

TERADYNE, INC
Form 10-Q
May 11, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2007

OR

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

For the transition period from _____ to _____

Commission File No. 001-06462

TERADYNE, INC.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or Other Jurisdiction of
Incorporation or Organization)

04-2272148
(I.R.S. Employer
Identification No.)

600 Riverpark Drive, North Reading, Massachusetts

01864

Edgar Filing: TERADYNE, INC - Form 10-Q

(Address of Principal Executive Offices)

978-370-2700

(Zip Code)

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 April 29, 2007 was 189,718,519 shares.

Table of Contents

TERADYNE, INC.

INDEX

| | Page No. |
|---|-----------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. | |
| <u>Financial Statements:</u> | |
| <u>Condensed Consolidated Balance Sheets as of April 1, 2007 and December 31, 2006</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the Three Months Ended April 1, 2007 and April 2, 2006</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 1, 2007 and April 2, 2006</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> | 16 |
| Item 3. | |
| <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 24 |
| Item 4. | |
| <u>Controls and Procedures</u> | 24 |
| PART II. OTHER INFORMATION | |
| Item 1. | |
| <u>Legal Proceedings</u> | 25 |
| Item 1A. | |
| <u>Risk Factors</u> | 25 |
| Item 2. | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 26 |
| Item 6. | |
| <u>Exhibits</u> | 26 |

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

| | April 1, 2007 (in thousands, except per share data) | December 31, 2006 (in thousands, except per share data) |
|---|--|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 405,589 | \$ 568,025 |
| Marketable securities | 76,654 | 47,766 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,908 and \$4,962 on April 1, 2007 and December 31, 2006, respectively | 169,410 | 158,939 |
| Inventories: | | |
| Parts | 6,338 | 9,154 |
| Assemblies in process | 75,465 | 83,916 |
| | 81,803 | 93,070 |
| Prepayments and other current assets | 21,309 | 21,610 |
| Total current assets | 754,765 | 889,410 |
| Property, plant, and equipment, at cost | 886,209 | 883,047 |
| Less: accumulated depreciation | 524,110 | 516,698 |
| Net property, plant, and equipment | 362,099 | 366,349 |
| Marketable securities | 401,536 | 328,827 |
| Goodwill | 69,147 | 69,147 |
| Intangible and other assets | 37,337 | 35,819 |
| Retirement plans assets | 31,815 | 31,503 |
| Total assets | \$ 1,656,699 | \$ 1,721,055 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 40,327 | \$ 40,082 |
| Accrued employees' compensation and withholdings | 56,481 | 87,975 |
| Deferred revenue and customer advances | 45,439 | 46,471 |
| Other accrued liabilities | 43,919 | 49,136 |
| Accrued income taxes | 2,635 | 36,052 |
| Total current liabilities | 188,801 | 259,716 |
| Retirement plans liabilities | 81,863 | 81,121 |
| Long-term other accrued liabilities | 16,795 | 19,031 |
| Total liabilities | 287,459 | 359,868 |
| Commitments and contingencies (Note N) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 189,671 shares and 188,952 shares issued and outstanding at April 1, 2007 and December 31, 2006, respectively | 23,709 | 23,619 |
| Additional paid-in capital | 1,193,791 | 1,179,015 |

Edgar Filing: TERADYNE, INC - Form 10-Q

| | | |
|--|--------------|--------------|
| Accumulated other comprehensive loss | (63,425) | (66,309) |
| Retained earnings | 215,165 | 224,862 |
| Total shareholders' equity | 1,369,240 | 1,361,187 |
| Total liabilities and shareholders' equity | \$ 1,656,699 | \$ 1,721,055 |

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, 2006 are an integral part of the condensed consolidated financial statements.

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

| | For the Three Months Ended | |
|---|-----------------------------------|------------------|
| | April 1, | April 2, |
| | 2007 | 2006 |
| | (in thousands, | |
| | except per share data) | |
| Net revenues: | | |
| Products | \$ 195,172 | \$ 299,897 |
| Services | 62,886 | 63,017 |
| Net revenues | 258,058 | 362,914 |
| Cost of revenues: | | |
| Cost of products | 100,296 | 151,983 |
| Cost of services | 42,226 | 40,293 |
| Total cost of revenues | 142,522 | 192,276 |
| Gross profit | 115,536 | 170,638 |
| Operating expenses: | | |
| Engineering and development | 50,199 | 52,194 |
| Selling and administrative | 63,951 | 72,185 |
| In-process research and development | 16,700 | |
| Restructuring and other, net | 2,417 | (1,097) |
| Operating expenses | 133,267 | 123,282 |
| (Loss) income from operations | (17,731) | 47,356 |
| Interest income | 10,099 | 9,483 |
| Interest expense | (436) | (3,371) |
| Other income | 1,832 | |
| (Loss) income before income taxes | (6,236) | 53,468 |
| Provision for income taxes | 1,400 | 8,555 |
| Net (loss) income | \$ (7,636) | \$ 44,913 |
| Net (loss) income per common share: | | |
| Basic | \$ (0.04) | \$ 0.23 |
| Diluted | \$ (0.04) | \$ 0.23 |
| Shares used in net (loss) income per common share basic | 189,625 | 198,017 |
| Shares used in net (loss) income per common share diluted | 189,625 | 199,555 |

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, 2006 are an integral part of the condensed consolidated financial statements.

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

| | For the Three Months Ended | |
|--|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (7,636) | \$ 44,913 |
| Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities: | | |
| Depreciation | 16,126 | 18,238 |
| Stock-based compensation | 7,518 | 6,099 |
| Amortization | 2,247 | 1,306 |
| In-process research and development charge | 16,700 | |
| Provision for inventory | 461 | 8,302 |
| Impairment of long-lived assets | | 50 |
| Gain on sale of product lines | | (229) |
| Other non-cash items, net | 516 | (23) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (10,525) | (26,773) |
| Inventories | 20,602 | 33,433 |
| Other assets | (1,739) | (7,606) |
| Accounts payable, deferred revenue and accrued expenses | (40,052) | 8,212 |
| Retirement plan contributions | (1,158) | (20,000) |
| Accrued income taxes | (33,417) | 5,965 |
| Net cash (used for) provided by operating activities | (30,357) | 71,887 |
| Cash flows from investing activities: | | |
| Investments in property, plant and equipment | (21,935) | (25,421) |
| Acquisition of technology | (17,600) | |
| Proceeds from sale of product lines | | 229 |
| Purchases of available-for-sale marketable securities | (125,499) | (116,291) |
| Proceeds from sale and maturities of available-for-sale marketable securities | 26,711 | 58,742 |
| Net cash used for investing activities | (138,323) | (82,741) |
| Cash flows from financing activities: | | |
| Payments of long term debt and notes payable | | (19,648) |
| Repurchase of common stock | (3,569) | |
| Issuance of common stock under employee stock option and stock purchase plans | 9,813 | 12,584 |
| Net cash provided by (used for) financing activities | 6,244 | (7,064) |
| Decrease in cash and cash equivalents | (162,436) | (17,918) |
| Cash and cash equivalents at beginning of period | 568,025 | 340,699 |
| Cash and cash equivalents at end of period | \$ 405,589 | \$ 322,781 |

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, 2006 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 supplier of automatic test equipment.

Teradyne's automatic test equipment products include:

semiconductor test systems (Semiconductor Test Systems);

circuit-board test and inspection systems and military/aerospace (Mil/Aero) test instrumentation and systems (Assembly Test Systems);

automotive diagnostic and test systems (Diagnostic Solutions); and

voice and broadband access network test systems (Broadband Test Systems).

Broadband Test Systems and Diagnostic Solutions have been combined into Other Test Systems for purposes of Teradyne's segment reporting.

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, 2006.

B. Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Teradyne and its subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair statement of such interim financial statements. Certain prior years' amounts were reclassified to conform to the current year presentation. The December 31, 2006 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 1, 2007 for the year ended December 31, 2006.

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.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****C. Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Teradyne is currently evaluating the impact of adopting this interpretation.

D. Product Warranty

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

| | For the Three Months Ended | |
|--|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Balance at beginning of period | \$ 12,897 | \$ 10,496 |
| Accruals for warranties issued during the period | 2,303 | 5,973 |
| Settlements made during the period | (3,873) | (4,286) |
| Balance at end of period | \$ 11,327 | \$ 12,183 |

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

| | For the Three Months Ended | |
|---|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Balance at beginning of period | \$ 8,350 | \$ 5,596 |
| Deferral of new extended warranty revenue | 819 | 1,698 |
| Recognition of extended warranty deferred revenue | (1,392) | (679) |
| Balance at end of period | \$ 7,777 | \$ 6,615 |

E. Stock-Based Compensation

During the three months ended April 1, 2007, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 2.0 million at the weighted average grant date fair value of \$15.24. Awards granted to employees and executives vest in equal installments over four years. Awards granted to non-employee directors vest after one year. A significant number of awards granted to executive officers are performance-based restricted stock units. The amount of actual performance-based restricted stock units that will be allowed to vest over four years will be determined on or near the first anniversary of the grant.

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

Other comprehensive (loss) income is calculated as follows (in thousands):

| | For the Three Months Ended | |
|--|-------------------------------|---------------|
| | April 1, 2007 | April 2, 2006 |
| Net (loss) income | \$ (7,636) | \$ 44,913 |
| Foreign currency translation adjustments | (23) | 92 |
| Change in unrealized loss on foreign exchange contracts | | (31) |
| Change in unrealized loss on marketable securities, net of applicable tax of \$0 | 1,569 | (1,464) |
| Retirement plans net gain | 1,184 | |
| Retirement plans prior service gain | 153 | |
| Additional minimum pension liability | | (65) |
| Other comprehensive (loss) income | \$ (4,753) | \$ 43,445 |

G. Goodwill and Intangible Assets

Amortizable intangible assets consist of the following and are included in other assets on the balance sheet (in thousands):

| | April 1, 2007 | | | Weighted Average Useful Life |
|---|-----------------------------|-----------------------------|---------------------------|---------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Completed technology | \$ 19,193 | \$ 13,922 | \$ 5,271 | 7.5 years |
| Service and software maintenance contracts and customer relationships | 4,779 | 3,228 | 1,551 | 8.0 years |
| Trade names and trademarks | 3,800 | 2,573 | 1,227 | 8.0 years |
| Acquired workforce | 700 | | 700 | 4.0 years |
| Total intangible assets | \$ 28,472 | \$ 19,723 | \$ 8,749 | 7.6 years |

| | December 31, 2006 | | | Weighted Average Useful Life |
|---|-----------------------------|-----------------------------|---------------------------|---------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Completed technology | \$ 19,193 | \$ 13,281 | \$ 5,912 | 7.5 years |
| Service and software maintenance contracts and customer relationships | 4,779 | 3,078 | 1,701 | 8.0 years |
| Trade names and trademarks | 3,800 | 2,454 | 1,346 | 8.0 years |
| Total intangible assets | \$ 27,772 | \$ 18,813 | \$ 8,959 | 7.7 years |

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

Aggregate amortization expense was \$0.9 million for both the three months ended April 1, 2007 and April 2, 2006. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

| Year | Amount |
|------------------|---------------|
| 2007 (remainder) | \$ 2,749 |
| 2008 | 3,137 |
| 2009 | 2,644 |
| 2010 | 175 |
| 2011 | 44 |

H. Net (Loss) Income per Common Share

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

| | For the Three Months Ended | |
|---|-----------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Net (loss) income | \$ (7,636) | \$ 44,913 |
| Shares used in (loss) income per common share basic | 189,625 | 198,017 |
| Effect of dilutive potential common shares: | | |
| Employee and director stock options | | 1,304 |
| Restricted stock units | | 209 |
| Employee stock purchase rights | | 25 |
| Dilutive potential common shares | | 1,538 |
| Shares used in net (loss) income per common share diluted | 189,625 | 199,555 |
| Net (loss) income per common share basic | \$ (0.04) | \$ 0.23 |
| Net (loss) income per common share diluted | \$ (0.04) | \$ 0.23 |

The computation of diluted net income per common share for the three months ended April 1, 2007 excludes the effect of the potential exercise of options to purchase approximately 18.8 million shares and restricted stock units of 0.4 million shares because the effect would have been anti-dilutive.

The computation of diluted net loss per common share for the three months ended April 2, 2006 excludes the effect of the potential exercise of options to purchase approximately 17.0 million shares because the option price was greater than the average market price of the common shares. Diluted loss per common share for the three months ended April 2, 2006 also excludes 11.3 million shares related to Teradyne's convertible notes outstanding because the effect would have been anti-dilutive.

I. Restructuring and Other, Net

Edgar Filing: TERADYNE, INC - Form 10-Q

The tables below represent activity related to restructuring and other, net, in the three months ended April 1, 2007. The accrual for severance and benefits is reflected in accrued employees' compensation and withholdings. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid out over the lease terms, the latest of which expires in 2012. Teradyne expects to pay out approximately \$2.2 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$11.9 million as of April 1, 2007.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***2007 Activities*

| (in thousands) | Vacated Facility Related | Severance and Benefits | Total |
|------------------------------|---|---------------------------------------|--------------|
| Balance at December 31, 2006 | \$ | \$ | \$ |
| Charges | 53 | 2,475 | 2,528 |
| Cash payments | (53) | (519) | (572) |
| Balance at April 1, 2007 | \$ | \$ 1,956 | \$ 1,956 |

During the three months ended April 1, 2007, Teradyne recorded the following 2007 restructuring activities:

\$2.5 million of severance charges related to headcount reductions of 38 people across all segments;

\$0.1 million of facility charges related to an early exit of an Assembly Test facility in Poway, California.

2006 Activities

| (in thousands) | Vacated Facility Related | Severance and Benefits | Total |
|------------------------------|---|---------------------------------------|--------------|
| Balance at December 31, 2006 | \$ 625 | \$ 1,865 | \$ 2,490 |
| Credits | | (26) | (26) |
| Cash payments | (145) | (1,414) | (1,559) |
| Balance at April 1, 2007 | \$ 480 | \$ 425 | \$ 905 |

Pre-2006 Activities

| (in thousands) | Vacated Facility Related | Severance and Benefits | Total |
|------------------------------|---|---------------------------------------|--------------|
| Balance at December 31, 2006 | \$ 9,604 | \$ 1,183 | \$ 10,787 |
| Credits | (17) | (68) | (85) |
| Cash payments | (1,508) | (247) | (1,755) |
| Balance at April 1, 2007 | \$ 8,079 | \$ 868 | \$ 8,947 |

J. Stock Repurchase Program

In July 2006, Teradyne's Board of Directors authorized a stock repurchase program. Under the program, Teradyne may spend up to an aggregate of \$400 million to repurchase shares of its common stock in open market purchases, in privately negotiated transactions or through other appropriate means over the next two years. Shares are to be repurchased at Teradyne's discretion, subject to market conditions and other factors. During the three months ended April 1, 2007, Teradyne repurchased 0.2 million shares of common stock for \$3.6 million at an average price of \$15.07. The cumulative repurchases as of April 1, 2007 total 10.8 million shares of common stock for \$141.3 million at an average price of \$13.03.

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

On March 7, 2007, Teradyne purchased in-process enabling test technology and hired certain engineers from MOSAID Technologies Inc. for \$17.6 million, which includes \$0.6 million in fees directly related to the acquisition. Of the purchase price, \$16.7 million has been allocated to in-process research and development and therefore has been immediately charged to the statement of operations. The balance of the purchase price has been allocated to acquired workforce and fixed assets.

This technology will be used in the development of a new semiconductor test product. As of the acquisition date, the technology had not reached technical feasibility, had no alternative future use and its fair value was estimable with reasonable reliability, and therefore has been classified as in-process research and development. The technology is unique to the semiconductor test market and requires significant development. The estimated fair value of the in-process technology was determined based on the use of a discounted cash flow model using an income approach. Estimated cash flows were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization of the in-process technology. Such a valuation requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in-process project as well as the estimated cash flows to be generated as a result of completing the project development.

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.

Components of net periodic pension cost for all plans for the three months ended April 1, 2007 and April 2, 2006 are as follows (in thousands):

| | For the Three Months Ended | |
|-------------------------------------|-----------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Service cost | \$ 1,542 | \$ 1,709 |
| Interest cost | 4,156 | 3,935 |
| Expected return on plan assets | (4,883) | (4,337) |
| Amortization of unrecognized: | | |
| Net transition obligation | (16) | 19 |
| Prior service cost | 211 | 211 |
| Net loss | 975 | 1,619 |
| Total net periodic pension cost | \$ 1,985 | \$ 3,156 |

Teradyne contributed \$0.8 million to its United Kingdom Qualified Pension Plan and \$0.4 million to its Japan Qualified Pension Plan, in the three months ended April 1, 2007.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Postretirement 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 sum 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 cost are as follows (in thousands):

| | For the Three Months Ended | |
|--|-------------------------------|------------------|
| | April 1, 2007 | April 2, 2006 |
| Service cost | \$ 56 | \$ 96 |
| Interest cost | 341 | 411 |
| Amortization of unrecognized: | | |
| Prior service cost | (59) | (59) |
| Net loss | 93 | 242 |
| Total net periodic postretirement cost | \$ 431 | \$ 690 |

M. Income Taxes

Teradyne adopted FIN 48, Accounting for Uncertainties in Income Taxes (FIN 48) effective January 1, 2007. FIN 48 applies to all income tax positions accounted for under FASB Statement No. 109, Accounting for Income Taxes, and addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. FIN 48 also addressed other aspects of reporting and disclosing uncertain tax positions. Upon adoption, the amount of unrecognized tax benefits, if recognized, would impact the effective tax rate by \$2.5 million. It is anticipated that within the next twelve months, \$2.3 million of unrecognized tax benefits upon adoption will no longer be considered unrecognized tax benefits due to audit settlements. Upon adoption and as of the end of this three-month reporting period, Teradyne has open tax years beginning in 2003 for major jurisdictions including U.S., Japan, Singapore and the United Kingdom. Teradyne records all interest and penalties related to income taxes as a component of income tax expense. Accrued interest and penalties related to income tax items upon adoption and recognized during the three months ended April 1, 2007 was not material.

Teradyne's unrecognized tax benefits are as follows (in thousands):

| | For the Three Months Ended | |
|--|-------------------------------|--------|
| | April 1, 2007 | |
| Beginning balance, upon adoption as of January 1, 2007 | \$ | 10,584 |
| Additions: | | |
| Tax positions for current year | | 126 |
| Tax positions for prior years | | 2,013 |
| Ending balance | \$ | 12,723 |

Edgar Filing: TERADYNE, INC - Form 10-Q

Of the \$12.7 million of unrecognized tax benefits as of April 1, 2007, \$4.6 million could impact the tax provision if ultimately recognized. As of April 1, 2007, it is anticipated that within the next twelve months, \$4.3 million of unrecognized tax benefits will no longer be considered unrecognized tax benefits due to audit settlements.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Due to the continued uncertainty of realization, Teradyne maintained its valuation allowance at April 1, 2007 and December 31, 2006. Teradyne does not expect to significantly reduce its valuation allowance until sufficient positive evidence exists, including sustained profitability, that realization is more likely than not.

N. Commitments and Contingencies

Legal Claims

On September 5, 2001, after Teradyne's August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of its then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. Pursuant to motions filed by Teradyne and by the plaintiffs, 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. The only claim that remained before the District Court from the original complaint related to an allegation of fraud in connection with the setting of the transaction price. On December 27, 2004, the plaintiffs voluntarily stipulated to the dismissal with prejudice of their remaining claim in the District Court, without having received any payment or other consideration from Teradyne. On February 2, 2005, the plaintiffs filed a notice of appeal from the District Court's prior orders. The appeal is now pending before the U.S. Court of Appeals for the Ninth Circuit.

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 its 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 dated October 20, 1992. Neither Teradyne nor Perception Laminates has 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 2006, Teradyne received a general notice letter from the U.S. Environmental Protection Agency (EPA) which informed Teradyne that the EPA believes Teradyne is a de minimis PRP with respect to the Casmalia Disposal Site in California. Teradyne is currently waiting for further details from the EPA regarding the terms of the de minimis settlement offer that it expects to receive.

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 losses associated with all of these actions will not have a material adverse effect on its consolidated financial position or liquidity, but could possibly be material to its consolidated results of operations of any one period.

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

O. Segment Information

Teradyne has three reportable segments and four operating segments. The three reportable segments are the design, manufacturing and marketing of Semiconductor Test Systems, Assembly Test Systems, and Other Test Systems. Diagnostic Solutions and Broadband Test Systems are combined as Other Test Systems. These reportable segments were determined based upon the information reviewed and used by the chief operating decision makers.

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

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, 2006. Segment information for the three months ended April 1, 2007 and April 2, 2006 is as follows (in thousands):

| | Semiconductor Test Systems Segment | Assembly Test Systems Segment | Other Test Systems Segment | Corporate and Eliminations | Consolidated |
|--|---|--|---|---|---------------------|
| Three months ended April 1, 2007: | | | | | |
| Net sales | \$ 193,968 | \$ 41,268 | \$ 22,822 | \$ | \$ 258,058 |
| (Loss) income before taxes (1)(2) | (21,666) | 2,699 | 767 | 11,964 | (6,236) |
| Three months ended April 2, 2006: | | | | | |
| Net sales | \$ 294,432 | \$ 38,723 | \$ 29,759 | \$ | \$ 362,914 |
| Income before taxes (1)(2) | 43,152 | 2,100 | 2,549 | 5,667 | 53,468 |

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

(2) Included in the (loss) income before taxes for the following segments are charges for the three months ended April 1, 2007 and April 2, 2006 that include restructuring and other, net, in-process research and development charges and inventory charges: Included in the Semiconductor Test Systems segment are charges for the following (in thousands):

| | For the Three Months Ended | |
|-------------------------------------|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Cost of revenues inventory charges | \$ 50 | \$ 8,003 |
| Restructuring and other, net | 1,089 | 1,263 |
| In-process research and development | 16,700 | |
| Total | \$ 17,839 | \$ 9,266 |

Included in the Assembly Test Systems segment are charges for the following (in thousands):

| | For the Three Months Ended | |
|------------------------------------|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Cost of revenues inventory charges | \$ 395 | \$ 128 |
| Restructuring and other, net | 214 | (2,390) |
| Total | \$ 609 | \$ (2,262) |

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

Included in the Other Test Systems segment are charges for the following (in thousands):

| | For the Three Months Ended | |
|------------------------------------|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Cost of revenues inventory charges | \$ 16 | \$ 171 |
| Restructuring and other, net | 716 | |
| Total | \$ 732 | \$ 171 |

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

| | For the Three Months Ended | |
|------------------------------|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Restructuring and other, net | \$ 398 | \$ 30 |
| Total | \$ 398 | \$ 30 |

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

We have identified the policies which are critical to understanding our business and our results of operations. Management believes that there have been no significant changes during the three months ended April 1, 2007 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, 2006.

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

| | For the Three Months Ended | |
|---|-------------------------------|------------------|
| | April 1, 2007 | April 2, 2006 |
| Percentage of net revenues: | | |
| Products | 76% | 83% |
| Services | 24 | 17 |
| Net revenues | 100 | 100 |
| Cost of revenues: | | |
| Cost of products | 39 | 42 |
| Cost of services | 16 | 11 |
| Total cost of sales | 55 | 53 |
| Gross profit | 45 | 47 |
| Operating expenses: | | |
| Engineering and development | 19 | 14 |
| Selling and administrative | 25 | 20 |
| In-process research and development | 7 | |
| Restructuring and other, net | 1 | |
| Operating expenses | 52 | 34 |
| (Loss) income from operations | (7) | 13 |
| Interest income | 4 | 2 |
| Interest expense | | (1) |
| Other income | 1 | |
| (Loss) income before income taxes | (2) | 14 |
| Provision for income taxes | 1 | 2 |
| Net (loss) income | (3)% | 12% |
| Provision for income taxes as a percentage of (loss) income before income taxes | (22)% | 16% |

Table of Contents**Results of Operations****First Quarter 2007 Compared to First Quarter 2006***Bookings*

Net bookings for our three reportable segments were as follows (dollars in millions, except percent change):

| | For the Three Months Ended | | % Change |
|----------------------------|-----------------------------------|--------------------------|---------------------|
| | April 1, 2007 | April 2, 2006 | |
| Semiconductor Test Systems | \$ 202.7 | \$ 309.4 | (34)% |
| Assembly Test Systems | 31.6 | 35.0 | (10) |
| Other Test Systems | 18.5 | 19.7 | (6) |
| | \$ 252.8 | \$ 364.1 | (31)% |

The Semiconductor Test Systems orders decreased 34% driven by less demand across a wide range of end markets, applications and geographies. The Semiconductor Test Systems business is dependent on the current and anticipated market for test equipment, which historically has been highly cyclical.

The Assembly Test Systems decrease in orders from 2006 to 2007 was primarily due to reduced Mil/Aero program-related bookings.

The decrease in Other Test Systems orders resulted from a decrease in Diagnostic Solutions offset by an increase in orders in Broadband Test Systems. Other Test Systems bookings are program related and have significant fluctuations.

Cancellations for our three principal reportable segments were as follows (dollars in millions):

| | For the Three Months Ended | |
|----------------------------|-----------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Semiconductor Test Systems | \$ 2.2 | \$ |
| Assembly Test Systems | 0.1 | 0.5 |
| | \$ 2.3 | \$ 0.5 |

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the first quarter of 2007 and 2006, there were no significant cancellation penalties received. Due to possible changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules and/or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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

| | For the Three Months Ended | |
|-----------------|----------------------------|---------------|
| | April 1, 2007 | April 2, 2006 |
| United States | 24% | 21% |
| Singapore | 19 | 18 |
| Japan | 17 | 12 |
| South East Asia | 15 | 22 |
| Europe | 13 | 13 |
| Taiwan | 10 | 14 |
| Rest of World | 2 | |
| | 100% | 100% |

Backlog of unfilled orders for our three reportable segments was as follows (dollars in millions):

| | For the Three Months Ended | |
|----------------------------|----------------------------|---------------|
| | April 1, 2007 | April 2, 2006 |
| Semiconductor Test Systems | \$ 222.0 | \$ 304.3 |
| Assembly Test Systems | 71.8 | 66.4 |
| Other Test Systems | 40.5 | 52.3 |
| | \$ 334.3 | \$ 423.0 |

Revenue

Net revenues for our three reportable segments were as follows (dollars in millions, except percent changes):

| | For the Three Months Ended | | % Change |
|----------------------------|----------------------------|---------------|----------|
| | April 1, 2007 | April 2, 2006 | |
| Semiconductor Test Systems | \$ 194.0 | \$ 294.4 | (34)% |
| Assembly Test Systems | 41.3 | 38.7 | 7 |
| Other Test Systems | 22.8 | 29.8 | (23) |
| | \$ 258.1 | \$ 362.9 | (29)% |

Semiconductor Test Systems revenue decrease can be attributed primarily to decreased demand across a wide range of end markets, applications and geographies.

The decrease in Other Test Systems revenue resulted from a decrease in Diagnostic Solutions sales due primarily to the large program rollout in 2006 for the Vehicle Measurement Module product line, along with a decrease in Broadband Test Systems sales.

Table of Contents

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

| | For the Three Months Ended | |
|-------------------|----------------------------|---------------|
| | April 1, 2007 | April 2, 2006 |
| United States | 28% | 22% |
| South East Asia | 17 | 22 |
| Singapore | 16 | 13 |
| Europe | 15 | 16 |
| Japan | 14 | 8 |
| Taiwan | 7 | 18 |
| Rest of the World | 3 | 1 |
| | 100% | 100% |

Gross Margin

Our gross profit was as follows (dollars in millions):

| | For the Three Months Ended | | |
|--------------------------|----------------------------|---------------|---------------|
| | April 1, 2007 | April 2, 2006 | Period Change |
| Gross Profit | \$ 115.5 | \$ 170.6 | \$ (55.1) |
| Percent of Total Revenue | 44.8% | 47.0% | |

Gross margins as a percentage of revenue decreased from 2006 to 2007 by 2.2 percentage points. After excluding the inventory provision of \$8.0 million taken in the first quarter of 2006 related to non-FLEX products in the Semiconductor Test Systems segment, the gross margin as a percentage of revenue decrease is 4.4 percentage points. This decrease is due primarily to the reduced volume of Semiconductor Test System 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 \$0.5 million and \$8.3 million for the three months ended April 1, 2007 and April 2, 2006, respectively. During the three months ended April 1, 2007 and April 2, 2006, we scrapped \$5.5 million and \$7.5 million of inventory, respectively. As of April 1, 2007, we have inventory related reserves for amounts which had been written-down or written-off totaling \$134.3 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows (dollars in millions):

| | For the Three Months Ended | | Period Change |
|--|----------------------------|---------------|---------------|
| | April 1, 2007 | April 2, 2006 | |

Edgar Filing: TERADYNE, INC - Form 10-Q

| | | | |
|-----------------------------|---------|---------|----------|
| Engineering and Development | \$ 50.2 | \$ 52.2 | \$ (2.0) |
| Percent of Total Revenue | 19.4% | 14.4% | |

Table of Contents

The decrease of \$2.0 million in engineering and development expenses is due primarily to a reduction in variable employee compensation expense.

Selling and Administrative

Selling and administrative expenses were as follows (dollars in millions):

| | For the Three Months Ended | | Period Change |
|----------------------------|---------------------------------------|--------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 | |
| Selling and Administrative | \$ 64.0 | \$ 72.2 | \$ (8.2) |
| Percent of Total Revenue | 24.8% | 19.9% | |

The decrease of \$8.2 million from the first quarter of 2006 to 2007 is primarily the result of:

a decrease of \$3.9 million in variable employee compensation;

a decrease of \$3.9 million in transition expenses, including the consolidation of facilities in Massachusetts and costs associated with the outsourcing of certain information technology functions; and

\$0.9 million due to foreign exchange.

In-process Research and Development

On March 7, 2007, we purchased in-process enabling test technology and hired certain engineers from MOSAID Technologies Inc. for \$17.6 million, which includes \$0.6 million in fees directly related to the acquisition. Of the purchase price, \$16.7 million has been allocated to in-process research and development and therefore has been immediately charged to the statement of operations. The balance of the purchase price has been allocated to acquired workforce and fixed assets.

This technology will be used in the development of a new semiconductor test product. As of the acquisition date, the technology had not reached technical feasibility, had no alternative future use and its fair value was estimable with reasonable reliability, and therefore has been classified as in-process research and development. The technology is unique to the semiconductor test market and requires significant development. The estimated fair value of the in-process technology was determined based on the use of a discounted cash flow model using an income approach. Estimated cash flows were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization of the in-process technology. Such a valuation requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in-process project as well as the estimated cash flows to be generated as a result of completing the project development.

Restructuring and Other, Net

The tables below represent activity related to restructuring and other, net, in the three months ended April 1, 2007. The accrual for severance and benefits is reflected in accrued employees' compensation and withholdings. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid out over the lease terms, the latest of which expires in 2012. We expect to pay out approximately \$2.2 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$11.9 million as of April 1, 2007.

Table of Contents**2007 Activities**

| (in thousands) | Facility Related | Severance and Benefits | Total |
|------------------------------|---------------------|------------------------------|----------|
| Balance at December 31, 2006 | \$ | \$ | \$ |
| Charges | 53 | 2,475 | 2,528 |
| Cash payments | (53) | (519) | (572) |
| Balance at April 1, 2007 | \$ | \$ 1,956 | \$ 1,956 |

During the three months ended April 1, 2007, we recorded the following 2007 restructuring activities:

\$2.5 million of severance charges related to headcount reductions of 38 people across all segments;

\$0.1 million of facility charges related to an early exit of an Assembly Test facility in Poway, California.

The restructuring actions taken during the three months ended April 1, 2007, are expected to generate quarterly cost savings of approximately \$0.9 million.

2006 Activities

| (in thousands) | Vacated Facility Related | Severance and Benefits | Total |
|------------------------------|--------------------------------|------------------------------|----------|
| Balance at December 31, 2006 | \$ 625 | \$ 1,865 | \$ 2,490 |
| Credits | | (26) | (26) |
| Cash payments | (145) | (1,414) | (1,559) |
| Balance at April 1, 2007 | \$ 480 | \$ 425 | \$ 905 |

Pre-2006 Activities

| (in thousands) | Vacated Facility Related | Severance and Benefits | Total |
|------------------------------|--------------------------------|------------------------------|-----------|
| Balance at December 31, 2006 | \$ 9,604 | \$ 1,183 | \$ 10,787 |
| Credits | (17) | (68) | (85) |
| Cash payments | (1,508) | (247) | (1,755) |
| Balance at April 1, 2007 | \$ 8,079 | \$ 868 | \$ 8,947 |

Interest Income and Expense

Interest income increased to \$10.1 million for the first quarter of 2007 from \$9.5 million in the first quarter of 2006, due primarily to higher interest rates. Interest expense decreased to \$0.4 million in the first quarter of 2007 from \$3.4 million in the first quarter of 2006, due primarily

Edgar Filing: TERADYNE, INC - Form 10-Q

to the repayment of our 3.75% Senior Convertible Notes in the fourth quarter of 2006.

Income Taxes

The tax expense of \$1.4 million for the first quarter of 2007 consists of U.S. Federal Alternative Minimum tax as well as provisions for foreign taxes. As a result of incurring significant operating losses from 2001 through 2003, we determined that it is more likely than not that our deferred tax assets may not be realized, and since the

Table of Contents

fourth quarter of 2002 we have established a full valuation allowance for our net deferred tax assets. If we generate sustained future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed. If the valuation allowance were reversed, a portion would be recorded as an increase to additional paid in capital, and the remainder would be recorded as a reduction to income tax expense.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance decreased \$60.8 million in the first three months of 2007, to \$883.8 million. Cash activity for the first three months of 2007 and 2006 was as follows (in millions):

| | For the Three Months Ended | |
|--|---------------------------------------|--------------------------|
| | April 1, 2007 | April 2, 2006 |
| Cash (used for) provided by operating activities: | | |
| Net (loss) income adjusted for non-cash items | \$ 35.9 | \$ 78.7 |
| Changes in operating assets and liabilities | (66.3) | (6.8) |
| Total cash (used for) provided by operating activities | \$ (30.4) | \$ 71.9 |
| Total cash used for investing activities | \$ (138.3) | \$ (82.7) |
| Total cash provided by (used for) financing activities | \$ 6.3 | \$ (7.1) |
| Decrease in cash and cash equivalents | \$ (162.4) | \$ (17.9) |

Changes in operating assets and liabilities used cash of \$66.3 million in the first three months of 2007 due primarily to a decrease in accrued expenses. Accrued employee's compensation and withholdings had a decrease of \$31.5 million due to employee compensation accruals which are paid out at the beginning of the year, and a decrease in accrued income taxes of \$33.4 million for taxes paid primarily in foreign jurisdictions. Accounts receivable increased \$10.5 million, primarily in the Semiconductor Test Systems segment, due to an increase in days sales outstanding from 55 days as of December 31, 2006 to 60 days as of April 1, 2007. Inventory decreased \$20.6 million in the first three months of 2007 primarily in our Semiconductor Test Systems segment and to a lesser extent in the Assembly Test Systems segment. Changes in operating assets and liabilities used cash of \$6.8 million in the first three months of 2006, primarily due to a \$20 million contribution to Teradyne's U.S. Qualified Pension Plan.

Investing activities consist of purchases of capital assets, the acquisition of technology for \$17.6 million in the first quarter of 2007 as well as the purchase, sale and maturity of marketable securities. Capital expenditures decreased by \$3.5 million in the first three months of 2007 compared to the first three months of 2006 primarily in the Semiconductor Test Systems segment.

Financing activities represent the sale of our common stock, repurchases of our common stock and payments on our convertible senior notes and other debt. During the three months ended April 1, 2007, we repurchased 0.2 million shares of our common stock for \$3.6 million at an average price of \$15.07. During the three months ended April 2, 2006, we repurchased \$15 million of our 3.75% Convertible Senior Notes.

We believe our cash, cash equivalents and marketable securities balance of \$883.8 million will be sufficient to meet working capital and expenditure needs for at least the foreseeable future. Inflation has not had a significant long-term impact on earnings.

Table of Contents

Equity Compensation Plans

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

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

Recently Issued Accounting Pronouncements

We adopted FIN 48, Accounting for Uncertainties in Income Taxes (FIN 48) effective January 1, 2007. FIN 48 applies to all income tax positions accounted for under FASB Statement No. 109, Accounting for Income Taxes, and addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. FIN 48 also addressed other aspects of reporting and disclosing uncertain tax positions. The adoption did not have a material impact on our financial position or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Teradyne is currently evaluating the impact of adopting this interpretation.

Certain Factors That May Affect Future Results

From time to time, information we provide, statements made by our employees or information included in our filings with the SEC (including this Form 10-Q) contain statements that are not purely historical, but are forward looking statements, made under Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which involve risks and uncertainties. In particular, forward looking statements made herein include projections, plans and objectives for our business, financial condition, operating results, future operations, or future economic performance, statements relating to the sufficiency of capital to meet working capital requirements, capital expenditures, including future lease payments and commitments and contributions to our pension plan, expectations as to customer orders and demand for our products and statements relating to backlog, bookings and cancellations, gross margins and pricing considerations. These statements are neither promises nor guarantees but involve risks and uncertainties, both known and unknown, which could cause our actual future results to differ materially from those stated in any forward looking statements. Factors that may cause such differences include, but are not limited to the following:

we are subject to intense competition;

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

our operating results are likely to fluctuate significantly;

we are subject to risks of operating internationally;

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

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

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

Table of Contents

we have significant guarantees and indemnification obligations;

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

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

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

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;

we may incur higher tax rates than we expect;

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

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

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

we may acquire new businesses or form strategic alliances in the future, and we may not realize the benefits of such acquisitions. These factors, and others, are discussed from time to time in our filings with the SEC, including our Annual Report on Form 10-K filed with the SEC on March 1, 2007 for the year ended December 31, 2006.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a. Quantitative and Qualitative Disclosures About Market Risks, in our Annual Report on Form 10-K filed with the SEC on March 1, 2007. 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, 2006.

Item 4: Controls and Procedures

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

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. A control system, no matter how well

conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Table of Contents

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

On September 5, 2001, after our August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of our then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. Pursuant to motions filed by Teradyne and by the plaintiffs, 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. The only claim that remained before the District Court from the original complaint related to an allegation of fraud in connection with the setting of the transaction price. On December 27, 2004, the plaintiffs voluntarily stipulated to the dismissal with prejudice of their remaining claim in the District Court, without having received any payment or other consideration from Teradyne. On February 2, 2005, the plaintiffs filed a notice of appeal from the District Court's prior orders. The appeal is now pending before the U.S. Court of Appeals for the Ninth Circuit.

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 dated October 20, 1992. Neither Teradyne nor Perception Laminates has 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 2006, we received a general notice letter from the U.S. Environmental Protection Agency (EPA) which informed us that the EPA believes we are a de minimis PRP with respect to the Casmalia Disposal Site in California. We are currently waiting for further details from the EPA regarding the terms of the de minimis settlement offer that we expect to receive.

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 losses associated with all of these actions will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations of any one period.

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

Item 1A: Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

(c) The following table includes information with respect to repurchases we made of our common stock during the three-month period ended April 1, 2007 (in thousands except per share price):

| Period | (a) Total Number of Shares (or units) Purchased (1) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs (1) |
|-------------------|---|--|---|---|
| January 1, 2007 | | | | |
| January 28, 2007 | | \$ | 10,610 | \$ 262,439 |
| January 29, 2007 | | | | |
| February 25, 2007 | 164 | \$ 14.90 | 10,774 | \$ 260,006 |
| February 26, 2007 | | | | |
| April 1, 2007 | 73 | \$ 15.51 | 10,847 | \$ 258,870 |

(1) In July 2006, our Board of Directors authorized a stock repurchase program. Under the program, we may spend up to an aggregate of \$400 million to repurchase shares of our common stock in open market repurchases, in privately negotiated transactions or through other appropriate means over the next two years.

Item 6: Exhibits

| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |

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)**

May 11, 2007