          | 4%              |
|   | 36%                           | 11%             | 43%                         | 20%             |

Provision for income taxes as a percentage of income from continuing operations before income taxes

**Table of Contents***Second Quarter 2008 Compared to Second Quarter 2007**Bookings*

Net bookings for our two reportable segments were as follows:

|                    | For the Three Months Ended |                               | Dollar Change |
|--------------------|----------------------------|-------------------------------|---------------|
|                    | June 29, 2008              | July 1, 2007<br>(in millions) |               |
| Semiconductor Test | \$ 260.6                   | \$ 259.2                      | \$ 1.4        |
| Systems Test Group | 47.3                       | 47.4                          | (0.1)         |
|                    | \$ 307.9                   | \$ 306.6                      | \$ 1.3        |

Semiconductor Test orders increased 1% or \$1.4 million from the second quarter of 2007 to 2008 due primarily to the acquisition of Nextest which offset a decrease in Teradyne's Semiconductor Test orders.

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the second quarter of 2008 and 2007, there were no significant cancellations penalties received. Due to possible changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules and/or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations.

Net bookings by region as a percentage of total net bookings were as follows:

|                 | For the Three Months Ended |              |
|-----------------|----------------------------|--------------|
|                 | June 29, 2008              | July 1, 2007 |
| Taiwan          | 22%                        | 24%          |
| United States   | 22                         | 15           |
| Singapore       | 18                         | 13           |
| South East Asia | 14                         | 17           |
| Japan           | 10                         | 7            |
| Europe          | 7                          | 10           |
| Korea           | 6                          | 13           |
| Rest of World   | 1                          | 1            |
|                 | 100%                       | 100%         |

Backlog of unfilled orders for our two reportable segments was as follows:

| For the Three Months Ended |              |
|----------------------------|--------------|
| June 29, 2008              | July 1, 2007 |
| (in millions)              |              |



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|                    |          |          |
|--------------------|----------|----------|
| Semiconductor Test | \$ 270.3 | \$ 250.6 |
| Systems Test Group | 93.5     | 93.1     |
|                    | \$ 363.8 | \$ 343.7 |

**Table of Contents***Revenue*

Net revenues for our two reportable segments were as follows:

|                    | For the Three Months Ended |                               | Dollar Change |
|--------------------|----------------------------|-------------------------------|---------------|
|                    | June 29, 2008              | July 1, 2007<br>(in millions) |               |
| Semiconductor Test | \$ 263.6                   | \$ 230.7                      | \$ 32.9       |
| Systems Test Group | 54.1                       | 58.0                          | (3.9)         |
|                    | \$ 317.7                   | \$ 288.7                      | \$ 29.0       |

Semiconductor Test revenue increased \$32.9 million or 14% from the second quarter of 2007 to the second quarter of 2008. The majority of this increase is due to \$21.4 million of sales from our Nextest acquisition, followed by an increase in revenue for J750 systems, and to a lesser extent, higher Flex® family system sales resulting from a growth in wireless demand in the second quarter of 2008 compared to the second quarter of 2007.

The decrease in Systems Test Group revenue of \$3.9 million or 7% was spread across all Systems Test Group divisions.

Our sales by region as a percentage of total net sales were as follows:

|                   | For the Three Months Ended |              |
|-------------------|----------------------------|--------------|
|                   | June 29, 2008              | July 1, 2007 |
| Taiwan            | 23%                        | 19%          |
| United States     | 19                         | 21           |
| South East Asia   | 18                         | 16           |
| Japan             | 11                         | 11           |
| Europe            | 10                         | 10           |
| Singapore         | 9                          | 15           |
| Korea             | 7                          | 6            |
| Rest of the World | 3                          | 2            |
|                   | 100%                       | 100%         |

*Gross Profit*

Our gross profit was as follows:

|              | For the Three Months Ended |                               | Dollar/Point Change |
|--------------|----------------------------|-------------------------------|---------------------|
|              | June 29, 2008              | July 1, 2007<br>(in millions) |                     |
| Gross Profit | \$ 153.8                   | \$ 137.2                      | \$ 16.6             |

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| Percent of Total Revenue  | 48.4% | 47.5% | 0.9 |
|---|-------|-------|-----|
| Gross profit as a percentage of revenue increased from the second quarter of 2007 to the second quarter of 2008 by 0.9 percentage points due to higher volume and improved service margins in our Semiconductor Test group. |       |       |     |

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We assess the carrying value of our inventory on a quarterly basis by estimating future demand and comparing that demand against on-hand and on-order inventory provisions. Forecasted revenue information is obtained from the sales and marketing groups and incorporates factors such as backlog and future revenue demand. This quarterly process identifies obsolete and excess inventory. Obsolete inventory, which represents items for which there is no demand, is fully reserved. Excess inventory, which represents inventory items that are not expected to be consumed during the next four quarters, is written down to estimated net realizable value.

The provisions for excess and obsolete inventory were \$1.9 million and \$0.6 million for the three months ended June 29, 2008 and July 1, 2007, respectively. During the three months ended June 29, 2008 and July 1, 2007, we scrapped \$2.3 million and \$3.9 million of inventory, respectively, and sold \$0.2 million and \$0.6 million of previously written-down or written-off inventory, respectively. As of June 29, 2008, we have inventory related reserves for amounts which had been written-down or written-off totaling \$100.4 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

|                             | <b>For the Three Months<br/>Ended</b> |   | <b>Dollar<br/>Change</b> |
|-----------------------------|---------------------------------------|---|--------------------------|
|                             | <b>June 29,<br/>2008</b>              | <b>July 1,<br/>2007<br/>(in millions)</b> |                          |
| Engineering and Development | \$ 56.2                               | \$ 52.4                                   | \$ 3.8                   |
| Percent of Total Revenue    | 17.7%                                 | 18.2%                                     |                          |

The increase of \$3.8 million in engineering and development expenses is due to the acquisition of Nextest.

*Selling and Administrative*

Selling and administrative expenses were as follows:

|                            | <b>For the Three Months<br/>Ended</b> |   | <b>Dollar<br/>Change</b> |
|----------------------------|---------------------------------------|---|--------------------------|
|                            | <b>June 29,<br/>2008</b>              | <b>July 1,<br/>2007<br/>(in millions)</b> |                          |
| Selling and Administrative | \$ 65.5                               | \$ 62.2                                   | \$ 3.3                   |
| Percent of Total Revenue   | 20.6%                                 | 21.5%                                     |                          |

The increase of \$3.3 million from the second quarter of 2007 to 2008 is primarily due to the acquisition of Nextest, which is offset in part by \$2.5 million of lower variable employee compensation and \$1.5 million of lower general and administrative expenses and facilities costs.

*Restructuring and Other, Net*

The tables below represent activity related to restructuring and other, net, in the three months ended June 29, 2008. The accrual for severance payments and employees' benefits is reflected in accrued employees' compensation and withholdings, and is expected to be paid by the end of the fourth quarter of 2008. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2012. We expect to pay approximately \$3.2 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$8.9 million as of June 29, 2008.

**Table of Contents****2008 Activities**

| (in thousands)                     | Gain on Sale<br>of Real Estate | Facility<br>Related | Severance<br>and<br>Benefits | Long-Lived<br>Asset<br>Impairment | Total    |
|------------------------------------|--------------------------------|---------------------|------------------------------|-----------------------------------|----------|
| Balance at March 30, 2008          | \$                             | \$ 184              | \$ 1,825                     | \$                                | \$ 2,009 |
| Charges/ (Credits)                 | (1,682)                        | 5,672               | 5,517                        | 550                               | 10,057   |
| Cash payments                      |                                | (593)               | (3,215)                      |                                   | (3,808)  |
| Accelerated depreciation and other | 1,682                          | (4,487)             |                              | (550)                             | (3,355)  |
| Balance at June 29, 2008           | \$                             | \$ 776              | \$ 4,127                     | \$                                | \$ 4,903 |

During the three months ended June 29, 2008, we recorded the following restructuring activities:

\$5.5 million of severance charges across all functions and segments related to headcount reductions of 104 people;

\$4.5 million of facility charges across both segments related to accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$0.2 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK;

\$0.7 million of facility charges in our Semiconductor Test segment related to the early exit of a facility in Ontario, Canada;

\$1.7 million gain on the sale of real estate in our Semiconductor Test segment for a facility in Agoura Hills, CA; and

\$0.6 million charge in our Semiconductor Test segment for a long-lived asset impairment related to acquired intangible assets. The restructuring actions taken during the three months ended June 29, 2008, are expected to generate quarterly cost savings of approximately \$2.8 million.

**2007 Activities**

| (in thousands)            | Severance and<br>Benefits |
|---------------------------|---------------------------|
| Balance at March 30, 2008 | \$ 477                    |
| Charges                   | (7)                       |
| Cash payments             | (112)                     |
| Balance at June 29, 2008  | \$ 358                    |

**Pre-2007 Activities**

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| <b>(in thousands)</b>     | <b>Facility<br/>Related</b> | <b>Severance<br/>and<br/>Benefits</b> | <b>Total</b> |
|---------------------------|-----------------------------|---------------------------------------|--------------|
| Balance at March 30, 2008 | \$ 7,083                    | \$ 42                                 | \$ 7,125     |
| Credits                   | 2,676                       |                                       | 2,676        |
| Cash payments             | (176)                       | 14                                    | (162)        |
| Balance at June 29, 2008  | \$ 9,583                    | \$ 56                                 | \$ 9,639     |

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During the three months ended June 29, 2008, we recorded the following adjustment to our pre-2007 restructuring activities:

\$2.7 million facility related charge in our Systems Test Group segment for changes in the estimated amount and timing of sublease income on a facility in Westford, MA.

*Interest Income and Other, net*

Interest income decreased by \$6.4 million from \$9.3 million in the second quarter of 2007 to \$2.9 million in the second quarter of 2008, due primarily to lower cash balances as a result of the acquisition of Nextest and stock repurchase activity.

*Income Taxes*

The tax expense of \$6.1 million and \$3.5 million for the second quarter of 2008 and for the second quarter of 2007, consists of foreign taxes and U.S. Federal tax for 2008 and primarily foreign taxes for 2007. The effective tax rate of 36% for the second quarter of 2008 was caused by foreign losses for which no tax benefit was recorded. As a result of incurring significant operating losses from 2001 through 2003, we determined that it is more likely than not that our deferred tax assets in the U.S. may not be realized, and since the fourth quarter of 2002 we have established a full valuation allowance for these net deferred tax assets. If we generate sustained future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed. If the valuation allowance was reversed, a portion would be recorded as an increase to additional paid in capital, and the remainder would be recorded as a reduction to income tax expense.

*Six Months of 2008 Compared to Six Months of 2007**Bookings*

Net bookings for our two reportable segments were as follows:

|                       | For the Six Months Ended |                               | Dollar Change |
|-----------------------|--------------------------|-------------------------------|---------------|
|                       | June 29, 2008            | July 1, 2007<br>(in millions) |               |
| Semiconductor Test(1) | \$ 524.4                 | \$ 461.9                      | \$ 62.5       |
| Systems Test Group    | 94.9                     | 90.6                          | 4.3           |
|                       | \$ 619.3                 | \$ 552.5                      | \$ 66.8       |

(1) Includes Nextest bookings from January 24, 2008 through June 29, 2008.

Semiconductor Test orders increased 14% or \$62.5 million from the first six months of 2007 to the first six months of 2008 due primarily to the acquisition of Nextest. The remainder of the increase was in service orders, as annual service contracts that are typically booked in the fourth quarter shifted into the first quarter of 2008.

Systems Test Group increase in orders of \$4.3 million or 5% was primarily due to strong program buying in the Mil/ Aero business unit.

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the first half of 2008 and 2007, there were no significant cancellations penalties received. Due to possible changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules and/or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations.





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Net bookings by region as a percentage of total net bookings were as follows:

|                   | For the Six Months Ended |              |
|-------------------|--------------------------|--------------|
|                   | June 29, 2008            | July 1, 2007 |
| Taiwan            | 23%                      | 18%          |
| United States     | 20                       | 19           |
| South East Asia   | 17                       | 15           |
| Singapore         | 12                       | 16           |
| Japan             | 10                       | 12           |
| Europe            | 9                        | 11           |
| Korea             | 8                        | 8            |
| Rest of the World | 1                        | 1            |
|                   | 100%                     | 100%         |

*Revenue*

Net revenues for our two reportable segments were as follows:

|                    | For the Six Months Ended |              | Dollar Change |
|--------------------|--------------------------|--------------|---------------|
|                    | June 29, 2008            | July 1, 2007 |               |
|                    | (in millions)            |              |               |
| Semiconductor Test | \$ 511.2                 | \$ 424.6     | \$ 86.6       |
| Systems Test Group | 103.8                    | 117.8        | (14.0)        |
|                    | \$ 615.0                 | \$ 542.4     | \$ 72.6       |

Semiconductor Test revenue increased \$86.6 million or 20% from the first six months of 2007 to the first six months of 2008 due primarily to the Nextest acquisition. The remainder of the increase was in both Flex family, due to strength in demand for systems with wireless configurations, and J750 products.

The decrease in Systems Test Group revenue of \$14.0 million or 12% resulted from a decrease in our Commercial Board Test and Diagnostic Solutions business units.

Our sales by region as a percentage of total net sales were as follows:

|                 | For the Six Months Ended |              |
|-----------------|--------------------------|--------------|
|                 | June 29, 2008            | July 1, 2007 |
| Taiwan          | 21%                      | 13%          |
| United States   | 19                       | 24           |
| South East Asia | 19                       | 14           |
| Japan           | 11                       | 12           |
| Singapore       | 9                        | 15           |
| Europe          | 9                        | 12           |

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|                   |      |      |
|-------------------|------|------|
| Korea             | 8    | 7    |
| Rest of the World | 4    | 3    |
|                   | 100% | 100% |

**Table of Contents***Gross Profit*

Our gross profit was as follows:

|                          | For the Six Months<br>Ended |                                  | Dollar/<br>Point<br>Change |
|--------------------------|-----------------------------|----------------------------------|----------------------------|
|                          | June 29,<br>2008            | July 1,<br>2007<br>(in millions) |                            |
| Gross Profit             | \$ 292.4                    | \$ 250.6                         | \$ 41.8                    |
| Percent of Total Revenue | 47.5%                       | 46.2%                            | 1.3                        |

Gross margins as a percentage of revenue increased from the first six months of 2007 to the first six months of 2008 by 1.3 percentage points. This increase is the result of higher volume and improved service margins, offset in part by a \$4.3 million charge to adjust Nextest inventory to fair value.

We assess the carrying value of our inventory on a quarterly basis by estimating future demand and comparing that demand against on-hand and on-order inventory provisions. Forecasted revenue information is obtained from the sales and marketing groups and incorporates factors such as backlog and future revenue demand. This quarterly process identifies obsolete and excess inventory. Obsolete inventory, which represents items for which there is no demand, is fully reserved. Excess inventory, which represents inventory items that are not expected to be consumed during the next four quarters, is written down to estimated net realizable value.

The provisions for excess and obsolete inventory were \$3.3 million and \$1.1 million for the six months ended June 29, 2008 and July 1, 2007, respectively. During the six months ended June 29, 2008 and July 1, 2007, we scrapped \$10.1 million and \$9.2 million of inventory, respectively, and sold \$1.3 million and \$0.6 million of previously written-down or written-off inventory, respectively. As of June 29, 2008, we have inventory related reserves for amounts which had been written-down or written-off of \$100.4 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

|                             | For the Six Months<br>Ended |                                  | Dollar<br>Change |
|-----------------------------|-----------------------------|----------------------------------|------------------|
|                             | June 29,<br>2008            | July 1,<br>2007<br>(in millions) |                  |
| Engineering and Development | \$ 111.3                    | \$ 101.7                         | \$ 9.6           |
| Percent of Total Revenue    | 18.1%                       | 18.7%                            |                  |

The increase of \$9.6 million in engineering and development expenses is due primarily to the acquisition of Nextest as well as increased investment in engineering to enter adjacent markets.

*Selling and Administrative*

Selling and administrative expenses were as follows:

|  | For the Six Months<br>Ended |                                  | Dollar<br>Change |
|--|-----------------------------|----------------------------------|------------------|
|  | June 29,<br>2008            | July 1,<br>2007<br>(in millions) |                  |

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|                            |          |          |        |
|----------------------------|----------|----------|--------|
| Selling and Administrative | \$ 130.7 | \$ 125.1 | \$ 5.6 |
| Percent of Total Revenue   | 21.2%    | 23.1%    |        |

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The increase of \$5.6 million from the second quarter of 2007 to the second quarter of 2008 is due to the acquisition of Nextest, which is offset in part by \$2.8 million of lower general and administrative expenses and facilities costs, \$2.0 million of lower selling and marketing expenses due to reductions in workforce and \$1.6 million of lower variable employee compensation.

*Restructuring and Other, Net*

The tables below represent activity related to restructuring and other, net, in the six months ended June 29, 2008. The accrual for severance payments and employee benefits is reflected in accrued employees compensation and withholdings and is expected to be paid by the end of the fourth quarter of 2008. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid out over the lease terms, the latest of which expires in 2012. We expect to pay out approximately \$3.2 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$8.9 million as of June 29, 2008.

*2008 Activities*

| (in thousands)                     | Gain on<br>Sale of<br>Real<br>Estate | Facility<br>Related | Severance<br>and<br>Benefits | Long-Lived<br>Asset<br>Impairment | Total    |
|------------------------------------|--------------------------------------|---------------------|------------------------------|-----------------------------------|----------|
| Balance at December 31, 2007       | \$                                   | \$                  | \$                           | \$                                | \$       |
| Charges/ (Credits)                 | (1,682)                              | 10,344              | 12,949                       | 550                               | 22,161   |
| Cash payments                      |                                      | (593)               | (8,822)                      |                                   | (9,415)  |
| Accelerated depreciation and other | 1,682                                | (8,975)             |                              | (550)                             | (7,843)  |
| Balance at June 29, 2008           | \$                                   | \$ 776              | \$ 4,127                     | \$                                | \$ 4,903 |

During the six months ended June 29, 2008, we recorded the following restructuring activities:

\$12.9 million of severance charges across all functions and segments related to headcount reductions of 261 people;

\$9.0 million of facility charges across both segments related to the accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of this activity to an outsourced partner;

\$0.4 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK;

\$0.7 million of facility charges in our Semiconductor Test segment related to the early exit of a facility in Ontario, Canada;

\$1.7 million gain on the sale of real estate in our Semiconductor Test segment for a facility in Agoura Hills, CA; and

\$0.6 million charge in our Semiconductor Test segment for a long-lived asset impairment related to acquired intangible assets.

The restructuring actions taken during the six months ended June 29, 2008, are expected to generate quarterly cost savings of approximately \$6.1 million.



**Table of Contents***2007 Activities*

| (in thousands)               | Severance<br>and<br>Benefits |
|------------------------------|------------------------------|
| Balance at December 31, 2007 | \$ 1,108                     |
| Credits                      | (194)                        |
| Cash payments                | (556)                        |
| Balance at June 29, 2008     | \$ 358                       |

*Pre-2007 Activities*

| (in thousands)               | Facility<br>Related | Severance<br>and<br>Benefits | Total    |
|------------------------------|---------------------|------------------------------|----------|
| Balance at December 31, 2007 | \$ 7,802            | \$ 250                       | \$ 8,052 |
| Charges/ (Credits)           | 2,676               | (132)                        | 2,544    |
| Cash payments                | (895)               | (62)                         | (957)    |
| Balance at June 29, 2008     | \$ 9,583            | \$ 56                        | \$ 9,639 |

During the six months ended June 29, 2008, we recorded the following adjustment to our pre-2007 restructuring activities:

\$2.7 million facility related charge in our Systems Test Group segment for changes in the estimated amount and timing of sublease income on a facility in Westford, MA.

*In-process Research and Development*

On January 24, 2008, we completed our acquisition of Nextest for the total purchase price of \$401.6 million. Of the purchase price, \$1.1 million has been allocated to in-process research and development and therefore has been immediately charged to the statement of operations.

*Interest Income and Expense*

Interest income decreased by \$11.9 million from \$19.4 million in the first six months of 2007 to \$7.5 million in the first six months of 2008, due primarily to lower cash balances as a result of the acquisition of Nextest and stock repurchase activity.

*Income Taxes*

The tax expense of \$10.2 million and \$4.8 million for the first six months of 2008 and the first six months of 2007 consists of foreign taxes and U.S. Federal tax for 2008 and primarily foreign taxes for 2007. The year to date effective rate of 43% was caused by foreign losses for which no tax benefit was recorded and non deductible intangible asset amortization expense associated with our acquisition of Nextest. As a result of incurring significant operating losses from 2001 through 2003, we determined that it is more likely than not that our deferred tax assets in the U.S. may not be realized, and since the fourth quarter of 2002 we have established a full valuation allowance for our net deferred tax assets. If we generate sustained future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed. If the valuation allowance was reversed, a portion would be recorded as an increase to additional paid in capital, and the remainder would be recorded as a reduction to income tax expense.





**Table of Contents****Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balance decreased \$328.6 million in the first six months of 2008, to \$414.3 million. Cash and cash equivalents activity for the first six months of 2008 and 2007 were as follows:

|  | For the Six Months<br>Ended |                 |
|--|-----------------------------|-----------------|
|  | June 29,<br>2008            | July 1,<br>2007 |
|  | (in millions)               |                 |
| Cash provided by (used for) operating activities:  |                             |                 |
| Net income from continuing operations, adjusted for non-cash items                                 | \$ 79.8                     | \$ 86.6         |
| Changes in operating assets and liabilities, net of businesses and product lines acquired and sold | 1.1                         | (72.5)          |
| Cash used for discontinued operations  |                             | (3.0)           |
| <b>Total cash provided by operating activities</b>   | <b>80.9</b>                 | <b>11.1</b>     |
| Cash used for investing activities from continuing operations                                      | (275.1)                     | (172.4)         |
| Cash used for investing activities from discontinued operations                                    |                             | (0.2)           |
| <b>Total cash used for investing activities</b>  | <b>(275.1)</b>              | <b>(172.6)</b>  |
| <b>Total cash used for financing activities</b>  | <b>(82.1)</b>               | <b>(13.3)</b>   |
| <br>   |                             |                 |
| Decrease in cash and cash equivalents  | \$ (276.3)                  | \$ (174.8)      |

Changes in operating assets and liabilities, net of product lines and businesses sold and acquired, provided cash of \$1.1 million in the first six months of 2008 due primarily to a decrease in accounts receivable of \$4.5 million and an increase in accounts payable, deferred revenue and accrued expenses of \$10.4 million. Accounts receivable decreased \$4.5 million due to a decrease in days sales outstanding from 66 days as of December 31, 2007 to 61 days as of June 29, 2008 as a result of improved collections. These increases in cash were partially offset by an increase in other assets of \$6.2 million and retirement plan contributions of \$3.7 million. Changes in operating assets and liabilities used cash of \$72.5 million in the first six months of 2007 due primarily to an increase in accounts receivable of \$55.8 million and a decrease in accrued income taxes of \$26.0 million for taxes paid primarily in foreign jurisdictions. Accounts receivable increased \$55.8 million, primarily in the Semiconductor Test segment, partially due to increased volume since December 31, 2006 and partially due to an increase in days sales outstanding from 55 days as of December 31, 2006 to 67 days as of July 1, 2007 due to increased shipments in the last month of the period. Inventory decreased \$24.3 million in the first six months of 2007 primarily in our Semiconductor Test segment and to a lesser extent in the Systems Test Group segment.

Investing activities consist of purchases, sales and maturities of marketable securities, proceeds from asset disposals, cash paid for assets and purchases of capital assets and businesses. Investing activities used cash of \$275.1 million in the first six months of 2008, primarily due to \$285.3 million of cash used for the acquisition of Nextest, net of cash acquired.

Financing activities include issuance of our common stock and repurchases of our common stock. During the six months ended June 29, 2008, we repurchased 7.5 million shares of common stock for \$91.2 million at an average price of \$12.20.

We believe our cash, cash equivalents and marketable securities balance of \$414.3 million will be sufficient to meet working capital and expenditure needs for at least the foreseeable future. Inflation has not had a significant long-term impact on earnings.

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### **Equity Compensation Plans**

Discussed in Note O: Stock Based Compensation in our 2007 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan), a cash and equity compensation incentive plan.

The purpose of the 1996 Employee Stock Purchase Plan is to encourage stock ownership by all eligible employees of Teradyne. The purpose of the 2006 Equity Plan is to provide equity ownership and compensation opportunities in Teradyne to our employees, officers, directors, consultants and/or advisors. Both plans were approved by our shareholders.

### **Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations. (SFAS No. 141(R)) This Statement replaces FASB Statement No. 141, Business Combinations. SFAS No. 141(R) establishes new principles and requirements for how an acquiring company 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations occurring in the fiscal year beginning on or after December 15, 2008. We are currently evaluating the impact of adopting this standard.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), an amendment of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 expands the current disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, such that entities must now provide enhanced disclosures on a quarterly basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for under SFAS No. 133 and how derivatives and related hedged items affect the entity's financial position, performance and cash flow. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. We will adopt SFAS No. 161 in fiscal year 2009.

In April 2008, the FASB issued Staff Position No.142-3 (FSP No. 142-3), Determination of the Useful Life of Intangible Assets. This FSP amends the guidance in FASB Statement No. 142, Goodwill and Other Intangible Assets, about estimating useful lives of a recognized intangible assets and requires additional disclosures related to renewing or extending the terms of recognized intangible asset. In estimating the useful life of a recognized intangible asset, the FSP requires companies to consider their historical experience in renewing or extending similar arrangements together with the asset's intended use, regardless of whether the arrangements have explicit renewal or extension provisions. The FSP is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets.

### **Certain Factors That May Affect Future Results**

From time to time, information we provide, statements made by our employees or information included in our filings with the SEC (including this Form 10-Q) contain statements that are not purely historical, but are forward looking statements, made under Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which involve risks and uncertainties. In particular, forward looking statements made herein include projections, plans and objectives for our business, financial condition, operating results, future operations, or future economic performance, statements relating to the sufficiency of capital to meet working capital requirements, capital expenditures, including future lease payments and commitments and contributions

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to our pension plan, expectations as to customer orders and demand for our products and statements relating to backlog, bookings and cancellations, gross margins and pricing considerations. These statements are neither promises nor guarantees but involve risks and uncertainties, both known and unknown, which could cause our actual future results to differ materially from those stated in any forward looking statements. Factors that may cause such differences include, but are not limited to the following:

we are subject to intense competition;

our business is dependent on the current and anticipated market for electronics, which historically has been highly cyclical;

our operating results are likely to fluctuate significantly;

we are subject to risks of operating internationally;

if we fail to develop new technologies to adapt to our customers' needs and if our customers fail to accept our new products, our revenues will be adversely affected;

if our suppliers do not meet product or delivery requirements, we could have reduced revenues and earnings;

our operations may be adversely impacted if our outsourced service providers fail to perform;

we may incur higher tax rates than expected;

we may acquire new businesses or form strategic alliances in the future, and we may not realize the benefits of such acquisitions;

we have taken measures to ensure that we are prepared to address slowdowns in the market for our products, which could have long-term negative effects on our business or impact our ability to adequately address a rapid increase in customer demand;

we may incur significant liabilities if we fail to comply with environmental regulations;

we currently are and in the future may be subject to litigation that could have an adverse effect on our business;

we have significant guarantees and indemnification obligations;

if we are unable to protect our intellectual property, we may lose a valuable asset or may incur costly litigation to protect our rights;

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our business may suffer if we are unable to attract and retain key employees;

our business is impacted by worldwide economic cycles, which are difficult to predict;

acts of war, terrorist attacks and the threat of domestic and international terrorist attacks may adversely impact our business; and

provisions of our charter and by-laws and Massachusetts law make a takeover of Teradyne more difficult.

These factors, and others, are discussed from time to time in our filings with the SEC, including our Annual Report on Form 10-K filed with the SEC on February 28, 2008 for the year ended December 31, 2007.

### **Item 3: Quantitative and Qualitative Disclosures about Market Risk**

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a. Quantitative and Qualitative Disclosures About Market Risks, in our Annual Report on Form 10-K filed with the SEC on February 28, 2008. There were no material changes in our exposure to market risk from those set forth in our Annual Report for the fiscal year ended December 31, 2007.

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**Item 4: Controls and Procedures**

As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**Table of Contents****PART II. OTHER INFORMATION****Item 1: Legal Proceedings**

On September 5, 2001, after our August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of our then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs' claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. We petitioned the Ninth Circuit for rehearing of the ruling that it reversed. In October 2007, the Ninth Circuit denied our petition for rehearing. We continue to defend the claim that was sent back to the District Court.

In 2001, we were designated as a Potentially Responsible Party ( PRP ) at a clean-up site in Los Angeles, California. This claim arose out of our acquisition of Perception Laminates in August 2000. Prior to that date, Perception Laminates had itself acquired certain assets of Alco Industries Inc. under an asset purchase agreement in 1992. Neither Teradyne nor Perception Laminates have ever conducted any operations at the Los Angeles site. We have asked the State of California to drop the PRP designation, but California has not yet agreed to do so.

We believe that we have meritorious defenses against the above unsettled claims and intend to vigorously contest them. While it is not possible to predict or determine the outcomes of the unsettled claims or to provide possible ranges of losses that may arise, we believe the potential losses associated with all of these actions will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations of any one period.

In addition, we are subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. Although there can be no assurance, there are no such matters pending that we expect to be material with respect to our business, financial position or results of operations.

**Item 1A: Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

(c) The following table includes information with respect to repurchases we made of our common stock during the three-month period ended June 29, 2008 (in thousands except per share price):

| Period                          | (a) Total Number of Shares (or units) Purchased(1) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1) | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs(1) |
|---------------------------------|--|--|--|--|
| March 31, 2008 - April 27, 2008 | 657  | \$ 12.14                                   | 4,439  | \$ 347,617   |
| April 28, 2008 - May 25, 2008   | 616  | \$ 13.61                                   | 5,055  | \$ 339,231   |
| May 26, 2008 - June 29, 2008    | 3,399  | \$ 12.32                                   | 8,454  | \$ 297,375   |
|                                 | 4,672  | \$ 12.46                                   | 8,454  | \$ 297,375   |



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- (1) In November 2007, our Board of Directors authorized a stock repurchase program. Under the program, we are permitted to spend an aggregate of \$400 million to repurchase shares of our common stock in open market repurchases, in privately negotiated transactions or through other appropriate means. During the three months ended June 29, 2008, we repurchased 4.7 million shares of common stock for \$58.2 million at an average price of \$12.46. The cumulative repurchases as of June 29, 2008 total 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14.

**Item 4: Submission of Matters to a Vote of Security Holders**

- (a) Our annual meeting of shareholders was held on May 22, 2008.
- (b) The following nominees were elected as directors to serve until the 2009 annual meeting of shareholders:

| Nominee             | Total Votes | Total Votes | Total Votes |
|---------------------|-------------|-------------|-------------|
|                     | FOR         | AGAINST     | ABSTAINING  |
| James W. Bagley     | 157,367,926 | 1,314,351   | 1,559,558   |
| Michael A. Bradley  | 157,391,278 | 1,292,361   | 1,558,196   |
| Albert Carnesale    | 157,339,568 | 1,346,785   | 1,555,482   |
| Edwin J. Gillis     | 157,739,689 | 975,685     | 1,526,461   |
| Vincent M. O Reilly | 157,693,775 | 988,713     | 1,559,347   |
| Paul J. Tufano      | 157,653,934 | 1,028,497   | 1,559,404   |
| Roy A. Vallee       | 157,393,410 | 1,288,640   | 1,559,785   |
| Patricia S. Wolpert | 157,368,315 | 1,339,022   | 1,534,498   |

- (c) The other proposals voted upon at the annual meeting were:

1. To approve an amendment to the 2006 Equity and Cash Compensation Incentive Plan to establish a \$3 million per fiscal year maximum amount of variable compensation awards that can be received by a participant.

|                 | Total Votes | Total Votes | Total Broker |
|-----------------|-------------|-------------|--------------|
| Total Votes For | Against     | Abstaining  | Non-Votes    |
| 149,112,069     | 9,521,590   | 1,608,176   | 0            |

2. To ratify the selection of PricewaterhouseCoopers LLP as independent auditors for fiscal year ending December 31, 2008.

|                 | Total Votes | Total Votes | Total Broker |
|-----------------|-------------|-------------|--------------|
| Total Votes For | Against     | Abstaining  | Non-Votes    |
| 157,719,141     | 1,155,956   | 1,366,738   | 0            |

**Item 6: Exhibits**

| Exhibit Number | Description |
|----------------|-------------|
|----------------|-------------|



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- 10.1 2006 Equity and Cash Compensation Incentive Plan, as amended \* (filed herewith)
- 31.1 Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
- 32.2 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TERADYNE, INC.**

Registrant

/s/ GREGORY R. BEECHER  
**Gregory R. Beecher**

**Vice President,**

**Chief Financial Officer and Treasurer**

**(Duly Authorized Officer  
and Principal Financial Officer)**

**August 7, 2008**