

TERADYNE, INC
Form 10-Q
November 10, 2010
Table of Contents

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 October 3, 2010

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)

Edgar Filing: TERADYNE, INC - Form 10-Q

Massachusetts (State or Other Jurisdiction of Incorporation or Organization)	04-2272148 (I.R.S. Employer Identification No.)
600 Riverpark Drive, North Reading, Massachusetts (Address of Principal Executive Offices)	01864 (Zip Code)
978-370-2700 (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

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

Large accelerated filer 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 November 8, 2010 was 181,400,000 shares.

Table of Contents

TERADYNE, INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited):	
<u>Condensed Consolidated Balance Sheets as of October 3, 2010 and December 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 3, 2010 and October 4, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 3, 2010 and October 4, 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	40
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 6. <u>Exhibits</u>	43

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

	October 3, 2010	December 31, 2009
	(in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 433,915	\$ 416,737
Marketable securities	263,881	46,933
Accounts receivable, net of allowance for doubtful accounts of \$3,754 and \$3,770 at October 3, 2010 and December 31, 2009, respectively	306,522	125,236
Inventories:		
Parts	67,748	43,691
Assemblies in process	24,426	37,161
Finished goods	10,674	9,984
	102,848	90,836
Deferred tax assets	20,017	18,944
Prepayments and other current assets	60,920	63,606
Total current assets	1,188,103	762,292
Property, plant, and equipment, at cost	779,616	782,407
Less: accumulated depreciation	547,268	536,045
Net property, plant, and equipment	232,348	246,362
Long-term marketable securities	201,486	55,130
Intangible assets, net	130,231	152,192
Retirement Plan assets	23,405	
Other assets	16,038	19,361
Total assets	\$ 1,791,611	\$ 1,235,337
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 133,330	\$ 66,765
Accrued employees compensation and withholdings	91,780	55,356
Deferred revenue and customer advances	101,584	104,439
Other accrued liabilities	57,566	54,640
Accrued income taxes	14,625	
Current debt	2,397	2,157
Total current liabilities	401,282	283,357
Long-term deferred revenue and customer advances	80,818	2,318
Retirement plans liabilities	68,663	115,101
Deferred tax liabilities	10,271	8,041

Edgar Filing: TERADYNE, INC - Form 10-Q

Long-term other accrued liabilities	15,954	20,841
Long-term debt	147,287	141,100
Total liabilities	724,275	570,758
Commitments and contingencies (Note N)		
SHAREHOLDERS EQUITY		
Common stock, \$0.125 par value, 1,000,000 shares authorized, 181,327 shares and 174,908 shares issued and outstanding at October 3, 2010 and December 31, 2009, respectively	22,666	21,864
Additional paid-in capital	1,260,911	1,202,426
Accumulated other comprehensive loss	(114,225)	(138,105)
Accumulated deficit	(102,016)	(421,606)
Total shareholders' equity	1,067,336	664,579
Total liabilities and shareholders' equity	\$ 1,791,611	\$ 1,235,337

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, 2009, are an integral part of the condensed consolidated financial statements.

Table of Contents

TERADYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands, except per share amounts)			
Net revenues:				
Products	\$ 436,274	\$ 205,304	\$ 1,095,625	\$ 385,187
Services	65,812	56,858	190,860	167,163
Total net revenues	502,086	262,162	1,286,485	552,350
Cost of revenues:				
Cost of products	191,860	125,116	482,715	273,911
Cost of services	34,451	30,291	100,148	91,195
Total cost of revenues	226,311	155,407	582,863	365,106
Gross profit	275,775	106,755	703,622	187,244
Operating expenses:				
Engineering and development	50,122	38,266	149,567	123,915
Selling and administrative	61,109	46,314	175,323	148,944
Acquired intangible asset amortization	7,291	8,214	21,960	24,667
Restructuring and other, net	(859)	5,189	2,105	36,424
Total operating expenses	117,663	97,983	348,955	333,950
Income (loss) from operations	158,112	8,772	354,667	(146,706)
Interest income	1,466	1,003	5,990	2,920
Interest expense and other	(5,562)	(4,600)	(20,019)	(18,475)
Income (loss) before income taxes	154,016	5,175	340,638	(162,261)
Income tax provision (benefit)	6,676	(1,500)	21,049	(11,500)
Net income (loss)	\$ 147,340	\$ 6,675	\$ 319,589	\$ (150,761)
Net income (loss) per common share:				
Basic	\$ 0.81	\$ 0.04	\$ 1.78	\$ (0.87)
Diluted	\$ 0.66	\$ 0.04	\$ 1.45	\$ (0.87)
Weighted average common share basic	181,239	174,495	179,365	173,216
Weighted average common share diluted	229,389	180,792	229,069	173,216

Edgar Filing: TERADYNE, INC - Form 10-Q

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, 2009, are an integral part of the condensed consolidated financial statements.

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

	For the Nine Months Ended	
	October 3, 2010	October 4, 2009
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 319,589	\$ (150,761)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	40,055	45,717
Amortization	34,740	33,249
Stock-based compensation	23,365	18,268
Provision for excess and obsolete inventory	5,403	23,681
Loss on sale and impairment of marketable securities, net	398	2,000
Non-cash charge for sale of inventories revalued at the date of acquisition		10,863
Revolving credit facility issue costs		2,488
Deferred taxes	(460)	(6,258)
Other	1,643	1,696
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(181,286)	(30,022)
Inventories	10,794	45,911
Other assets	896	(4,685)
Deferred revenue and customer advances	75,645	67,921
Accounts payable and accrued expenses	95,460	1,810
Retirement plan contributions	(50,849)	(5,718)
Accrued income taxes	14,625	
Net cash provided by operating activities	390,018	56,160
Cash flows from investing activities:		
Purchases of property, plant and equipment	(53,959)	(26,583)
Purchases of available-for-sale marketable securities	(478,260)	(31,470)
Proceeds from sales of available-for-sale marketable securities	94,846	23,085
Proceeds from sales of trading marketable securities	23,750	
Proceeds from life insurance	1,091	1,076
Acquisition of businesses, net of cash acquired		(3,741)
Net cash used for investing activities	(412,532)	(37,633)
Cash flows from financing activities:		
Issuance of common stock under employee stock option and stock purchase plans	42,225	15,256
Payments of long-term debt	(2,305)	(1,069)
Proceeds from long-term debt		172,914
Repayment of revolving credit facility principal		(122,500)
Net cash provided by financing activities	39,920	64,601

Edgar Filing: TERADYNE, INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	(228)	908
Increase in cash and cash equivalents	17,178	84,036
Cash and cash equivalents at beginning of period	416,737	322,705
Cash and cash equivalents at end of period	\$ 433,915	\$ 406,741

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, 2009, are an integral part of the condensed consolidated financial statements.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. The Company

Teradyne, Inc. (Teradyne) is a leading global supplier of automatic test equipment. Teradyne s automatic test equipment products and services include:

semiconductor test (Semiconductor Test) systems; and

military/aerospace (Mil/Aero) test instrumentation and systems, hard disk drive test (HDD) systems, circuit-board test and inspection (Commercial Board Test) systems, and automotive diagnostic and test (Diagnostic Solutions) systems (collectively these products represent Systems Test Group).

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 presentation of such interim financial statements. Certain prior year s amounts were reclassified to conform to the current year presentation. The December 31, 2009 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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 March 1, 2010 for the year ended December 31, 2009.

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.

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. Teradyne elected to early adopt this accounting guidance at the beginning of its first quarter of 2010 on a prospective basis. Adoption had no material impact on Teradyne s financial position or results of operations in the three and nine months ended October 3, 2010.

Teradyne recognizes revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to Teradyne s customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, Teradyne defers revenue recognition until such events occur.

Edgar Filing: TERADYNE, INC - Form 10-Q

Teradyne's equipment has non-software and software components that function together to deliver the equipment's essential functionality. Revenue is recognized upon shipment or at delivery destination point, provided that customer acceptance criteria can be demonstrated prior to shipment. Certain contracts require Teradyne to perform tests of the product to ensure that performance meets the published product specifications or customer requested specifications, which are generally conducted prior to shipment. Where the criteria cannot be demonstrated prior to shipment, revenue is deferred until customer acceptance has been received. Teradyne also defers the portion of the sales price that is not due until acceptance, which represents deferred profit.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For multiple element arrangements, Teradyne allocates revenue to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of selling price (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BEBP). For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis and the delivery or performance of the undelivered item must be considered probable and substantially in the control of Teradyne.

Teradyne's post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not affect the customers' ability to use the product. Teradyne defers revenue for the selling price of installation and training.

C. Recently Issued Accounting Pronouncements

In March 2010, FASB issued an Accounting Standards Update (ASU) 2010-17, *Milestone Method of Revenue Recognition*, to Accounting Standards Codification (ASC) 605, *Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. Teradyne will adopt this final consensus prospectively in January 2011 and the adoption is not expected to have a material impact on Teradyne's financial position or results of operations.

D. Financial Instruments and Derivatives

Financial Instruments

Teradyne uses the market and income approach to value its financial instruments and there was no change in valuation techniques used by Teradyne during the nine months ended October 3, 2010 and October 4, 2009. As defined in ASC 820-10, *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities are carried at fair value and are classified 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.

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)**

For the right to sell the auction rate securities, held by Teradyne, back to UBS (UBS Put), Teradyne elected fair value treatment under ASC 825-10, *Financial Instruments*. The UBS Put was the only instrument of this nature or type that Teradyne held and for which Teradyne has elected the fair value option under ASC 825-10. The UBS Put was exercised in June 2010.

In January 2010, FASB issued ASU 2010-6, *Improving Disclosures about Fair Value Measurement*, which requires interim disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements. Additionally, this ASU requires disclosure for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. These disclosures are required for fair value measurements that fall in either Level 2 or Level 3. Further, the ASU requires separate presentation of Level 3 activity for the fair value measurements. Teradyne adopted the interim disclosure requirements under this ASU during the quarter ended April 4, 2010, with the exception of the separate presentation in the Level 3 activity rollforward, which is not effective until fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years.

During the nine months ended October 3, 2010, there were no significant transfers in and out of Level 1 and Level 2.

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 October 3, 2010 and December 31, 2009.

	October 3, 2010			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Assets				
Available for sale securities:				
Money market funds	\$ 247,596	\$	\$	\$ 247,596
U.S. government agency securities		216,668		216,668
U.S. Treasury securities	110,260			110,260
Corporate debt securities		70,456		70,456
Municipal bonds		55,368		55,368
Commercial paper		51,564		51,564
Certificates of deposit and time deposits		11,683		11,683
Equity and debt mutual funds	7,423			7,423
Non-U.S. government securities	283			283
Total	365,562	405,739		771,301
Trading securities:				
Auction rate securities			2,786	2,786
Derivatives		280		280
Total	\$ 365,562	\$ 406,019	\$ 2,786	\$ 774,367

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

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 247,596	\$ 61,124	\$	\$ 308,720
Marketable securities	57,740	206,141		263,881
Long-term marketable securities	60,226	138,474	2,786	201,486
Prepayments and other current assets		280		280
	\$ 365,562	\$ 406,019	\$ 2,786	\$ 774,367

	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
Assets				
Available for sale securities:				
Money market funds	\$ 284,236	\$	\$	\$ 284,236
Corporate debt securities		21,224		21,224
U.S. government agency securities		16,418		16,418
Certificates of deposit and time deposits		15,855		15,855
U.S. Treasury securities	12,010			12,010
Commercial paper		8,245		8,245
Equity and debt mutual funds	7,499			7,499
Municipal bonds		528		528
Non-U.S. government securities	287			287
Total	304,032	62,270		366,302
Trading securities:				
Auction rate securities			23,649	23,649
UBS Put			2,830	2,830
Total	\$ 304,032	\$ 62,270	\$ 26,479	\$ 392,781
Liabilities				
Derivatives	\$	\$ 143	\$	\$ 143
Total	\$	\$ 143	\$	\$ 143

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

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 284,237	\$ 3,651	\$	\$ 287,888
Marketable securities	8,001	38,932		46,933
Long-term marketable securities	11,794	19,687	23,649	55,130
Other assets			2,830	2,830
	\$ 304,032	\$ 62,270	\$ 26,479	\$ 392,781
Liabilities				
Other accrued liabilities	\$	\$ 143	\$	\$ 143

The following table represents changes in the fair value of Level 3 financial assets:

	For the Three Months Ended			
	October 3, 2010		October 4, 2009	
	Long-Term Auction Rate Securities	UBS Put (in thousands)	Long-Term Auction Rate Securities	UBS Put
Balance at beginning of period	\$ 2,836	\$	\$ 26,186	\$ 3,070
Sale of auction rate securities	(50)		(550)	
Change in unrealized gain included in interest income			388	
Change in unrealized loss included in interest expense and other				(128)
Balance at end of period	\$ 2,786	\$	\$ 26,024	\$ 2,942

	For the Nine Months Ended			
	October 3, 2010		October 4, 2009	
	Long-Term Auction Rate Securities	UBS Put (in thousands)	Long-Term Auction Rate Securities	UBS Put
Balance at beginning of period	\$ 23,649	\$ 2,830	\$ 25,968	\$ 3,330
Sale of auction rate securities and exercise of UBS Put	(21,063)	(2,687)	(550)	
Change in unrealized gain included in interest income	200		1,053	
Change in unrealized loss included in interest expense and other		(143)	(447)	(388)
Balance at end of period	\$ 2,786	\$	\$ 26,024	\$ 2,942

Edgar Filing: TERADYNE, INC - Form 10-Q

During the nine months ended October 3, 2010, Teradyne recorded a net loss of \$0.4 million from sales of marketable securities and exercise of UBS Put. During the nine months ended October 4, 2009, Teradyne recorded a net loss of \$1.3 million from sales of marketable securities.

During the nine months ended October 4, 2009, Teradyne determined that it did not intend to hold certain marketable securities for a period of time sufficient to allow for recovery in market value and recognized an other-than-temporary impairment loss in the amount of \$0.7 million.

Realized losses from sale of marketable securities, decreases in auction rate securities fair value and other-than-temporary impairment losses are included in interest expense and other. Increases in auction rate securities fair value are included in interest income.

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

The carrying amounts and fair values of financial instruments at October 3, 2010 and December 31, 2009 are as follows:

	October 3, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Cash equivalents	\$ 308,720	\$ 308,720	\$ 287,888	\$ 287,888
Marketable securities	465,367	465,367	102,063	102,063
UBS Put			2,830	2,830
Convertible debt(1)	141,297	412,063	133,554	392,113
Japan loan	8,387	8,387	9,703	9,703

- (1) The carrying value represents the bifurcated debt component only, while the fair value is based on quoted market prices for the convertible note which includes the equity conversion feature.

The fair values of cash, accounts receivable, net and accounts payable approximate the carrying amount due to the short term maturities of these instruments.

The following table summarizes available-for-sale marketable securities which are recorded at fair value:

	October 3, 2010			Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	Cost	Unrealized Gain	Unrealized (Loss)		
	Available-for-Sale				
	(in thousands)				
Money market funds	\$ 247,596	\$	\$	\$ 247,596	\$
U.S. government agency securities	216,128	548	(8)	216,668	22,064
U.S. Treasury securities	109,995	265		110,260	
Corporate debt securities	70,188	271	(3)	70,456	4,976
Municipal bonds	55,368	2	(2)	55,368	13,836
Commercial paper	51,576		(12)	51,564	9,975
Certificates of deposit and time deposits	11,675	8		11,683	
Equity and debt mutual funds	6,715	801	(93)	7,423	874
Non-U.S. government securities	266	17		283	
	\$ 769,507	\$ 1,912	\$ (118)	\$ 771,301	\$ 51,725

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

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
Cash and cash equivalents	\$ 308,721	\$ 1	\$ (2)	\$ 308,720	\$ 13,836
Marketable securities	263,702	193	(14)	263,881	19,537
Long-term marketable securities	197,084	1,718	(102)	198,700	18,352
	\$ 769,507	\$ 1,912	\$ (118)	\$ 771,301	\$ 51,725

	December 31, 2009				
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
Money market funds	\$ 284,236	\$	\$	\$ 284,236	\$
Corporate debt securities	21,243	11	(30)	21,224	11,091
U.S. government agency securities	16,418	5	(5)	16,418	6,155
Certificates of deposit and time deposits	15,854	1		15,855	
U.S. Treasury securities	12,014		(4)	12,010	10,508
Commercial paper	8,246		(1)	8,245	2,397
Equity and debt mutual funds	7,430	622	(553)	7,499	4,139
Municipal bonds	532		(4)	528	528
Non-U.S. government securities	269	18		287	
	\$ 366,242	\$ 657	\$ (597)	\$ 366,302	\$ 34,818

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
Cash and cash equivalents	\$ 287,888	\$	\$	\$ 287,888	\$
Short-term marketable securities	46,928	7	(2)	46,933	16,425
Long-term marketable securities	31,426	650	(595)	31,481	18,393
	\$ 366,242	\$ 657	\$ (597)	\$ 366,302	\$ 34,818

Edgar Filing: TERADYNE, INC - Form 10-Q

On a quarterly basis, Teradyne reviews its investments to identify and evaluate those that have an indication of a potential other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include:

The length of time and the extent to which the market value has been less than cost;

The financial condition and near-term prospects of the issuer; and

The intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

As of October 3, 2010 and December 31, 2009, the fair market value of investments with unrealized losses totaled \$51.7 million and \$34.8 million, respectively. Teradyne determined that the unrealized losses in the amount of \$0.1 million and \$0.6 million, respectively, related to these investments are temporary.

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

Teradyne conducts business in a number of foreign countries, with certain transactions denominated in local currencies. The purpose of Teradyne's foreign currency management is to minimize the effect of exchange rate fluctuations on certain foreign denominated net monetary assets. Teradyne does not use derivative financial instruments for trading or speculative purposes.

To minimize the effect of exchange rate fluctuations associated with the remeasurement of net monetary assets denominated in foreign currencies, Teradyne enters into foreign currency forward contracts. The change in fair value of these derivatives is recorded directly in earnings, and is used to offset the change in fair value of the net monetary assets denominated in foreign currencies.

The notional amount of foreign exchange contracts hedging monetary assets and liabilities denominated in foreign currencies was \$59.6 million and \$56.9 million at October 3, 2010 and December 31, 2009, respectively.

The following table summarizes the fair value of derivative instruments as of October 3, 2010 and December 31, 2009.

Balance Sheet Location		October 3,	December 31,
		2010	2009
		(in thousands)	
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepayments and other current assets	\$ 280	\$
Foreign exchange contracts	Other accrued liabilities		143
		\$ 280	\$ 143

The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and nine months ended October 3, 2010 and October 4, 2009. The table does not reflect the corresponding gain (loss) from the hedged balance sheet.

Location of Gains (Losses) Recognized in Statement of Operations	For the Three Months Ended		For the Nine Months Ended		
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009	
	(in thousands)				
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Interest expense and other	\$ 209	\$ (402)	\$ (1,054)	\$ 1,241
		\$ 209	\$ (402)	\$ (1,054)	\$ 1,241

See Debt footnote E regarding derivatives related to convertible senior notes.

E. Debt

Loan Agreement

On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million. The loan has a term of 5 years and

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

a fixed interest rate of 1.4%. Approximately \$6.0 million of the loan is collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million is unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The loan is amortized over the term of the loan with semiannual principal payments of approximately \$1.0 million payable on September 30 and March 30 each year. At October 3, 2010, approximately \$2.4 million of the outstanding loan principal is included in current debt and approximately \$6.0 million is classified as long-term debt.

Convertible Senior Notes

On March 31, 2009, Teradyne entered into an underwriting agreement regarding a public offering of \$175 million aggregate principal amount of 4.50% convertible senior notes due March 15, 2014 (the "Notes"). On April 1, 2009, the underwriters exercised their option to purchase an additional \$15 million aggregate principal amount of the Notes for a total aggregate principal amount of \$190 million. The Notes bear interest at a rate of 4.50% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2009. The Notes will mature on March 15, 2014, unless earlier repurchased by Teradyne or converted. The Notes are senior unsecured obligations and rank equally with all of Teradyne's existing and future senior debt and senior to any of Teradyne's subordinated debt.

The Notes may be converted, under certain circumstances and during certain periods, at an initial conversion rate of approximately 182.65 shares of Teradyne's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$5.48, a 25% conversion premium based on the last reported sale price of \$4.38 per share of Teradyne's common stock on March 31, 2009. The conversion rate is subject to adjustment in certain circumstances.

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding December 15, 2013, under the following circumstances: (1) during the five business-day period after any five consecutive trading day period (the "measurement period") in which the price per Note for each day of that measurement period was less than 98% of the product of the last reported sale price of Teradyne's common stock and the conversion rate for such date; (2) during any calendar quarter, if the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of certain specified events. Additionally, the Notes are convertible during the last three months prior to the March 15, 2014 maturity date. Upon conversion, holders will receive, at Teradyne's option, shares of Teradyne common stock, cash or a combination of cash and shares of Teradyne common stock, subject to Teradyne's option to irrevocably elect to settle all future conversions in cash up to the principal amount of the Notes and shares of common stock for any excess.

During the three months ended October 3, 2010, the following circumstance that allows holders to convert their Notes at their option prior to December 15, 2013 occurred: the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter. As of November 10, 2010, no holders have exercised their option to convert their Notes.

Teradyne may not redeem the Notes prior to their maturity. Holders of the Notes may require Teradyne to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving Teradyne (which include, among

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

others, the liquidation or dissolution of Teradyne, the acquisition of 50% or more of the total voting shares of Teradyne, certain mergers and consolidations, and the delisting of Teradyne's stock).

Concurrently with the offering of the Notes, Teradyne entered into a convertible note hedge transaction with a strike price equal to the initial conversion price of the Notes, or approximately \$5.48. The convertible note hedge allows Teradyne to receive shares of its common stock and/or cash related to the excess conversion value that it would pay to the holders of the Notes upon conversion. The convertible note hedges will cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of Teradyne's common stock. Teradyne paid approximately \$64.6 million for the convertible note hedges.

Separately, Teradyne entered into a warrant transaction with a strike price of approximately \$7.67 per share, which is 75% higher than the closing price of Teradyne's common stock on March 31, 2009. The warrants will be net share settled and will cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of Teradyne's common stock. Teradyne received approximately \$43.0 million for the warrants.

The convertible notes hedge and warrant transaction will generally have the effect of increasing the conversion price of the Notes to approximately \$7.67 per share of Teradyne's common stock, representing a 75% conversion premium based upon the closing price of Teradyne's common stock on March 31, 2009.

The notes are classified as long-term debt in the balance sheet at October 3, 2010 and December 31, 2009. The below tables represent the components of Teradyne's convertible senior notes:

	October 3, 2010	December 31, 2009
	(in thousands)	
Debt principal	\$ 190,000	\$ 190,000
Unamortized debt discount	48,703	56,446
Net carrying amount of the convertible debt	\$ 141,297	\$ 133,554

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Contractual interest expense on the coupon	\$ 2,138	\$ 2,090	\$ 6,509	\$ 4,251
Amortization of the discount component and debt issue fees	2,783	2,533	8,263	4,988
Total interest expense on the convertible debt	\$ 4,921	\$ 4,623	\$ 14,772	\$ 9,239

As of October 3, 2010, the unamortized discount was \$48.7 million, which will be amortized over approximately 3.5 years, and the carrying amount of the equity component was \$63.4 million. As of October 3, 2010, the conversion rate was equal to the initial conversion price of approximately \$5.48 per share and the if-converted value of the Notes was \$385.2 million.

Revolving Credit Facility

Edgar Filing: TERADYNE, INC - Form 10-Q

On April 7, 2009, Teradyne terminated its revolving credit facility agreement. Teradyne used approximately \$123.3 million of the net proceeds of the Notes offering to repay \$122.5 million of principal and \$0.8 million of accrued interest outstanding under the revolving credit facility agreement.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****F. Deferred Revenue and Customer Advances**

Deferred revenue and customer advances consist of the following and are included in short and long-term deferred revenue and customer advances.

	October 3, 2010	December 31, 2009
	(in thousands)	
Customer advances	\$ 140,980	\$ 74,887
Maintenance, training and extended warranty	34,960	22,616
Undelivered elements	884	5,551
Acceptance	2,654	530
Other	2,924	3,173
Total deferred revenue and customer advances	\$ 182,402	\$ 106,757

G. 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 balance below is included in other accrued liabilities.

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Balance at beginning of period	\$ 11,062	\$ 5,011	\$ 7,086	\$ 8,372
Accruals for warranties issued during the period	5,299	3,793	14,273	6,967
Accruals related to pre-existing warranties	(360)	170	(23)	(827)
Settlements made during the period	(3,595)	(2,288)	(8,930)	(7,826)
Balance at end of period	\$ 12,406	\$ 6,686	\$ 12,406	\$ 6,686

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 balance below is included in deferred revenue and customer advances and long-term other accrued liabilities.

For the Three Months
Ended

For the Nine Months
Ended

Edgar Filing: TERADYNE, INC - Form 10-Q

	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Balance at beginning of period	\$ 5,643	\$ 4,647	\$ 4,055	\$ 6,369
Deferral of new extended warranty revenue	2,193	595	5,408	1,472
Recognition of extended warranty deferred revenue	(800)	(1,210)	(2,427)	(3,809)
Balance at end of period	\$ 7,036	\$ 4,032	\$ 7,036	\$ 4,032

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

During the nine months ended October 3, 2010, Teradyne granted service-based restricted stock units to employees, and service-based stock options and service and performance-based restricted stock units to executive officers. The total number of restricted stock units granted was 2.6 million at the weighted average grant date fair value of \$9.42. Service-based restricted stock units granted to employees and executive officers vest in equal installments over four years. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting are forfeited. The total number of stock options granted to executive officers was 0.3 million at the weighted average grant date fair value of \$4.10. These stock options vest in equal installments over four years, and have a term of seven years from the date of grant.

During the nine months ended October 4, 2009, Teradyne granted service-based restricted stock units to employees, and service-based restricted stock units and stock options to executive officers. The total number of restricted stock units granted was 4.2 million at the weighted average grant date fair value of \$4.91. The total number of stock options granted was 1.1 million at the weighted average grant date fair value of \$1.97. Restricted stock units and stock options vest in equal installments over four years. These stock options have a term of seven years from the date of grant.

The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following assumptions:

	For the Nine Months Ended	
	October 3, 2010	October 4, 2009
Expected life (years)	4.75	4.75
Interest rate	2.4%	1.6%
Volatility-historical	48.8%	44.9%
Dividend yield	0.0%	0.0%

Teradyne determined the stock options' expected life based upon historical exercise data for executive officers, the age of the executive officers and the terms of the stock option grant. Volatility was determined using historical volatility for a period equal to the expected life. The risk-free rate was determined using the U.S. Treasury yield curve in effect at the time of grant.

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

Comprehensive income (loss) is calculated as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Net income (loss)	\$ 147,340	\$ 6,675	\$ 319,589	\$ (150,761)
Foreign currency translation adjustment	264	(685)	(99)	909
Unrealized gain on investments, net of tax of \$0	1,435	745	1,731	2,452
Actuarial gains (losses) arising during period, net of tax of \$293, \$0, \$1,540 and \$(984)	342	51	17,929	(10,044)
Amortization included in net periodic pension and post-retirements costs:				
Actuarial losses, net of tax of \$21, \$29, \$109 and \$176	1,333	970	4,040	3,070
Prior service costs, net of tax of \$0	32	139	278	426
Comprehensive income (loss)	\$ 150,746	\$ 7,895	\$ 343,468	\$ (153,948)

J. Intangible Assets

Amortizable intangible assets consist of the following and are included in intangible assets on the balance sheet:

	Gross Carrying Amount	October 3, 2010		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 121,055	\$ 61,166	\$ 59,889	6.1 years
Customer relationships and service and software maintenance contracts	91,271	30,109	61,162	8.6 years
Trade names and trademarks	14,840	5,660	9,180	11.5 years
Total intangible assets	\$ 227,166	\$ 96,935	\$ 130,231	7.6 years
	Gross Carrying Amount	December 31, 2009		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 121,055	\$ 47,746	\$ 73,309	6.1 years

Edgar Filing: TERADYNE, INC - Form 10-Q

Customer relationships and service and software maintenance contracts	91,271	22,187	69,084	8.6 years
Trade names and trademarks	14,840	5,041	9,799	11.5 years
Total intangible assets	\$ 227,166	\$ 74,974	\$ 152,192	7.6 years

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

Aggregate intangible asset amortization expense was \$7.3 million and \$22.0 million, respectively, for the three and nine months ended October 3, 2010 and \$8.2 million and \$24.7 million, respectively, for the three and nine months ended October 4, 2009. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amount (in thousands)
2010 (remainder)	\$ 7,291
2011	27,821
2012	25,732
2013	24,683
2014	21,598

K. Net Income (Loss) per Common Share

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

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands, except per share amounts)			
Net income (loss) for basic net income (loss) per share	\$ 147,340	\$ 6,675	\$ 319,589	\$ (150,761)
Income impact of assumed conversion of convertible notes	4,438		13,203	
Net income (loss) for diluted net income (loss) per share	\$ 151,778	\$ 6,675	\$ 332,792	\$ (150,761)
Shares used in net income (loss) per common share-basic	181,239	174,495	179,365	173,216
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible note	34,703		34,703	
Warrants	8,506	1,769	9,618	
Restricted stock units	2,848	2,153	2,880	
Stock options	2,044	2,327	2,439	
Stock purchase rights	49	48	64	
Dilutive potential common shares	48,150	6,297	49,704	
Shares used in net income (loss) per common share-diluted	229,389	180,792	229,069	173,216
Net income (loss) per common share-basic	\$ 0.81	\$ 0.04	\$ 1.78	\$ (0.87)
Net income (loss) per common share-diluted	\$ 0.66	\$ 0.04	\$ 1.45	\$ (0.87)

The computation of diluted net income per common share for the three and nine months ended October 3, 2010 excludes the effect of the potential exercise of options to purchase approximately 4.4 million and 5.5 million shares and restricted stock units of 0.1 million and 0.1 million shares, respectively, because the effect would have been anti-dilutive.

Edgar Filing: TERADYNE, INC - Form 10-Q

The computation of diluted net income per common share for the three months ended October 4, 2009 excludes the effect of the potential exercise of options to purchase approximately 7.7 million shares and restricted stock units of 2.3 million because the effect would have been anti-dilutive. In addition, approximately 34.7 million shares of common stock issuable upon conversion of the Notes were excluded from the calculation of net income per share because the effect would have been anti-dilutive.

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

The computation of diluted net loss per common share for the nine months ended October 4, 2009 excludes all outstanding stock options, restricted stock units and warrants because Teradyne had a net loss and inclusion would be anti-dilutive.

Teradyne's call option on its common stock (convertible note hedge transaction) is excluded from the calculation of diluted shares because the effect would be anti-dilutive. See Debt footnote E regarding convertible note hedge transaction.

L. Restructuring and Other, Net***Restructuring***

In response to a downturn in the industry, Teradyne initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The tables below represent activity related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by the end of 2010. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. Teradyne expects to pay approximately \$2.2 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$1.6 million as of October 3, 2010.

Severance and Benefits:

	Pre-2009 Actions	Q1 2009 Actions	Q2 2009 Actions	Q1 2010 Actions	Q2 2010 Actions	Q3 2010 Actions	Total
	(in thousands)						
Balance at December 31, 2008	\$ 5,423	\$	\$	\$	\$	\$	\$ 5,423
Provision		17,630	15,940				33,570
Cash payments	(5,423)	(17,630)	(13,035)				(36,088)
Balance at December 31, 2009			2,905				2,905
Provision				766			766
Change in estimate			498				498
Cash payments			(2,079)	(573)			(2,652)
Balance at April 4, 2010			1,324	193			1,517
Provision					845		845
Change in estimate			(96)	(5)			(101)
Cash payments			(695)	(188)	(387)		(1,270)
Balance at July 4, 2010			533		458		991
Provision					209	1,400	1,609
Change in estimate			(118)				(118)
Cash payments			(284)		(177)	(187)	(648)
Balance at October 3, 2010	\$	\$	\$ 131	\$	\$ 490	\$ 1,213	\$ 1,834

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

	Pre-2009 Actions	Q3 2009 Actions	Q2 2010 Actions	Total
Balance at December 31, 2008	\$ 9,303	\$	\$	\$ 9,303
Provision		4,420		4,420
Change in estimate	(417)			(417)
Cash payments	(2,645)	(285)		(2,930)
Other		100		100
Balance at December 31, 2009	6,241	4,235		10,476
Cash payments	(468)	(272)		(740)
Balance at April 4, 2010	5,773	3,963		9,736
Provision			815	815
Cash payments	(553)	(264)		(817)
Balance at July 4, 2010	5,220	3,699	815	9,734
Change in estimate	(2,367)			(2,367)
Cash payments	(1,881)	(493)		(2,374)
Balance at October 3, 2010	\$ 972	\$ 3,206	\$ 815	\$ 4,993

During the nine months ended October 3, 2010, Teradyne recorded restructuring charges related to ongoing efforts to lower expenses and its cost structure and an additional charge due to a change in estimated severance benefits related to a prior period activity. The restructuring charges consisted of the following activities:

Q1 2010 Actions:

\$0.8 million of severance charges related to headcount reductions of 14 people, of which \$0.4 million and 10 people were in Systems Test Group and \$0.4 million and 4 people were in Semiconductor Test.

Q2 2010 Actions:

\$1.1 million of severance charges related to headcount reductions of approximately 10 people in Systems Test Group; and

\$0.8 million of facility charges in Systems Test Group related to the early exit of leased facilities in Kontich, Belgium and Stockport, United Kingdom.

Q3 2010 Actions:

Edgar Filing: TERADYNE, INC - Form 10-Q

\$1.4 million of severance charges related to headcount reductions of 22 people in Systems Test Group.
Q2 2009 Actions:

\$0.3 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.
Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the nine months ended October 4, 2009, Teradyne recorded restructuring charges related to ongoing efforts to lower expenses and its cost structure in light of the industry wide decline in orders for semiconductor equipment. The restructuring charges consisted of the following activities:

Q3 2009 Actions:

\$4.4 million of charges across both segments related to the early exit of a leased facility in North Reading, Massachusetts and Novi, Michigan.

Q2 2009 Actions:

\$14.1 million of severance charges related to headcount reductions of 316 people, of which \$9.7 million and 267 people were in Semiconductor Test, \$2.7 million and 25 people were in Corporate, and \$1.7 million and 24 people were in Systems Test Group.

Q1 2009 Actions:

\$17.6 million of severance charges related to headcount reductions of 518 people, of which \$14.9 million and 460 people were in Semiconductor Test, \$1.9 million and 42 people were in Systems Test Group, and \$0.8 million and 16 people were in Corporate.

Other

During the nine months ended October 4, 2009, Teradyne recorded the following activity:

\$1.1 million of long-lived asset impairment charges across both segments primarily related to disposal of fixed assets as a result of the consolidation of Teradyne's facilities in North Reading, Massachusetts; and

\$(2.0) million of credits related to finalization of certain Eagle Test purchase accounting items.

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 these plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of these plans consist primarily of equity and fixed income securities. In addition, Teradyne has foreign unfunded defined benefit pension plans and 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.

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

Components of net periodic pension cost for all plans for the three and nine months ended October 3, 2010 and October 4, 2009 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Service cost	\$ 792	\$ 954	\$ 2,782	\$ 3,088
Interest cost	4,422	4,615	13,227	13,842
Expected return on plan assets	(5,020)	(4,795)	(15,153)	(14,508)
Amortization of unrecognized:				
Prior service cost	182	197	545	601
Net loss	1,325	942	4,091	3,076
Curtailment gain				(599)
Settlement loss	442		442	1,676
Total net periodic pension cost	\$ 2,143	\$ 1,913	\$ 5,934	\$ 7,176

In the nine months ended October 3, 2010, Teradyne made \$45.0 million of discretionary contributions to the U.S. Qualified Pension Plan.

Post-Retirement Benefit Plans

In addition to receiving pension benefits, U.S. Teradyne employees who meet early retirement eligibility requirements as of their termination dates may participate in Teradyne's Welfare Plan, which includes death, and medical and dental benefits up to age 65. Death benefits provide a fixed sum to retirees' survivors and are available to all retirees. Substantially all of Teradyne's current U.S. employees (including executive officers) could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

Components of net periodic post-retirement cost were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Service cost	\$ 15	\$ 27	\$ 42	\$ 82
Interest cost	138	273	530	819
Amortization of unrecognized:				
Prior service benefit	(150)	(58)	(267)	(176)
Net loss	29	57	58	171
Total net periodic post-retirement cost	\$ 32	\$ 299	\$ 363	\$ 896

N. Commitments and Contingencies

Purchase Commitments

As of October 3, 2010, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments are for less than one year and aggregate to approximately \$233.0 million.

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

Teradyne is subject to various legal proceedings and claims which have arisen in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Teradyne's results of operations, financial condition or cash flows.

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 products and services for military/aerospace instrumentation test, hard disk drive test, circuit-board test and inspection, and automotive diagnostic and test.

Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income before income 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, 2009. Segment information is as follows:

	Semiconductor Test	Systems Test Group	Corporate and Eliminations	Consolidated
	(in thousands)			
Three months ended October 3, 2010:				
Net revenues	\$ 448,273	\$ 53,813	\$	\$ 502,086
Income (loss) before income taxes(1)(2)	158,066	627	(4,677)	154,016
Three months ended October 4, 2009:				
Net revenues	\$ 173,149	\$ 89,013	\$	\$ 262,162
Loss (income) before income taxes(1)(2)	(3,486)	12,379	(3,718)	5,175
Nine months ended October 3, 2010:				
Net revenues	\$ 1,151,010	\$ 135,475	\$	\$ 1,286,485
Income (loss) before income taxes(1)(2)	367,623	(11,966)	(15,019)	340,638
Nine months ended October 4, 2009:				
Net revenues	\$ 354,495	\$ 197,855	\$	\$ 552,350
Loss (income) before income taxes(1)(2)	(146,649)	4,509	(20,121)	(162,261)

- (1) Interest income and interest expense and other are included in Corporate and Eliminations.
- (2) Included in the income before income taxes for each of the segments are charges for the three and nine months ended October 3, 2010 and October 4, 2009 that include restructuring and other, net, inventory step-up amortization and provision for excess and obsolete inventory, as follows:

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 Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 3,500	\$ 5,219	\$ 3,996	\$ 16,953
Cost of revenues sale of previously written down inventory	(871)		(5,510)	
Cost of revenues inventory step-up		5,700		10,863
Restructuring and other, net	91	4,738	1,172	29,409
Total	\$ 2,720	\$ 15,657	\$ (342)	\$ 57,225

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

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 238	\$ 757	\$ 1,407	\$ 6,728
Cost of revenues sale of previously written down inventory	(441)		(1,034)	
Restructuring and other, net	(866)	377	1,053	3,840
Total	\$ (1,069)	\$ 1,134	\$ 1,426	\$ 10,568

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

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
	(in thousands)			
Restructuring and other, net	\$ (84)	\$ 74	\$ (120)	\$ 3,175
Total	\$ (84)	\$ 74	\$ (120)	\$ 3,175

Table of Contents

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

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. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof. Teradyne assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

Overview

Teradyne is a leading global supplier of automatic test equipment. We design, develop, manufacture, and sell automatic test systems and solutions used to test complex electronics in the consumer electronics, automotive, computing, telecommunications, and aerospace and defense industries. Our automatic test equipment products and services include:

semiconductor test (Semiconductor Test) systems; and

military/aerospace (Mil/Aero) test instrumentation and systems, hard disk drive test (HDD) systems, circuit-board test and inspection (Commercial Board Test) systems, and automotive diagnostic and test (Diagnostic Solutions) systems (collectively these products represent Systems Test Group).

We have a broad customer base which includes integrated device manufacturers (IDMs), outsourced sub-assembly and test providers (OSATs), wafer foundries, fabless companies that design, but contract with others for the manufacture of integrated circuits (ICs), manufacturers of circuit boards, automotive companies, HDD manufacturers, aerospace and military contractors as well as the United States Department of Defense.

The sales of our products and services are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. These cyclical periods have had, and will continue to have, a significant effect on our business since our customers often delay or accelerate purchases in reaction to changes in their businesses and to demand fluctuations in the semiconductor industry. Historically, these demand fluctuations have resulted in significant variations in our results of operations. This was particularly relevant beginning in the fourth quarter of fiscal year 2008 where we saw a significant decrease in revenue in our Semiconductor Test business which was impacted by the deteriorating global economy, which negatively impacted the entire semiconductor industry. The sharp swings in the semiconductor industry in recent years have generally affected the semiconductor test equipment and services industry more significantly than the overall capital equipment sector.

In response to the business downturn, we implemented significant permanent and temporary cost reduction measures. We reduced headcount worldwide, cut capital spending, and imposed temporary salary reductions and furloughs on our workforce. Due to the continued improvement in our business, we removed the temporary salary reductions and furloughs by the end of last year. We believe the permanent cost-cutting measures we took in the last two years will be of long term value.

Commencing in the fourth quarter of 2009, we have experienced improvement in our Semiconductor Test business. We believe our acquisitions of Nextest and Eagle Test and our entry into the high speed memory and HDD markets have enhanced our opportunities for growth. We will continue to invest in our business to expand further our addressable markets while tightly managing our costs. As the last four quarters have demonstrated, with our current cost structure, we can achieve significantly higher profitability than we achieved at comparable revenue levels in the past.

Table of Contents

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. Except as stated below, management believes that there have been no significant changes during the nine months ended October 3, 2010 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, 2009.

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. We elected to early adopt this accounting guidance at the beginning of our first quarter of 2010 on a prospective basis. Adoption had no material impact on our financial position or results of operations in the three and nine months ended October 3, 2010.

We recognize revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, we defer revenue recognition until such events occur.

Our equipment has non-software and software components that function together to deliver the equipment's essential functionality. Revenue is recognized upon shipment or at delivery destination point, provided that customer acceptance criteria can be demonstrated prior to shipment. Certain contracts require us to perform tests of the product to ensure that performance meets the published product specifications or customer requested specifications, which are generally conducted prior to shipment. Where the criteria cannot be demonstrated prior to shipment, revenue is deferred until customer acceptance has been received. We also defer the portion of the sales price that is not due until acceptance, which represents deferred profit.

For multiple element arrangements, we allocate revenue to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of selling price (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BESEP). For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis and the delivery or performance of the undelivered item must be considered probable and substantially in our control.

Our post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not affect the customer's ability to use the product. We defer revenue for the selling price of installation and training.

Table of Contents

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

	For the Three Months Ended		For the Nine Months Ended	
	October 3, 2010	October 4, 2009	October 3, 2010	October 4, 2009
Percentage of total net revenues:				
Net revenue:				
Products	87%	78%	85%	70%
Services	13	22	15	30
Total net revenues	100	100	100	100
Cost of revenues:				
Cost of products	38	48	38	50
Cost of services	7	11	8	16
Total cost of revenues	45	59	45	66
Gross profit	55	41	55	34
Operating expenses:				
Engineering and development	10	15	12	22
Selling and administrative	12	18	14	27
Acquired intangible asset amortization	1	3	2	4
Restructuring and other, net	0	2	0	7
Total operating expenses	23	38	27	60
Income (loss) from operations	31	3	28	(26)
Interest & other	(1)	(1)	(1)	(3)
Income (loss) before income taxes	31	2	26	(29)
Provision (benefit) for income taxes	1	(1)	2	(2)
Net income (loss)	29%	3%	25%	(27)%
Provision/benefit for income taxes as percentage of income (loss) before income taxes	4%	(29)%	6%	(7)%

Results of Operations***Third Quarter 2010 Compared to Third Quarter 2009******Book to Bill Ratio***

Book to bill ratio is calculated as net bookings divided by net sales. Book to bill ratio by reportable segment was as follows:

Edgar Filing: TERADYNE, INC - Form 10-Q

	For the Three Months Ended	
	October 3, 2010	October 4, 2009
Semiconductor Test	0.6	1.3
Systems Test Group	1.7	0.6
Total Company	0.7	1.1

Table of Contents*Revenue*

Net revenues for our two reportable segments were as follows:

	For the Three Months Ended		Dollar Change
	October 3, 2010	October 4, 2009 (in millions)	
Semiconductor Test	\$ 448.3	\$ 173.1	\$ 275.2
Systems Test Group	53.8	89.1	(35.3)
	\$ 502.1	\$ 262.2	\$ 239.9

Net revenues increased by \$239.9 million or 92%, primarily due to the increase in Semiconductor Test revenue of \$275.2 million or 159%, as a result of higher sales across all System-on-Chip products with power management, microcontroller and mobile/wireless being the strongest. Systems Test Group revenue was down by \$35.3 million or 40%, primarily due to the decrease in sales of HDD test systems.

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

	For the Three Months Ended	
	October 3, 2010	October 4, 2009
Malaysia	21%	15%
Taiwan	15	15
United States	13	19
China	11	7
Philippines	11	2
Singapore	9	12
Korea	8	5
Europe	6	7
Japan	5	6
Thailand		11
Rest of World	1	1
	100%	100%

Gross Profit

Our gross profit was as follows:

	For the Three Months Ended		Dollar/Point Change
	October 3, 2010	October 4, 2009 (in millions)	
Gross Profit	\$ 275.8	\$ 106.8	\$ 169.0

Edgar Filing: TERADYNE, INC - Form 10-Q

Percent of Total Revenue	54.9%	40.7%	14.2
Gross profit as a percentage of revenue increased 14.2 percentage points. This increase was the result of an increase of 8.3 points from higher sales volume and an increase of 7.7 points related to product mix. These increases were partially offset by a decrease of 1.8 points primarily due to higher variable compensation.			

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 positions. Forecasted revenue information is obtained from the sales and marketing groups and incorporates factors such as backlog and future revenue

Table of Contents

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.

During the three months ended October 3, 2010, we recorded an inventory provision of \$3.7 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$3.7 million of total excess and obsolete provisions recorded in the three months ended October 3, 2010, \$3.5 million was related to Semiconductor Test and \$0.2 million was related to Systems Test Group.

During the three months ended October 4, 2009, we recorded an inventory provision of \$6.0 million included in cost of revenues, due to the following factors:

Downward revisions to previously forecasted demand levels as a result of economic conditions experienced in the semiconductor industry in the third quarter of 2009 resulted in an inventory provision of \$3.5 million for inventory not expected to be consumed; and

A decline in demand versus forecast for our Liquid Crystal Display (LCD) test product due to the global economic downturn, lower product pricing by competitors, the introduction of a new product by a competitor and consolidation among a number of the expected buyers of the product, resulted in an inventory provision of \$2.5 million.

Of the \$6.0 million of total excess and obsolete provisions recorded in the three months ended October 4, 2009, \$5.2 million was related to Semiconductor Test and \$0.8 million was related to Systems Test Group.

During the three months ended October 3, 2010 and October 4, 2009, we scrapped \$1.6 million and \$27.0 million of inventory, respectively. During the three months ended October 3, 2010 and October 4, 2009, we sold \$1.3 million and \$0.6 million, respectively, of previously written-down or written-off inventory. As of October 3, 2010, we had inventory related reserves for amounts which had been written-down or written-off totaling \$127.8 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Three Months Ended		Dollar Change
	October 3, 2010	October 4, 2009 (in millions)	
Engineering and Development	\$ 50.1	\$ 38.3	\$ 11.8
Percent of Total Revenue	10.0%	14.6%	

The increase of \$11.8 million in engineering and development expenses is due primarily to an \$8.5 million increase in variable compensation, \$1.5 million due to increased project spending and \$1.8 million from the restoration of temporary pay cuts.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Three Months Ended		Dollar Change
	October 3, 2010	October 4, 2009	

Edgar Filing: TERADYNE, INC - Form 10-Q

	(in millions)		
Selling and Administrative	\$ 61.1	\$ 46.3	\$ 14.8
Percent of Total Revenue	12.2%	17.7%	

Table of Contents

The increase of \$14.8 million in selling and administrative expenses is due primarily to a \$13.0 million increase in variable compensation, and \$2.9 million from the restoration of temporary pay cuts, partially offset by a \$1.1 million decrease in spending related to cost reduction initiatives taken in 2009.

*Restructuring and Other, Net**Restructuring*

In response to a downturn in the industry, we initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The tables below represent activities related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by the end of 2010. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$2.2 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$1.6 million as of October 3, 2010.

Severance and Benefits:

	Pre-2009 Actions	Q1 2009 Actions	Q2 2009 Actions	Q1 2010 Actions (in thousands)	Q2 2010 Actions	Q3 2010 Actions	Total
Balance at December 31, 2008	\$ 5,423	\$	\$	\$	\$	\$	\$ 5,423
Provision		17,630	15,940				33,570
Cash payments	(5,423)	(17,630)	(13,035)				(36,088)
Balance at December 31, 2009			2,905				2,905
Provision				766			766
Change in estimate			498				498
Cash payments			(2,079)	(573)			(2,652)
Balance at April 4, 2010			1,324	193			1,517
Provision					845		845
Change in estimate			(96)	(5)			(101)
Cash payments			(695)	(188)	(387)		(1,270)
Balance at July 4, 2010			533		458		991
Provision					209	1,400	1,609
Change in estimate			(118)				(118)
Cash payments			(284)		(177)	(187)	(648)
Balance at October 3, 2010	\$	\$	\$ 131	\$	\$ 490	\$ 1,213	\$ 1,834

Table of Contents*Facility Exit Costs:*

	Pre-2009 Actions	Q3 2009 Actions (in thousands)	Q2 2010 Actions	Total
Balance at December 31, 2008	\$ 9,303	\$	\$	\$ 9,303
Provision		4,420		4,420
Change in estimate	(417)			(417)
Cash payments	(2,645)	(285)		(2,930)
Other		100		100
Balance at December 31, 2009	6,241	4,235		10,476
Cash payments	(468)	(272)		(740)
Balance at April 4, 2010	5,773	3,963		9,736
Provision			815	815
Cash payments	(553)	(264)		(817)
Balance at July 4, 2010	5,220	3,699	815	9,734
Change in estimate	(2,367)			(2,367)
Cash payments	(1,881)	(493)		(2,374)
Balance at October 3, 2010	\$ 972	\$ 3,206	\$ 815	\$ 4,993

During the three months ended October 3, 2010, we recorded restructuring charges related to ongoing efforts to lower expenses and our cost structure and credits related to an early exit of previously impaired facilities. The restructuring activity consisted of the following:

Q3 2010 Actions:

\$1.4 million of severance charges related to headcount reductions of approximately 22 people in Systems Test Group.

Q2 2010 Actions:

\$0.2 million of additional severance charges related to headcount reductions in Systems Test Group.

Q2 2009 Actions:

\$(0.1) million credits related to a change in the estimated severance benefits related to headcount reduction activities across both segments. Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

During the three months ended October 4, 2009, Teradyne recorded restructuring charges related to ongoing efforts to lower expenses and its cost structure in light of the industry wide decline in orders for semiconductor equipment. The restructuring charges consisted of the following activities:

Edgar Filing: TERADYNE, INC - Form 10-Q

Q3 2009 Actions:

\$4.4 million of charges across both segments related to the early exit of leased facilities in North Reading, Massachusetts and Novi, Michigan.

Q2 2009 Actions:

\$1.3 million of additional severance charges related to headcount reductions across both segments.

Table of Contents*Other*

During the three months ended October 4, 2009, Teradyne recorded \$(0.5) million of credits related to finalization of certain Eagle Test purchase accounting items.

Interest and Other

Interest income increased by \$0.5 million from the third quarter of 2009 to 2010. Interest expense and other increased by \$1.0 million from the third quarter of 2009 to 2010. Interest expense and other for the third quarter of 2010 included \$4.9 million of interest expense related to our convertible debt. Interest expense and other for the third quarter of 2009 included \$4.3 million of interest expense related to our convertible debt.

Income Taxes

For the three months ended October 3, 2010, we recorded a tax provision of \$6.7 million, which consisted primarily of foreign taxes. For the three months ended October 4, 2009, we recorded a tax benefit of \$1.5 million primarily due to tax refunds recorded for U.S. loss carrybacks. Due to the continued uncertainty of realization, we have maintained our valuation allowance at October 3, 2010 for deferred tax assets in the U.S. and Singapore. We do not expect to significantly reduce our valuation allowance until sufficient positive evidence exists, including sustained profitability, that realization is more likely than not.

Nine Months of 2010 Compared to Nine Months of 2009*Revenue*

Net revenues for our two reportable segments were as follows:

	For the Nine Months Ended		Dollar Change
	October 3, 2010	October 4, 2009	
	(in millions)		
Semiconductor Test	\$ 1,151.0	\$ 354.5	\$ 796.5
Systems Test Group	135.5	197.9	(62.4)
	\$ 1,286.5	\$ 552.4	\$ 734.1

Net revenues increased by \$734.1 million or 133%, primarily due to the increase in Semiconductor Test revenue of \$796.5 million or 225%, as a result of higher sales across all System-on-Chip products with power management, microcontroller and mobile/wireless being the strongest. System Test Group revenue was down by \$62.4 million or 32%, primarily due to the decrease in sales of HDD test systems and Mil/Aero test instrumentation.

Table of Contents

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

	For the Nine Months Ended	
	October 3, 2010	October 4, 2009
Taiwan	20%	13%
United States	14	26
Malaysia	13	9
Philippines	11	3
Singapore	10	10
China	9	5
Europe	7	10
Korea	7	4
Japan	5	7
Thailand	3	11
Rest of World	1	2
	100%	100%

Gross Profit

Our gross profit was as follows:

	For the Nine Months Ended		
	October 3, 2010	October 4, 2009 (in millions)	Dollar/Point Change
Gross Profit	\$ 703.6	\$ 187.2	\$ 516.4
Percent of Total Revenue	54.7%	33.9%	20.8

Gross profit as a percentage of revenue increased 20.8 percentage points. This increase was the result of an increase of 13.9 points from higher sales volume and an increase of 8.2 points related to product mix. These increases were partially offset by a decrease of 1.3 points primarily due to higher variable compensation.

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 positions. 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.

During the nine months ended October 3, 2010, we recorded an inventory provision of \$5.4 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$5.4 million of total excess and obsolete provisions recorded in the nine months ended October 3, 2010, \$4.0 million was related to Semiconductor Test and \$1.4 million was related to Systems Test Group.

During the nine months ended October 4, 2009, we recorded an inventory provision of \$23.7 million included in cost of revenues, due to the following factors:

Edgar Filing: TERADYNE, INC - Form 10-Q

Downward revisions to previously forecasted demand levels as a result of worsening economic conditions experienced in the semiconductor and automotive industries in the first nine months of 2009 resulted in an inventory provision of \$15.1 million for inventory not expected to be consumed; and

Table of Contents

A decline in demand versus forecast for our Liquid Crystal Display (LCD) test product due to the global economic downturn, lower product pricing by competitors, the introduction of a new product by a competitor and consolidation among a number of the expected buyers of the product, resulted in an inventory provision of \$5.9 million; and

During late 2008, we introduced the next versions of our Nextest Magnum memory test product. At that time, it was anticipated that demand would continue for the existing version of the product within its installed base of customers. An overall decline in the memory market combined with a portion of our customers accelerating their purchasing of the newer version of the product resulted in an inventory provision of \$2.7 million.

Of the \$23.7 million of total excess and obsolete provisions recorded in the nine months ended October 4, 2009, \$17.0 million was related to Semiconductor Test and \$6.7 million was related to Systems Test Group.

During the nine months ended October 3, 2010 and October 4, 2009, we scrapped \$3.7 million and \$29.0 million of inventory, respectively. During the nine months ended October 3, 2010, we sold \$6.5 million of previously written-down or written-off inventory. As of October 3, 2010, we had inventory related reserves for amounts which had been written-down or written-off totaling \$127.8 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Nine Months Ended		Dollar Change
	October 3, 2010	October 4, 2009	
Engineering and Development	\$ 149.6	\$ 123.9	\$ 25.7
Percent of Total Revenue	11.6%	22.4%	

The increase of \$25.7 million in engineering and development expenses is due primarily to a \$19.5 million increase in variable compensation and \$6.2 million increase from the restoration of temporary pay cuts.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Nine Months Ended		Dollar Change
	October 3, 2010	October 4, 2009	
Selling and Administrative	\$ 175.3	\$ 148.9	\$ 26.4
Percent of Total Revenue	13.6%	27.0%	

The increase of \$26.4 million in selling and administrative expenses is due primarily to a \$27.6 million increase in variable compensation and \$9.9 million from the restoration of temporary pay cuts, offset by an \$11.1 million decrease in other spending related to workforce reductions and other cost reduction initiatives taken in 2009.

*Restructuring and Other, Net**Restructuring*

Edgar Filing: TERADYNE, INC - Form 10-Q

In response to a downturn in the industry, we initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The tables below represent activity

Table of Contents

related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by the end of 2010. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$2.2 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$1.6 million as of October 3, 2010.

Severance and Benefits:

	Pre-2009 Actions	Q1 2009 Actions	Q2 2009 Actions	Q1 2010 Actions	Q2 2010 Actions	Q3 2010 Actions	Total
	(in thousands)						
Balance at December 31, 2008	\$ 5,423	\$	\$	\$	\$	\$	\$ 5,423
Provision		17,630	15,940				33,570
Cash payments	(5,423)	(17,630)	(13,035)				(36,088)
Balance at December 31, 2009			2,905				2,905
Provision				766			766
Change in estimate			498				498
Cash payments			(2,079)	(573)			(2,652)
Balance at April 4, 2010			1,324	193			1,517
Provision					845		845
Change in estimate			(96)	(5)			(101)
Cash payments			(695)	(188)	(387)		(1,270)
Balance at July 4, 2010			533		458		991
Provision					209	1,400	1,609
Change in estimate			(118)				(118)
Cash payments			(284)		(177)	(187)	(648)
Balance at October 3, 2010	\$	\$	\$ 131	\$	\$ 490	\$ 1,213	\$ 1,834

Facility Exit Costs:

	Pre-2009 Actions	Q3 2009 Actions	Q2 2010 Actions	Total
	(in thousands)			
Balance at December 31, 2008	\$ 9,303	\$	\$	\$ 9,303
Provision		4,420		4,420
Change in estimate	(417)			(417)
Cash payments	(2,645)	(285)		(2,930)
Other		100		100
Balance at December 31, 2009	6,241	4,235		10,476
Cash payments	(468)	(272)		(740)
Balance at April 4, 2010	5,773	3,963		9,736
Provision			815	815
Cash payments	(553)	(264)		(817)
Balance at July 4, 2010	5,220	3,699	815	9,734
Change in estimate	(2,367)			(2,367)

Edgar Filing: TERADYNE, INC - Form 10-Q

Cash payments	(1,881)	(493)	(2,374)	
Balance at October 3, 2010	\$ 972	\$ 3,206	\$ 815	\$ 4,993

Table of Contents

During the nine months ended October 3, 2010, we recorded restructuring charges related to ongoing efforts to lower expenses and our cost structure and an additional charge due to a change in estimated severance benefits related to a prior period activity. The restructuring charges consisted of the following activities:

Q1 2010 Actions:

\$0.8 million of severance charges related to headcount reductions of approximately 14 people, of which \$0.4 million and 10 people were in Systems Test Group and \$0.4 million and 4 people were in Semiconductor Test.

Q2 2010 Actions:

\$1.0 million of severance charges related to headcount reductions of approximately 10 people in Systems Test Group; and

\$0.8 million of facility charges in Systems Test Group related to the early exit of leased facilities in Kontich, Belgium and Stockport, United Kingdom.

Q3 2010 Actions:

\$1.4 million of severance charges related to headcount reductions of approximately 22 people in Systems Test Group.

Q2 2009 Actions:

\$0.3 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.

Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

During the nine months ended October 4, 2009, we recorded restructuring charges related to ongoing efforts to lower expenses and our cost structure in light of the industry wide decline in orders for semiconductor equipment. The restructuring charges consisted of the following activities:

Q3 2009 Actions:

\$4.4 million of charges across both segments related to the early exit of a leased facilities in North Reading, Massachusetts and Novi, Michigan.

Q2 2009 Actions:

\$14.1 million of severance charges related to headcount reductions of approximately 316 people, of which \$9.7 million and 267 people were in Semiconductor Test, \$2.7 million and 25 people were in Corporate, and \$1.7 million and 24 people were in Systems

Edgar Filing: TERADYNE, INC - Form 10-Q

Test Group.
Q1 2009 Actions:

\$17.6 million of severance charges related to headcount reductions of approximately 518 people, of which \$14.9 million and 460 people were in Semiconductor Test, \$1.9 million and 42 people were in Systems Test Group, and \$0.8 million and 16 people were in Corporate.

Other

During the nine months ended October 4, 2009, we recorded the following activity:

\$1.1 million of long-lived asset impairment charges across both segments primarily related to disposal of fixed assets as a result of the consolidation of our facilities in North Reading, Massachusetts; and

\$(2.0) million of credits related to finalization of certain Eagle Test purchase accounting items.

Table of Contents*Interest and Other*

Interest income increased by \$3.1 million from the first nine months of 2009 to 2010 due primarily to a gain from the sale of auction rate securities of \$2.7 million. Interest expense and other increased by \$1.5 million from the first nine months of 2009 to 2010 due primarily to a loss of \$2.7 million on the exercise of the auction rate securities related UBS Put and \$5.4 million increase in interest expense related to our convertible note, partially offset by a \$0.7 million decrease in realized and other than-temporary impairment losses on our marketable securities and \$1.4 million decrease in foreign exchange losses. In addition, the first nine months of 2009 included \$2.1 million of interest expense related to the revolving credit facility and \$2.5 million other expense related to the write off of the remaining debt issue costs due to the termination of our revolving credit facility agreement.

Income Taxes

For the nine months ended October 3, 2010, we recorded a tax provision of \$21.0 million, which consisted primarily of foreign taxes. For the nine months ended October 4, 2009, we recorded a tax benefit of \$11.5 million primarily due to benefiting operating losses in foreign jurisdictions. Due to the continued uncertainty of realization, we have maintained our valuation allowance at October 3, 2010 for deferred tax assets in the U.S. and Singapore. We do not expect to significantly reduce our valuation allowance until sufficient positive evidence exists, including sustained profitability, that realization is more likely than not.

Contractual Obligations

The following table reflects our contractual obligations as of October 3, 2010:

Payments Due by Period	Purchase Commitments	Non-cancelable Lease Commitments(1)	Debt (in thousands)	Interest on Debt	Pension Contributions	Total
2010	\$ 232,900	\$ 4,035	\$	\$	\$ 1,172	\$ 238,107
2011		11,556	2,396	8,658		22,610
2012		9,632	2,396	8,625		20,653
2013		6,324	2,396	8,592		17,312
2014		4,889	191,198	4,307		200,394
Beyond 2014		4,811				4,811
Total	\$ 232,900	\$ 41,247	\$ 198,386	\$ 30,182	\$ 1,172	\$ 503,887

(1) Non-cancelable lease payments have not been reduced by sublease income of \$1.6 million due in the future under non-cancelable sublease agreements.

As of October 3, 2010, the total amount of unrecognized tax benefit for uncertain tax positions and the accrual for the related interest, net of the federal benefit, was \$9.1 million and \$1.4 million, respectively, and was included in long-term other accrued liabilities. We are unable to make a reasonably reliable estimate of when a cash settlement will occur with tax authorities as the timing of examinations and ultimate resolutions of those examinations is uncertain.

Table of Contents**Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balance increased by \$380.5 million in the first nine months of 2010 to \$899.3 million. Cash activity for the first nine months of 2010 and 2009 was as follows:

	For the Nine Months Ended	
	October 3, 2010	October 4, 2009
	(in millions)	
Cash provided by operating activities:		
Net income (loss), adjusted for non-cash items	\$ 424.7	\$ (19.1)
Change in operating assets and liabilities, net of businesses acquired	(34.7)	75.2
Total cash provided by operating activities	390.0	56.1
Total cash used for investing activities	(412.5)	(37.6)
Total cash provided by financing activities	39.9	64.6
Effects on exchange rate changes on cash and cash equivalents	(0.2)	0.9
Increase in cash and cash equivalents	\$ 17.2	\$ 84.0

In the nine months ended October 3, 2010, changes in operating assets and liabilities, net of businesses acquired, used cash of \$34.7 million. This was due to a \$169.6 million increase in operating assets and a \$134.9 million increase in operating liabilities. The increase in operating assets was due to an increase in accounts receivable of \$181.3 million due to higher sales volume, partially offset by a \$10.8 million decrease in inventories, and a decrease in other current assets of \$0.9 million. The increase in operating liabilities was due to a \$68.4 million increase in customer advance payments, a \$7.2 million increase in deferred revenue, a \$50.8 million decrease in pension liabilities due to pension contributions, a \$4.3 million decrease in other accrued expenses due to convertible note interest payments, partially offset by a \$66.6 million increase in accounts payable, a \$30.1 million increase in accrued employee compensation due to higher variable compensation, a \$14.6 million increase in accrued income taxes, and a \$6.6 million increase in other accrued liabilities.

Investing activities during the nine months ended October 3, 2010 used cash of \$412.5 million, due to \$478.3 million used for purchases of marketable securities and \$54.0 million used for purchases of property, plant and equipment, partially offset by proceeds from sales of marketable securities that provided cash of \$118.6 million, and proceeds from life insurance that provided cash of \$1.1 million.

Financing activities during the nine months ended October 3, 2010 provided cash of \$39.9 million, \$42.2 million was from the issuance of common stock under stock option and stock purchase plans which was offset by \$2.3 million of cash used for a payment on a long-term debt related to the Japan loan.

In the nine months ended October 4, 2009, changes in operating assets and liabilities, net of businesses acquired, provided cash of \$75.2 million. This was due to a decrease in operating assets of \$11.2 million and an increase in operating liabilities of \$64.0 million. The decrease in operating assets consisted mainly of a decrease in inventory of \$45.9 million partially offset by an increase of \$30.0 million in accounts receivable due to higher sales volume. The increase in operating liabilities consisted of an increase in advanced customer payments, accounts payable, deferred revenue and other accrued expenses of \$69.7 million partially offset by retirement plan contributions of \$5.7 million.

Investing activities in the nine months ended October 4, 2009 used cash of \$37.6 million due to investments in property, plant and equipment of \$26.6 million, payment of transaction fees related to the Eagle Test acquisition of \$3.7 million and purchases of marketable securities of \$31.5 million, partially offset by sales of marketable securities that provided cash of \$23.1 million and proceeds from life insurance policies that provided cash of \$1.1 million.

Table of Contents

During the nine months ended October 4, 2009, financing activities provided cash of \$64.6 million due to approximately \$163.0 million of net proceeds from the issuance of the senior convertible notes, \$10.0 million of long-term debt proceeds from a loan in Japan and \$15.3 million from the issuance of common stock under stock option and stock purchase plans. These increases were partially offset by \$122.5 million of cash used for the repayment of our revolving credit facility and \$1.1 million of cash used for principal payment on long-term debt.

We believe our cash, cash equivalents and marketable securities balance of \$899.3 million will be sufficient to meet working capital and expenditure needs for at least the next twelve months. Inflation has not had a significant long-term impact on earnings.

Equity Compensation Plans

As discussed in Note N: Stock Based Compensation in our 2009 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity 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 March 2010, FASB issued an Accounting Standards Update 2010-17, *Milestone Method of Revenue Recognition*, to Accounting Standards Codification 605, *Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Early application and retrospective application are permitted. We will adopt this final consensus prospectively in January 2011 and the adoption is not expected to have a material impact on our financial position or results of operations.

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 March 1, 2010. 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, 2009.

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.

Table of Contents

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**

We are subject to various legal proceedings and claims which have arisen in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our results of operations, financial condition or cash flows.

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, 2009, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business. 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

In November 2007, Teradyne's Board of Directors (the Board) authorized a \$400 million stock repurchase program. During the three months ended October 3, 2010, Teradyne did not repurchase any shares of common stock. The cumulative repurchases as of October 3, 2010 total 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14 per share. As of November 4, 2008, the Board suspended the stock repurchase program.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended October 3, 2010 (in thousands):

Period	(a) Total Number of Shares (or units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
July 5, 2010 – August 1, 2010		\$		\$ 297,375
August 2, 2010 – August 29, 2010		\$		\$ 297,375
August 30, 2010 – October 3, 2010		\$		\$ 297,375

Table of Contents**Item 6: Exhibits**

Exhibit Number	Description
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)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

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)**

November 10, 2010