

TERADYNE, INC  
Form 10-Q  
August 10, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended July 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

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**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.)

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600 Riverpark Drive, North Reading, Massachusetts  
(Address of Principal Executive Offices)

978-370-2700

01864  
(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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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 August 3, 2007 was 183,750,435 shares.

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

|  | July 1,<br>2007<br>(in thousands, except per<br>share data) | December 31,<br>2006 |
|--|---|----------------------|
| <b>ASSETS</b>  |   |                      |
| Current assets:  |   |                      |
| Cash and cash equivalents  | \$ 393,215  | \$ 568,025           |
| Marketable securities  | 187,134   | 47,766               |
| Accounts receivable, net of allowance for doubtful accounts of \$4,753 and \$4,962 on July 1, 2007 and December 31, 2006, respectively | 211,461   | 155,770              |
| Inventories:   |   |                      |
| Parts  | 8,733   | 9,008                |
| Assemblies in process  | 79,310  | 83,805               |
| Net inventories  | 88,043  | 92,813               |
| Prepayments and other current assets   | 24,314  | 21,527               |
| Current assets of discontinued operations  | 5,487   | 3,509                |
| Total current assets   | 909,654   | 889,410              |
| Property, plant, and equipment, at cost  | 845,176   | 862,062              |
| Less: accumulated depreciation   | 487,581   | 496,541              |
| Net property, plant, and equipment   | 357,595   | 365,521              |
| Marketable securities  | 303,656   | 328,827              |
| Goodwill   | 69,147  | 69,147               |
| Intangible and other assets  | 34,610  | 35,819               |
| Retirement plans assets  | 32,194  | 31,503               |
| Long-term assets of discontinued operations  | 818   | 828                  |
| Total assets   | \$ 1,707,674  | \$ 1,721,055         |
| <b>LIABILITIES</b>   |   |                      |
| Current liabilities:   |   |                      |
| Accounts payable   | \$ 55,822   | \$ 39,918            |
| Accrued employees compensation and withholdings  | 65,594  | 87,811               |
| Deferred revenue and customer advances   | 41,963  | 44,053               |
| Other accrued liabilities  | 44,149  | 47,023               |
| Income taxes payable   | 10,099  | 36,052               |
| Current liabilities of discontinued operations   | 2,709   | 4,859                |
| Total current liabilities  | 220,336   | 259,716              |
| Retirement plans liabilities   | 79,644  | 81,121               |
| Long-term other accrued liabilities  | 19,219  | 18,352               |
| Long-term liabilities of discontinued operations   | 674   | 679                  |
| Total liabilities  | 319,873   | 359,868              |

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Commitments and contingencies (Note O)

**SHAREHOLDERS' EQUITY**

|   |                  |                  |
|---|------------------|------------------|
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 188,586 and 188,952 shares issued and outstanding at July 1, 2007 and December 31, 2006, respectively | 23,573           | 23,619           |
| Additional paid-in capital  | 1,196,001        | 1,179,015        |
| Accumulated other comprehensive loss  | (59,828)         | (66,309)         |
| Retained earnings   | 228,055          | 224,862          |
| <b>Total shareholders' equity</b>   | <b>1,387,801</b> | <b>1,361,187</b> |
| <br>  |                  |                  |
| Total liabilities and shareholders' equity  | \$ 1,707,674     | \$ 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****(unaudited)**

|   | For the Three Months Ended               |              | For the Six Months Ended |              |
|---|--|--------------|--------------------------|--------------|
|   | July 1, 2007                             | July 2, 2006 | July 1, 2007             | July 2, 2006 |
|   | (in thousands, except per share amounts) |              |                          |              |
| Net revenues:   |  |              |                          |              |
| Products  | \$ 229,504                               | \$ 327,828   | \$ 424,137               | \$ 625,864   |
| Services  | 59,206                                   | 58,991       | 118,266                  | 116,984      |
| Total net revenues                                    | 288,710                                  | 386,819      | 542,403                  | 742,848      |
| Cost of revenues:                                     |  |              |                          |              |
| Cost of products                                      | 112,338                                  | 158,434      | 212,329                  | 308,681      |
| Cost of services                                      | 39,152                                   | 37,810       | 79,457                   | 76,458       |
| Total cost of revenues                                | 151,490                                  | 196,244      | 291,786                  | 385,139      |
| Gross profit  | 137,220                                  | 190,575      | 250,617                  | 357,709      |
| Operating expenses:                                   |  |              |                          |              |
| Engineering and development                           | 52,417                                   | 51,840       | 101,679                  | 102,402      |
| Selling and administrative                            | 62,760                                   | 73,913       | 125,772                  | 144,336      |
| In-process research and development                   |  |              | 16,700                   |              |
| Restructuring and other, net                          | 568                                      | (20,596)     | 2,815                    | (21,693)     |
| Operating expenses                                    | 115,745                                  | 105,157      | 246,966                  | 225,045      |
| Income from continuing operations                     | 21,475                                   | 85,418       | 3,651                    | 132,664      |
| Interest income                                       | 9,299                                    | 11,659       | 19,398                   | 21,142       |
| Interest expense                                      | (74)                                     | (3,470)      | (510)                    | (6,841)      |
| Other income  |  |              | 1,832                    |              |
| Income from continuing operations before income taxes | 30,700                                   | 93,607       | 24,371                   | 146,965      |
| Provision for income taxes                            | 3,454                                    | 9,420        | 4,839                    | 18,008       |
| Income from continuing operations                     | 27,246                                   | 84,187       | 19,532                   | 128,957      |
| Income (loss) from discontinued operations            | 618                                      | (1,825)      | 711                      | (1,715)      |
| Income tax provision (benefit)                        | 210                                      | (43)         | 225                      | (76)         |
| Income (loss) from discontinued operations            | 408                                      | (1,782)      | 486                      | (1,639)      |
| Net income  | \$ 27,654                                | \$ 82,405    | \$ 20,018                | \$ 127,318   |
| Income from continuing operations per common share:   |  |              |                          |              |
| Basic   | \$ 0.14                                  | \$ 0.42      | \$ 0.10                  | \$ 0.65      |
| Diluted   | \$ 0.14                                  | \$ 0.41      | \$ 0.10                  | \$ 0.64      |

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Net income per common share:

|                                       |         |         |         |         |
|---------------------------------------|---------|---------|---------|---------|
| Basic                                 | \$ 0.15 | \$ 0.42 | \$ 0.11 | \$ 0.64 |
| Diluted                               | \$ 0.14 | \$ 0.40 | \$ 0.10 | \$ 0.63 |
| Weighted average common share basic   | 189,391 | 198,243 | 189,508 | 198,130 |
| Weighted average common share diluted | 191,405 | 210,356 | 191,184 | 210,601 |

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****(unaudited)**

|   | <b>For the Six Months</b> |                |
|---|---------------------------|----------------|
|   | <b>Ended</b>              |                |
|   | <b>July 1,</b>            | <b>July 2,</b> |
|   | <b>2007</b>               | <b>2006</b>    |
|   | <b>(in thousands)</b>     |                |
| <b>Cash flows from operating activities:</b>  |                           |                |
| Net income  | \$ 20,018                 | \$ 127,318     |
| Income (loss) from discontinued operations  | 486                       | (1,639)        |
| Income from continuing operations   | 19,532                    | 128,957        |
| <b>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</b> |                           |                |
| Depreciation  | 30,965                    | 34,828         |
| Amortization  | 3,904                     | 2,550          |
| Stock-based compensation  | 14,068                    | 11,752         |
| In-process research and development charge  | 16,700                    |                |
| Impairment of long-lived assets   |                           | 50             |
| Gain on sale of land and building   |                           | (21,736)       |
| Gain on sale of product lines   | (906)                     | (386)          |
| Fire loss on spare parts  |                           | 3,959          |
| Provision for doubtful accounts   | 104                       | 82             |
| Provision for inventory   | 525                       | 9,593          |
| Other non-cash items, net   | 1,208                     | 2,541          |
| <b>Changes in operating assets and liabilities, net of product lines and businesses sold:</b>       |                           |                |
| Accounts receivable   | (55,795)                  | (49,497)       |
| Inventories   | 24,864                    | 48,436         |
| Other assets  | (3,435)                   | (8,100)        |
| Accounts payable, deferred revenue and accrued expenses   | (10,016)                  | 47,361         |
| Retirement plans contributions  | (1,644)                   | (25,300)       |
| Income taxes payable  | (25,953)                  | 14,848         |
| Net cash provided by continuing operations  | 14,121                    | 199,938        |
| Net cash (used for) provided by discontinued operations   | (2,998)                   | 3,276          |
| Net cash provided by operating activities   | 11,123                    | 203,214        |
| <b>Cash flows from investing activities:</b>  |                           |                |
| Investments in property, plant and equipment  | (44,611)                  | (52,330)       |
| Acquisition of technology   | (17,600)                  |                |
| Proceeds from sale of product lines and business  | 906                       | 386            |
| Proceeds from sale of land and building   |                           | 36,232         |
| Purchases of available-for-sale marketable securities   | (243,352)                 | (357,597)      |
| Proceeds from sale and maturities of available-for-sale marketable securities                       | 132,244                   | 171,648        |
| Net cash used for continuing operations   | (172,413)                 | (201,661)      |
| Net cash used for discontinued operations   | (189)                     | (272)          |



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|   |                 |                |
|---|-----------------|----------------|
| Net cash used for investing activities  | (172,602)       | (201,933)      |
| <b>Cash flows from financing activities:</b>                                  |                 |                |
| Payments of long term debt and notes payable                                  |                 | (19,648)       |
| Repurchase of common stock  | (27,610)        |                |
| Issuance of common stock under employee stock option and stock purchase plans | 14,279          | 14,190         |
| <b>Net cash used for financing activities</b>                                 | <b>(13,331)</b> | <b>(5,458)</b> |
| Decrease in cash and cash equivalents   | (174,810)       | (4,177)        |
| Cash and cash equivalents at beginning of period                              | 568,025         | 340,699        |
| Cash and cash equivalents at end of period                                    | \$ 393,215      | \$ 336,522     |

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.

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**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 ); and

automotive diagnostic and test systems ( Diagnostic Solutions ).

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.

On August 1, 2007, Teradyne closed the sale of Broadband Test Systems division, its voice and broadband access network test division. The results of operations of Broadband Test Systems as well as balance sheet amounts pertaining to this business have been classified as discontinued operations in the consolidated financial statements (see Note E: Discontinued Operations ).

*Preparation of Financial Statements*

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

**C. Recently Issued Accounting Pronouncements**

In 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



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

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 standard.

**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).

|   | <b>For the Six Months</b> |                  |
|---|---------------------------|------------------|
|   | <b>Ended</b>              |                  |
|   | <b>July 1,</b>            | <b>July 2,</b>   |
|   | <b>2007</b>               | <b>2006</b>      |
| Balance at beginning of period  | \$ 12,897                 | \$ 10,496        |
| Accruals for warranties issued during the period                            | 6,829                     | 12,085           |
| Accruals related to pre-existing warranties (includes changes in estimates) | (1,870)                   | 561              |
| Settlements made during the period  | (7,607)                   | (8,509)          |
| <b>Balance at end of period</b>   | <b>\$ 10,249</b>          | <b>\$ 14,633</b> |

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 short-term deferred revenue and long-term other accrued liabilities (in thousands).

|   | <b>For the Six Months</b> |                 |
|---|---------------------------|-----------------|
|   | <b>Ended</b>              |                 |
|   | <b>July 1,</b>            | <b>July 2,</b>  |
|   | <b>2007</b>               | <b>2006</b>     |
| Balance at beginning of period                    | \$ 8,350                  | \$ 5,596        |
| Deferral of new extended warranty revenue         | 1,934                     | 3,641           |
| Recognition of extended warranty deferred revenue | (2,682)                   | (1,476)         |
| <b>Balance at end of period</b>                   | <b>\$ 7,602</b>           | <b>\$ 7,761</b> |

**E. Discontinued Operations**

On August 1, 2007, Teradyne closed the sale of its Broadband Test Systems division to Tollgrade Communications, Inc. for \$11.3 million in cash. Teradyne sold this business as its growth potential as a stand-alone business within Teradyne was not attractive. The financial information for the Broadband Test Systems division was reclassified to discontinued operations for all periods presented. Broadband Test Systems net revenues and income (loss) from discontinued operations for the three and six months ended July 1, 2007 and July 2, 2006 are as follows (in thousands):

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|  | For the Three Months Ended |            | For the Six Months Ended |            |
|--|----------------------------|------------|--------------------------|------------|
|  | July 1,                    | July 2,    | July 1,                  | July 2,    |
|  | 2007                       | 2006       | 2007                     | 2006       |
| Net revenues                               | \$ 5,859                   | \$ 4,816   | \$ 10,224                | \$ 11,701  |
| Income (loss) from discontinued operations | \$ 618                     | \$ (1,825) | \$ 711                   | \$ (1,715) |
| Income tax provision (benefit)             | 210                        | (43)       | 225                      | (76)       |
| Income (loss) from discontinued operations | \$ 408                     | \$ (1,782) | \$ 486                   | \$ (1,639) |

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

Included in discontinued operations for the three and six months ended July 1, 2007 are \$0.6 million of fees directly related to the sale transaction between Teradyne and Tollgrade Communications.

**F. Stock-Based Compensation**

During the six months ended July 1, 2007, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 2.0 million at the weighted average grant date fair value of \$15.27. 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.

**G. Other Comprehensive Income**

Other comprehensive income is calculated as follows for the three months ended (in thousands):

|  | For the Three Months |              |
|--|----------------------|--------------|
|  | July 1, 2007         | July 2, 2006 |
| Net income   | \$ 27,654            | \$ 82,405    |
| Foreign currency translation adjustments                                   | 256                  | 616          |
| Change in unrealized loss on foreign exchange contracts, net of tax of \$0 | 55                   |              |
| Change in unrealized loss on marketable securities, net of tax of \$0      | 596                  | (1,207)      |
| Retirement plans net gain, net of tax of \$22                              | 2,582                |              |
| Retirement plans prior service gain, net of tax of \$0                     | 154                  |              |
| Retirement plans net transition asset, net of tax of \$(11)                | (46)                 |              |
| Additional minimum pension liability, net of tax of \$0                    |                      | (147)        |
| Other comprehensive income   | \$ 31,251            | \$ 81,667    |

Other comprehensive income is calculated as follows for the six months ended (in thousands):

|  | For the Six Months |              |
|--|--------------------|--------------|
|  | July 1, 2007       | July 2, 2006 |
| Net income   | \$ 20,018          | \$ 127,318   |
| Foreign currency translation adjustments                                   | 234                | 708          |
| Change in unrealized loss on foreign exchange contracts, net of tax of \$0 | 55                 | (31)         |
| Change in unrealized loss on marketable securities, net of tax of \$0      | 2,165              | (2,671)      |
| Retirement plans net gain, net of tax of \$60                              | 3,744              |              |
| Retirement plans prior service gain, net of tax of \$0                     | 307                |              |
| Retirement plans net transition asset, net of tax of \$(18)                | (24)               |              |
| Additional minimum pension liability, net of tax of \$0                    |                    | (212)        |

|                            |           |            |
|----------------------------|-----------|------------|
| Other comprehensive income | \$ 26,499 | \$ 125,112 |
|----------------------------|-----------|------------|

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

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

|   | July 1, 2007                |                             |                           | Weighted<br>Average<br>Useful<br>Life |
|---|-----------------------------|-----------------------------|---------------------------|---------------------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |                                       |
| Completed technology  | \$ 19,193                   | \$ 14,564                   | \$ 4,629                  | 7.5 years                             |
| Service and software maintenance contracts and customer relationships | 4,779                       | 3,378                       | 1,401                     | 8.0 years                             |
| Trade names and trademarks  | 3,800                       | 2,692                       | 1,108                     | 8.0 years                             |
| Acquired workforce  | 700                         | 44                          | 656                       | 4.0 years                             |
| <b>Total intangible assets</b>  | <b>\$ 28,472</b>            | <b>\$ 20,678</b>            | <b>\$ 7,794</b>           | <b>7.6 years</b>                      |

|   | December 31, 2006           |                             |                           | Weighted<br>Average<br>Useful<br>Life |
|---|-----------------------------|-----------------------------|---------------------------|---------------------------------------|
|   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>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                             |
| <b>Total intangible assets</b>  | <b>\$ 27,772</b>            | <b>\$ 18,813</b>            | <b>\$ 8,959</b>           | <b>7.7 years</b>                      |

Aggregate amortization expense was \$1.0 million for the three months ended July 1, 2007 and \$0.9 million for the three months ended July 2, 2006. Aggregate amortization expense for the six months ended July 1, 2007 was \$1.9 million and for the six months ended July 2, 2006 was \$1.8 million. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

| Year             | Amount   |
|------------------|----------|
| 2007 (remainder) | \$ 1,794 |
| 2008             | 3,137    |
| 2009             | 2,644    |
| 2010             | 175      |
| 2011             | 44       |



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

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

|  | For the Three Months Ended |              | For the Six Months Ended |              |
|--|----------------------------|--------------|--------------------------|--------------|
|  | July 1, 2007               | July 2, 2006 | July 1, 2007             | July 2, 2006 |
| Income from continuing operations                                    | \$ 27,246                  | \$ 84,187    | \$ 19,532                | \$ 128,957   |
| Income (loss) from discontinued operations                           | 408                        | (1,782)      | 486                      | (1,639)      |
| Net income for basic net income per share                            | 27,654                     | 82,405       | 20,018                   | 127,318      |
| Income impact of assumed conversion of convertible debt              |                            | 2,629        |                          | 5,383        |
| Net income for diluted net income per share                          | \$ 27,654                  | \$ 85,034    | \$ 20,018                | \$ 132,701   |
| Weighted average common shares basic                                 | 189,391                    | 198,243      | 189,508                  | 198,130      |
| Effect of dilutive securities:                                       |                            |              |                          |              |
| Incremental shares from assumed conversion of convertible debentures |                            | 10,962       |                          | 11,126       |
| Employee and director stock options                                  | 1,169                      | 703          | 1,057                    | 1,003        |
| Restricted stock units   | 742                        | 340          | 552                      | 274          |
| Employee stock purchase rights                                       | 103                        | 108          | 67                       | 68           |
| Dilutive potential common shares                                     | 2,014                      | 12,113       | 1,676                    | 12,471       |
| Weighted average common shares diluted                               | 191,405                    | 210,356      | 191,184                  | 210,601      |
| Net income per common share basic                                    |                            |              |                          |              |
| Continued operations   | \$ 0.14                    | \$ 0.42      | \$ 0.10                  | \$ 0.65      |
| Discontinued operations  | 0.01                       |              | 0.01                     | (0.01)       |
|  | \$ 0.15                    | \$ 0.42      | \$ 0.11                  | \$ 0.64      |
| Net income per common share diluted                                  |                            |              |                          |              |
| Continued operations   | \$ 0.14                    | \$ 0.41      | \$ 0.10                  | \$ 0.64      |
| Discontinued operations  |                            | (0.01)       |                          | (0.01)       |
|  | \$ 0.14                    | \$ 0.40      | \$ 0.10                  | \$ 0.63      |

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

The computation of diluted net income per common share for the three and six months ended July 2, 2006 excludes the effect of the potential exercise of options to purchase approximately 15.5 million and 16.3 million shares, respectively, because the option price was greater than the average market price of the common shares and the effect would have been anti-dilutive. The effect of Teradyne's outstanding convertible notes on diluted net income per share for the three and six months ended July 2, 2006 was calculated using the "if converted" method as required by

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SFAS No. 128, Earnings per Share . In using the if converted method, \$2.6 million and \$5.4 million of interest expense related to the convertible notes for the three and six months ended July 2, 2006, net of tax and profit sharing expenses, was added back to net income to arrive at diluted net income.

**Table of Contents****TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****J. Restructuring and Other, Net**

The tables below represent activity related to restructuring and other, net, in the six months ended July 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 \$1.8 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$11.1 million as of July 1, 2007.

**2007 Activities**

| (in thousands)               | Vacated<br>Facility<br>Related | Severance<br>and<br>Benefits | Total    |
|------------------------------|--------------------------------|------------------------------|----------|
| Balance at December 31, 2006 | \$                             | \$                           | \$       |
| Charges                      | 53                             | 4,163                        | 4,216    |
| Cash payments                | (53)                           | (1,914)                      | (1,967)  |
| Balance at July 1, 2007      | \$                             | \$ 2,249                     | \$ 2,249 |

During the six months ended July 1, 2007, Teradyne recorded the following restructuring activities:

\$4.2 million of severance charges related to headcount reductions of 139 people across all functions and segments; and

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

**2006 Activities**

| (in thousands)               | Vacated<br>Facility<br>Related | Severance<br>and<br>Benefits | Total    |
|------------------------------|--------------------------------|------------------------------|----------|
| Balance at December 31, 2006 | \$ 625                         | \$ 1,865                     | \$ 2,490 |
| Credits                      |                                | (141)                        | (141)    |
| Cash payments                | (290)                          | (1,557)                      | (1,847)  |
| Balance at July 1, 2007      | \$ 335                         | \$ 167                       | \$ 502   |

**Pre-2006 Activities**

| (in thousands) | Gain on Sale | Total |
|----------------|--------------|-------|
|----------------|--------------|-------|

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|                              | <b>Vacated<br/>Facility<br/>Related</b> | <b>Severance<br/>and<br/>Benefits</b> | <b>of<br/>Product Lines</b> |           |
|------------------------------|---|---------------------------------------|-----------------------------|-----------|
| Balance at December 31, 2006 | \$ 9,604                                | \$ 1,183                              | \$                          | \$ 10,787 |
| Credits                      | (69)                                    | (285)                                 | (906)                       | (1,260)   |
| Cash payments                | (2,182)                                 | (498)                                 | 906                         | (1,774)   |
| Balance at July 1, 2007      | \$ 7,353                                | \$ 400                                | \$                          | \$ 7,753  |

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**TERADYNE, INC.**

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

During the six months ended July 1, 2007, Teradyne recorded the following pre-2006 restructuring activities:

\$0.9 million credit for earn-out payments received in the Assembly Test Systems segment from product line divestitures; and

\$0.3 million credit for revised estimates on severance payments.

**K. 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 two years. Shares are to be repurchased at Teradyne's discretion, subject to market conditions and other factors. During the three months ended July 1, 2007, Teradyne repurchased 1.4 million shares of common stock for \$24.0 million at an average price of \$16.70. For the six months ended July 1, 2007, Teradyne repurchased 1.7 million shares of common stock for \$27.6 million at an average price of \$16.47 per share. The cumulative repurchases as of July 1, 2007 total 12.3 million shares of common stock for \$165.4 million at an average price of \$13.46. Subsequently, Teradyne has repurchased 5.5 million shares of common stock for \$87.3 million through August 3, 2007.

**L. 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 was acquired for use 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.

**M. Retirement Plans**

***Defined Benefit Pension Plans***

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

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

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

|                                      | For the Three Months Ended |                 | For the Six Months Ended |                 |
|--------------------------------------|----------------------------|-----------------|--------------------------|-----------------|
|                                      | July 1, 2007               | July 2, 2006    | July 1, 2007             | July 2, 2006    |
| <b>Net Periodic Benefit Cost:</b>    |                            |                 |                          |                 |
| Service cost                         | \$ 1,268                   | \$ 1,741        | \$ 2,811                 | \$ 3,450        |
| Interest cost                        | 4,118                      | 3,860           | 8,274                    | 7,795           |
| Expected return on plan assets       | (4,879)                    | (4,384)         | (9,762)                  | (8,721)         |
| <b>Amortization of unrecognized:</b> |                            |                 |                          |                 |
| Net transition obligation            | (17)                       | 19              | (33)                     | 38              |
| Prior service cost                   | 213                        | 211             | 424                      | 422             |
| Net loss                             | 847                        | 1,326           | 1,822                    | 2,945           |
| <b>Total expense</b>                 | <b>\$ 1,550</b>            | <b>\$ 2,773</b> | <b>\$ 3,536</b>          | <b>\$ 5,929</b> |

Teradyne contributed \$1.0 million to its United Kingdom Qualified Pension Plan and \$0.6 million to its Japan Qualified Pension Plan, in the six months ended July 1, 2007.

**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 |               | For the Six Months Ended |                 |
|--------------------------------------|----------------------------|---------------|--------------------------|-----------------|
|                                      | July 1, 2007               | July 2, 2006  | July 1, 2007             | July 2, 2006    |
| <b>Net Periodic Benefit Cost:</b>    |                            |               |                          |                 |
| Service cost                         | \$ 71                      | \$ 96         | \$ 127                   | \$ 192          |
| Interest cost                        | 317                        | 411           | 658                      | 822             |
| <b>Amortization of unrecognized:</b> |                            |               |                          |                 |
| Prior service cost                   | (59)                       | (59)          | (118)                    | (118)           |
| Net loss                             | 50                         | 242           | 143                      | 484             |
| <b>Total expense</b>                 | <b>\$ 379</b>              | <b>\$ 690</b> | <b>\$ 810</b>            | <b>\$ 1,380</b> |

**N. Income Taxes**

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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

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

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 have impacted the effective tax rate by \$2.5 million. Upon adoption, it was anticipated that within the next twelve months of adoption \$2.3 million of unrecognized tax benefits would no longer be considered unrecognized tax benefits due to audit settlements. Upon adoption and as of July 1, 2007, 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 and six months ended July 1, 2007 was not material.

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

|  | <b>For the Six Months<br/>Ended</b> |
|--|-------------------------------------|
|  | <b>July 1, 2007</b>                 |
| 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 as of April 1, 2007                     | \$ 12,723                           |
| Additions:   |                                     |
| Tax positions for current year                         | 37                                  |
| Tax positions for prior years                          | 2,407                               |
| Reductions:  |                                     |
| Settlements  | (2,342)                             |
| Ending balance as of July 1, 2007                      | \$ 12,825                           |

Of the \$12.8 million of unrecognized tax benefits as of July 1, 2007, \$6.4 million would impact the consolidated income tax rate if ultimately recognized. The remaining \$6.4 million would impact goodwill if ultimately recognized. As of July 1, 2007, it is anticipated that within the next twelve months, \$2.0 million of unrecognized tax benefits will no longer be considered unrecognized tax benefits due to audit settlements.

Due to the continued uncertainty of realization, Teradyne maintained its valuation allowance at July 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.

**O. 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. The District Court dismissed certain of the plaintiffs claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. Teradyne has petitioned the Ninth Circuit for rehearing of the ruling it reversed and will continue to defend the claim that was sent back to the District Court.





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**TERADYNE, INC.**

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

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 July 2007, Teradyne paid an immaterial amount and entered into a settlement agreement with the U.S. Environmental Protection Agency ( EPA ) and various regulatory agencies for the State of California for claims that Teradyne was a de minimis PRP with respect to the Casmalia Disposal Site in California.

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.

**P. Segment Information**

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

**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. Due to the sale on August 1, 2007 of the Broadband Test Systems business, its results have been excluded in all periods presented. Previously, Broadband Test Systems and Diagnostic Solutions had been combined to make up the Other Test Systems segment. Segment information for the three and six months ended July 1, 2007 and July 2, 2006 is as follows (in thousands):

|   | <b>Semiconductor<br/>Test Systems<br/>Segment</b> | <b>Assembly<br/>Test Systems<br/>Segment</b> | <b>Diagnostic<br/>Solutions<br/>Segment</b> | <b>Corporate<br/>and<br/>Eliminations</b> | <b>Consolidated</b> |
|---|---|--|---|---|---------------------|
| <b>Three months ended July 1, 2007:</b>               |   |  |   |   |                     |
| Net sales   | \$ 230,681  | \$ 41,193                                    | \$ 16,836                                   | \$  | \$ 288,710          |
| Income from continuing operations before taxes (1)(2) | 15,279  | 4,775  | 846   | 9,800                                     | 30,700              |
| <b>Three months ended July 2, 2006:</b>               |   |  |   |   |                     |
| Net sales   | \$ 315,076  | \$ 41,566                                    | \$ 30,177                                   | \$  | \$ 386,819          |
| Income from continuing operations before taxes (1)(2) | 79,352  | 1,559  | 4,834                                       | 7,862                                     | 93,607              |
| <b>Six months ended July 1, 2007:</b>                 |   |  |   |   |                     |
| Net sales   | \$ 424,649  | \$ 82,461                                    | \$ 35,293                                   | \$  | \$ 542,403          |
| Income from continuing operations before taxes (1)(2) | (6,387)   | 7,474  | 1,977                                       | 21,307                                    | 24,371              |
| <b>Six months ended July 2, 2006:</b>                 |   |  |   |   |                     |
| Net sales   | \$ 609,508  | \$ 80,289                                    | \$ 53,051                                   | \$  | \$ 742,848          |
| Income from continuing operations before taxes (1)(2) | 122,504   | 3,659  | 8,049                                       | 12,753                                    | 146,965             |

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

(2) Included in the income (loss) from continuing operations before taxes for each of the segments are charges for the three and six months ended July 1, 2007 and July 2, 2006 that include restructuring and other, net and in-process research and development charges, as follows: Included in the Semiconductor Test Systems segment are charges for the following (in thousands):

|                                     | <b>For the Three Months<br/>Ended</b> |                         | <b>For the Six Months<br/>Ended</b> |                         |
|-------------------------------------|---------------------------------------|-------------------------|-------------------------------------|-------------------------|
|                                     | <b>July 1,<br/>2007</b>               | <b>July 2,<br/>2006</b> | <b>July 1,<br/>2007</b>             | <b>July 2,<br/>2006</b> |
| Restructuring and other, net        | \$ 1,483                              | \$ (20,701)             | \$ 2,572                            | \$ (19,438)             |
| In-process research and development |                                       |                         | 16,700                              |                         |
| <b>Total</b>                        | <b>\$ 1,483</b>                       | <b>\$ (20,701)</b>      | <b>\$ 19,272</b>                    | <b>\$ (19,438)</b>      |

Also included in income from continuing operations before taxes for the six months ended July 2, 2006 is an inventory provision of \$8.0 million related to non-FLEX products.

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

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

|                              | For the Three Months Ended |              | For the Six Months Ended |              |
|------------------------------|----------------------------|--------------|--------------------------|--------------|
|                              | July 1, 2007               | July 2, 2006 | July 1, 2007             | July 2, 2006 |
| Restructuring and other, net | \$ (1,098)                 | \$ 644       | \$ (884)                 | \$ (1,746)   |

Included in the Diagnostic Solutions segment are charges for the following (in thousands):

|                              | For the Three Months Ended |              | For the Six Months Ended |              |
|------------------------------|----------------------------|--------------|--------------------------|--------------|
|                              | July 1, 2007               | July 2, 2006 | July 1, 2007             | July 2, 2006 |
| Restructuring and other, net | \$ 42                      | \$ 9         | \$ 588                   | \$ 9         |

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

|                              | For the Three Months Ended |              | For the Six Months Ended |              |
|------------------------------|----------------------------|--------------|--------------------------|--------------|
|                              | July 1, 2007               | July 2, 2006 | July 1, 2007             | July 2, 2006 |
| Restructuring and other, net | \$ 141                     | \$ (548)     | \$ 539                   | \$ (518)     |

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

We have identified the policies which are critical to understanding our business and our results of operations. Management believes that there have been no significant changes during the six months ended July 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<br>Months Ended |                 | For the Six<br>Months Ended |                 |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
|   | July 1,<br>2007               | July 2,<br>2006 | July 1,<br>2007             | July 2,<br>2006 |
| Percentage of total net revenues:                     |                               |                 |                             |                 |
| Products  | 79%                           | 85%             | 78%                         | 84%             |
| Services  | 21                            | 15              | 22                          | 16              |
| Total net revenues                                    | 100                           | 100             | 100                         | 100             |
| Cost of revenues:                                     |                               |                 |                             |                 |
| Cost of products                                      | 39                            | 41              | 39                          | 42              |
| Cost of services                                      | 13                            | 10              | 15                          | 10              |
| Total cost of revenues                                | 52                            | 51              | 54                          | 52              |
| Gross profit  | 48                            | 49              | 46                          | 48              |
| Operating expenses:                                   |                               |                 |                             |                 |
| Engineering and development                           | 18                            | 13              | 18                          | 14              |
| Selling and administrative                            | 22                            | 19              | 23                          | 19              |
| In-process research and development                   |                               |                 | 3                           |                 |
| Restructuring and other, net                          |                               | (5)             | 1                           | (3)             |
| Operating expenses                                    | 40                            | 27              | 45                          | 30              |
| Income from continuing operations                     | 8                             | 22              | 1                           | 18              |
| Interest income                                       | 3                             | 3               | 3                           | 3               |
| Interest expense                                      |                               | (1)             | (1)                         | (1)             |
| Other income  |                               |                 | 1                           |                 |
| Income from continuing operations before income taxes | 11                            | 24              | 4                           | 20              |
| Provision for income taxes                            | 1                             | 2               | 1                           | 2               |
| Income from continuing operations                     | 10                            | 22              | 3                           | 18              |
| Income from discontinued operations                   | 1                             | (1)             | 1                           | (1)             |
| Income tax provision (benefit)                        | 1                             |                 |                             |                 |
| Income (loss) from discontinued operations            |                               | (1)             | 1                           | (1)             |
| Net income  | 10%                           | 21%             | 4%                          | 17%             |
|   | 11%                           | 10%             | 20%                         | 12%             |

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

**Table of Contents****Results of Operations**

On August 1, 2007, we closed the sale of our Broadband Test Systems division to Tollgrade Communications, Inc. for \$11.3 million in cash. We sold this business as its growth potential as a stand-alone business within Teradyne was not attractive.

In accordance with SFAS 144, we are reporting Broadband Test Systems as a discontinued operation in the consolidated financial statements for all periods presented throughout this Form 10-Q. Previously, Broadband Test Systems and Diagnostic Solutions had been combined to make up the Other Test Systems segment. Unless indicated otherwise, the discussion and amounts provided in this Results of Operations section and elsewhere in this Form 10-Q relate to continuing operations only.

Broadband Test Systems net revenues and income (loss) for the three and six months ended July 1, 2007 and July 2, 2006 are as follows (in thousands):

|  | For the Three Months Ended |              | For the Six Months Ended |              |
|--|----------------------------|--------------|--------------------------|--------------|
|  | July 1, 2007               | July 2, 2006 | July 1, 2007             | July 2, 2006 |
| Net revenues                               | \$ 5,859                   | \$ 4,816     | \$ 10,224                | \$ 11,701    |
| Income (loss) before income taxes          | \$ 618                     | \$ (1,825)   | \$ 711                   | \$ (1,715)   |
| Income tax provision (benefit)             | 210                        | (43)         | 225                      | (76)         |
| Income (loss) from discontinued operations | \$ 408                     | \$ (1,782)   | \$ 486                   | \$ (1,639)   |

Included in discontinued operations for the three and six months ended July 1, 2007 are \$0.6 million of fees directly related to the sale transaction between Teradyne and Tollgrade Communications.

**Second Quarter 2007 Compared to Second 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 |
|----------------------------|----------------------------|--------------|----------|
|                            | July 1, 2007               | July 2, 2006 |          |
| Semiconductor Test Systems | \$ 259.2                   | \$ 318.5     | (18.6)%  |
| Assembly Test Systems      | 34.6                       | 47.4         | (27.0)   |
| Diagnostic Solutions       | 12.8                       | 35.4         | (63.8)   |
|                            | \$ 306.6                   | \$ 401.3     | (23.6)%  |

The Semiconductor Test Systems orders decreased 19% 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 was primarily due to reduced Mil/Aero program-related bookings.

Diagnostic Solutions orders are program related and have significant fluctuations. The decrease in Diagnostic Solutions bookings was primarily due to a large program rollout in 2006 for the Vehicle Measurement Module product line.





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Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the second 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.

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

|                 | For the Three Months |                  |
|-----------------|----------------------|------------------|
|                 | July 1,              | Ended<br>July 2, |
|                 | 2007                 | 2006             |
| Taiwan          | 24%                  | 14%              |
| South East Asia | 17                   | 15               |
| United States   | 15                   | 25               |
| Korea           | 13                   | 11               |
| Singapore       | 13                   | 8                |
| Europe          | 10                   | 13               |
| Japan           | 7                    | 13               |
| Rest of World   | 1                    | 1                |
|                 | 100%                 | 100%             |

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

|                            | For the Three Months |                  |
|----------------------------|----------------------|------------------|
|                            | July 1,              | Ended<br>July 2, |
|                            | 2007                 | 2006             |
| Semiconductor Test Systems | \$ 250.6             | \$ 307.8         |
| Assembly Test Systems      | 65.1                 | 72.3             |
| Diagnostic Solutions       | 28.0                 | 44.8             |
|                            | \$ 343.7             | \$ 424.9         |

*Revenue*

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

|  | For the Three Months |                  |        |
|--|----------------------|------------------|--------|
|  | July 1,              | Ended<br>July 2, | %      |
|  | 2007                 | 2006             | Change |

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|                            |          |          |         |
|----------------------------|----------|----------|---------|
| Semiconductor Test Systems | \$ 230.7 | \$ 315.1 | (26.8)% |
| Assembly Test Systems      | 41.2     | 41.6     | (1.0)   |
| Diagnostic Solutions       | 16.8     | 30.1     | (44.2)  |
|                            | \$ 288.7 | \$ 386.8 | (25.4)% |

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 Diagnostic Solutions revenue was due primarily to the large program rollout in 2006 for the Vehicle Measurement Module product line.

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

|                   | For the Three Months |         |
|-------------------|----------------------|---------|
|                   | July 1,              | July 2, |
|                   | 2007                 | 2006    |
| United States     | 21%                  | 20%     |
| Taiwan            | 19                   | 12      |
| South East Asia   | 16                   | 20      |
| Singapore         | 15                   | 12      |
| Japan             | 11                   | 11      |
| Europe            | 10                   | 15      |
| Korea             | 6                    | 9       |
| Rest of the World | 2                    | 1       |
|                   | 100%                 | 100%    |

*Gross Profit*

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

|                          | For the Three Months |          |           |
|--------------------------|----------------------|----------|-----------|
|                          | July 1,              | July 2,  | Period    |
|                          | 2007                 | 2006     | Change    |
| Gross Profit             | \$ 137.2             | \$ 190.6 | \$ (53.4) |
| Percent of Total Revenue | 47.5%                | 49.3%    |           |

Gross profit as a percentage of revenue decreased from the second quarter of 2006 to 2007 by 1.8 percentage points. Of the decrease, 3.6 points can be attributed to lower volume in Semiconductor Test Systems offset in part by lower fixed costs and greater manufacturing efficiencies.

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.

During the three months ended July 1, 2007 and July 2, 2006, we scrapped \$3.9 million and \$4.4 million of inventory, respectively, and sold \$0.6 million and \$2.0 million of previously written-down or written-off inventory, respectively. As of July 1, 2007, we have inventory related reserves for amounts which had been written-down or written-off totaling \$129.7 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):

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|                             | For the Three Months |                  |        |
|-----------------------------|----------------------|------------------|--------|
|                             | July 1,              | Ended<br>July 2, | Period |
|                             | 2007                 | 2006             | Change |
| Engineering and Development | \$ 52.4              | \$ 51.8          | \$ 0.6 |
| Percent of Total Revenue    | 18.2%                | 13.4%            |        |

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The increase of \$0.6 million in engineering and development expenses is due to an increase in Semiconductor Test Systems spending related to entry into an adjacent market offset in part by a reduction in variable employee compensation expense across all segments.

*Selling and Administrative*

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

|                            | For the Three Months |                  |           |
|----------------------------|----------------------|------------------|-----------|
|                            | July 1,              | Ended<br>July 2, | Period    |
|                            | 2007                 | 2006             | Change    |
| Selling and Administrative | \$ 62.8              | \$ 73.9          | \$ (11.1) |
| Percent of Total Revenue   | 21.7%                | 19.1%            |           |

The decrease of \$11.1 million from the second quarter of 2006 to 2007 is primarily the result of:

a decrease of \$6.7 million in variable employee compensation; and

a decrease of \$4.4 million in transition expenses, including the consolidation of facilities in Massachusetts and costs associated with the outsourcing of certain information technology functions.

*Restructuring and Other, Net*

The tables below represent activity related to restructuring and other, net, in the three months ended July 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 \$1.8 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$11.1 million as of July 1, 2007.

**2007 Activities**

| (in thousands)           | Vacated          | Severance and | Total    |
|--------------------------|------------------|---------------|----------|
|                          | Facility Related | Benefits      |          |
| Balance at April 1, 2007 | \$               | \$ 1,956      | \$ 1,956 |
| Charges                  |                  | 1,697         | 1,697    |
| Cash payments            |                  | (1,404)       | (1,404)  |
| Balance at July 1, 2007  | \$               | \$ 2,249      | \$ 2,249 |

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

\$1.7 million of severance charges related to headcount reductions of 101 people across all functions and segments; The restructuring actions taken during the three months ended July 1, 2007, are expected to generate quarterly cost savings of approximately \$1.3 million.

*2006 Activities*

| <b>(in thousands)</b>    | <b>Vacated Facility<br/>Related</b> | <b>Severance and<br/>Benefits</b> | <b>Total</b> |
|--------------------------|-------------------------------------|-----------------------------------|--------------|
| Balance at April 1, 2007 | \$ 480                              | \$ 425                            | \$ 905       |
| Charges                  |                                     | 55                                | 55           |
| Cash payments            | (145)                               | (313)                             | (458)        |
| Balance at July 1, 2007  | \$ 335                              | \$ 167                            | \$ 502       |

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|                          | <b>Vacated<br/>Facility<br/>Related</b> | <b>Severance<br/>and<br/>Benefits</b> | <b>Gain on Sale<br/>of<br/>Product Lines</b> | <b>Total</b> |
|--------------------------|---|---------------------------------------|--|--------------|
| <b>(in thousands)</b>    |   |                                       |  |              |
| Balance at April 1, 2007 | \$ 8,079                                | \$ 868                                | \$   | \$ 8,947     |
| Credits                  | (52)                                    | (226)                                 | (906)  | (1,184)      |
| Cash payments            | (674)                                   | (242)                                 | 906  | (10)         |
| Balance at July 1, 2007  | \$ 7,353                                | \$ 400                                |  | \$ 7,753     |

During the three months ended July 1, 2007, we recorded the following pre-2006 restructuring activities:

\$0.9 million credit for earn-out payments received in the Assembly Test Systems segment from product line divestitures; and

\$0.2 million credit for revised estimates on severance payments.

*Interest Income and Expense*

Interest income decreased to \$9.3 million for the second quarter of 2007 from \$11.7 million in the second quarter of 2006, due to lower cash balances primarily from the repayment of our 3.75% Convertible Notes (the Notes) in the fourth quarter of 2006 and stock repurchases made beginning in the second half of 2006. Interest expense decreased to \$0.1 million in the second quarter of 2007 from \$3.5 million in the second quarter of 2006, due primarily to the repayment of the Notes.

*Income Taxes*

The tax expense of \$3.5 million and \$9.4 million for the second quarter of 2007 and 2006, respectively consists primarily of 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 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 po