

TERADYNE, INC
Form 10-Q
August 12, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2010

OR

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

For the transition period from _____ to _____

Commission File No. 001-06462

TERADYNE, INC.

(Exact name of registrant as specified in its charter)

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Massachusetts (State or Other Jurisdiction of Incorporation or Organization)	04-2272148 (I.R.S. Employer Identification No.)
600 Riverpark Drive, North Reading, Massachusetts (Address of Principal Executive Offices)	01864 (Zip Code)
978-370-2700 (Registrant's Telephone Number, Including Area Code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

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

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

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

The number of shares outstanding of the registrant's only class of Common Stock as of August 9, 2010 was 181,347,263 shares.

Table of Contents

TERADYNE, INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited):	
<u>Condensed Consolidated Balance Sheets as of July 4, 2010 and December 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 4, 2010 and July 5, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 4, 2010 and July 5, 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	39
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	41
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 6. <u>Exhibits</u>	42

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

	July 4, 2010	December 31, 2009
	(in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 403,996	\$ 416,737
Marketable securities	161,778	46,933
Accounts receivable, net of allowance for doubtful accounts of \$3,756 and \$3,770 at July 4, 2010 and December 31, 2009, respectively	248,018	125,236
Inventories:		
Parts	51,699	43,691
Assemblies in process	22,159	37,161
Finished goods	9,962	9,984
	83,820	90,836
Deferred tax assets	19,711	18,944
Prepayments and other current assets	47,994	63,606
Total current assets	965,317	762,292
Property, plant, and equipment, at cost	777,494	782,407
Less: accumulated depreciation	541,802	536,045
Net property, plant, and equipment	235,692	246,362
Long-term marketable securities	95,487	55,130
Intangible assets, net	137,522	152,192
Other assets	15,307	19,361
Total assets	\$ 1,449,325	\$ 1,235,337
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 96,044	\$ 66,765
Accrued employees' compensation and withholdings	80,592	55,356
Deferred revenue and customer advances	41,451	104,439
Other accrued liabilities	62,619	54,640
Accrued income taxes	11,346	
Current debt	2,291	2,157
Total current liabilities	294,343	283,357
Retirement plans liabilities	69,757	115,101
Deferred tax liabilities	10,136	8,041
Long-term other accrued liabilities	20,836	23,159
Long-term debt	145,497	141,100
Total liabilities	540,569	570,758

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Commitments and contingencies (Note N)

SHAREHOLDERS EQUITY

Common stock, \$0.125 par value, 1,000,000 shares authorized, 181,162 shares and 174,908 shares issued and outstanding at July 4, 2010 and December 31, 2009, respectively	22,645	21,864
Additional paid-in capital	1,253,098	1,202,426
Accumulated other comprehensive loss	(117,631)	(138,105)
Accumulated deficit	(249,356)	(421,606)
Total shareholders equity	908,756	664,579
Total liabilities and shareholders equity	\$ 1,449,325	\$ 1,235,337

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2009, are an integral part of the condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands, except per share amounts)			
Net revenues:				
Products	\$ 391,148	\$ 115,148	\$ 659,352	\$ 179,884
Services	63,628	54,432	125,047	110,304
Total net revenues	454,776	169,580	784,399	290,188
Cost of revenues:				
Cost of products	167,160	92,635	290,856	148,795
Cost of services	33,313	29,816	65,696	60,904
Total cost of revenues	200,473	122,451	356,552	209,699
Gross profit	254,303	47,129	427,847	80,489
Operating expenses:				
Engineering and development	50,393	38,451	99,445	85,649
Selling and administrative	58,343	47,257	114,214	102,630
Acquired intangible asset amortization	7,313	8,214	14,669	16,453
Restructuring and other, net	1,700	15,270	2,964	31,235
Total operating expenses	117,749	109,192	231,292	235,967
Income (loss) from operations	136,554	(62,063)	196,555	(155,478)
Interest income	3,681	1,141	4,523	1,917
Interest expense and other	(8,543)	(8,046)	(14,456)	(13,875)
Income (loss) before income taxes	131,692	(68,968)	186,622	(167,436)
Income tax provision (benefit)	9,543	(2,200)	14,373	(10,000)
Net income (loss)	\$ 122,149	\$ (66,768)	\$ 172,249	\$ (157,436)
Net income (loss) per common share:				
Basic	\$ 0.68	\$ (0.39)	\$ 0.97	\$ (0.91)
Diluted	\$ 0.55	\$ (0.39)	\$ 0.79	\$ (0.91)
Weighted average common share basic	179,990	173,022	178,429	172,576
Weighted average common share diluted	231,541	173,022	228,909	172,576

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's

Annual Report on Form 10-K for the year ended December 31, 2009, are an integral part of the condensed

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consolidated financial statements.

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

	For the Six Months Ended	
	July 4, 2010	July 5, 2009
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 172,249	\$ (157,436)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation	26,940	30,251
Amortization	23,191	21,343
Stock-based compensation	15,553	12,109
Provision for excess and obsolete inventory	1,665	17,208
Loss on sale and impairment of marketable securities, net	410	2,532
Non-cash charge for sale of inventories revalued at the date of acquisition		5,163
Revolving credit facility issue costs		2,488
Deferred taxes		(5,852)
Other	1,419	955
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(122,782)	35,757
Inventories	25,079	29,459
Other assets	15,361	2,392
Accounts payable, deferred revenue and accrued expenses	(10,930)	(39,154)
Retirement plan contributions	(24,677)	(3,972)
Accrued income taxes	11,346	
Net cash provided by (used for) operating activities	134,824	(46,757)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(35,706)	(17,428)
Purchases of available-for-sale marketable securities	(223,820)	
Proceeds from sales of available-for-sale marketable securities	47,267	11,946
Proceeds from sales of trading marketable securities	23,700	
Proceeds from life insurance	1,091	1,076
Acquisition of businesses, net of cash acquired		(3,741)
Net cash used for investing activities	(187,468)	(8,147)
Cash flows from financing activities:		
Issuance of common stock under employee stock option and stock purchase plans	41,873	14,272
Payments of long-term debt	(1,123)	
Proceeds from long-term debt		172,914
Repayment of revolving credit facility principal		(122,500)
Net cash provided by financing activities	40,750	64,686
Effect of exchange rate changes on cash and cash equivalents	(847)	1,594
(Decrease) increase in cash and cash equivalents	(12,741)	11,376

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Cash and cash equivalents at beginning of period	416,737	322,705
Cash and cash equivalents at end of period	\$ 403,996	\$ 334,081

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2009, are an integral part of the condensed consolidated financial statements.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. The Company

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

semiconductor test (Semiconductor Test) systems; and

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

B. Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Teradyne and its subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of such interim financial statements. Certain prior year s amounts were reclassified to conform to the current year presentation. The December 31, 2009 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne s Annual Report on Form 10-K, filed with the SEC on March 1, 2010 for the year ended December 31, 2009.

Preparation of Financial Statements

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

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. Teradyne elected to early adopt this accounting guidance at the beginning of its first quarter of 2010 on a prospective basis. Adoption had no material impact on Teradyne s financial position or results of operations in the three and six months ended July 4, 2010.

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

Teradyne s equipment has non-software and software components that function together to deliver the equipment s essential functionality. Revenue is recognized upon shipment or at delivery destination point, provided that customer acceptance criteria can be demonstrated prior to shipment. Certain contracts require Teradyne to perform tests of the product to ensure that performance meets the published product specifications or

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

customer requested specifications, which are generally conducted prior to shipment. Where the criteria cannot be demonstrated prior to shipment, revenue is deferred until customer acceptance has been received. Teradyne also defers the portion of the sales price that is not due until acceptance, which represents deferred profit.

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

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

C. Recently Issued Accounting Pronouncements

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

D. Financial Instruments and Derivatives

Financial Instruments

Teradyne uses the market and income approach to value its financial instruments and there was no change in valuation techniques used by Teradyne during the six months ended July 4, 2010 and July 5, 2009. As defined in ASC 820-10, *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities are carried at fair value and are classified in one of the following three categories:

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

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

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

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

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

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

During the six months ended July 4, 2010, there were no significant transfers in and out of Level 1 and Level 2.

The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of July 4, 2010 and December 31, 2009.

	July 4, 2010			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Assets				
Available for sale securities:				
Money market funds	\$ 292,704	\$	\$	\$ 292,704
U.S. government agency securities		102,335		102,335
U.S. Treasury securities	71,240			71,240
Corporate debt securities		43,486		43,486
Commercial paper		25,182		25,182
Certificates of deposit and time deposits	4,157	9,683		13,840
Equity and debt mutual funds	6,950			6,950
Municipal bonds		5,634		5,634
Non-U.S. government securities	260			260
Total	375,311	186,320		561,631
Trading securities:				
Auction rate securities			2,836	2,836
Derivatives		409		409
Total	\$ 375,311	\$ 186,729	\$ 2,836	\$ 564,876

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

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 292,704	\$ 14,498	\$	\$ 307,202
Marketable securities	48,454	113,324		161,778
Long-term marketable securities	34,153	58,498	2,836	95,487
Prepayments and other current assets		409		409
	\$ 375,311	\$ 186,729	\$ 2,836	\$ 564,876

	December 31, 2009			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
Assets				
Available for sale securities:				
Money market funds	\$ 284,236	\$	\$	\$ 284,236
Corporate debt securities		21,224		21,224
U.S. government agency securities		16,418		16,418
Certificates of deposit and time deposits	4,136	11,719		15,855
U.S. Treasury securities	12,010			12,010
Commercial paper		8,245		8,245
Equity and debt mutual funds	7,499			7,499
Municipal bonds		528		528
Non-U.S. government securities	287			287
Total	308,168	58,134		366,302
Trading securities:				
Auction rate securities			23,649	23,649
UBS Put			2,830	2,830
Total	\$ 308,168	\$ 58,134	\$ 26,479	\$ 392,781
Liabilities				
Derivatives	\$	\$ 143	\$	\$ 143
Total	\$	\$ 143	\$	\$ 143

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

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 284,237	\$ 3,651	\$	\$ 287,888
Marketable securities	12,137	34,796		46,933
Long-term marketable securities	11,794	19,687	23,649	55,130
Other assets			2,830	2,830
	\$ 308,168	\$ 58,134	\$ 26,479	\$ 392,781
Liabilities				
Other accrued liabilities	\$	\$ 143	\$	\$ 143

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

	For the Three Months Ended			
	July 4, 2010		July 5, 2009	
	Long-Term Auction Rate Securities	UBS Put	Long-Term Auction Rate Securities	UBS Put
	(in thousands)			
Balance at beginning of period	\$ 23,697	\$ 2,687	\$ 25,521	\$ 3,277
Sale of auction rate securities and exercise of UBS Put	(20,863)	(2,687)		
Change in unrealized gain included in interest income	2		665	
Change in unrealized loss included in interest expense and other				(207)
Balance at end of period	\$ 2,836	\$	\$ 26,186	\$ 3,070

	For the Six Months Ended			
	July 4, 2010		July 5, 2009	
	Long-Term Auction Rate Securities	UBS Put	Long-Term Auction Rate Securities	UBS Put
	(in thousands)			
Balance at beginning of period	\$ 23,649	\$ 2,830	\$ 25,968	\$ 3,330
Sale of auction rate securities and exercise of UBS Put	(21,013)	(2,687)		
Change in unrealized gain included in interest income	200		665	
Change in unrealized loss included in interest expense and other		(143)	(447)	(260)
Balance at end of period	\$ 2,836	\$	\$ 26,186	\$ 3,070

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During the three months ended July 4, 2010, Teradyne recorded a net loss of \$0.1 million from sales of marketable securities and exercise of UBS Put. During the three months ended July 5, 2009, Teradyne recorded a gain of \$0.7 million for the change in the auction rate securities fair value.

During the six months ended July 4, 2010, Teradyne recorded a net loss of \$0.4 million from sales of marketable securities and exercise of UBS Put. During the six months ended July 5, 2009, Teradyne recorded a \$1.9 million loss from sales of marketable securities.

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

During the three and six months ended July 5, 2009, Teradyne determined that it did not intend to hold certain marketable securities for a period of time sufficient to allow for recovery in market value and recognized an other-than-temporary impairment loss in the amount of \$0.4 million and \$0.6 million, respectively.

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

The carrying amounts and fair values of financial instruments at July 4, 2010 and December 31, 2009 are as follows:

	July 4, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Cash equivalents	\$ 307,202	\$ 307,202	\$ 287,888	\$ 287,888
Marketable securities	257,265	257,265	102,063	102,063
UBS Put			2,830	2,830
Convertible debt(1)	138,627	367,183	133,554	392,113
Japan loan	9,161	9,161	9,703	9,703

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

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

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

	July 4, 2010				Fair Market Value of Investments with Unrealized Losses
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	
	(in thousands)				
Money market funds	\$ 292,704	\$	\$	\$ 292,704	\$
U.S. government agency securities	102,207	139	(11)	102,335	7,357
U.S. Treasury securities	71,108	133	(1)	71,240	5,032
Corporate debt securities	43,406	104	(24)	43,486	17,574
Commercial paper	25,184		(2)	25,182	3,987
Certificates of deposit and time deposits	13,841		(1)	13,840	1,501
Equity and debt mutual funds	6,947	405	(402)	6,950	3,691
Municipal bonds	5,634			5,634	
Non-U.S. government securities	244	16		260	
	\$ 561,275	\$ 797	\$ (441)	\$ 561,631	\$ 39,142

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

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
Cash and cash equivalents	\$ 307,202	\$	\$	\$ 307,202	\$
Marketable securities	161,715	84	(21)	161,778	22,931
Long-term marketable securities	92,358	713	(420)	92,651	16,211
	\$ 561,275	\$ 797	\$ (441)	\$ 561,631	\$ 39,142

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

Reported as follows:

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

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

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

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

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

As of July 4, 2010 and December 31, 2009, the fair market value of investments with unrealized losses totaled \$39.1 million and \$34.8 million, respectively. Teradyne determined that the unrealized losses in the amount of \$0.4 million and \$0.6 million, respectively, related to these investments are temporary.

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

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

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

The notional amount of foreign exchange contracts hedging monetary assets and liabilities denominated in foreign currencies was \$59.3 million and \$56.9 million at July 4, 2010 and December 31, 2009, respectively.

The following table summarizes the fair value of derivative instruments as of July 4, 2010 and December 31, 2009.

	Balance Sheet Location	July 4, 2010	December 31, 2009
(in thousands)			
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepayments and other current assets	\$ 409	\$
Foreign exchange contracts	Other accrued liabilities		143
		\$ 409	\$ 143

The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and six months ended July 4, 2010 and 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		For the Six Months Ended	
		July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
(in thousands)					
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Interest expense and other	\$ (538)	\$ (425)	\$ (1,263)	\$ (2,386)
		\$ (538)	\$ (425)	\$ (1,263)	\$ (2,386)

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

E. Debt**Loan Agreement**

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On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million. The loan has a term of 5 years and a fixed interest rate of 1.4%. Approximately \$6.0 million of the loan is collateralized by a real estate mortgage on

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million is unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The loan is amortized over the term of the loan with semiannual principal payments of approximately \$1.0 million payable on September 30 and March 30 each year. At July 4, 2010, approximately \$2.3 million of the outstanding loan principal is included in current debt and approximately \$6.9 million is classified as long-term debt.

Convertible Senior Notes

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

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

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

During the three months ended July 4, 2010, the following circumstance that allows holders to convert their Notes at their option prior to December 15, 2013 occurred: the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter. As of August 12, 2010, no holders have exercised their option to convert their Notes.

Teradyne may not redeem the Notes prior to their maturity. Holders of the Notes may require Teradyne to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving Teradyne (which include, among others, the liquidation or dissolution of Teradyne, the acquisition of 50% or more of the total voting shares of Teradyne, certain mergers and consolidations, and the delisting of Teradyne's stock).

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

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

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

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

The notes are classified as long-term debt in the balance sheet at July 4, 2010 and December 31, 2009. The below tables represent the components of Teradyne's convertible senior notes:

	July 4, 2010	December 31, 2009
	(in thousands)	
Debt principal	\$ 190,000	\$ 190,000
Unamortized debt discount	51,373	56,446
Net carrying amount of the convertible debt	\$ 138,627	\$ 133,554

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Contractual interest expense on the coupon	\$ 2,138	\$ 2,161	\$ 4,371	\$ 2,161
Amortization of the discount component and debt issue fees	2,783	2,455	5,480	2,455
Total interest expense on the convertible debt	\$ 4,921	\$ 4,616	\$ 9,851	\$ 4,616

As of July 4, 2010, the unamortized discount was \$51.4 million, which will be amortized over approximately 3.75 years, and the carrying amount of the equity component was \$63.4 million. As of July 4, 2010, the conversion rate was equal to the initial conversion price of approximately \$5.48 per share and the if-converted value of the Notes was \$329.0 million.

Revolving Credit Facility

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

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

Deferred revenue and customer advances consist of:

	July 4, 2010	December 31, 2009
	(in thousands)	
Customer advances	\$ 6,420	\$ 72,569
Maintenance and training	29,468	22,616
Undelivered elements	2,273	5,551
Acceptance	1,306	530
Other	1,984	3,173
Total deferred revenue and customer advances	\$ 41,451	\$ 104,439

G. Product Warranty

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Balance at beginning of period	\$ 8,851	\$ 6,013	\$ 7,086	\$ 8,372
Accruals for warranties issued during the period	5,276	1,777	8,974	3,174
Accruals related to pre-existing warranties	(241)	(212)	337	(997)
Settlements made during the period	(2,824)	(2,567)	(5,335)	(5,538)
Balance at end of period	\$ 11,062	\$ 5,011	\$ 11,062	\$ 5,011

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Balance at beginning of period	\$ 4,470	\$ 5,317	\$ 4,055	\$ 6,369
Deferral of new extended warranty revenue	1,581	600	3,215	877

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Recognition of extended warranty deferred revenue	(408)	(1,270)	(1,627)	(2,599)
Balance at end of period	\$ 5,643	\$ 4,647	\$ 5,643	\$ 4,647

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

During the six months ended July 4, 2010, Teradyne granted service-based restricted stock units to employees, and service-based stock options and service and performance-based restricted stock units to executive officers. The total number of restricted stock units granted was 2.6 million at the weighted average grant date fair value of \$9.42. Service-based restricted stock units granted to employees and executive officers vest in equal installments over four years. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting are forfeited. The total number of stock options granted to executive officers was 0.3 million at the weighted average grant date fair value of \$4.10. These stock options vest in equal installments over four years, and have a term of seven years from the date of grant.

During the six months ended July 5, 2009, Teradyne granted service-based restricted stock units to employees, and service-based restricted stock units and stock options to executive officers. The total number of restricted stock units granted was 4.2 million at the weighted average grant date fair value of \$4.90. The total number of stock options granted was 1.1 million at the weighted average grant date fair value of \$1.97. Restricted stock units and stock options vest in equal installments over four years. These stock options have a term of seven years from the date of grant.

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

	For the Six Months Ended	
	July 4, 2010	July 5, 2009
Expected life (years)	4.75	4.75
Interest rate	2.4%	1.6%
Volatility-historical	48.8%	44.9%
Dividend yield	0.0%	0.0%

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

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

Comprehensive income (loss) is calculated as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Net income (loss)	\$ 122,149	\$ (66,768)	\$ 172,249	\$ (157,436)
Foreign currency translation adjustment	210	1,214	(363)	1,594
Unrealized (loss) gain on investments, net of tax of \$0	(401)	12	296	1,707
Actuarial gains (losses) arising during period, net of tax of \$1,121, \$(984), \$1,247 and \$(984)	17,202	(1,458)	17,587	(10,095)
Amortization included in net periodic pension and post-retirements costs:				
Actuarial losses, net of tax of \$45, \$55, \$90 and \$102	952	1,017	2,707	2,100
Prior service costs, net of tax of \$0	122	138	246	287
Comprehensive income (loss)	\$ 140,234	\$ (65,845)	\$ 192,722	\$ (161,843)

J. Intangible Assets

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

	Gross Carrying Amount	July 4, 2010		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 121,055	\$ 56,722	\$ 64,333	6.1 years
Customer relationships and service and software maintenance contracts	91,271	27,468	63,803	8.6 years
Trade names and trademarks	14,840	5,454	9,386	11.5 years
Total intangible assets	\$ 227,166	\$ 89,644	\$ 137,522	7.6 years
	Gross Carrying Amount	December 31, 2009		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 121,055	\$ 47,746	\$ 73,309	6.1 years
Customer relationships and service and software maintenance contracts	91,271	22,187	69,084	8.6 years
Trade names and trademarks	14,840	5,041	9,799	11.5 years

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Total intangible assets	\$ 227,166	\$ 74,974	\$ 152,192	7.6 years
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Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Aggregate intangible asset amortization expense was \$7.3 million and \$14.7 million, respectively, for the three and six months ended July 4, 2010 and \$8.2 million and \$16.5 million, respectively, for the three and six months ended July 5, 2009. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amount (in thousands)
2010 (remainder)	\$ 14,583
2011	27,821
2012	25,732
2013	24,683
2014	21,598

K. Net Income (Loss) per Common Share

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands, except per share amounts)			
Net income (loss) for basic net income (loss) per share	\$ 122,149	\$ (66,768)	\$ 172,249	\$ (157,436)
Income impact of assumed conversion of convertible notes	4,379		8,766	
Net income (loss) for diluted net income (loss) per share	\$ 126,528	\$ (66,768)	\$ 181,015	\$ (157,436)
Shares used in net income (loss) per common share-basic	179,990	173,022	178,429	172,576
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible note	34,703		34,703	
Warrants	11,225		10,174	
Restricted stock units	2,924		2,896	
Stock options	2,571		2,635	
Stock purchase rights	128		72	
Dilutive potential common shares	51,551		50,480	
Shares used in net income (loss) per common share-diluted	231,541	173,022	228,909	172,576
Net income (loss) per common share-basic	\$ 0.68	\$ (0.39)	\$ 0.97	\$ (0.91)
Net income (loss) per common share-diluted	\$ 0.55	\$ (0.39)	\$ 0.79	\$ (0.91)

The computation of diluted net income per common share for the three and six months ended July 4, 2010 excludes the effect of the potential exercise of options to purchase approximately 4.5 million and 6.0 million shares and restricted stock units of 0.1 million and 0.4 million shares, respectively, because the effect would have been anti-dilutive.

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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 because Teradyne had a net loss and inclusion would be anti-dilutive.

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

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

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

In response to a downturn in the industry, Teradyne initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The tables below represent activity related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by the end of 2010. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. Teradyne expects to pay approximately \$3.7 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$4.5 million as of July 4, 2010.

Severance and Benefits:

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

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

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

During the six months ended July 4, 2010, Teradyne recorded restructuring charges related to ongoing efforts to lower expenses and its cost structure and an additional charge due to a change in estimated severance benefits related to a prior period activity. The restructuring charges consisted of the following activities:

Q1 2010 Actions:

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

Q2 2010 Actions:

\$0.8 million of severance charges related to headcount reductions of approximately 10 people in Systems Test Group; and

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

Q2 2009 Actions:

\$0.4 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments. During the six months ended July 5, 2009, Teradyne recorded restructuring charges related to ongoing efforts to lower expenses and its cost structure in light of the industry wide decline in orders for semiconductor equipment. The restructuring charges consisted of the following

activities:

Q2 2009 Actions:

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

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

Q1 2009 Actions:

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

Other

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

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

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

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

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

Components of net periodic pension cost for all plans for the three and six months ended July 4, 2010 and July 5, 2009 were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Service cost	\$ 953	\$ 877	\$ 2,015	\$ 1,995
Interest cost	4,280	4,688	8,840	9,176
Expected return on plan assets	(5,273)	(4,836)	(10,140)	(9,706)
Amortization of unrecognized:				
Prior service cost	181	197	363	404
Net loss	1,022	1,013	2,768	2,088
Curtailment gain				(111)
Settlement loss		1,550		1,550
Total net periodic pension cost	\$ 1,163	\$ 3,489	\$ 3,846	\$ 5,396

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In the six months ended July 4, 2010, Teradyne made a \$20.0 million discretionary contribution to the U.S. Qualified Pension Plan. On August 4, 2010 Teradyne made an additional \$15.0 million discretionary contribution to the U.S. Qualified Pension Plan.

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

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

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Service cost	\$ 7	\$ 15	\$ 27	\$ 55
Interest cost	174	268	392	546
Amortization of unrecognized:				
Prior service benefit	(59)	(59)	(117)	(117)
Net (gain) loss	(25)	59	29	114
Total net periodic post-retirement cost	\$ 97	\$ 283	\$ 331	\$ 598

N. Commitments and Contingencies***Purchase Commitments***

As of July 4, 2010, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments are for less than one year and aggregate to approximately \$277.3 million.

Legal Claims

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

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

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

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

	Semiconductor Test	Systems Test Group	Corporate and Eliminations	Consolidated
	(in thousands)			
Three months ended July 4, 2010:				
Net revenues	\$ 413,059	\$ 41,717	\$	\$ 454,776
Income (loss) before income taxes(1)(2)	143,469	(6,994)	(4,783)	131,692
Three months ended July 5, 2009:				
Net revenues	\$ 102,820	\$ 66,760	\$	\$ 169,580
Loss before income taxes(1)(2)	(56,222)	(2,474)	(10,272)	(68,968)
Six months ended July 4, 2010:				
Net revenues	\$ 702,736	\$ 81,663	\$	\$ 784,399
Income (loss) before income taxes(1)(2)	209,558	(12,593)	(10,343)	186,622
Six months ended July 5, 2009:				
Net revenues	\$ 181,347	\$ 108,841	\$	\$ 290,188
Loss before income taxes(1)(2)	(143,163)	(7,870)	(16,403)	(167,436)

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

(2) Included in the income before income taxes for each of the segments are charges for the three and six months ended July 4, 2010 and July 5, 2009 that include restructuring and other, net, inventory step-up amortization and provision for excess and obsolete inventory, as follows:

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$	\$ 8,984	\$ 496	\$ 14,614
Cost of revenues sale of previously written down inventory	(4,639)		(4,639)	
Cost of revenues inventory step-up		3,924		5,163
Restructuring and other, net		11,324	1,082	24,671

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Total	\$ (4,639)	\$ 24,232	\$ (3,061)	\$ 44,448
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Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 301	\$ 2,507	\$ 1,169	\$ 5,474
Cost of revenues sale of previously written down inventory	(593)		(593)	
Restructuring and other, net	1,737	1,486	1,919	3,463
Total	\$ 1,445	\$ 3,993	\$ 2,495	\$ 8,937

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
	(in thousands)			
Restructuring and other, net	\$ (37)	\$ 2,460	\$ (37)	\$ 3,101
Total	\$ (37)	\$ 2,460	\$ (37)	\$ 3,101

Table of Contents

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

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in Teradyne's filings with the Securities and Exchange Commission. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof. Teradyne assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

Overview

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

semiconductor test (Semiconductor Test) systems; and

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

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

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

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

In the last three quarters, we have experienced improvement in our semiconductor test business. We believe our acquisitions of Nexttest and Eagle Test and our entry into the high speed memory and HDD markets have enhanced our opportunities for growth. We will continue to invest in our business in anticipation of a broader recovery in our markets and to expand further our addressable markets while tightly managing our costs. As the last three quarters have demonstrated, with our current cost structure, we can achieve significantly higher profitability than we achieved at comparable revenue levels in the past.

Table of Contents

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. Except as stated below, management believes that there have been no significant changes during the six months ended July 4, 2010 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. We elected to early adopt this accounting guidance at the beginning of our first quarter of 2010 on a prospective basis. Adoption had no material impact on our financial position or results of operations in the three and six months ended July 4, 2010.

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

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

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

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

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	July 4, 2010	July 5, 2009	July 4, 2010	July 5, 2009
Percentage of total net revenues:				
Net revenue:				
Products				