

TERADYNE, INC
Form 10-Q
August 10, 2012
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 1, 2012

OR

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

For the transition period from to

Commission File No. 001-06462

TERADYNE, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: TERADYNE, INC - Form 10-Q

Massachusetts
(State or Other Jurisdiction of

04-2272148
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

600 Riverpark Drive, North Reading,

Massachusetts
(Address of Principal Executive Offices)

01864
(Zip Code)

978-370-2700

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the 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 6, 2012 was 187,592,476 shares.

Table of Contents

TERADYNE, INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of July 1, 2012 and December 31, 2011</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 1, 2012 and July 3, 2011</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended July 1, 2012 and July 3, 2011</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 1, 2012 and July 3, 2011</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	42
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 6. <u>Exhibits</u>	44

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

	July 1, 2012	December 31, 2011
	(in thousands,	
	except per share amount)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 589,056	\$ 573,736
Marketable securities	105,947	96,502
Accounts receivable, less allowance for doubtful accounts of \$4,160 and \$4,102 at July 1, 2012 and December 31, 2011, respectively	346,124	129,330
Inventories:		
Raw materials	92,994	109,315
Assemblies in process	27,078	33,856
Finished goods	17,826	16,892
	137,898	160,063
Deferred tax assets	56,888	53,948
Prepayments and other current assets	80,895	86,308
Total current assets	1,316,808	1,099,887
Property, plant and equipment	827,608	798,194
Less: Accumulated depreciation	579,608	565,987
Net property, plant and equipment	248,000	232,207
Long-term marketable securities	133,750	84,407
Retirement plan assets	7,182	8,840
Intangible assets, net	356,117	392,975
Goodwill	352,778	352,778
Other assets	20,035	17,545
Total assets	\$ 2,434,670	\$ 2,188,639
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 117,343	\$ 69,842
Accrued employees' compensation and withholdings	80,118	90,427
Deferred revenue and customer advances	83,710	78,670
Contingent consideration	54,662	68,892
Other accrued liabilities	64,298	62,420
Accrued income taxes	23,218	860
Current debt	2,522	2,573
Total current liabilities	425,871	373,684
Long-term deferred revenue and customer advances	22,303	33,541
Retirement plan liabilities	77,295	76,638

Edgar Filing: TERADYNE, INC - Form 10-Q

Deferred tax liabilities	37,915	16,049
Long-term other accrued liabilities	20,573	23,711
Long-term debt	165,283	159,956
Total liabilities	749,240	683,579
Commitments and contingencies (Note O)		
SHAREHOLDERS EQUITY		
Common stock, \$0.125 par value, 1,000,000 shares authorized, 187,213 shares and 183,587 shares issued and outstanding at July 1, 2012 and December 31, 2011, respectively	23,402	22,948
Additional paid-in capital	1,327,574	1,293,130
Accumulated other comprehensive income	5,267	4,746
Retained earnings	329,187	184,236
Total shareholders equity	1,685,430	1,505,060
Total liabilities and shareholders equity	\$ 2,434,670	\$ 2,188,639

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, 2011, 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, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands, except per share amount)			
Net revenues:				
Products	\$ 480,578	\$ 341,316	\$ 811,469	\$ 657,035
Services	67,706	69,203	133,483	130,645
Total net revenues	548,284	410,519	944,952	787,680
Cost of revenues:				
Cost of products	206,498	160,403	380,499	313,283
Cost of services	32,280	35,438	64,021	66,827
Total cost of revenues	238,778	195,841	444,520	380,110
Gross profit	309,506	214,678	500,432	407,570
Operating expenses:				
Engineering and development	66,532	48,392	126,667	95,536
Selling and administrative	73,366	57,880	141,143	115,611
Acquired intangible asset amortization	18,429	7,291	36,858	14,582
Restructuring and other, net	(6,262)	1,279	(8,087)	1,692
Total operating expenses	152,065	114,842	296,581	227,421
Income from operations	157,441	99,836	203,851	180,149
Interest income	874	1,403	1,767	2,690
Interest expense and other	(6,323)	(5,316)	(12,382)	(11,492)
Income from continuing operations before income taxes	151,992	95,923	193,236	171,347
Income tax provision	40,605	7,839	48,285	13,325
Income from continuing operations	111,387	88,084	144,951	158,022
Income from discontinued operations before income taxes				1,436
Income tax benefit				(267)
Income from discontinued operations				1,703
(Loss) Gain on disposal of discontinued operations (net of income tax of \$0, \$0, \$0, \$4,578, respectively)		(832)		24,371
Net income	\$ 111,387	\$ 87,252	\$ 144,951	\$ 184,096
Income per common share from continuing operations:				
Basic	\$ 0.60	\$ 0.48	\$ 0.78	\$ 0.85
Diluted	\$ 0.49	\$ 0.38	\$ 0.63	\$ 0.68

Edgar Filing: TERADYNE, INC - Form 10-Q

Net income per common share:

Basic	\$ 0.60	\$ 0.47	\$ 0.78	\$ 0.99
Diluted	\$ 0.49	\$ 0.38	\$ 0.63	\$ 0.80
Weighted average common share basic	186,573	185,367	186,205	185,044
Weighted average common share diluted	229,646	230,452	230,399	231,266

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, 2011, are an integral part of the condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Net income	\$ 111,387	\$ 87,252	\$ 144,951	\$ 184,096
Other comprehensive income, net of tax:				
Foreign currency translation reclassification adjustment included in net income				2,266
Unrealized gains on marketable securities:				
Unrealized gains on marketable securities arising during period	452	1,421	1,196	1,620
Less: Reclassification adjustment for gains included in net income	(24)	(126)	(490)	(310)
	428	1,295	706	1,310
Defined benefit pension and post-retirement plans:				
Amortization of prior service (benefit) cost included in net periodic pension and post-retirement costs	(92)	5	(183)	11
Other comprehensive income	336	1,300	523	3,587
Comprehensive income	\$ 111,723	\$ 88,552	\$ 145,474	\$ 187,683

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, 2011, are an integral part of the condensed

consolidated financial statements.

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

	For the Six Months Ended	
	July 1, 2012	July 3, 2011
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 144,951	\$ 184,096
Less: Income from discontinued operations		1,703
Less: Gain on disposal of discontinued operations		24,371
Income from continuing operations	144,951	158,022
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	25,578	25,645
Amortization	43,744	20,816
Stock-based compensation	21,396	14,682
Deferred taxes	15,937	
Provision for excess and obsolete inventory	10,927	6,343
Non cash charge for the sale of inventories revalued at the date of acquisition	6,089	
Contingent consideration adjustment	(8,406)	
Tax benefit related to stock options and restricted stock units	(7,600)	(3,717)
Retirement plans actuarial losses	3,054	4,203
Other	(438)	1,684
Changes in operating assets and liabilities, net of businesses sold:		
Accounts receivable	(216,794)	(39,067)
Inventories	21,446	(15,006)
Other assets	5,027	(10,344)
Deferred revenue and customer advances	(6,198)	(28,339)
Accounts payable and other accrued expenses	27,140	(9,275)
Retirement plans contributions	(2,550)	(5,245)
Accrued income taxes	29,958	5,406
Net cash provided by continuing operations	113,261	125,808
Net cash used for discontinued operations		(4,225)
Net cash provided by operating activities	113,261	121,583
Cash flows from investing activities:		
Purchases of property, plant and equipment	(57,804)	(44,467)
Purchases of available-for-sale marketable securities	(156,771)	(498,541)
Proceeds from maturities of available-for-sale marketable securities	59,405	366,144
Proceed from sales of available-for-sale marketable securities	39,715	54,333
Net cash used for continuing operations	(115,455)	(122,531)
Net cash provided by discontinued operations		39,062
Net cash used for investing activities	(115,455)	(83,469)
Cash flows from financing activities:		
Issuance of common stock under employee stock option and stock purchase plans	16,984	17,052
Tax benefit related to stock options and restricted stock units	7,600	3,717
Payments of long-term debt	(1,246)	(1,222)
Payments of contingent consideration	(5,824)	
Net cash provided by financing activities	17,514	19,547

Edgar Filing: TERADYNE, INC - Form 10-Q

Increase in cash and cash equivalents	15,320	57,661
Cash and cash equivalents at beginning of period	573,736	397,737
Cash and cash equivalents at end of period	\$ 589,056	\$ 455,398

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, 2011, are an integral part of the condensed consolidated financial statements.

Table of Contents

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A. The Company

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

semiconductor test (Semiconductor Test) systems,

military/aerospace (Mil/Aero) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Commercial Board Test) systems (collectively these products represent Systems Test Group), and

wireless test (Wireless Test) systems.

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, 2011 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 U.S. Security and Exchange Commission (SEC) on February 29, 2012, for the year ended December 31, 2011.

Preparation of Financial Statements and Use of Estimates

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. Change in Accounting Principle

Effective January 1, 2012, Teradyne changed the method of recognizing actuarial gains and losses for its defined benefit pension plans and postretirement benefit plan and calculating the expected return on plan assets for its defined benefit pension plans. Historically, Teradyne recognized net actuarial gains and losses in accumulated other comprehensive income within shareholders equity on the consolidated balance sheets on an annual basis and amortized them into operating results over the average remaining years of service of the plan participants, to the extent such gains and losses were outside of a range (corridor). Teradyne has elected to immediately recognize net actuarial gains and losses and the change in the fair value of the plan assets in its operating results in the year in which they occur or upon any interim remeasurement of the plans. In addition, Teradyne used to calculate the expected return on plan assets using a calculated market-related value of plan assets. Teradyne has also elected to calculate the expected return on plan assets using the fair value of the plan assets.

Teradyne believes that this new method is preferable as it eliminates the delay in recognizing gains and losses in its operating results and it will improve the transparency by faster recognition of the effects of

Table of Contents

economic and interest rate trends on plan obligations and investments. These actuarial gains and losses are generally measured annually as of December 31 and, accordingly, will be recorded during the fourth quarter of each year or upon any interim remeasurement of the plans. In accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 250, Accounting Changes and Error Corrections, all prior periods presented in this Quarterly Report on Form 10-Q have been adjusted to apply the new accounting method retrospectively. This accounting change did not impact the financial position of the reportable segments.

Had these changes not been made, net income for the three months and six months ended July 1, 2012 would have been \$110.4 million and \$140.3 million, respectively, compared to the \$111.4 million and \$145.0 million actually recorded. Diluted earnings per share would have been \$0.48 and \$0.61 compared to \$0.49 and \$0.63 for the three months and six months ended July 1, 2012, respectively.

The effects of the change in accounting principle on the condensed consolidated financial statements for 2011 are presented below. We have condensed the comparative financial statements for financial statement line items that were not affected by the change in accounting principle.

Condensed Consolidated Balance Sheets

	Originally Reported	December 31, 2011 Effect of Accounting Change (in thousands)	As Adjusted
Assets:			
Total assets	\$ 2,188,639	\$	\$ 2,188,639
Liabilities:			
Total liabilities	683,579		683,579
Shareholders' Equity:			
Common stock	22,948		22,948
Additional paid-in capital	1,293,130		1,293,130
Accumulated other comprehensive (loss) income	(129,875)	134,621	4,746
Retained earnings	318,857	(134,621)	184,236
Total shareholders' equity	1,505,060		1,505,060
Total liabilities and shareholders' equity	\$ 2,188,639	\$	\$ 2,188,639

Table of Contents*Condensed Consolidated Statements of Operations*

	Originally Reported	For the Three Months Ended July 3, 2011 Effect of Accounting Change (in thousands, except per share amounts)	As Adjusted
Net revenues	\$ 410,519	\$	\$ 410,519
Cost of revenues	195,433	408	195,841
Gross profit	215,086	(408)	214,678
Operating expenses:			
Engineering and development	47,393	999	48,392
Selling and administrative	57,481	399	57,880
Acquired intangible asset amortization	7,291		7,291
Restructuring and other	1,279		1,279
Total operating expenses	113,444	1,398	114,842
Income from operations	101,642	(1,806)	99,836
Interest income	1,403		1,403
Interest expense and other, net	(5,316)		(5,316)
Income from continuing operations before income taxes	97,729	(1,806)	95,923
Provision for income taxes	7,839		7,839
Income from continuing operations	89,890	(1,806)	88,084
Loss on disposal of discontinued operations	(832)		(832)
Net income	\$ 89,058	\$ (1,806)	\$ 87,252
Net income per common share from continuing operations:			
Basic	\$ 0.48	\$	\$ 0.48
Diluted	\$ 0.39	\$ (0.01)	\$ 0.38
Net income per common share:			
Basic	\$ 0.48	\$ (0.01)	\$ 0.47
Diluted	\$ 0.39	\$ (0.01)	\$ 0.38
Weighted average common share basic	185,367		185,367
Weighted average common share diluted	230,452		230,452

Table of Contents

	Originally Reported	For the Six Months Ended July 3, 2011 Effect of Accounting Change (in thousands, except per share amounts)	As Adjusted
Net revenues	\$ 787,680	\$	\$ 787,680
Cost of revenues	380,185	(75)	380,110
Gross profit	407,495	75	407,570
Operating expenses:			
Engineering and development	95,370	166	95,536
Selling and administrative	115,710	(99)	115,611
Acquired intangible asset amortization	14,582		14,582
Restructuring and other	1,692		1,692
Total operating expenses	227,354	67	227,421
Income from operations	180,141	8	180,149
Interest income	2,690		2,690
Interest expense and other, net	(11,492)		(11,492)
Income from continuing operations before income taxes	171,339	8	171,347
Provision for income taxes	13,325		13,325
Income from continuing operations	158,014	8	158,022
Income from discontinued operations before income taxes	1,278	158	1,436
Benefit from income taxes	(267)		(267)
Income from discontinued operations	1,545	158	1,703
Gain on disposal of discontinued operations (net of tax of \$4,578)	24,371		24,371
Net income	\$ 183,930	\$ 166	\$ 184,096
Net income per common share from continuing operations:			
Basic	\$ 0.85	\$	\$ 0.85
Diluted	\$ 0.68	\$	\$ 0.68
Net income per common share:			
Basic	\$ 0.99	\$	\$ 0.99
Diluted	\$ 0.80	\$	\$ 0.80
Weighted average common share basic	185,044		185,044
Weighted average common share diluted	231,266		231,266

Table of Contents*Condensed Consolidated Statements of Comprehensive Income*

	Originally Reported	For the Three Months Ended July 3, 2011 Effect of Accounting Change (in thousands)	As Adjusted
Net income	\$ 89,058	\$ (1,806)	\$ 87,252
Other comprehensive income, net of tax:			
Unrealized gains on marketable securities	1,295		1,295
Defined benefit pension and post-retirement plans:			
Actuarial losses arising during period, net of tax of (\$10), \$10	(4,150)	4,150	
Settlement gain, net of tax of \$38, (\$38)	217	(217)	
Less: Amortization included in net periodic pension and post-retirement costs:			
Actuarial losses, net of tax of \$8, (\$8)	2,377	(2,377)	
Prior service costs, net of tax of \$0	5		5
	2,382	(2,377)	5
Other comprehensive income	(256)	1,556	1,300
Comprehensive income	\$ 88,802	\$ (250)	\$ 88,552

	Originally Reported	For the Six Months Ended July 3, 2011 Effect of Accounting Change (in thousands)	As Adjusted
Net income	\$ 183,930	\$ 166	\$ 184,096
Other comprehensive income, net of tax:			
Foreign currency translation reclassification adjustment included in net income	2,266		2,266
Unrealized gains on marketable securities	1,310		1,310
Defined benefit pension and post-retirement plans:			
Actuarial losses arising during period, net of tax of (\$5), \$5	(4,201)	4,201	
Settlement gain, net of tax of \$73, (\$73)	277	(277)	
Less: Amortization included in net periodic pension and post-retirement costs:			
Actuarial losses, net of tax of \$20, (\$20)	4,455	(4,455)	
Prior service costs, net of tax of \$0	11		11
	4,466	(4,455)	11
Other comprehensive income	4,118	(531)	3,587
Comprehensive income	\$ 188,048	\$ (365)	\$ 187,683

Table of Contents**Condensed Consolidated Statements of Cash Flows**

	Originally Reported	For the Six Months Ended July 3, 2011 Effect of Accounting Change (in thousands)	As Adjusted
Cash flows from operating activities:			
Net income	\$ 183,930	\$ 166	\$ 184,096
Less: Income from discontinued operations	1,545	158	1,703
Less: Gain on disposal of discontinued operations	24,371		24,371
Income from continuing operations	158,014	8	158,022
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	25,645		25,645
Amortization	25,289	(4,473)	20,816
Stock-based compensation	14,682		14,682
Provision for excess and obsolete inventory	6,343		6,343
Tax benefit related to stock options and restricted stock units	(3,717)		(3,717)
Other	1,422	4,465	5,887
Changes in operating assets and liabilities, net of businesses sold:			
Accounts receivable	(39,067)		(39,067)
Inventories	(15,006)		(15,006)
Other assets	(10,344)		(10,344)
Deferred revenue and customer advances	(28,339)		(28,339)
Accounts payable and other accrued expenses	(9,275)		(9,275)
Retirement plan contributions	(5,245)		(5,245)
Accrued income taxes	5,406		5,406
Net cash provided by continuing operations	125,808		125,808
Net cash used for discontinued operations	(4,225)		(4,225)
Net cash provided by operating activities	121,583		121,583
Net cash used for investing activities	(83,469)		(83,469)
Net cash provided by financing activities	19,547		19,547
Increase in cash and cash equivalents	57,661		57,661
Cash and cash equivalents at beginning of period	397,737		397,737
Cash and cash equivalents at end of period	\$ 455,398	\$	\$ 455,398

D. Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. This ASU is intended to enhance the understanding of the effects of netting arrangements on an entity's financial statements, including financial instruments and derivative instruments that are either offset or subject to a master netting arrangement. The scope of this ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013.

Table of Contents**E. Discontinued Operations**

On March 21, 2011, Teradyne completed the sale of its Diagnostic Solutions business unit, which was included in the Systems Test Group segment, to SPX Corporation for \$40.2 million in cash. Teradyne sold this business as its growth potential as a stand-alone business within Teradyne was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations for all periods presented. Net revenues and income from discontinued operations for the three and six months ended July 3, 2011 were as follows:

	For the Three Months Ended July 3, 2011	For the Six Months Ended July 3, 2011
	(in thousands)	
Net revenues	\$	\$ 9,086
Income from discontinued operations before income taxes	\$	\$ 1,436
(Loss) Gain from disposal of discontinued operations before income taxes	(832)	28,949
Income tax provision		4,311
(Loss) Income from discontinued operations	\$ (832)	\$ 26,074

F. 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 three and six months ended July 1, 2012 and July 3, 2011. As defined in ASC 820-10, *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities are carried at fair value and are classified in one of the following three categories:

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

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

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

Most of Teradyne's fixed income securities are classified as Level 2, with the exception of U.S. Treasury securities and investments in equity and debt mutual funds, which are classified as Level 1, and contingent consideration, which is classified as Level 3. As of July 1, 2012, the majority of Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available, use other observable inputs like market transactions involving identical or comparable securities.

During the six months ended July 1, 2012 and July 3, 2011, there were no transfers in and out of Level 1, Level 2 and Level 3.

Table of Contents

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 1, 2012 and December 31, 2011.

	July 1, 2012			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				
Cash	\$ 214,948	\$	\$	\$ 214,948
Cash equivalents	363,877	10,231		374,108
Available for sale securities:				
U.S. government agency securities		112,315		112,315
Corporate debt securities		48,891		48,891
Commercial paper		30,990		30,990
U.S. Treasury securities	28,673			28,673
Certificates of deposit and time deposits		9,500		9,500
Equity and debt mutual funds	9,058			9,058
Non-U.S. government securities	270			270
Total	\$ 616,826	\$ 211,927	\$	\$ 828,753
Liabilities				
Contingent consideration	\$	\$	\$ 54,662	\$ 54,662
Derivatives		81		81
Total	\$	\$ 81	\$ 54,662	\$ 54,743

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
(in thousands)				
Assets				
Cash and cash equivalents	\$ 578,825	\$ 10,231	\$	\$ 589,056
Marketable securities	5,431	100,516		105,947
Long-term marketable securities	32,570	101,180		133,750
	\$ 616,826	\$ 211,927	\$	\$ 828,753
Liabilities				
Contingent consideration	\$	\$	\$ 54,662	\$ 54,662
Other accrued liabilities		81		81
	\$	\$ 81	\$ 54,662	\$ 54,743

Table of Contents

	December 31, 2011			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets				
Cash	\$ 161,243	\$	\$	\$ 161,243
Cash equivalents	396,329	16,164		412,493
Available for sale securities:				
U.S. government agency securities		83,197		83,197
Corporate debt securities		44,829		44,829
Commercial paper		22,075		22,075
U.S. Treasury securities	14,180			14,180
Equity and debt mutual funds	8,237			8,237
Certificates of deposit and time deposits		8,117		8,117
Non-U.S. government securities	274			274
Total	\$ 580,263	\$ 174,382	\$	\$ 754,645
Liabilities				
Contingent consideration	\$	\$	\$ 68,892	\$ 68,892
Derivatives		314		314
Total	\$	\$ 314	\$ 68,892	\$ 69,206

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 557,572	\$ 16,164	\$	\$ 573,736
Marketable securities	9,044	87,458		96,502
Long-term marketable securities	13,647	70,760		84,407
	\$ 580,263	\$ 174,382	\$	\$ 754,645
Liabilities				
Contingent consideration	\$	\$	\$ 68,892	\$ 68,892
Other accrued liabilities		314		314
	\$	\$ 314	\$ 68,892	\$ 69,206

Contingent consideration is measured at fair value and is based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The valuation of contingent consideration uses assumptions and estimates to forecast a range of outcomes. Teradyne assesses these assumptions and estimates on a quarterly basis as additional data impacting the assumptions is obtained. Changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within the condensed consolidated statements of operations.

Table of Contents

The following table provides quantitative information associated with the fair value measurement of Teradyne's Level 3 financial instrument:

Liability	July 1, 2012 Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Weighted Average
Contingent consideration	\$54,662	Income approach discounted cash flow	Revenue earn-out probability of low case (scenario) for calendar year 2012 revenue.	70%
			Revenue earn-out probability of high case (scenario) for calendar year 2012 revenue.	30%
			Discount rate for revenue earn-out	3.5%
			Discount rate for new product earn-out	3.5%

The significant unobservable inputs used in the fair value measurement of contingent consideration are the probabilities of successful achievement of calendar year 2012 revenues, the quarterly period in which the revenues are expected to be achieved and a discount rate. Increases or decreases in the revenue probabilities and the period in which revenues will be achieved would result in a higher or lower fair value measurement.

The following table represents changes in the fair value of Level 3 contingent consideration:

	Contingent consideration (in thousands)
Balance at December 31, 2011	\$ 68,892
Fair value adjustment	(1,858)
Payment	(5,824)
Balance at April 1, 2012	61,210
Fair value adjustment	(6,548)
Balance at July 1, 2012	\$ 54,662

Proceeds from sales of available-for-sale marketable securities were \$39.7 million and \$54.3 million, respectively, for the six months ended July 1, 2012 and July 3, 2011.

During the three and six months ended July 1, 2012, Teradyne recorded a net gain of \$0.3 million and \$0.6 million, respectively, from sales of marketable securities. During the three and six months ended July 3, 2011, Teradyne recorded a net gain of \$0.1 million and a net loss \$0.1 million, respectively, from sales of marketable securities.

Realized losses from sales of marketable securities are included in interest expense and other. Realized gains from sales of marketable securities are included in interest income.

The carrying amounts and fair values of financial instruments at July 1, 2012 and December 31, 2011 were as follows:

	July 1, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in thousands)		
Cash and cash equivalents	\$ 589,056	\$ 589,056	\$ 573,736	\$ 573,736
Marketable securities	239,697	239,697	180,909	180,909
Convertible debt(1)	162,762	496,138	156,098	485,925
Japan loan	5,043	5,043	6,431	6,431

Edgar Filing: TERADYNE, INC - Form 10-Q

- (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.

Table of Contents

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

At July 1, 2012 and December 31, 2011, available-for-sale marketable securities were reported as follows:

	July 1, 2012				Fair Market Value of Investments with Unrealized Losses
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	
U.S. government agency securities	\$ 112,162	\$ 168	\$ (15)	\$ 112,315	\$ 49,867
Corporate debt securities	46,890	2,071	(70)	48,891	18,236
Commercial paper	30,994	5	(9)	30,990	13,234
U.S. Treasury securities	28,564	109		28,673	
Certificates of deposit and time deposits	9,501		(1)	9,500	5,822
Equity and debt mutual funds	8,345	726	(13)	9,058	332
Non-U.S. government securities	270			270	
	\$ 236,726	\$ 3,079	\$ (108)	\$ 239,697	\$ 87,491

Reported as follows:

	December 31, 2011				Fair Market Value of Investments with Unrealized Losses
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	
Marketable securities	\$ 105,954	\$ 12	\$ (19)	\$ 105,947	\$ 47,572
Long-term marketable securities	130,772	3,067	(89)	133,750	39,919
	\$ 236,726	\$ 3,079	\$ (108)	\$ 239,697	\$ 87,491

	December 31, 2011				Fair Market Value of Investments with Unrealized Losses
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	
U.S. government agency securities	\$ 83,070	\$ 152	\$ (25)	\$ 83,197	\$ 28,510
Corporate debt securities	43,077	1,893	(141)	44,829	17,033
Commercial paper	22,083	2	(10)	22,075	9,479
U.S. Treasury securities	14,141	39		14,180	
Equity and debt mutual funds	7,876	477	(116)	8,237	3,749
Certificates of deposit and time deposits	8,122		(5)	8,117	5,800
Non-U.S. government securities	256	18		274	

Edgar Filing: TERADYNE, INC - Form 10-Q

\$ 178,625 \$ 2,581 \$ (297) \$ 180,909 \$ 64,571

Table of Contents

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
Marketable securities	\$ 96,518	\$ 24	\$ (40)	\$ 96,502	\$ 35,595
Long-term marketable securities	82,107	2,557	(257)	84,407	28,976
	\$ 178,625	\$ 2,581	\$ (297)	\$ 180,909	\$ 64,571

As of July 1, 2012, the fair market value of marketable securities with unrealized losses totaled \$87.5 million. Of this value, \$7.1 million had unrealized losses greater than one year and \$80.4 million had unrealized losses less than one year. As of December 31, 2011, the fair market value of marketable securities with unrealized losses totaled \$64.6 million. Of this value, \$2.4 million had unrealized losses greater than one year and \$62.2 million had unrealized losses less than one year.

The contractual maturities of available-for-sale marketable securities as of July 1, 2012 were as follows:

	July 1, 2012	
	Cost	Fair Market Value
Due within one year	\$ 107,961	\$ 107,954
Due after 1 year through 5 years	110,388	111,299
Due after 5 years through 10 years	2,662	2,836
Due after 10 years	15,715	17,608
Total	\$ 236,726	\$ 239,697

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 currency 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 monetary assets and liabilities 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 monetary assets and liabilities denominated in foreign currencies.

The notional amount of foreign exchange contracts hedging monetary assets and liabilities denominated in foreign currencies was \$74.4 million and \$85.4 million at July 1, 2012 and December 31, 2011, respectively.

The following table summarizes the fair value of derivative instruments at July 1, 2012 and December 31, 2011.

	Balance Sheet Location	July 1, 2012	December 31, 2011
		(in thousands)	
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other accrued liabilities	\$ 81	\$ 314

Table of Contents

The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and six months ended July 1, 2012 and July 3, 2011. The table does not reflect the corresponding gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies.

	Location of Gains (Losses) Recognized in Statement of Operations	For the Three Months Ended		For the Six Months Ended	
		July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
(in thousands)					
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Interest expense and other	\$ (2,360)	\$ (166)	\$ 520	\$ 661
		\$ (2,360)	\$ (166)	\$ 520	\$ 661

See Note G Debt regarding derivatives related to convertible senior notes.

G. Debt**Loan Agreement**

On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million. The loan has a term of 5 years and a fixed interest rate of 0.81%. Approximately \$6.0 million of the loan is collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million is unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The loan is amortized over the term of the loan with semiannual principal payments of approximately \$1.0 million payable on September 30 and March 30 each year. At July 1, 2012, approximately \$2.5 million of the outstanding loan principal is included in current debt and approximately \$2.5 million is classified as long-term debt.

Convertible Senior Notes

In April 2009, Teradyne issued 4.50% convertible senior notes (the Notes) at an aggregate principal amount of \$190 million. 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 including but not limited to Teradyne issuing a cash or stock dividend or effecting a stock split.

During the three months ended July 1, 2012, 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 10, 2012, no holders have exercised their option to convert their Notes.

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.

Table of Contents

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.

On March 31, 2009, Teradyne entered into a warrant transaction with a strike price of approximately \$7.67 per share, which was 75% higher than the closing price of Teradyne's common stock. Teradyne received approximately \$43.0 million for the warrants.

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

The Notes are classified as long-term debt in the balance sheet at July 1, 2012 and December 31, 2011. The tables below represent the components of Teradyne's convertible senior notes:

	July 1, 2012	December 31, 2011
	(in thousands)	
Debt principal	\$ 190,000	\$ 190,000
Unamortized debt discount	27,238	33,902
Net carrying amount of the convertible debt	\$ 162,762	\$ 156,098

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Contractual interest expense	\$ 2,138	\$ 2,138	\$ 4,299	\$ 4,347
Amortization of the discount component and debt issue fees	3,592	3,160	7,071	6,221
Total interest expense on the convertible debt	\$ 5,730	\$ 5,298	\$ 11,370	\$ 10,568

As of July 1, 2012, the unamortized discount was \$27.2 million, which will be amortized over approximately 1.75 years, and the carrying amount of the equity component was \$63.4 million. As of July 1, 2012, 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 \$487.9 million.

H. Deferred Revenue and Customer Advances

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

	July 1, 2012	December 31, 2011
	(in thousands)	
Customer advances	\$ 54,149	\$ 70,001
Maintenance, training and extended warranty	45,826	33,953
Undelivered elements	5,314	7,939
Acceptance	724	318

Edgar Filing: TERADYNE, INC - Form 10-Q

Total deferred revenue and customer advances	\$ 106,013	\$ 112,211
--	------------	------------

Table of Contents**I. 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 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Balance at beginning of period	\$ 8,722	\$ 9,502	\$ 8,154	\$ 9,886
Accruals for warranties issued during the period	5,649	3,976	9,425	7,553
Adjustments related to pre-existing warranties	403	(1,116)	143	(2,072)
Settlements made during the period	(3,727)	(3,100)	(6,675)	(6,105)
Balance at end of period	\$ 11,047	\$ 9,262	\$ 11,047	\$ 9,262

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 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Balance at beginning of period	\$ 12,927	\$ 9,870	\$ 12,742	\$ 8,972
Deferral of new extended warranty revenue	9,935	1,861	12,282	3,798
Recognition of extended warranty deferred revenue	(2,108)	(1,423)	(4,270)	(2,462)
Balance at end of period	\$ 20,754	\$ 10,308	\$ 20,754	\$ 10,308

J. Stock-Based Compensation

Restricted stock unit awards granted to employees vest in equal installments over four years. A portion of restricted stock unit awards granted to executive officers is subject to service-based vesting and a portion of the awards is subject to performance-based vesting. 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. Service-based 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 1, 2012, Teradyne granted 1.6 million of restricted stock unit awards to employees at a weighted average grant date fair value of \$16.83 and 0.2 million of service-based stock options to executive officers at a weighted average grant date fair value of \$6.85.

During the six months ended July 3, 2011, Teradyne granted 1.7 million of restricted stock unit awards to employees at a weighted average grant date fair value of \$16.20 and 0.1 million of service-based stock options to executive officers at a weighted average grant date fair value of \$6.74.

Table of Contents

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 1, 2012	July 3, 2011
Expected life (years)	3.50	4.00
Interest rate	0.4%	1.5%
Volatility-historical	56.0%	52.1%
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.

The weighted-average fair value of employee stock purchase rights granted in the first six months of 2012 and 2011 was \$4.09 and \$3.66, respectively. The fair value of the employees purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions:

	For the Six Months Ended	
	July 1, 2012	July 3, 2011
Expected life (years)	0.5	0.5
Interest rate	0.06%	0.19%
Volatility-historical	52.6%	41.5%
Dividend yield	0.0%	0.0%

K. Intangible Assets

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

	Gross Carrying Amount	July 1, 2012		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
Developed technology	\$ 358,155	\$ 117,363	\$ 240,792	6.3 years
Customer relationships and service and software maintenance contracts	144,971	54,347	90,624	8.0 years
Trade names and trademarks	33,840	9,139	24,701	9.0 years
Customer backlog	1,000	1,000		0.4 years
Total intangible assets	\$ 537,966	\$ 181,849	\$ 356,117	7.0 years

Table of Contents

	Gross Carrying Amount	December 31, 2011		Weighted Average Useful Life
		Accumulated Amortization (in thousands)	Net Carrying Amount	
Developed technology	\$ 358,155	\$ 91,391	\$ 266,764	6.3 years
Customer relationships and service and software maintenance contracts	144,971	45,230	99,741	8.0 years
Trade names and trademarks	33,840	7,370	26,470	9.0 years
Customer backlog	1,000	1,000		0.4 years
Total intangible assets	\$ 537,966	\$ 144,991	\$ 392,975	7.0 years

Aggregate intangible asset amortization expense was \$18.4 million and \$36.9 million, respectively, for the three and six months ended July 1, 2012 and \$7.3 million and \$14.6 million, respectively, for the three and six months ended July 3, 2011. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2012 (remainder)	\$ 36,650
2013	72,459
2014	69,374
2015	52,351
2016	52,351

L. Net Income per Common Share

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands, except per share amounts)			
Income from continuing operations	\$ 111,387	\$ 88,084	\$ 144,951	\$ 158,022
Income from discontinued operations				1,703
(Loss) Gain on disposal of discontinued operations		(832)		24,371
Net income for basic net income per share	\$ 111,387	\$ 87,252	\$ 144,951	\$ 184,096
Weighted average common shares-basic	186,573	185,367	186,205	185,044
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible notes(1)	22,301	22,711	22,651	23,036
Convertible note hedge warrant shares(2)	17,340	17,914	17,829	18,368
Restricted stock units	1,171	3,877	1,405	4,222
Stock options	2,160	469	2,247	508
Employee stock purchase rights	101	114	62	88
Dilutive potential common shares	43,073	45,085	44,194	46,222
Weighted average common shares-diluted	229,646	230,452	230,399	231,266
Net income per common share-basic				
Continuing operations	\$ 0.60	\$ 0.48	\$ 0.78	\$ 0.85

Edgar Filing: TERADYNE, INC - Form 10-Q

Discontinued operations		(0.01)		0.14
	\$ 0.60	\$ 0.47	\$ 0.78	\$ 0.99
Net income per common share-diluted				
Continuing operations	\$ 0.49	\$ 0.38	\$ 0.63	\$ 0.68
Discontinued operations				0.12
	\$ 0.49	\$ 0.38	\$ 0.63	\$ 0.80

Table of Contents

- (1) Incremental shares from assumed conversion of the convertible notes for the three and six months ended July 1, 2012 and July 3, 2011 are calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, multiplied by the 34.7 million shares that would be issued upon conversion. The result of this calculation, representing the total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period.
- (2) Convertible note hedge warrant shares for the three and six months ended July 1, 2012 and July 3, 2011 are calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by the 34.7 million shares that would be issued upon conversion. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period.

The computation of diluted net income per common share for the three and six months ended July 1, 2012 excludes the effect of the potential exercise of stock options to purchase approximately 0.3 million shares, and the computation of diluted net income per common share for the three and six months ended July 1, 2012 excludes the effect of the potential exercise of restricted stock units of 0.1 million, because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and six months ended July 3, 2011 excludes the effect of the potential exercise of stock options to purchase approximately 0.5 million and 1.0 million shares, respectively, because the effect would have been anti-dilutive.

With respect to the Teradyne's convertible debt, Teradyne intends to settle its conversion spread (i.e., the intrinsic value of the embedded option feature contained in the convertible debt) in shares. Teradyne accounts for its conversion spread using the treasury stock method.

M. Restructuring and Other, Net

Other

During the three and six months ended July 1, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, Teradyne recorded a \$6.5 million and \$8.4 million, respectively, fair value adjustment to decrease the LitePoint acquisition contingent consideration. As of July 1, 2012, the estimated undiscounted range of outcomes for the contingent consideration is \$56.0 million to \$58.0 million. The decrease in the range from December 31, 2011 is due to the \$5.8 million contingent consideration payment during the six months ended July 1, 2012 and the \$8.4 million fair value decrease.

During the six months ended July 3, 2011, Teradyne recorded a \$0.7 million charge related to a non-U.S. pension settlement.

Table of Contents**Restructuring**

In response to a downturn in the industry in 2008 and 2009, Teradyne initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for lease payments on vacated facilities of \$1.5 million 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 \$0.9 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$0.3 million as of July 1, 2012. The table below represents activity related to these actions.

	Severance and Benefits	Facility Exit Costs (in thousands)	Total
Pre-2011 Activities			
Balance at December 31, 2010	\$ 712	\$ 3,263	\$ 3,975
Provision	117		117
Change in estimate	155	(485)	(330)
Cash payments	(984)	(916)	(1,900)
Balance at December 31, 2011		1,862	1,862
Cash payments		(189)	(189)
Balance at April 1, 2012		1,673	1,673
Cash payments		(209)	(209)
Balance at July 1, 2012	\$	\$ 1,464	\$ 1,464
2011 Activities			
<i>Q1 2011 Activity:</i>			
Provision	\$ 572	\$	\$ 572
Cash payments	(476)		(476)
Balance at December 31, 2011	96		96
Cash payments	(96)		(96)
Balance at April 1, 2012	\$	\$	\$
<i>Q2 2011 Activity:</i>			
Provision	\$ 344	\$	\$ 344
Cash payments	(115)		(115)
Balance at December 31, 2011	229		229
Cash payments	(229)		(229)
Balance at April 1, 2012	\$	\$	\$
2012 Activities			
<i>Q2 2012 Activity:</i>			
Provision	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$ 1,464	\$ 1,750

Edgar Filing: TERADYNE, INC - Form 10-Q

During the six months ended July 1, 2012, Teradyne recorded the following restructuring charges:

Q2 2012 Action:

\$0.3 million of severance charges related to headcount reductions of 10 people in Semiconductor Test.

Table of Contents

During the six months ended July 3, 2011, Teradyne recorded the following restructuring charges:

Q2 2011 Action:

\$0.3 million of severance charges related to headcount reductions of 2 people in Semiconductor Test.

Q1 2011 Action:

\$0.6 million of severance charges related to headcount reductions of 5 people in Semiconductor Test.

Pre-2011 Actions:

\$(0.5) million related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in Systems Test Group, and the North Reading, MA facility in Semiconductor Test and Systems Test Group.

N. 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 fixed income and equity 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 (ERISA) and the Internal Revenue Code (IRC), as well as unfunded foreign plans.

Components of net periodic pension cost for all plans were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Service cost	\$ 643	\$ 668	\$ 1,357	\$ 1,436
Interest cost	4,125	4,457	8,185	8,784
Expected return on plan assets	(4,082)	(3,906)	(8,164)	(7,818)
Amortization of unrecognized prior service cost	58	155	116	310
Settlement		680		680
Actuarial loss	3,146	4,279	3,146	4,279
Total net periodic pension cost	\$ 3,890	\$ 6,333	\$ 4,640	\$ 7,671

In the six months ended July 1, 2012, Teradyne contributed \$1.8 million to its defined benefit pension plans.

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 could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Service cost	\$ 15	\$ 14	\$ 34	\$ 30
Interest cost	108	134	219	270
Amortization of unrecognized prior service benefit	(150)	(150)	(299)	(299)
Actuarial gain	(92)	(76)	(92)	(76)
Total net periodic post-retirement cost	\$ (119)	\$ (78)	\$ (138)	\$ (75)

O. Commitments and Contingencies**Purchase Commitments**

As of July 1, 2012, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments aggregate to approximately \$281.4 million, of which \$280.0 million is for less than one year.

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.

P. Segment Information

Teradyne has three operating segments (Semiconductor Test, Systems Test Group and Wireless Test), which are its reportable segments. 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 design, manufacturing and marketing of products and services for military/aerospace instrumentation test, storage test and circuit-board test. The Wireless Test segment includes operations related to design, manufacturing and marketing of wireless test products and services. Each operating segment has a segment manager who is directly accountable to and maintains regular contact with Teradyne's chief operating decision maker (Teradyne's chief executive officer) to discuss operating activities, financial results, forecasts, and plans for the segment.

Table of Contents

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, 2011. Segment information is as follows:

	Semiconductor Test	Systems Test Group	Wireless Test (in thousands)	Corporate and Eliminations	Consolidated
Three months ended July 1, 2012:					
Net revenues	\$ 365,058	\$ 71,298	\$ 111,928	\$	\$ 548,284
Income (loss) from continuing operations before income taxes(1)(2)	91,249	11,628	51,139	(2,024)	151,992
Three months ended July 3, 2011:					
Net revenues	\$ 343,096	\$ 67,423	\$	\$	\$ 410,519
Income (loss) from continuing operations before income taxes(1)(2)	90,973	8,823		(3,873)	95,923
Six months ended July 1, 2012:					
Net revenues	\$ 632,646	\$ 169,050	\$ 143,256	\$	\$ 944,952
Income (loss) from continuing operations before income taxes(1)(2)	126,247	33,606	38,827	(5,444)	193,236
Six months ended July 3, 2011:					
Net revenues	\$ 662,346	\$ 125,334	\$	\$	\$ 787,680
Income (loss) from continuing operations before income taxes(1)(2)	167,900	14,314		(10,867)	171,347

- (1) Pension and post retirement actuarial gains and losses, interest income, and interest expense and other are included in Corporate and Eliminations.
- (2) Included in the income (loss) from continuing operations before income taxes for each of the segments are charges and credits for the three and six months ended July 1, 2012 and July 3, 2011 that include restructuring and other, net, 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 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 5,957	\$ 1,500	\$ 6,169	\$ 5,942
Restructuring and other, net	286	1,279	286	2,170
Total	\$ 6,243	\$ 2,779	\$ 6,455	\$ 8,112

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 1,753	\$ 216	\$ 2,642	\$ 401
Restructuring and other, net				(246)
Total	\$ 1,753	\$ 216	\$ 2,642	\$ 155

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Cost of revenues inventory step-up	\$ 1,218	\$	\$ 6,089	\$
Cost of revenues provision for excess and obsolete inventory	1,643		2,116	
Total	\$ 2,861	\$	\$ 8,205	\$

Included in Corporate and Eliminations are credits for the following:

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
	(in thousands)			
Restructuring and other, net	\$ (6,548)	\$	\$ (8,406)	\$ (232)
Total	\$ (6,548)	\$	\$ (8,406)	\$ (232)

Q. Stock Repurchase Program

In November 2010, Teradyne's board of directors authorized a stock repurchase program for up to \$200 million. In the three and six months ended July 1, 2012 and July 3, 2011, Teradyne did not repurchase any shares. Cumulatively, as of July 1, 2012, Teradyne has repurchased 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

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, 2011. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof. We assume 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

We are 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, wireless, and aerospace and defense industries. Our automatic test equipment products and services include:

semiconductor test (Semiconductor Test) systems,

military/aerospace (Mil/Aero) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Commercial Board Test) systems (collectively these products represent Systems Test Group), and

wireless test (Wireless Test) systems.

We have a broad customer base which includes integrated device manufacturers (IDMs), outsourced semiconductor assembly and test providers (OSATs), wafer foundries, fabless companies that design, but contract with others for the manufacture of integrated circuits (ICs), developers of wireless devices and consumer electronics, manufacturers of circuit boards, automotive suppliers, wireless product manufacturers, storage device 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 fluctuating and seasonal demand for their products. This market dynamic has 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 and electronics industries.

We believe our acquisitions of Nextest, Eagle Test and LitePoint, and our entry into the high speed memory and storage test markets have enhanced our opportunities for growth. We will continue to invest in our businesses to expand further our addressable markets while tightly managing our costs.

We regularly face price competition in each of our businesses from competitors. We intend to respond to competitive pricing moves as necessary, which may adversely impact our gross margins. Longer term, we will continue to invest in engineering to lower the cost of test which should help mitigate the impacts from aggressive pricing actions.

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. Except as noted below, there have been no significant changes during the six months ended July 1, 2012 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Table of Contents

Effective January 1, 2012, we changed the method of recognizing actuarial gains and losses for our defined benefit pension plans and postretirement benefit plan and calculating the expected return on plan assets for our defined benefit pension plans. Historically, we recognized net actuarial gains and losses in accumulated other comprehensive income within shareholders' equity on our consolidated balance sheets on an annual basis and amortized them into operating results over the average remaining years of service of the plan participants, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize net actuarial gains and losses and the change in the fair value of the plan assets in our operating results in the year in which they occur or upon any interim remeasurement of the plans. In addition, we used to calculate the expected return on plan assets using a calculated market-related value of plan assets. We have also elected to calculate the expected return on plan assets using the fair value of the plan assets.

We believe that this new method is preferable as it eliminates the delay in recognizing gains and losses in our operating results and it will improve the transparency by faster recognition of the effects of economic and interest rate trends on plan obligations and investments. These actuarial gains and losses are generally measured annually as of December 31 and, accordingly, will be recorded during the fourth quarter of each year or upon any interim remeasurement of the plans. In accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 250, Accounting Changes and Error Corrections, all prior periods presented in this Quarterly Report on Form 10-Q have been adjusted to apply the new accounting method retrospectively. This accounting change did not impact the financial position of the reportable segments.

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Percentage of total net revenues:				
Net revenues:				
Products	88%	83%	86%	83%
Services	12	17	14	17
Total net revenues	100	100	100	100
Cost of revenues:				
Cost of products	38	39	40	40
Cost of services	6	9	7	8
Total cost of revenues	44	48	47	48
Gross profit	56	52	53	52
Operating expenses:				
Engineering and development	12	12	13	12
Selling and administrative	13	14	15	15
Acquired intangible asset amortization	3	2	4	2
Restructuring and other, net	(1)		(1)	
Total operating expenses	28	28	31	29
Income from operations	29	24	22	23
Interest income				
Interest expense and other	(1)	(1)	(1)	(1)
Income from continuing operations before income taxes	28	23	20	22
Income tax provision	7	2	5	2
Income from continuing operations	20	21	15	20
Income from discontinued operations before income taxes				
Income tax benefit				
Income from discontinued operations				
(Loss) Gain on disposal of discontinued operations				3
Net income	20%	21%	15%	23%

Results of Operations*Second Quarter 2012 Compared to Second Quarter 2011**Book to Bill Ratio*

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

	For the Three Months Ended	
	July 1, 2012	July 3, 2011
Semiconductor Test	1.0	0.8
Systems Test Group	0.6	1.1
Wireless Test	1.7	
Total Company	1.1	0.8

Table of Contents*Revenues*

Net revenues by reportable segments were as follows:

	For the Three Months Ended		Dollar Change
	July 1, 2012	July 3, 2011 (in millions)	
Semiconductor Test	\$ 365.1	\$ 343.1	\$ 22.0
Systems Test Group	71.3	67.4	3.9
Wireless Test	111.9		111.9
	\$ 548.3	\$ 410.5	\$ 137.8

The increase of \$22.0 million or 6% in Semiconductor Test revenue was due to an increase in System-on-a-Chip product revenue partially offset by a decrease in memory product revenue. The increase in Systems Test Group revenue of \$3.9 million or 6% was primarily due to an increase in sales of Mil/Aero test instrumentation, systems and services. The acquisition of LitePoint, which is our Wireless Test segment, completed in October of 2011, added \$111.9 million of revenue in the three months ended July 1, 2012.

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

	For the Three Months Ended	
	July 1, 2012	July 3, 2011
Taiwan	23%	12%
China	18	11
United States	12	15
Korea	12	15
Philippines	8	11
Hong Kong	6	
Malaysia	5	6
Singapore	5	6
Europe	4	8
Japan	4	7
Thailand	3	8
Rest of World		1
	100%	100%

Gross Profit

Our gross profit was as follows:

July 1, 2012	For the Three Months Ended	July 3, 2011 (in millions)	Dollar/Point Change

Edgar Filing: TERADYNE, INC - Form 10-Q

Gross Profit	\$ 309.5	\$ 214.7	\$ 94.8
Percent of Total Revenue	56.4%	52.3%	4.1

Gross profit as a percent of revenue increased by 4.1 percentage points as a result of an increase of 5.0 points due to the addition of LitePoint, which had its highest quarterly revenue in its history, partially offset by a decrease of 1.5 points due to higher inventory provisions.

Table of Contents

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

During the three months ended July 1, 2012, we recorded an inventory provision of \$9.4 million included in cost of revenues, due to the following factors:

A decline in demand versus previously forecasted demand levels for a prior generation Nextest Magnum resulted in an inventory provision of \$3.2 million.

A \$2.6 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

The remainder of the charge of \$3.6 million primarily reflects downward revisions to previously forecasted demand levels, of which \$1.8 million was related to Systems Test Group, \$1.6 million was related to Wireless Test and \$0.2 million was related to Semiconductor Test.

During the three months ended July 3, 2011, we recorded an inventory provision of \$1.7 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$1.7 million of total excess and obsolete provisions recorded in the three months ended July 3, 2011, \$1.5 million was related to Semiconductor Test and \$0.2 million was related to Systems Test Group.

During the three months ended July 1, 2012 and July 3, 2011, we scrapped \$2.8 million and \$2.2 million of inventory, respectively. During the three months ended July 3, 2011, we sold \$0.8 million of previously written-down or written-off inventory. As of July 1, 2012, we had inventory related reserves for amounts which had been written-down or written-off totaling \$128.2 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Three Months Ended		
	July 1, 2012	July 3, 2011 (in millions)	Dollar Change
Engineering and Development	\$ 66.5	\$ 48.4	\$ 18.1
Percent of Total Revenue	12.1%	11.8%	

The increase of \$18.1 million in engineering and development expenses is due primarily to additional costs of \$9.6 million related to LitePoint which was acquired in October 2011 and increased spending on engineering projects.

Table of Contents*Selling and Administrative*

Selling and administrative expenses were as follows:

	For the Three Months Ended		Dollar Change
	July 1, 2012	July 3, 2011 (in millions)	
Selling and Administrative	\$ 73.4	\$ 57.9	\$ 15.5
Percent of Total Revenue	13.4%	14.1%	

The increase of \$15.5 million in selling and administrative expenses is due primarily to additional costs of \$12.3 million related to LitePoint.

*Restructuring and Other, Net***Other**

During the three months ended July 1, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earnout period end date, we recorded a \$6.5 million fair value adjustment to decrease the LitePoint acquisition contingent consideration. As of July 1, 2012, the estimated undiscounted range of outcomes for the contingent consideration is \$56.0 million to \$58.0 million.

During the three months ended July 3, 2011, Teradyne recorded a \$0.7 million charge related to a non-U.S. pension settlement.

Restructuring

In response to a downturn in the industry in 2008 and 2009, we initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for lease payments on vacated facilities of \$1.5 million is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$0.9 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$0.3 million as of July 1, 2012. The table below represents activity related to these actions.

Table of Contents

	Severance and Benefits	Facility Exit Costs (in thousands)	Total
<i>Pre-2011 Activities</i>			
Balance at December 31, 2010	\$ 712	\$ 3,263	\$ 3,975
Provision	117		117
Change in estimate	155	(485)	(330)
Cash payments	(984)	(916)	(1,900)
Balance at December 31, 2011		1,862	1,862
Cash payments		(189)	(189)
Balance at April 1, 2012		1,673	1,673
Cash payments		(209)	(209)
Balance at July 1, 2012	\$	\$ 1,464	\$ 1,464
<i>2011 Activities</i>			
<i>Q1 2011 Activity:</i>			
Provision	\$ 572	\$	\$ 572
Cash payments	(476)		(476)
Balance at December 31, 2011	96		96
Cash payments	(96)		(96)
Balance at April 1, 2012	\$	\$	\$
<i>Q2 2011 Activity:</i>			
Provision	\$ 344	\$	\$ 344
Cash payments	(115)		(115)
Balance at December 31, 2011	229		229
Cash payments	(229)		(229)
Balance at April 1, 2012	\$	\$	\$
<i>2012 Activities</i>			
<i>Q2 2012 Activity:</i>			
Provision	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$ 1,464	\$ 1,750

During the three months ended July 1, 2012, we recorded the following restructuring charges:

Q2 2012 Action:

\$0.3 million of severance charges related to headcount reductions of 10 people in Semiconductor Test.

Table of Contents

During the three months ended July 3, 2011, we recorded the following restructuring charges:

Q2 2011 Action:

\$0.3 million of severance charges related to headcount reductions of 2 people in Semiconductor Test.

Q1 2011 Action:

\$0.6 million of severance charges related to headcount reductions of 5 people in Semiconductor Test.

Pre-2011 Actions:

\$(0.5) million related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in Systems Test Group, and the North Reading, MA facility in Semiconductor Test and Systems Test Group.

Interest and Other

Interest income decreased by \$0.5 million, from the second quarter of 2011 to 2012, due to a decrease in marketable securities due to the LitePoint acquisition. Interest expense and other increased by \$1.0 million from second quarter of 2011 to 2012, due primarily to an increase in interest expense related to our convertible note.

Income Taxes

For the three months ended July 1, 2012, we recorded a tax provision of \$40.6 million from continuing operations, which consisted of foreign taxes and U.S. deferred tax provision. For the three months ended July 3, 2011, we recorded a tax provision of \$7.8 million from continuing operations, which consisted primarily of foreign taxes.

On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. At July 1, 2012, we believe that we will ultimately realize the deferred tax assets recorded on our condensed consolidated balance sheet. However, should we believe that it is more likely than not that our deferred tax assets would not be realized, our tax provision would increase in the period in which we determined that the realizability was not likely. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the realizability of our deferred tax assets.

Six Months of 2012 Compared to Six Months of 2011

Revenues

Net revenues by reportable segments were as follows:

	For the Six Months Ended		
	July 1, 2012	July 3, 2011	Dollar Change
	(in millions)		
Semiconductor Test	\$ 632.6	\$ 662.3	\$ (29.7)
Systems Test Group	169.1	125.4	43.7
Wireless Test	143.3		143.3
	\$ 945.0	\$ 787.7	\$ 157.3

Table of Contents

The decrease of \$29.7 million or 4% in Semiconductor Test revenue was primarily due to a decrease in memory product revenue, partially offset by an increase in System-on-a-Chip product revenue. The increase in Systems Test Group revenue of \$43.7 million or 35% was primarily due to an increase in sales of Storage Test systems. The acquisition of LitePoint, which is our Wireless Test segment, completed in October of 2011, added \$143.3 million of revenue in the six months ended July 1, 2012.

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

	For the Six Months Ended	
	July 1, 2012	July 3, 2011
Taiwan	19%	13%
China	15	9
Korea	13	13
United States	12	14
Philippines	7	12
Thailand	7	6
Japan	6	7
Malaysia	5	11
Europe	5	7
Singapore	5	6
Hong Kong	5	
Rest of World	1	2
	100%	100%

Gross Profit

Our gross profit was as follows:

	For the Six Months Ended		Dollar/Point Change
	July 1, 2012	July 3, 2011 (in millions)	
Gross Profit	\$ 500.4	\$ 407.6	\$ 92.8
Percent of Total Revenue	53.0%	51.7%	1.3

Gross profit as a percent of revenue increased by 1.3 percentage points a result of an increase of 3.5 points related to the addition of LitePoint, which had its highest six month revenue in its history, partially offset by a decrease of 2.2 points due to System-on-a-Chip product mix and higher Storage Test system sales.

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

During the six months ended July 1, 2012, we recorded an inventory provision of \$10.9 million included in cost of revenues, due to the following factors:

Edgar Filing: TERADYNE, INC - Form 10-Q

A decline in demand versus previously forecasted demand levels for a prior generation Nextest Magnum resulted in an inventory provision of \$3.2 million.

Table of Contents

A \$2.6 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

The remainder of the charge of \$5.1 million primarily reflects downward revisions to previously forecasted demand levels, of which \$2.6 million was related to Systems Test Group, \$2.1 million was related to Wireless Test and \$0.4 million was related to Semiconductor Test.

During the six months ended July 3, 2011, we recorded an inventory provision of \$6.3 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$6.3 million of total excess and obsolete provisions recorded in the six months ended July 3, 2011, \$5.9 million was related to Semiconductor Test and \$0.4 million was related to Systems Test Group.

During the six months ended July 1, 2012 and July 3, 2011, we scrapped \$6.9 million and \$2.6 million of inventory, respectively. During the six months ended July 1, 2012 and July 3, 2011, we sold \$1.3 million and \$3.8 million, respectively, of previously written-down or written-off inventory. As of July 1, 2012, we had inventory related reserves for amounts which had been written-down or written-off totaling \$128.2 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Six Months Ended		Dollar Change
	July 1, 2012	July 3, 2011	
Engineering and Development	\$ 126.7	\$ 95.5	\$ 31.2
Percent of Total Revenue	13.4%	12.1%	

The increase of \$31.2 million in engineering and development expenses is due primarily to additional costs of \$18.2 million related to LitePoint which was acquired in October 2011 and increased spending on engineering projects.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Six Months Ended		Dollar Change
	July 1, 2012	July 3, 2011	
Selling and Administrative	\$ 141.1	\$ 115.6	\$ 25.5
Percent of Total Revenue	14.9%	14.7%	

The increase of \$25.5 million in selling and administrative expenses is due primarily to additional costs of \$23.0 million related to LitePoint.

*Restructuring and Other, Net***Other**

During the six months ended July 1, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, we recorded an \$8.4 million fair value adjustment to decrease the LitePoint acquisition contingent consideration. As of July 1, 2012, the estimated undiscounted range of outcomes

Table of Contents

for the contingent consideration is \$56.0 million to \$58.0 million. The decrease in the range from December 31, 2011 is due to the \$5.8 million contingent consideration payment during the six months ended July 1, 2012 and the \$8.4 million fair value decrease.

During the six months ended July 3, 2011, Teradyne recorded a \$0.7 million charge related to a non-U.S. pension settlement.

Restructuring

In response to a downturn in the industry in 2008 and 2009, we initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for lease payments on vacated facilities of \$1.5 million is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$0.9 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$0.3 million as of July 1, 2012. The table below represents activity related to these actions.

	Severance and Benefits	Facility Exit Costs (in thousands)	Total
<i>Pre-2011 Activities</i>			
Balance at December 31, 2010	\$ 712	\$ 3,263	\$ 3,975
Provision	117		117
Change in estimate	155	(485)	(330)
Cash payments	(984)	(916)	(1,900)
Balance at December 31, 2011		1,862	1,862
Cash payments		(189)	(189)
Balance at April 1, 2012		1,673	1,673
Cash payments		(209)	(209)
Balance at July 1, 2012	\$	\$ 1,464	\$ 1,464
<i>2011 Activities</i>			
<i>Q1 2011 Activity:</i>			
Provision	\$ 572	\$	\$ 572
Cash payments	(476)		(476)
Balance at December 31, 2011	96		96
Cash payments	(96)		(96)
Balance at April 1, 2012	\$	\$	\$
<i>Q2 2011 Activity:</i>			
Provision	\$ 344	\$	\$ 344
Cash payments	(115)		(115)
Balance at December 31, 2011	229		229
Cash payments	(229)		(229)
Balance at April 1, 2012	\$	\$	\$
<i>2012 Activities</i>			
<i>Q2 2012 Activity:</i>			

Edgar Filing: TERADYNE, INC - Form 10-Q

Provision	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$	\$ 286
Balance at July 1, 2012	\$ 286	\$ 1,464	\$ 1,750

Table of Contents

During the six months ended July 1, 2012, we recorded the following restructuring charges:

Q2 2012 Action:

\$0.3 million of severance charges related to headcount reductions of 10 people in Semiconductor Test.

During the six months ended July 3, 2011, we recorded the following restructuring charges:

Q2 2011 Action:

\$0.3 million of severance charges related to headcount reductions of 2 people in Semiconductor Test.

Q1 2011 Action:

\$0.6 million of severance charges related to headcount reductions of 5 people in Semiconductor Test.

Pre-2011 Actions:

\$(0.5) million related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in Systems Test Group, and the North Reading, MA facility in Semiconductor Test and Systems Test Group.

Interest and Other

Interest income decreased by \$0.9 million, from the first six months of 2011 to 2012, due to a decrease in marketable securities due to the LitePoint acquisition. Interest expense and other increased by \$0.9 million for the first six months of 2011 to 2012, due primarily to an increase in interest expense related to our convertible note.

Income Taxes

For the six months ended July 1, 2012, we recorded a tax provision of \$48.3 million, from continuing operations, which consisted of foreign taxes and U.S. deferred tax provision. For the six months ended July 3, 2011, we recorded a tax provision of \$13.3 million from continuing operations, which consisted primarily of foreign taxes.

On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. At July 1, 2012, we believe that we will ultimately realize the deferred tax assets recorded on our condensed consolidated balance sheet. However, should we believe that it is more likely than not that our deferred tax assets would not be realized, our tax provision would increase in the period in which we determined that the realizability was not likely. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the realizability of our deferred tax assets.

Table of Contents**Contractual Obligations**

The following table reflects our contractual obligations as of July 1, 2012:

	Total	Less than 1 year	Payments Due by Period		More than 5 years	Other
			1-3 years	3-5 years		
			(in thousands)			
Long-Term Debt Obligations (1)	\$ 195,043	\$ 2,522	\$ 192,521	\$	\$	\$
Interest on Debt	17,235	8,635	8,600			
Contingent Acquisition Payments	54,662	54,662				
Operating Lease Obligations	52,221	13,998	19,574	10,117	8,532	
Purchase Obligations	281,360	279,760	1,600			
Retirement Plan Contributions	52,928	5,174	10,570	11,206	25,978	
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP (2)	80,496		22,303			58,193
Total	\$ 733,945	\$ 364,751	\$ 255,168	\$ 21,323	\$ 34,510	\$ 58,193

(1) Long-Term Debt Obligations include current maturities.

(2) Included in Other Long-Term Liabilities are liabilities for customer advances, extended warranty, uncertain tax positions and other obligations. For certain long-term obligations, we are unable to provide a reasonably reliable estimate of the timing of future payments relating to these obligations and therefore we included these amounts in the column marked "Other".

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance increased by \$74.1 million in the six months ended July 1, 2012, to \$828.8 million. Cash activity for the six months ended July 1, 2012 and July 3, 2011 was as follows:

	For the Six Months Ended	
	July 1, 2012	July 3, 2011
	(in millions)	
Cash provided by operating activities:		
Income from continuing operations, adjusted for non-cash items	\$ 255.2	\$ 227.7
Change in operating assets and liabilities, net of businesses sold	(141.9)	(101.9)
Cash used for discontinued operations		(4.2)
Total cash provided by operating activities	113.3	121.6
Cash used for investing activities from continuing operations	(115.5)	(122.5)
Cash provided by investing activities from discontinued operations		39.1
Total cash used for investing activities	(115.5)	(83.4)
Total cash provided by financing activities	17.5	19.5
Increase in cash and cash equivalents	\$ 15.3	\$ 57.7

Edgar Filing: TERADYNE, INC - Form 10-Q

In the six months ended July 1, 2012, changes in operating assets and liabilities, net of businesses sold, used cash of \$141.9 million. This was due to a \$190.3 million increase in operating assets, partially offset by a \$48.4 million increase in operating liabilities.

The increase in operating assets was due to a \$216.8 million increase in accounts receivable due to higher sales volume, partially offset by a \$21.4 million decrease in inventories, and \$5.0 million decrease in other assets

Table of Contents

mainly due to a decrease in prepayments. The increase in operating liabilities was due to a \$47.5 million increase in accounts payable due to increased sales volume, a \$30.0 million increase in accrued income taxes, and \$1.1 million increase in other accrued liabilities, partially offset by \$21.4 million decrease in accrued employee compensation due primarily to variable compensation payments, a \$6.2 million decrease in customer advance payments and deferred revenue and \$2.6 million of retirement plan contributions.

Investing activities during the six months ended July 1, 2012 used cash of \$115.5 million, due to \$156.8 million used for purchases of marketable securities and \$57.8 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$39.7 million and \$59.4 million, respectively.

Financing activities during the six months ended July 1, 2012 provided cash of \$17.5 million, \$16.9 million was from the issuance of common stock under stock option and stock purchase plans, and \$7.6 million from the tax benefit related to stock options and restricted stock units, partially offset by \$5.8 million of cash used for a payments related to LitePoint acquisition contingent consideration and \$1.2 million of cash used for a payment on long-term debt.

In the six months ended July 3, 2011, changes in operating assets and liabilities, net of businesses sold, used cash of \$101.9 million. This was due to a \$64.4 million increase in operating assets and a \$37.5 million decrease in operating liabilities.

The increase in operating assets was due to a \$39.1 million increase in accounts receivable and a \$15.0 million increase in inventories due to higher sales volume, and a \$10.3 million increase in prepayments and other assets. The decrease in operating liabilities was due to a \$44.0 million decrease in accrued employee compensation due primarily to variable compensation payments, a \$26.9 million decrease in customer advance payments due to shipments of systems prepaid by customers, \$5.2 million of retirement plan contributions, and a \$1.4 million decrease in deferred revenue, partially offset by a \$25.9 million increase in accounts payable due to increased sales volume and an \$8.7 million increase in other accrued liabilities, and a \$5.4 million increase in accrued income taxes.

Investing activities during the six months ended July 3, 2011 used cash of \$122.5 million, due to \$498.5 million used for purchases of marketable securities and \$44.5 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$54.3 million and \$366.2 million, respectively.

Financing activities during the six months ended July 3, 2011 provided cash of \$19.5 million, \$17.0 million from the issuance of common stock under stock option and stock purchase plans, and \$3.7 million from the tax benefit related to stock options and restricted stock units, partially offset by \$1.2 million of cash used for a payment on long-term debt.

We believe our cash, cash equivalents and marketable securities balance will be sufficient to meet working capital and expenditure needs for at least the next twelve months. We do not have significant cash outside the U.S. that if repatriated would incur additional taxes. In addition, the amount of cash, cash equivalents and marketable securities in the U.S. and our operations in the U.S. provide sufficient liquidity to fund our business activities in the U.S. Inflation has not had a significant long-term impact on earnings.

Equity Compensation Plans

As discussed in Note N Stock Based Compensation in our 2011 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan).

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

Table of Contents

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. This ASU is intended to enhance the understanding of the effects of netting arrangements on an entity's financial statements, including financial instruments and derivative instruments that are either offset or subject to a master netting arrangement. The scope of this ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a. Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on February 29, 2012. There were no material changes in our exposure to market risk from those set forth in our Annual Report for the fiscal year ended December 31, 2011.

Item 4: Controls and Procedures

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

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

Table of Contents**PART II. OTHER INFORMATION****Item 1: Legal Proceedings**

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

Item 1A: Risk Factors

You should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business.

The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

In November 2010, Teradyne's board of directors authorized a stock repurchase program for up to \$200 million. Cumulatively, as of July 1, 2012, we have repurchased 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

The following table includes information with respect to repurchases we made of our common stock during the three months ended July 1, 2012 (in thousands except per share price):

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
April 2, 2012 - April 29, 2012		\$		\$ 168,825
April 30, 2012 - May 27, 2012		\$		\$ 168,825
May 28, 2012 - July 1, 2012		\$		\$ 168,825
		\$		\$ 168,825

We satisfy the minimum withholding tax obligation due upon the vesting and the conversion of restricted stock units into shares of our common stock, by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting and conversion that would satisfy the withholding amount due.

The following table includes information with respect to our common stock shares withheld to satisfy withholding tax obligations during the three months ended July 1, 2012 (in thousands except per share price):

Period

Edgar Filing: TERADYNE, INC - Form 10-Q

		(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
April 2, 2012	April 29, 2012	3	\$ 16.99		
April 30, 2012	May 27, 2012	14	\$ 15.21		
May 28, 2012	July 1, 2012	1	\$ 13.61		
		18	\$ 15.43		

Item 4: Mine Safety Disclosures
Not Applicable

Table of Contents**Item 6: Exhibits**

Exhibit Number	Description
10.1	Executive Officer Agreement dated June 29, 2012 between Teradyne, Inc. and Jeffrey Hotchkiss (filed herewith)
10.2	Executive Officer Change in Control Agreement dated June 30, 2012 between Teradyne, Inc. and Walter Vahey (filed herewith)
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERADYNE, INC.
Registrant

/s/ GREGORY R. BEECHER
Gregory R. Beecher

Vice President,

Chief Financial Officer and Treasurer

**(Duly Authorized Officer
and Principal Financial Officer)**

August 10, 2012