

TERADYNE, INC  
Form 10-Q  
August 13, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**x      QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
         EXCHANGE ACT OF 1934**  
For the quarterly period ended July 5, 2009

**OR**

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

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

**04-2272148**  
(I.R.S. Employer

**Incorporation or Organization)**

**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 proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes ☐ No ☐

\* The registrant has not yet been phased in to the interactive data requirements

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

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

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

The number of shares outstanding of the registrant's only class of Common Stock as of August 4, 2009 was 174,574,204 shares.

**Table of Contents**

**TERADYNE, INC.**

**INDEX**

	<b>Page No.</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (unaudited):	
<u>Condensed Consolidated Balance Sheets as of July 5, 2009 and December 31, 2008</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 5, 2009 and June 29, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 5, 2009 and June 29, 2008</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>	23
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	36
Item 6. <u>Exhibits</u>	37

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

	July 5, 2009	December 31, 2008
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 334,081	\$ 322,705
Accounts receivable, net of allowance for doubtful accounts of \$3,967 and \$4,712 at July 5, 2009 and December 31, 2008, respectively	73,914	109,625
Inventories:		
Parts	64,961	89,140
Assemblies in process	50,185	65,818
Finished goods	11,543	13,493
	126,689	168,451
Deferred tax assets	17,268	16,988
Prepayments and other current assets	51,781	60,884
Total current assets	603,733	678,653
Property, plant, and equipment, at cost	784,608	782,774
Less: accumulated depreciation	514,239	484,325
Net property, plant, and equipment	270,369	298,449
Marketable securities	38,982	51,613
Intangible assets, net	170,545	186,998
Other assets	18,751	19,534
Total assets	\$ 1,102,380	\$ 1,235,247
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 47,979	\$ 61,164
Current debt	2,069	122,500
Accrued employees' compensation and withholdings	54,708	73,521
Deferred revenue and customer advances	49,730	58,030
Other accrued liabilities	42,590	51,748
Total current liabilities	197,076	366,963
Retirement plans liabilities	133,478	125,877
Deferred tax liabilities	3,158	8,730
Long-term other accrued liabilities	22,965	27,565
Long-term debt	137,087	

# Edgar Filing: TERADYNE, INC - Form 10-Q

Total liabilities	493,764	529,135
Commitments and contingencies (Note M)		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.125 par value, 1,000,000 shares authorized, 174,324 shares and 169,651 shares issued and outstanding at July 5, 2009 and December 31, 2008, respectively	21,791	21,206
Additional paid-in capital	1,188,153	1,124,390
Accumulated other comprehensive loss	(152,516)	(148,108)
Accumulated deficit	(448,812)	(291,376)
Total shareholders' equity	608,616	706,112
Total liabilities and shareholders' equity	\$ 1,102,380	\$ 1,235,247

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, 2008, are an integral part of the condensed consolidated financial statements.

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands, except per share amounts)</b>			
Net revenues:				
Products	\$ 115,148	\$ 248,779	\$ 179,884	\$ 481,770
Services	54,432	68,926	110,304	133,250
Net revenues	169,580	317,705	290,188	615,020
Cost of revenues:				
Cost of products	92,635	124,925	148,795	243,232
Cost of services	29,816	38,932	60,904	79,437
Total cost of revenues	122,451	163,857	209,699	322,669
Gross profit	47,129	153,848	80,489	292,351
Operating expenses:				
Engineering and development	38,451	56,154	85,649	111,303
Selling and administrative	47,257	65,463	102,630	130,684
Acquired intangible asset amortization	8,214	4,774	16,453	8,637
In-process research and development				1,100
Restructuring and other, net	15,270	12,726	31,235	24,511
Operating expenses	109,192	139,117	235,967	276,235
(Loss) income from operations	(62,063)	14,731	(155,478)	16,116
Interest income	1,141	2,932	1,917	7,544
Interest expense and other	(8,046)	(484)	(13,875)	(14)
(Loss) income before income taxes	(68,968)	17,179	(167,436)	23,646
Income tax (benefit) provision	(2,200)	6,100	(10,000)	10,200
Net (loss) income	\$ (66,768)	\$ 11,079	\$ (157,436)	\$ 13,446
Net (loss) income per common share:				
Basic	\$ (0.39)	\$ 0.06	\$ (0.91)	\$ 0.08
Diluted	\$ (0.39)	\$ 0.06	\$ (0.91)	\$ 0.08
Weighted average common share basic	173,022	170,644	172,576	172,203
Weighted average common share diluted	173,022	174,096	172,576	174,909

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, 2008 are an integral part of the condensed consolidated financial statements.



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

	<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>	
Cash flows from operating activities:		
Net (loss) income	\$ (157,436)	\$ 13,446
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Depreciation	30,251	39,077
Amortization	21,343	9,720
Provision for excess and obsolete inventory	17,208	3,254
Stock-based compensation	12,109	10,821
Non-cash charge for the sale of inventories revalued at the date of acquisition	5,163	4,346
Loss on sale and impairment of marketable securities	2,532	
Revolving credit facility issue costs	2,488	
Deferred taxes	(5,852)	
In-process research and development charge		1,100
Gain on sale of land and building		(1,682)
Other	955	764
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	35,757	4,488
Inventories	29,459	(1,223)
Other assets	2,392	(6,195)
Accounts payable, deferred revenue and accrued expenses	(39,154)	10,410
Retirement plans contributions	(3,972)	(3,717)
Income taxes payable		(2,608)
Net cash (used for) provided by operating activities	(46,757)	82,001
Cash flows from investing activities:		
Investments in property, plant and equipment	(17,428)	(56,702)
Acquisition of business, net of cash acquired	(3,741)	(285,324)
Proceeds from life insurance	1,076	
Proceeds from sale and maturities of available-for-sale marketable securities	11,946	89,777
Proceeds from sale of land and building		17,716
Purchases of available-for-sale marketable securities		(40,581)
Net cash used for investing activities	(8,147)	(275,114)
Cash flows from financing activities:		
Net proceeds from long-term debt	172,914	
Repayment of revolving credit facility principal	(122,500)	
Repurchase of common stock		(91,191)
Issuance of common stock under employee stock option and stock purchase plans	14,272	9,082
Net cash provided by (used for) financing activities	64,686	(82,109)
Effect of exchange rate changes on cash and cash equivalents	1,594	(1,055)
Increase (decrease) in cash and cash equivalents	11,376	(276,277)



## Edgar Filing: TERADYNE, INC - Form 10-Q

Cash and cash equivalents at beginning of period	322,705	562,371
Cash and cash equivalents at end of period	\$ 334,081	\$ 286,094

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, 2008 are an integral part of the condensed consolidated financial statements.

---

**Table of Contents**

**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**A. The Company**

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

Teradyne's automatic test equipment products and services include:

semiconductor test ( Semiconductor Test ) systems, and

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

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in Teradyne's filings with the Securities and Exchange Commission (the SEC ). See also Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations Certain Factors That May Affect Future Results and Teradyne's Annual Report on Form 10-K for the year ended December 31, 2008.

**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, 2008 condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by generally accepted accounting principles.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne's Annual Report on Form 10-K, filed with the SEC on March 2, 2009 for the year ended December 31, 2008.

*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.

**C. Recently Issued Accounting Pronouncements**

In December 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, ( FSP FAS 132(R)-1 ), which amends SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of

**Table of Contents**

**TERADYNE, INC.**

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

plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for Teradyne's December 31, 2009 annual financial statements. As FSP FAS 132(R)-1 only requires enhanced disclosures, Teradyne determined that the adoption of FSP FAS 132(R)-1 will not have an impact on its financial position or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. All guidance contained in the Codification carries an equal level of authority. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This new statement will not have an impact on the determination or reporting of Teradyne's financial position or results of operations.

**D. Financial Instruments**

**Financial Instruments**

Teradyne uses the market and income approaches to value its financial instruments and there were no changes in valuation techniques during the quarter and six months ended July 5, 2009. SFAS No. 157, Fair Value Measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

Teradyne elected fair value treatment for the right to sell its auction rate securities back to UBS (UBS Put), under SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities.

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

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 July 5, 2009 and December 31, 2008. The UBS Put is included in other assets.

	<b>July 5, 2009</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>(in thousands)</b>			
<b>Assets:</b>				
Long-term marketable securities	\$ 6,502	\$ 6,294	\$ 26,186	\$ 38,982
UBS Put			3,070	3,070
Derivatives		126		126
<b>Total</b>	<b>\$ 6,502</b>	<b>\$ 6,420</b>	<b>\$ 29,256</b>	<b>\$ 42,178</b>

	<b>December 31, 2008</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>(in thousands)</b>			
<b>Assets:</b>				
Long-term marketable securities	\$ 6,192	\$ 19,453	\$ 25,968	\$ 51,613
UBS Put			3,330	3,330
<b>Total</b>	<b>\$ 6,192</b>	<b>\$ 19,453</b>	<b>\$ 29,298</b>	<b>\$ 54,943</b>
<b>Liabilities:</b>				
Derivatives	\$	\$ 767	\$	\$ 767
<b>Total</b>	<b>\$</b>	<b>\$ 767</b>	<b>\$</b>	<b>\$ 767</b>

Changes in the fair value of Level 3 financial assets for the three and six months ended July 5, 2009, were as follows.

	<b>Level 3 Financial Assets</b>			
	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>		<b>July 5, 2009</b>	
	<b>Long-Term Auction Rate Securities</b>	<b>UBS Put</b>	<b>Long-Term Auction Rate Securities</b>	<b>UBS Put</b>
	<b>(in thousands)</b>			
Balance at beginning of period	\$ 25,521	\$ 3,277	\$ 25,968	\$ 3,330
Change in unrealized gain included in interest income	665		665	
Change in unrealized loss included in interest expense and other		(207)	(447)	(260)
Balance at end of period	\$ 26,186	\$ 3,070	\$ 26,186	\$ 3,070

## Edgar Filing: TERADYNE, INC - Form 10-Q

Teradyne had no Level 3 financial assets for the six months ended June 29, 2008.

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;

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

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.

Teradyne determined that it does 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 \$0.6 million in the six months ended July 5, 2009, primarily related to mortgage and asset backed debt securities. During the six months ended July 5, 2009, Teradyne recorded a net loss of \$0.1 million for the change in the auction rate securities and UBS put fair values. During the six months ended July 5, 2009, Teradyne also recorded \$1.9 million of realized losses from sales of marketable securities. Other-than-temporary impairment losses, decreases in auction rate securities fair value and realized losses from sale of marketable securities are included in interest expense and other and increases in auction rate securities fair value are included in interest income.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board Opinion ( APB ) 28-1, Interim Disclosure about Fair Value of Financial Instruments ( Fair Value FSP ). The Fair Value FSP requires interim disclosures regarding the fair values of financial instruments that are within the scope of SFAS No. 107, Disclosures about the Fair Value of Financial Instruments. Additionally, the Fair Value FSP requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes in the methods and significant assumptions from prior periods. The Fair Value FSP does not change the accounting treatment for these financial instruments. Teradyne adopted the Fair Value FSP during the quarter ended July 5, 2009.

The carrying amounts and fair values of financial instruments at July 5, 2009 and December 31, 2008 are as follows:

	July 5, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Marketable securities	\$ 38,982	\$ 38,982	\$ 51,613	\$ 51,613
UBS Put	3,070	3,070	3,277	3,277
Revolving credit facility			122,500	122,500
Convertible debt (1)	128,815	273,239		
Japan loan	10,340	10,340		

- (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 and cash equivalents, accounts receivable, net and accounts payable approximate the carrying amount due to the short term maturities of these instruments.

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

Asset backed and corporate debt available-for-sale marketable securities have maturities of one to five years. At July 5, 2009 and December 31, 2008, these investments are reported as follows:

	Cost	Available-for-Sale Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
<b>July 5, 2009</b>					
Long-term marketable securities:					
Equity and debt mutual funds	\$ 7,534	\$ 130	\$ (1,162)	\$ 6,502	\$ 3,352
Asset backed securities	6,294			6,294	
	\$ 13,828	\$ 130	\$ (1,162)	\$ 12,796	\$ 3,352

	Cost	Available-for-Sale Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
<b>December 31, 2008</b>					
Long-term marketable securities:					
Equity and debt mutual funds	\$ 8,910	\$ 589	\$ (3,307)	\$ 6,192	\$ 6,192
Asset backed and corporate debt securities	19,453			19,453	
	\$ 28,363	\$ 589	\$ (3,307)	\$ 25,645	\$ 6,192

As of July 5, 2009, the fair market value of investments with unrealized losses totaled \$3.4 million. Of this value, \$2.8 million had an unrealized loss for greater than one year and \$0.6 million had an unrealized loss for less than one year. These investments are mutual funds related to employee retirement benefits. Teradyne determined that the unrealized losses related to these investments, at July 5, 2009, are temporary.

**Derivatives**

In March of 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires entities to provide enhanced disclosure about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. Teradyne adopted SFAS 161 during the quarter ended April 5, 2009.

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 and anticipated cash flows. The terms of currency instruments used for hedging purposes are consistent with the timing of the transactions being hedged. 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.





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

The notional amount of foreign exchange contracts hedging monetary assets and liabilities denominated in foreign currencies was \$45.5 million and \$100.0 million at July 5, 2009 and December 31, 2008, respectively.

The following table summarizes the fair value of derivative instruments as of July 5, 2009.

	Asset Derivatives Balance Sheet Location (in thousands)	July 5, 2009
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	Other assets	\$ 126
<b>Total derivatives</b>		<b>\$ 126</b>

The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and six months ended July 5, 2009. The table does not reflect the corresponding gain (loss) from the hedged balance sheet.

	Location of Losses Recognized in Statement of Operations	For the Three Months Ended July 5, 2009 (in thousands)	For the Six Months Ended July 5, 2009 (in thousands)
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Interest expense and other	\$ (425)	\$ (2,386)
<b>Total derivatives</b>		<b>\$ (425)</b>	<b>\$ (2,386)</b>

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 million (the loan is denominated in Japanese Yen). The loan has a term of 5 years and a fixed interest rate of 1.4%. Approximately \$6 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 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 million payable on September 30 and March 30 each year. At July 5, 2009, approximately \$2 million of the outstanding loan principal is included in current debt and approximately \$8 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,

**Table of Contents**

**TERADYNE, INC.**

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

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.

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.

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 warrant.

The convertible note 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.

On April 6, 2009, Teradyne completed its registered public offering of the \$190 million aggregate principal amount convertible senior notes and settled the related convertible bond hedge and warrant transaction and received approximately \$163 million as a result of these financing transactions.

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

Teradyne analyzed the convertible note hedge and warrant transactions under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock, EITF Issue No. 07-5 Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock and other relevant literature, and determined that they meet the criteria for classification as equity transactions. As a result, Teradyne recorded the purchase of the convertible note hedge as a reduction in additional paid-in capital and the proceeds from the warrants as an increase to additional paid-in capital. Teradyne does not recognize subsequent changes in fair value of the convertible note hedge and warrant in its financial statements.

The provisions of FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1), are applicable to the Notes. FSP APB 14-1 requires Teradyne to separately account for the liability (debt) and equity (conversion feature) components of the Notes in a manner that reflects Teradyne's nonconvertible debt borrowing rate at the date of issuance when interest cost is recognized in subsequent periods. Teradyne allocated \$63.4 million of the \$190.0 million principal amount of the Notes to the equity component, which represents a discount to the debt and will be amortized into interest expense using the effective interest method through March 2014. Accordingly, Teradyne's effective annual interest rate on the Notes will be approximately 14.5%. The Notes are classified as long-term debt in the balance sheet at July 5, 2009 based on their March 15, 2014 maturity date. Debt issuance costs of approximately \$4.1 million are being amortized to interest expense over the five year term of the Notes.

The below tables represent the key components of Teradyne's convertible senior notes:

	<b>July 5, 2009 (in thousands)</b>
Debt principal	\$ 190,000
Unamortized discount	61,185
<b>Net carrying amount of the convertible debt</b>	<b>\$ 128,815</b>

	<b>For the Three Months Ended July 5, 2009 (in thousands)</b>
Contractual interest expense on the coupon	\$ 2,161
Amortization of the discount component and debt issue fees recognized as interest expense	2,455
<b>Total interest expense on the convertible debt</b>	<b>\$ 4,616</b>

As of July 5, 2009, the unamortized discount was \$61.2 million which will be amortized over approximately 4.75 years and the carrying amount of the equity component was \$63.4 million.

As of July 5, 2009, 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 \$234.6 million.

**Revolving Credit Facility**

## Edgar Filing: TERADYNE, INC - Form 10-Q

On April 7, 2009, Teradyne repaid and terminated its revolving credit facility agreement. Teradyne used approximately \$123.3 million of the net proceeds of the convertible senior notes transaction to repay \$122.5 million

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

of principal and \$0.8 million of accrued interest outstanding under the revolving credit facility agreement. During the three months ended July 5, 2009, Teradyne expensed the remaining revolving credit facility debt issue costs of approximately \$2.5 million.

**F. Product Warranty**

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Balance at beginning of period	\$ 6,013	\$ 9,933	\$ 8,372	\$ 9,340
Acquisition				492
Accruals for warranties issued during the period	1,777	3,606	3,174	7,209
Accruals related to pre-existing warranties	(212)	577	(997)	1,182
Settlements made during the period	(2,567)	(4,334)	(5,538)	(8,441)
Balance at end of period	\$ 5,011	\$ 9,782	\$ 5,011	\$ 9,782

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Balance at beginning of period	\$ 5,317	\$ 6,612	\$ 6,369	\$ 6,610
Deferral of new extended warranty reserve	600	1,686	877	2,880
Recognition of extended warranty deferred revenue	(1,270)	(1,195)	(2,599)	(2,387)
Balance at end of period	\$ 4,647	\$ 7,103	\$ 4,647	\$ 7,103

**G. Stock-Based Compensation**

At Teradyne's annual meeting of stockholders held May 28, 2009, Teradyne's stockholders approved an amendment to Teradyne's 2006 Equity and Cash Compensation Incentive Plan to increase the number of shares issuable thereunder by 10 million, for an aggregate of 22 million shares issuable thereunder, and Teradyne's stockholders also approved an amendment to Teradyne's 1996 Employee Stock Purchase Plan to increase the number of shares issuable thereunder by 5 million, for an aggregate of 25.4 million shares issuable thereunder.

## Edgar Filing: TERADYNE, INC - Form 10-Q

During the six months ended July 5, 2009, Teradyne granted service based restricted stock units to employees and directors, 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 \$4.90. The total number of stock options granted was 1.1 million at the weighted average grant date fair value of \$1.97. These

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

restricted stock units awards and stock options vest in equal installments over four years. Awards granted to non-employee directors vest on the first anniversary of the grant date. 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:

	<b>For the Six Months Ended July 5, 2009</b>
Expected life (years)	4.75
Interest rate	1.6%
Volatility-historical	44.9%
Dividend yield	0.0%

During the six months ended June 29, 2008, Teradyne granted restricted stock units to employees, executives and directors. The total number of restricted stock units granted was 3.1 million at the weighted average grant date fair value of \$10.66. Service based awards granted to employees and executives vest in equal installments over four years. Awards granted to non-employee directors vest on the first anniversary of the grant date. A significant number of awards granted to executive officers were performance-based restricted stock units; however, the performance criteria were not met for the year ended December 31, 2008 and the performance-based restricted stock units were forfeited.

**H. Comprehensive (Loss) Income**

Comprehensive (loss) income is calculated as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	(in thousands)			
Net (loss) income	\$ (66,768)	\$ 11,079	\$ (157,436)	\$ 13,446
Foreign currency translation adjustments	1,214	(233)	1,594	(1,055)
Change in unrealized gain (loss) on marketable securities, net of taxes of \$0	12	(672)	1,707	(3,126)
Retirement plans net (loss) gain, net of taxes of \$793, \$431, \$1,012 and \$447	(441)	2,643	(8,304)	2,988
Retirement plans prior service benefit, net of taxes of \$0	138	137	596	291
Comprehensive (loss) income	\$ (65,845)	\$ 12,954	\$ (161,843)	\$ 12,544



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

Amortizable intangible assets consist of the following:

	<b>July 5, 2009</b>			<b>Weighted Average Useful Life</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	
	<b>(in thousands)</b>			
Developed technology	\$ 122,393	\$ 38,003	\$ 84,390	6.1 years
Customer relationships and service and software maintenance contracts	92,279	16,659	75,620	8.6 years
Trade names and trademarks	15,000	4,465	10,535	11.5 years
Total intangible assets	\$ 229,672	\$ 59,127	\$ 170,545	7.5 years

	<b>December 31, 2008</b>			<b>Weighted Average Useful Life</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	
	<b>(in thousands)</b>			
Developed technology	\$ 122,393	\$ 27,889	\$ 94,504	6.1 years
Customer relationships and service and software maintenance contracts	92,279	11,001	81,278	8.6 years
Tradenames and trademarks	15,000	3,784	11,216	11.5 years
Total intangible assets	\$ 229,672	\$ 42,674	\$ 186,998	7.5 years

Aggregate intangible asset amortization expense was \$8.2 million and \$16.5 million, respectively, for the three and six months ended July 5, 2009 and \$4.8 million and \$8.6 million, respectively, for the three and six months ended June 29, 2008. Estimated intangible asset amortization expense for each of the next five fiscal years is as follows:

<b>Year</b>	<b>Amount (in thousands)</b>
2009 (remainder)	\$ 15,934
2010	29,717
2011	28,259
2012	26,132
2013	25,066

During the three and six months ended July 5, 2009, there were no events or changes in circumstances indicating that the carrying amounts of Teradyne's long-lived assets may not be recoverable.

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

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands, except per share amounts)</b>			
Net (loss) income	\$ (66,768)	\$ 11,079	\$ (157,436)	\$ 13,446
Shares used in (loss) income per common share basic	173,022	170,644	172,576	172,203
Effect of potential dilutive common shares:				
Employee and director stock options		1,986		1,582
Restricted stock units		1,269		999
Employee stock purchase rights		197		125
Potential dilutive common shares		3,452		2,706
Shares used in net (loss) income per common share diluted	173,022	174,096	172,576	174,909
Net (loss) income per common share basic	\$ (0.39)	\$ 0.06	\$ (0.91)	\$ 0.08
Net (loss) income per common share diluted	\$ (0.39)	\$ 0.06	\$ (0.91)	\$ 0.08

The computation of diluted net loss per common share for the three and six months ended July 5, 2009 excludes all outstanding stock options, restricted stock units and warrants, and shares related to the Notes because Teradyne had a net loss.

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

**K. Restructuring and Other, Net**

The tables below represent activity related to restructuring and other, net, in the six months ended July 5, 2009. The accrual for severance payments and employees' benefits is reflected in accrued employees' compensation and withholdings and is expected to be paid by the end of the fourth quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2013. Teradyne expects to pay approximately \$2.4 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$6.3 million as of July 5, 2009.

**2009 Activities**

<b>Severance and Benefits</b>	<b>Long-Lived Asset Impairment</b>	<b>Other</b>	<b>Total</b>
-------------------------------	------------------------------------	--------------	--------------

Edgar Filing: TERADYNE, INC - Form 10-Q

	(in thousands)			
Balance at December 31, 2008	\$	\$	\$	\$
Charges/(Credits)	31,682	1,068	(1,487)	31,263
Cash payments	(18,227)			(18,227)
Other		(1,068)	1,487	419
Balance at July 5, 2009	\$ 13,455	\$	\$	\$ 13,455

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

During the six months ended July 5, 2009, Teradyne recorded the following restructuring activities:

\$31.7 million of severance charges related to headcount reductions of approximately 800 people across both segments;

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

(\$1.5) million of credits related to finalization of certain Eagle Test purchase accounting items.

***2008 Activities***

	<b>Severance and Benefits</b>	<b>Facility Related (in thousands)</b>	<b>Total</b>
Balance at December 31, 2008	\$ 5,342	\$ 831	\$ 6,173
Credits	(28)		(28)
Cash payments	(5,142)	(288)	(5,430)
Balance at July 5, 2009	\$ 172	\$ 543	\$ 715

***Pre-2008 Activities***

	<b>Severance and Benefits</b>	<b>Facility Related (in thousands)</b>	<b>Total</b>
Balance at December 31, 2008	\$ 81	\$ 8,472	\$ 8,553
Cash payments	(62)	(900)	(962)
Balance at July 5, 2009	\$ 19	\$ 7,572	\$ 7,591

**L. Retirement Plans*****Defined Benefit Pension Plans***

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



**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 six months ended July 5, 2009 and June 29, 2008 are as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Net Periodic Benefit Cost:				
Service cost	\$ 877	\$ 1,107	\$ 1,995	\$ 2,490
Interest cost	4,688	4,418	9,176	8,856
Expected return on plan assets	(4,836)	(5,167)	(9,706)	(10,345)
Amortization of unrecognized:				
Prior service cost	197	205	404	409
Net loss	1,013	346	2,088	713
Curtailment gain		(357)	(111)	(357)
Settlement loss	1,550		1,550	
Total expense	\$ 3,489	\$ 552	\$ 5,396	\$ 1,766

In the six months ended July 5, 2009, Teradyne contributed \$2.6 million to its foreign defined benefit pension plans and U.S. supplemental executive defined benefit plan.

***Post-Retirement Benefit Plans***

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

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

Components of net periodic postretirement benefits cost are as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Net Periodic Benefit Cost:				
Service cost	\$ 15	\$ 22	\$ 55	\$ 84
Interest cost	268	291	546	613
Amortization of unrecognized:				
Prior service benefit	(59)	(59)	(117)	(117)
Net loss	59	17	114	70

Edgar Filing: TERADYNE, INC - Form 10-Q

Total expense	\$ 283	\$ 271	\$ 598	\$ 650
---------------	--------	--------	--------	--------

**Table of Contents**

**TERADYNE, INC.**

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

In the six months ended July 5, 2009, Teradyne contributed \$1.4 million to its U.S. Post-Retirement Benefits Plan.

**M. Commitments and Contingencies**

***Legal Claims***

On July 11, 2008, Xyratex Technology, Ltd ( Xyratex ) filed a complaint against Teradyne in the United States District Court in Los Angeles, California alleging that certain of Teradyne disk drive test products infringe one of Xyratex's patents. The suit seeks temporary, preliminary and permanent injunctive relief as well as unspecified monetary damages, including treble damages, for patent infringement. On December 17, 2008, Teradyne filed an answer and counterclaims, denying that Teradyne's disk drive test products infringe the asserted Xyratex patent and asking the court to declare such patent invalid. The case is currently in the discovery phase and trial is scheduled to begin in November 2009. On April 14, 2009, Teradyne filed a separate complaint in the United States District Court in Los Angeles alleging that Xyratex's disk drive test products infringe two of Teradyne's patents. Teradyne intends to vigorously defend itself against the Xyratex claim.

On September 5, 2001, after Teradyne's August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of Teradyne's then executive officers in the United States District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs' claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. Teradyne petitioned the Ninth Circuit for rehearing, which was denied, and the case was remanded back to the District Court. On August 29, 2008, the District Court granted Teradyne's motion for judgment on the pleadings. On September 11, 2008, the plaintiffs filed their notice of appeal. No hearing date has been scheduled for the appeal.

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

In November 2008, Teradyne received a general notice letter from the California Department of Toxic Substances Control ( DTSC ) that informed it of potential liability with respect to contamination at the BKK Corporation Landfill Facility Site in West Covina, California. Similar to the PRP claim discussed above, this claim arose out of Teradyne's acquisition of Perception Laminates in August 2000. Neither Teradyne nor Perception Laminates have ever conducted any operations at the West Covina site. Teradyne has asked the DTSC and the group of settling defendants to remove it as a PRP for this site.

Teradyne believes that it has meritorious defenses against the above unsettled claims and intends to vigorously contest them. While it is not possible to predict or determine the outcomes of the unsettled claims or to provide possible ranges of losses that may arise, Teradyne believes the potential losses associated with all of these actions are unlikely to have a material adverse effect on its consolidated financial position, but could possibly be material to its consolidated results of operations and of cash flows of any one period.



**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****N. 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, circuit-board test, hard disk drive test and automotive diagnostic and test.

Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The accounting policies of the business segments are the same as those described in Note B: Accounting Policies in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2008. Segment information for the three and six months ended July 5, 2009 and June 29, 2008 is as follows:

	Semiconductor Test	Systems Test Group (in thousands)	Corporate and Eliminations	Consolidated
<b>Three months ended July 5, 2009:</b>				
Net revenues	\$ 102,820	\$ 66,760	\$	\$ 169,580
Loss before income taxes(1)(2)	(56,222)	(2,474)	(10,272)	(68,968)
<b>Three months ended June 29, 2008:</b>				
Net revenues	\$ 263,588	\$ 54,117	\$	\$ 317,705
Income (loss) before income taxes(1)(2)	18,983	(3,898)	2,094	17,179
<b>Six months ended July 5, 2009:</b>				
Net revenues	\$ 181,347	\$ 108,841	\$	\$ 290,188
Loss before income taxes(1)(2)	(143,163)	(7,870)	(16,403)	(167,436)
<b>Six months ended June 29, 2008:</b>				
Net revenues	\$ 511,251	\$ 103,769	\$	\$ 615,020
Income (loss) before income taxes(1)(2)	23,542	(6,607)	6,711	23,646

(1) Interest income and interest expense and other are included in Corporate and Eliminations.

(2) Included in the income (loss) before income taxes for each of the segments for the three and six months ended July 5, 2009 and June 29, 2008 are charges that include restructuring and other, net, in-process research and development and inventory charges.

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

	For the Three Months Ended		For the Six Months Ended	
	July 5, 2009	June 29, 2008	July 5, 2009	June 29, 2008
	(in thousands)			
Cost of revenues inventory charges	\$ 8,984	\$ 884	\$ 14,614	\$ 2,039
Cost of revenues inventory step-up	3,924		5,163	4,346
Restructuring and other, net	11,324	8,901	24,671	19,033

# Edgar Filing: TERADYNE, INC - Form 10-Q

In-process research and development	1,100
-------------------------------------	-------

Total	\$ 24,232	\$ 9,785	\$ 44,448	\$ 26,518
-------	-----------	----------	-----------	-----------

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

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Cost of revenues inventory charges	\$ 2,507	\$ 1,022	\$ 5,474	\$ 1,215
Restructuring and other, net	1,486	3,311	3,463	4,745
<b>Total</b>	<b>\$ 3,993</b>	<b>\$ 4,333</b>	<b>\$ 8,937</b>	<b>\$ 5,960</b>

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in thousands)</b>			
Restructuring and other, net	\$ 2,460	\$ 514	\$ 3,101	\$ 733
Interest expense and other	4,911		7,473	
<b>Total</b>	<b>\$ 7,371</b>	<b>\$ 514</b>	<b>\$ 10,574</b>	<b>\$ 733</b>

**O. Subsequent Events**

Teradyne management evaluated activity of Teradyne through August 13, 2009 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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

We have identified the policies that are critical to understanding our business and our results of operations. Management believes that there have been no significant changes during the six months ended July 5, 2009 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, 2008.

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>July 5, 2009</b>	<b>June 29, 2008</b>
Percentage of total net revenues:				
Products	68%	78%	62%	78%
Services	32	22	38	22
Total net revenues	100	100	100	100
Cost of revenues:				
Cost of products	55	39	51	39
Cost of services	17	13	21	13
Total cost of revenues	72	52	72	52
Gross profit	28	48	28	48
Operating expenses:				
Engineering and development	23	18	30	18
Selling and administrative	28	21	35	21
Acquired intangible asset amortization	5	1	5	2
Restructuring and other, net	8	4	11	4
Total operating expenses	64	44	81	45
(Loss) income from operations	(36)	4	(53)	3
Interest & other	(4)	1	(4)	1
(Loss) income before income taxes	(40)	5	(57)	4
(Benefit) provision for income taxes	(1)	2	(3)	2
Net (loss) income	(39)%	3%	(54)%	2%
Benefit/provision for income taxes as a percentage of (loss) income before income taxes	3%	36%	6%	43%

**Table of Contents*****Second Quarter 2009 Compared to Second Quarter 2008******Revenue***

For the three months ended July 5, 2009, our book to bill ratio (net bookings divided by net sales) was 1.34 for the total Company, our Semiconductor Test segment and our Systems Test Group segment.

Net revenues for our two reportable segments were as follows:

	<b>For the Three Months Ended</b>		
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>Dollar Change</b>
		<b>(in millions)</b>	
Semiconductor Test	\$ 102.8	\$ 263.6	\$ (160.8)
Systems Test Group	66.8	54.1	12.7
	\$ 169.6	\$ 317.7	\$ (148.1)

Semiconductor Test revenue decreased \$160.8 million or 61% from the second quarter of 2008 to 2009, due to lower sales across all products primarily in Taiwan, Japan, Korea and Singapore. The decrease was due to excess test capacity at our customers as a result of the global economic downturn.

The increase in Systems Test Group revenue of \$12.7 million or 23% from the second quarter of 2008 to 2009 was primarily due to sales of Hard Disk Drive systems, partially offset by a decrease in Commercial Board Test and Diagnostic Solutions product sales.

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

	<b>For the Three Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>
United States	27%	19%
Thailand	17	2
South Asia	14	16
Europe	11	10
Taiwan	11	23
Singapore	10	9
Japan	5	11
Korea	3	7
Rest of the World	2	3
	100%	100%

***Gross Profit***

Our gross profit was as follows:

# Edgar Filing: TERADYNE, INC - Form 10-Q

	For the Three Months Ended		
	July 5, 2009	June 29, 2008 (in millions)	Dollar/Point Change
Gross Profit	\$ 47.1	\$ 153.8	\$ (106.7)
Percent of Total Revenue	27.8%	48.4%	(20.6)

Gross profit as a percentage of revenue decreased from the second quarter of 2008 to 2009 by 20.6 percentage points. This decrease in gross margin is the result of a decrease of 15.5 points from lower product

## Table of Contents

sales volume, a decrease of 5.0 points related to \$26 million of Hard Disk Drive test system revenues at zero gross margin and a decrease of 2.3 points related to inventory charges across both segments. These decreases were partially offset by an increase of 2.2 points primarily from lower spending due to workforce reductions.

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. Forecasted revenue information is obtained from the sales and marketing groups and incorporates factors such as backlog and future revenue demand. This quarterly process identifies obsolete and excess inventory. Obsolete inventory, which represents items for which there is no demand, is fully reserved. Excess inventory, which represents inventory items that are not expected to be consumed during the next four quarters, is written-down to estimated net realizable value.

The provisions for excess and obsolete inventory were \$8.6 million and \$1.9 million for the three months ended July 5, 2009 and June 29, 2008, respectively. During the three months ended July 5, 2009 and June 29, 2008, we scrapped \$0.9 million and \$2.3 million of inventory, respectively. As of July 5, 2009, we have inventory related reserves for amounts which had been written-down or written-off totaling \$141.2 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		
	July 5, 2009	June 29, 2008	Dollar Change
		(in millions)	
Engineering and Development	\$ 38.5	\$ 56.2	\$ (17.7)
Percent of Total Revenue	22.7%	17.7%	

The decrease of \$17.7 million from the second quarter of 2008 to 2009 is due primarily to a \$18.0 million decrease in spending due to workforce reductions, lower project spending and lower variable compensation and \$2.2 million due to temporary salary reductions. This decrease was partially offset by additional costs of \$2.5 million related to the acquisition of Eagle Test Systems, Inc. ( Eagle Test ).

### Selling and Administrative

Selling and administrative expenses were as follows:

	For the Three Months Ended		
	July 5, 2009	June 29, 2008	Dollar Change
		(in millions)	
Selling and Administrative	\$ 47.3	\$ 65.5	\$ (18.2)
Percent of Total Revenue	27.9%	20.6%	

The decrease of \$18.2 million from the second quarter of 2008 to 2009 is due primarily to a \$18.4 million decrease from workforce reductions and on-going cost reduction initiatives, \$3.5 million due to temporary salary reductions and \$1.6 million related to a decrease in variable compensation, partially offset by additional costs of \$5.3 million related to the acquisition of Eagle Test.

### Restructuring and Other, Net

The tables below represent activity related to restructuring and other, net, in the six months ended July 5, 2009. The accrual for severance payments and employees' benefits is reflected in accrued employees





## Table of Contents

compensation and withholdings and is expected to be paid by the end of the fourth quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$2.4 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$6.3 million as of July 5, 2009.

The restructuring actions taken during the three months ended July 5, 2009 are expected to generate quarterly cost savings of approximately \$6.0 million across all segments.

### 2009 Activities

	Severance and Benefits	Long-Lived Asset Impairment (in thousands)	Other	Total
Balance at April 5, 2009	\$ 11,804	\$	\$	\$ 11,804
Charges/(Credits)	15,351	1,068	(774)	15,645
Cash payments	(13,700)			(13,700)
Other		(1,068)	774	(294)
Balance at July 5, 2009	\$ 13,455	\$	\$	\$ 13,455

During the three months ended July 5, 2009, Teradyne recorded the following restructuring activities:

\$15.4 million of severance charges related to headcount reductions of approximately 300 people across both segments;

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

(\$0.8) million of credits related to finalization of certain Eagle Test purchase accounting items.

### 2008 Activities

	Severance and Benefits	Facility Related (in thousands)	Total
Balance at April 5, 2009	\$ 1,016	\$ 821	\$ 1,837
Credits	(374)		(374)
Cash payments	(470)	(278)	(748)
Balance at July 5, 2009	\$ 172	\$ 543	\$ 715

### Pre-2008 Activities

Total

Edgar Filing: TERADYNE, INC - Form 10-Q

	Severance and Benefits	Facility Related (in thousands)	
Balance at April 5, 2009	\$ 25	\$ 7,970	\$ 7,995
Cash payments	(6)	(398)	(404)
Balance at July 5, 2009	\$ 19	\$ 7,572	\$ 7,591

*Interest Income*

Interest income decreased by \$1.8 million from the second quarter of 2008 to 2009, due primarily to lower cash balances as a result of our acquisition of Eagle Test and lower interest rates.

**Table of Contents***Interest Expense and Other*

Interest expense and other increased by \$7.6 million due primarily to the following: \$4.6 million of interest expense related to our convertible senior notes and \$2.5 million related to the write off of the remaining revolving credit facility debt issue costs due to the termination of our revolving credit facility agreement.

*Income Taxes*

For the three months ended July 5, 2009, we recorded a tax benefit of \$2.2 million primarily due to benefiting operating losses in foreign jurisdictions. For the three months ended June 29, 2008, we recorded tax expense of \$6.1 million which consisted primarily of foreign taxes. Due to the continued uncertainty of realization, we have maintained our valuation allowance at July 5, 2009 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.

*Six Months of 2009 Compared to Six Months of 2008**Revenue*

Net revenues for our two reportable segments were as follows:

	For the Six Months Ended		Dollar Change
	July 5, 2009	June 29, 2008 (in millions)	
Semiconductor Test	\$ 181.4	\$ 511.2	\$ (329.8)
Systems Test Group	108.8	103.8	5.0
	\$ 290.2	\$ 615.0	\$ (324.8)

Semiconductor Test revenue decreased \$329.8 million or 65% from the first six months of 2008 to 2009, due to lower sales across all products primarily in Taiwan, Japan, Korea and Singapore. The decrease was due to excess test capacity at our customers as a result of the global economic downturn.

The increase in Systems Test Group revenue of \$5.0 million or 5% from the first six months of 2008 to 2009 was primarily due to sales of Hard Disk Drive systems, partially offset by a decrease in Commercial Board Test and Diagnostic Solutions service and product sales.

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

	For the Six Months Ended	
	July 5, 2009	June 29, 2008
United States	30%	19%
South Asia	17	17
Europe	13	9
Taiwan	10	21
Thailand	10	2
Singapore	8	9
Japan	7	11
Korea	3	8

Rest of the World	2	4
	100%	100%

**Table of Contents***Gross Profit*

Our gross profit was as follows:

	<b>For the Six Months Ended</b>		
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>Dollar/Point Change</b>
		<b>(in millions)</b>	
Gross Profit	\$ 80.5	\$ 292.4	\$ (211.9)
Percent of Total Revenue	27.7%	47.5%	(19.8)

Gross margins as a percentage of revenue decreased from the first six months of 2008 to 2009 by 19.8 percentage points. This decrease in gross margin is the result of a decrease of 17.0 points from lower product sales volume, a decrease of 2.8 points related to \$26 million of Hard Disk Drive test system revenues at zero gross margin and a decrease of 2.1 points related to inventory charges across both segments. These decreases were partially offset by an increase of 2.1 points primarily from lower operations spending due to restructuring and lower freight and warranty charges, which were the result of lower product sales.

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

The provisions for excess and obsolete inventory were \$17.2 million and \$3.3 million for the six months ended July 5, 2009 and June 29, 2008, respectively. During the six months ended July 5, 2009 and June 29, 2008, we scrapped \$2.0 million and \$10.1 million of inventory, respectively. In the first six months of 2008 we sold \$1.3 million of previously written-down or written-off inventory. As of July 5, 2009, we have inventory related reserves for amounts which had been written-down or written-off totaling \$141.2 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

	<b>For the Six Months Ended</b>		
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>Dollar Change</b>
		<b>(in millions)</b>	
Engineering and Development	\$ 85.6	\$ 111.3	\$ (25.7)
Percent of Total Revenue	29.5%	18.1%	

The decrease of \$25.7 million from the first six months of 2008 to 2009 is due primarily to a \$27.2 million decrease in spending due to workforce reductions, lower project spending and lower variable compensation and \$4.4 million due to temporary salary reductions. This decrease was partially offset by additional costs of \$5.9 million related to the acquisition of Eagle Test.

**Table of Contents***Selling and Administrative*

Selling and administrative expenses were as follows:

	<b>For the Six Months Ended</b>		
	<b>July 5, 2009</b>	<b>June 29, 2008</b>	<b>Dollar Change</b>
		<b>(in millions)</b>	
Selling and Administrative	\$ 102.6	\$ 130.7	\$ (28.1)
Percent of Total Revenue	35.4%	21.2%	

The decrease of \$28.1 million from the first six months of 2008 to 2009 is due primarily to a \$29.6 million decrease from workforce reductions and on-going cost reduction initiatives, \$7.0 million due to temporary salary reductions and \$4.2 million related to a decrease in variable compensation, partially offset by additional costs of \$12.7 million related to the acquisition of Eagle Test.

*Restructuring and Other, Net*

The tables below represent activity related to restructuring and other, net, in the six months ended July 5, 2009. The accrual for severance payments and employees' benefits is reflected in accrued employees' compensation and withholdings and is expected to be paid by the end of the fourth quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$2.4 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$6.3 million as of July 5, 2009.

The restructuring actions taken during the six months ended July 5, 2009 are expected to generate quarterly cost savings of approximately \$16.9 million across all segments.

**2009 Activities**

	<b>Severance and Benefits</b>	<b>Long-Lived Asset Impairment</b>	<b>Other</b>	<b>Total</b>
		<b>(in thousands)</b>		
Balance at December 31, 2008	\$	\$	\$	\$
Charges/(Credits)	31,682	1,068	(1,487)	31,263
Cash payments	(18,227)			(18,227)
Other		(1,068)	1,487	419
Balance at July 5, 2009	\$ 13,455	\$	\$	\$ 13,455

During the six months ended July 5, 2009, Teradyne recorded the following restructuring activities:

\$31.7 million of severance charges related to headcount reductions of approximately 800 people across both segments;

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

## Edgar Filing: TERADYNE, INC - Form 10-Q

(\$1.5) million of credits related to finalization of certain Eagle Test purchase accounting items.

**Table of Contents***2008 Activities*

	<b>Severance and Benefits</b>	<b>Facility Related (in thousands)</b>	<b>Total</b>
Balance at December 31, 2008	\$ 5,342	\$ 831	\$ 6,173
Credits	(28)		(28)
Cash payments	(5,142)	(288)	(5,430)
Balance at July 5, 2009	\$ 172	\$ 543	\$ 715

*Pre-2008 Activities*

	<b>Severance and Benefits</b>	<b>Facility Related (in thousands)</b>	<b>Total</b>
Balance at December 31, 2008	\$ 81	\$ 8,472	\$ 8,553
Cash payments	(62)	(900)	(962)
Balance at July 5, 2009	\$ 19	\$ 7,572	\$ 7,591

*Interest Income*

Interest income decreased by \$5.6 million in the first six months of 2008 to 2009, due primarily to lower cash balances as a result of our acquisitions of Nextest and Eagle Test and lower interest rates.

*Interest Expense and Other*

Interest expense and other increased by \$13.9 million due primarily to the following: \$4.6 million of interest expense related to our convertible senior notes, \$2.5 million of realized and other than temporary impairment losses on our marketable securities, \$2.5 million related to the write off of the remaining revolving credit facility debt issue costs due to the termination of our revolving credit facility agreement, \$2.1 million of interest expense related to the revolving credit facility and \$1.1 million of foreign exchange losses.

*Income Taxes*

The tax benefit of \$10.0 million for the first six months of 2009 is due to benefiting operating losses in foreign jurisdictions and tax expense of \$10.2 million for the first six months of 2008 primarily consists of foreign taxes. Due to the continued uncertainty of realization, we have maintained our valuation allowance at July 5, 2009 for deferred tax assets in the U.S. and Singapore. We do not expect to significantly reduce our valuation allowance until sufficient evidence exists, including sustained profitability, that realization is more likely than not.



**Table of Contents****Contractual Obligations**

The following table reflects our contractual obligations as of July 5, 2009:

<b>Payments Due by Period</b>	<b>Purchase Obligations</b>	<b>Non-cancelable Lease Commitments(1)</b>	<b>Debt</b>	<b>Interest on Debt</b>	<b>Pension Contributions</b>	<b>Total</b>
2009	\$ 101,341	\$ 10,236	\$ 1,034	\$ 3,944	\$ 3,559	\$ 120,114
2010	3,484	18,091	2,068	8,791		32,434
2011		15,729	2,068	8,762		26,559
2012		11,847	2,068	8,734		22,649
2013		6,281	2,068	8,705		17,054
Beyond 2013		9,264	191,034	4,329		204,627
<b>Total</b>	<b>\$ 104,825</b>	<b>\$ 71,448</b>	<b>\$ 200,340</b>	<b>\$ 43,265</b>	<b>\$ 3,559</b>	<b>\$ 423,437</b>

- (1) Non-cancelable lease payments have not been reduced by sublease income of \$6.3 million due in the future under non-cancelable sublease agreements.

**Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balance decreased \$1.3 million in the first six months of 2009, to \$373.1 million. Cash and cash equivalents activity for the first six months of 2009 and 2008 were as follows:

	<b>For the Six Months Ended</b>	
	<b>July 5, 2009</b>	<b>June 29, 2008</b>
	<b>(in millions)</b>	
Cash (used for) provided by operating activities:		
Net (loss) income adjusted for non-cash items	\$ (71.3)	\$ 80.8
Changes in operating assets and liabilities, net of businesses acquired	24.5	1.2
Total cash (used for) provided by operating activities	(46.8)	82.0
Total cash used for investing activities	(8.1)	(275.1)
Total cash provided by (used for) financing activities	64.7	(82.1)
Effects on exchange rate changes on cash and cash equivalents	\$ 1.6	\$ (1.1)
Increase (decrease) in cash and cash equivalents	\$ 11.4	\$ (276.3)

In the six months ended July 5, 2009, changes in operating assets and liabilities, net of businesses acquired, provided cash of \$24.5 million. This was due primarily to a decrease in operating assets of \$67.6 million offset by a decrease in operating liabilities of \$43.1 million. The decrease in operating assets consisted mainly of a decrease in accounts receivable of \$35.8 million due to lower sales volume and improved collections and a decrease in inventories of \$29.5 million. The decrease in operating liabilities consisted primarily of a decrease in accounts payable, deferred revenue and other accrued expenses of \$39.2 million due to lower sales volume and on-going cost reduction initiatives and retirement plan contributions of \$4.0 million.

## Edgar Filing: TERADYNE, INC - Form 10-Q

Investing activities in the six months ended July 5, 2009 used cash of \$8.1 million due to investments in property, plant and equipment of \$17.4 million and payment of transaction fees related to the Eagle Test acquisition of \$3.7 million partially offset by sales of marketable securities that provided cash of \$11.9 million and proceeds from life insurance policies that provided cash of \$1.1 million.

## **Table of Contents**

During the six months ended July 5, 2009, financing activities provided cash of \$64.7 million due to approximately \$163 million of net proceeds from the issuance of the senior convertible note, \$10 million of long-term debt proceeds from a loan in Japan and \$14.3 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.

In the six months ended June 29, 2008, changes in operating assets and liabilities, net of product lines and businesses sold and acquired, provided cash of \$1.2 million due primarily to a decrease in accounts receivable of \$4.5 million and an increase in accounts payable, deferred revenue and accrued expenses of \$10.4 million. Accounts receivable decreased \$4.5 million due to a decrease in days sales outstanding from 66 days as of December 31, 2007 to 61 days as of June 29, 2008 as a result of improved collections. These increases in cash were partially offset by an increase in other assets of \$6.2 million and retirement plan contributions of \$3.7 million.

Investing activities used cash of \$275.1 million in the first six months of 2008, primarily due to \$285.3 million of cash used for the acquisition of Nextest, net of cash acquired.

During the six months ended June 29, 2008, we repurchased 7.5 million shares of common stock for \$91.2 million.

We believe our cash, cash equivalents and marketable securities balance of \$373.1 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**

Discussed in Note O: Stock Based Compensation in our 2008 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan), a cash and equity compensation incentive plan.

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

At Teradyne's annual meeting of stockholders held May 28, 2009, our stockholders approved an amendment to the 2006 Equity Plan to increase the number of shares issuable thereunder by 10 million, for an aggregate of 22 million shares issuable thereunder, and our stockholders also approved an amendment to Teradyne's 1996 Employee Stock Purchase Plan to increase the number of shares issuable thereunder by 5 million, for an aggregate of 25.4 million shares issuable thereunder.

## **Recently Issued Accounting Pronouncements**

In December 2008, the FASB issued FSP No. FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, (FSP FAS 132(R)-1), which amends SFAS No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for our December 31, 2009 annual financial statements. As FSP FAS 132(R)-1 only requires enhanced disclosures, we have determined that the adoption of FSP FAS 132(R)-1 will not have an impact on our financial position or results of operations.

## **Table of Contents**

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. All guidance contained in the Codification carries an equal level of authority. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This new statement will not have an impact on our financial position or results of operations.

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

Our future results of operations involve a number of risks and uncertainties. These factors include, but are not, limited to the following:

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

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

We are subject to intense competition;

Our operating results are likely to fluctuate significantly;

We are subject to risks of operating internationally;

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

If our suppliers do not meet product or delivery requirements, it could cause a reduction in our revenues and earnings;

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

We may not fully recognize the benefits of our acquisitions of Nextest and Eagle Test and other businesses that we acquire or strategic alliances that we form in the future;

We may need additional financing, which could be difficult to obtain;

We may be unable to perform our obligations under the indenture governing our senior convertible notes issuance;

We have increased our indebtedness;

## Edgar Filing: TERADYNE, INC - Form 10-Q

Our convertible note hedge and warrant transactions could impact the value of our stock;

We may not be able to pay our debt and other obligations;

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

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

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

Third parties may claim we are infringing their intellectual property and we could suffer significant litigation cost, licensing expenses, or be prevented from selling our products;

## **Table of Contents**

We have significant guarantees and indemnification obligations;

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

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

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

Provisions of our charter and by-laws and Massachusetts law make our takeover more difficult.

### **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 2, 2009. 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, 2008.

### **Item 4: Controls and Procedures**

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

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

## **Table of Contents**

### **PART II. OTHER INFORMATION**

#### **Item 1: Legal Proceedings**

On July 11, 2008, Xyratex Technology, Ltd ( Xyratex ) filed a complaint against us in the United States District Court in Los Angeles, California alleging that certain of our disk drive test products infringe one of Xyratex's patents. The suit seeks temporary, preliminary and permanent injunctive relief as well as unspecified monetary damages, including treble damages, for patent infringement. On December 17, 2008, we filed an answer and counterclaims, denying that our disk drive test products infringe the asserted Xyratex patent and asking the court to declare such patent invalid. The case is currently in the discovery phase and trial is scheduled to begin in November 2009. On April 14, 2009, we filed a separate complaint in the United States District Court in Los Angeles alleging that Xyratex's disk drive test products infringe two of our patents. We intend to vigorously defend against the Xyratex claim and to vigorously pursue our claims against Xyratex.

On September 5, 2001, after our August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against us and two of our then executive officers in the United States District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs' claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. We petitioned the Ninth Circuit for rehearing, which was denied, and the case was remanded back to the District Court. On August 29, 2008, the District Court granted our motion for judgment on the pleadings. On September 11, 2008, the plaintiffs filed their notice of appeal. No hearing date has been scheduled for the appeal.

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

In November 2008, we received a general notice letter from the California Department of Toxic Substances Control ( DTSC ) that informed us of potential liability with respect to contamination at the BKK Corporation Landfill Facility Site in West Covina, California. Similar to the PRP claim discussed above, this claim arose out of our acquisition of Perception Laminates in August 2000. Neither we nor Perception Laminates have ever conducted any operations at the West Covina site. We have asked the DTSC and the group of settling defendants to remove us as a PRP for this site.

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

#### **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, 2008, and in Part II, Item 1A: Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended April 5, 2009, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K and Quarterly Report on Form 10-Q remain applicable to our business. The risks described in our Annual Report on Form 10-K and Quarterly Report on Form 10-Q 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.

**Table of Contents****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 July 5, 2009, Teradyne did not repurchase any shares of common stock. The cumulative repurchases as of July 5, 2009 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 temporarily suspended the implementation of the stock repurchase program.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended July 5, 2009 (in thousands except per share price):

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
April 6, 2009 – May 3, 2009		\$		\$ 297,375
May 4, 2009 – May 31, 2009		\$		\$ 297,375
June 1, 2009 – July 5, 2009		\$		\$ 297,375

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

- (a) Our annual meeting of shareholders was held on May 28, 2009.
- (b) The following nominees were elected as directors to serve until the 2010 annual meeting of shareholders:

Nominee	Total Votes FOR	Total Votes AGAINST	Total Votes ABSTAINING
James W. Bagley	148,647,127	7,345,794	950,376
Michael A. Bradley	148,955,743	6,886,507	1,101,047
Albert Carnesale	148,973,983	7,007,362	961,952
Edwin J. Gillis	153,623,855	2,360,216	959,226
Vincent M. O'Reilly	149,387,171	6,604,768	951,358
Paul J. Tufano	149,918,214	6,049,762	975,321
Roy A. Vallee	148,820,635	6,849,502	1,273,160
Patricia S. Wolpert	148,776,924	7,246,881	919,492

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

1. To approve an amendment to the 2006 Equity and Cash Compensation Incentive Plan to increase the aggregate number of shares of common stock that may be issued pursuant to the plan by 10,000,000 shares.

Total Votes For	Total Votes Against	Total Votes Abstaining	Total Broker Non-Votes
-----------------	---------------------	------------------------	------------------------



## Edgar Filing: TERADYNE, INC - Form 10-Q

88,285,955	43,520,160	214,443	24,922,739
------------	------------	---------	------------

2. To approve an amendment to the 1996 Employee Stock Purchase Plan to increase the aggregate number of shares of common stock that may be issued pursuant to the plan by 5,000,000 shares.

	<b>Total Votes</b>	<b>Total Votes</b>	<b>Total Broker</b>
<b>Total Votes For</b>	<b>Against</b>	<b>Abstaining</b>	<b>Non-Votes</b>
102,801,032	29,034,729	184,797	24,922,739

3. To ratify the selection of PricewaterhouseCoopers LLP as independent auditors for fiscal year ending December 31, 2009.

	<b>Total Votes</b>	<b>Total Votes</b>	<b>Total Broker</b>
<b>Total Votes For</b>	<b>Against</b>	<b>Abstaining</b>	<b>Non-Votes</b>
151,794,725	4,818,184	330,388	0

---

**Table of Contents**

**Item 6: Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
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)

**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)**

**August 13, 2009**