

TERADYNE, INC
Form 10-Q
November 09, 2012
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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 September 30, 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)

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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 November 5, 2012 was 187,852,103 shares.

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TERADYNE, INC.

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

| | September 30, 2012 | December 31, 2011 |
|--|--------------------------|----------------------|
| | (in thousands, | |
| | except per share amount) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 485,692 | \$ 573,736 |
| Marketable securities | 344,850 | 96,502 |
| Accounts receivable, less allowance for doubtful accounts of \$4,149 and \$4,102 at September 30, 2012 and December 31, 2011, respectively | 205,464 | 129,330 |
| Inventories: | | |
| Raw materials | 94,833 | 102,307 |
| Assemblies in process | 25,926 | 24,283 |
| Finished goods | 13,998 | 33,473 |
| | 134,757 | 160,063 |
| Deferred tax assets | 58,517 | 53,948 |
| Prepayments and other current assets | 81,987 | 86,308 |
| Total current assets | 1,311,267 | 1,099,887 |
| Property, plant and equipment | 847,711 | 798,194 |
| Less: Accumulated depreciation | 586,593 | 565,987 |
| Net property, plant and equipment | 261,118 | 232,207 |
| Long-term marketable securities | 178,281 | 84,407 |
| Retirement plan assets | 7,711 | 8,840 |
| Intangible assets, net | 337,688 | 392,975 |
| Goodwill | 349,373 | 352,778 |
| Other assets | 17,853 | 17,545 |
| Total assets | \$ 2,463,291 | \$ 2,188,639 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,187 | \$ 69,842 |
| Accrued employees' compensation and withholdings | 78,929 | 90,427 |
| Deferred revenue and customer advances | 70,968 | 78,670 |
| Contingent consideration | 16,513 | 68,892 |
| Other accrued liabilities | 61,220 | 62,420 |
| Accrued income taxes | 43,573 | 860 |
| Current debt | 3,863 | 2,573 |
| Total current liabilities | 349,253 | 373,684 |
| Long-term deferred revenue and customer advances | 30,592 | 33,541 |
| Retirement plan liabilities | 80,504 | 76,638 |

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| | | |
|--|------------------|------------------|
| Deferred tax liabilities | 30,932 | 16,049 |
| Long-term other accrued liabilities | 19,211 | 23,711 |
| Long-term debt | 167,556 | 159,956 |
| Total liabilities | 678,048 | 683,579 |
| Commitments and contingencies (Note O) | | |
| SHAREHOLDERS EQUITY | | |
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 187,651 shares and 183,587 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 23,456 | 22,948 |
| Additional paid-in capital | 1,337,616 | 1,293,130 |
| Accumulated other comprehensive income | 6,343 | 4,746 |
| Retained earnings | 417,828 | 184,236 |
| Total shareholders equity | 1,785,243 | 1,505,060 |
| Total liabilities and shareholders equity | \$ 2,463,291 | \$ 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 Nine Months Ended | |
|--|---|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands, except per share amount) | | | |
| Net revenues: | | | | |
| Products | \$ 393,037 | \$ 274,944 | \$ 1,204,506 | \$ 931,979 |
| Services | 70,357 | 69,445 | 203,840 | 200,090 |
| Total net revenues | 463,394 | 344,389 | 1,408,346 | 1,132,069 |
| Cost of revenues: | | | | |
| Cost of products | 169,782 | 138,088 | 550,282 | 451,371 |
| Cost of services | 33,412 | 35,927 | 97,432 | 102,754 |
| Total cost of revenues | 203,194 | 174,015 | 647,714 | 554,125 |
| Gross profit | 260,200 | 170,374 | 760,632 | 577,944 |
| Operating expenses: | | | | |
| Engineering and development | 63,055 | 45,896 | 189,722 | 141,432 |
| Selling and administrative | 69,921 | 54,775 | 211,064 | 170,386 |
| Acquired intangible asset amortization | 18,429 | 6,754 | 55,287 | 21,336 |
| Restructuring and other, net | 683 | 1,465 | (7,404) | 3,157 |
| Total operating expenses | 152,088 | 108,890 | 448,669 | 336,311 |
| Income from operations | 108,112 | 61,484 | 311,963 | 241,633 |
| Interest income | 1,067 | 3,049 | 2,834 | 5,739 |
| Interest expense and other | (6,154) | (6,068) | (18,536) | (17,560) |
| Income from continuing operations before income taxes | 103,025 | 58,465 | 296,261 | 229,812 |
| Income tax provision | 14,384 | 1,759 | 62,669 | 15,084 |
| Income from continuing operations | 88,641 | 56,706 | 233,592 | 214,728 |
| Income from discontinued operations before income taxes | | | | 1,436 |
| Income tax benefit | | | | (267) |
| Income from discontinued operations | | | | 1,703 |
| Gain on disposal of discontinued operations (net of income tax provision of \$4,578) | | | | 24,371 |
| Net income | \$ 88,641 | \$ 56,706 | \$ 233,592 | \$ 240,802 |
| Income per common share from continuing operations: | | | | |
| Basic | \$ 0.47 | \$ 0.31 | \$ 1.25 | \$ 1.16 |
| Diluted | \$ 0.39 | \$ 0.26 | \$ 1.02 | \$ 0.94 |

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Net income per common share:

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Basic | \$ 0.47 | \$ 0.31 | \$ 1.25 | \$ 1.30 |
| Diluted | \$ 0.39 | \$ 0.26 | \$ 1.02 | \$ 1.06 |
| Weighted average common share basic | 187,364 | 185,102 | 186,592 | 185,063 |
| Weighted average common share diluted | 229,210 | 221,892 | 230,003 | 228,141 |

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 Nine Months Ended | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Net income | \$ 88,641 | \$ 56,706 | \$ 233,592 | \$ 240,802 |
| Other comprehensive income (loss), 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 | 1,259 | 436 | 2,455 | 2,058 |
| Less: Reclassification adjustment for gains included in net income | (93) | (1,493) | (583) | (1,802) |
| | 1,166 | (1,057) | 1,872 | 256 |
| Defined benefit pension and post-retirement plans: | | | | |
| Amortization of prior service (benefit) cost included in net periodic pension and post-retirement costs | (92) | 5 | (275) | 17 |
| Other comprehensive income (loss) | 1,074 | (1,052) | 1,597 | 2,539 |
| Comprehensive income | \$ 89,715 | \$ 55,654 | \$ 235,189 | \$ 243,341 |

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 Nine Months Ended | |
|---|--------------------------------------|----------------------------|
| | September 30, 2012 | October 2, 2011 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 233,592 | \$ 240,802 |
| Less: Income from discontinued operations | | 1,703 |
| Less: Gain on disposal of discontinued operations | | 24,371 |
| Income from continuing operations | 233,592 | 214,728 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 39,812 | 38,426 |
| Amortization | 65,790 | 30,838 |
| Stock-based compensation | 30,634 | 22,514 |
| Deferred taxes | 7,076 | (412) |
| Provision for excess and obsolete inventory | 16,408 | 10,756 |
| 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) | |
| Retirement plans actuarial losses | 4,991 | 4,203 |
| Other | (750) | 2,328 |
| Changes in operating assets and liabilities, net of businesses sold: | | |
| Accounts receivable | (76,134) | 25,233 |
| Inventories | 25,070 | (1,034) |
| Other assets | 7,278 | (13,553) |
| Accounts payable and other accrued expenses | (17,600) | (47,483) |
| Deferred revenue and customer advances | (10,651) | (58,304) |
| Retirement plans contributions | (3,679) | (6,393) |
| Accrued income taxes | 50,313 | (3,064) |
| Net cash provided by continuing operations | 362,233 | 218,783 |
| Net cash used for discontinued operations | | (4,225) |
| Net cash provided by operating activities | 362,233 | 214,558 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (91,132) | (66,623) |
| Purchases of available-for-sale marketable securities | (513,057) | (593,261) |
| Proceeds from maturities of available-for-sale marketable securities | 102,635 | 485,416 |
| Proceed from sales of available-for-sale marketable securities | 70,937 | 627,439 |
| Net cash (used for) provided by continuing operations | (430,617) | 452,971 |
| Net cash provided by discontinued operations | | 39,062 |
| Net cash (used for) provided by investing activities | (430,617) | 492,033 |
| Cash flows from financing activities: | | |
| Issuance of common stock under employee stock option and stock purchase plans | 17,959 | 17,216 |
| Tax benefit related to stock options and restricted stock units | 7,600 | |
| Payments of long-term debt | (1,246) | (2,518) |

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| | | |
|--|------------|--------------|
| Payments of contingent consideration | (43,973) | |
| Repurchase of common stock | | (23,863) |
| Net cash used for financing activities | (19,660) | (9,165) |
| (Decrease) Increase in cash and cash equivalents | (88,044) | 697,426 |
| Cash and cash equivalents at beginning of period | 573,736 | 397,737 |
| Cash and cash equivalents at end of period | \$ 485,692 | \$ 1,095,163 |

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.

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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.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. U.S. income taxes are not provided for on the earnings of non-U.S. subsidiaries, except Japan, which are expected to be reinvested indefinitely in operations outside the U.S. For intra-period tax allocations, Teradyne first utilizes non-equity related tax attributes, such as net operating losses and credit carryforwards and then equity-related tax attributes.

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

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recognized net actuarial gains and losses in accumulated other comprehensive income within shareholders' equity on the consolidated balance sheets on an

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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 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 and nine months ended September 30, 2012 would have been \$73.2 million and \$213.4 million, respectively, compared to \$88.6 million and \$233.6 million actually recorded. Diluted earnings per share would have been \$0.32 and \$0.93 compared to \$0.39 and \$1.02 for the three and nine months ended September 30, 2012, respectively.

The effects of the change in accounting principle on the condensed consolidated financial statements for 2011 are presented below. Teradyne has 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 October 2, 2011 Effect of Accounting Change (in thousands, except per share amounts) | As Adjusted |
|--|--------------------------------|--|--------------------|
| Net revenues | \$ 344,389 | \$ | \$ 344,389 |
| Cost of revenues | 174,544 | (529) | 174,015 |
| Gross profit | 169,845 | 529 | 170,374 |
| Operating expenses: | | | |
| Engineering and development | 46,799 | (903) | 45,896 |
| Selling and administrative | 55,304 | (529) | 54,775 |
| Acquired intangible asset amortization | 6,754 | | 6,754 |
| Restructuring and other | 1,465 | | 1,465 |
| Total operating expenses | 110,322 | (1,432) | 108,890 |
| Income from operations | 59,523 | 1,961 | 61,484 |
| Interest income | 3,049 | | 3,049 |
| Interest expense and other, net | (6,068) | | (6,068) |
| Income before income taxes | 56,504 | 1,961 | 58,465 |
| Provision for income taxes | 1,759 | | 1,759 |
| Net income | \$ 54,745 | \$ 1,961 | \$ 56,706 |
| Net income per common share: | | | |
| Basic | \$ 0.30 | \$ 0.01 | \$ 0.31 |
| Diluted | \$ 0.25 | \$ 0.01 | \$ 0.26 |
| Weighted average common share basic | 185,102 | | 185,102 |
| Weighted average common share diluted | 221,892 | | 221,892 |

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| | Originally Reported | For the Nine Months Ended October 2, 2011 Effect of Accounting Change (in thousands, except per share amounts) | As Adjusted |
|---|------------------------|--|--------------|
| Net revenues | \$ 1,132,069 | \$ | \$ 1,132,069 |
| Cost of revenues | 554,729 | (604) | 554,125 |
| Gross profit | 577,340 | 604 | 577,944 |
| Operating expenses: | | | |
| Engineering and development | 142,169 | (737) | 141,432 |
| Selling and administrative | 171,014 | (628) | 170,386 |
| Acquired intangible asset amortization | 21,336 | | 21,336 |
| Restructuring and other | 3,157 | | 3,157 |
| Total operating expenses | 337,676 | (1,365) | 336,311 |
| Income from operations | 239,664 | 1,969 | 241,633 |
| Interest income | 5,739 | | 5,739 |
| Interest expense and other, net | (17,560) | | (17,560) |
| Income from continuing operations before income taxes | 227,843 | 1,969 | 229,812 |
| Provision for income taxes | 15,084 | | 15,084 |
| Income from continuing operations | 212,759 | 1,969 | 214,728 |
| 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 | \$ 238,675 | \$ 2,127 | \$ 240,802 |
| Net income per common share from continuing operations: | | | |
| Basic | \$ 1.15 | \$ 0.01 | \$ 1.16 |
| Diluted | \$ 0.93 | \$ 0.01 | \$ 0.94 |
| Net income per common share: | | | |
| Basic | \$ 1.29 | \$ 0.01 | \$ 1.30 |
| Diluted | \$ 1.05 | \$ 0.01 | \$ 1.06 |
| Weighted average common share basic | 185,063 | | 185,063 |
| Weighted average common share diluted | 228,141 | | 228,141 |

Table of Contents*Condensed Consolidated Statements of Comprehensive Income*

| | Originally Reported | For the Three Months Ended October 2, 2011 Effect of Accounting Change (in thousands) | As Adjusted |
|---|------------------------|--|-------------|
| Net income | \$ 54,745 | \$ 1,961 | \$ 56,706 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized gains on marketable securities | (1,057) | | (1,057) |
| Defined benefit pension and post-retirement plans: | | | |
| Actuarial losses arising during period, net of tax of (\$0), \$0 | (5) | 5 | |
| Less: Amortization included in net periodic pension and post- retirement costs: | | | |
| Actuarial losses, net of tax of \$11, (\$11) | 2,226 | (2,226) | |
| Prior service costs, net of tax of \$0 | 5 | | 5 |
| | 2,231 | (2,226) | 5 |
| Other comprehensive income (loss) | 1,169 | (2,221) | (1,052) |
| Comprehensive income | \$ 55,914 | \$ (260) | \$ 55,654 |

| | Originally Reported | For the Nine Months Ended October 2, 2011 Effect of Accounting Change (in thousands) | As Adjusted |
|---|------------------------|---|-------------|
| Net income | \$ 238,675 | \$ 2,127 | \$ 240,802 |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation reclassification adjustment included in net income | 2,266 | | 2,266 |
| Unrealized gains on marketable securities | 256 | | 256 |
| Defined benefit pension and post-retirement plans: | | | |
| Actuarial losses arising during period, net of tax of (\$5), \$5 | (4,206) | 4,206 | |
| Settlement loss, 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 \$30, (\$30) | 6,681 | (6,681) | |
| Prior service costs, net of tax of \$0 | 17 | | 17 |
| | 6,698 | (6,681) | 17 |
| Other comprehensive income | 5,291 | (2,752) | 2,539 |
| Comprehensive income | \$ 243,966 | \$ (625) | \$ 243,341 |

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

| | Originally Reported | For the Nine Months Ended October 2, 2011 Effect of Accounting Change (in thousands) | As Adjusted |
|--|------------------------|---|---------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 238,675 | \$ 2,127 | \$ 240,802 |
| 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 | 212,759 | 1,969 | 214,728 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | | |
| Depreciation | 38,426 | | 38,426 |
| Amortization | 37,547 | (6,709) | 30,838 |
| Stock-based compensation | 22,514 | | 22,514 |
| Provision for excess and obsolete inventory | 10,756 | | 10,756 |
| Other | 1,379 | 4,740 | 6,119 |
| Changes in operating assets and liabilities, net of businesses sold: | | | |
| Accounts receivable | 25,233 | | 25,233 |
| Inventories | (1,034) | | (1,034) |
| Other assets | (13,553) | | (13,553) |
| Deferred revenue and customer advances | (58,304) | | (58,304) |
| Accounts payable and other accrued expenses | (47,483) | | (47,483) |
| Retirement plan contributions | (6,393) | | (6,393) |
| Accrued income taxes | (3,064) | | (3,064) |
| Net cash provided by continuing operations | 218,783 | | 218,783 |
| Net cash used for discontinued operations | (4,225) | | (4,225) |
| Net cash provided by operating activities | 214,558 | | 214,558 |
| Net cash provided by investing activities | 492,033 | | 492,033 |
| Net cash used for financing activities | (9,165) | | (9,165) |
| Increase in cash and cash equivalents | 697,426 | | 697,426 |
| Cash and cash equivalents at beginning of period | 397,737 | | 397,737 |
| Cash and cash equivalents at end of period | \$ 1,095,163 | \$ | \$ 1,095,163 |

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 nine months ended October 2, 2011 were as follows:

| | For the Three Months Ended October 2, 2011 | For the Nine Months Ended October 2, 2011 |
|---|---|--|
| | (in thousands) | |
| Net revenues | \$ | \$ 9,086 |
| Income from discontinued operations before income taxes | \$ | \$ 1,436 |
| Gain from disposal of discontinued operations before income taxes | | 28,949 |
| Income tax provision | | 4,311 |
| Income from discontinued operations | \$ | \$ 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 nine months ended September 30, 2012 and October 2, 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 September 30, 2012, the majority of Level 2 securities were priced by third party 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 nine months ended September 30, 2012 and October 2, 2011, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

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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 September 30, 2012 and December 31, 2011.

| | September 30, 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 | \$ 194,724 | \$ | \$ | \$ 194,724 |
| Cash equivalents | 275,546 | 15,422 | | 290,968 |
| Available for sale securities: | | | | |
| U.S. Treasury securities | 268,020 | | | 268,020 |
| U.S. government agency securities | | 146,655 | | 146,655 |
| Corporate debt securities | | 47,490 | | 47,490 |
| Commercial paper | | 44,476 | | 44,476 |
| Equity and debt mutual funds | 9,552 | | | 9,552 |
| Certificates of deposit and time deposits | | 6,660 | | 6,660 |
| Non-U.S. government securities | 278 | | | 278 |
| Total | \$ 748,120 | \$ 260,703 | \$ | \$ 1,008,823 |
| Liabilities | | | | |
| Contingent consideration | \$ | \$ | \$ 16,513 | \$ 16,513 |
| Derivatives | | 106 | | 106 |
| Total | \$ | \$ 106 | \$ 16,513 | \$ 16,619 |

Reported as follows:

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---------------------------------|----------------|------------|-----------|--------------|
| | (in thousands) | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 470,270 | \$ 15,422 | \$ | \$ 485,692 |
| Marketable securities | 198,289 | 146,561 | | 344,850 |
| Long-term marketable securities | 79,561 | 98,720 | | 178,281 |
| | \$ 748,120 | \$ 260,703 | \$ | \$ 1,008,823 |
| Liabilities | | | | |
| Contingent consideration | \$ | \$ | \$ 16,513 | \$ 16,513 |
| Other accrued liabilities | | 106 | | 106 |
| | \$ | \$ 106 | \$ 16,513 | \$ 16,619 |

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| | 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.

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

| Liability | September 30, 2012 Fair Value (in thousands) | Valuation Technique | Unobservable Inputs | Weighted Average |
|--------------------------|--|--------------------------------------|--|---------------------|
| Contingent consideration | \$ 16,513 | Income approach discounted cash flow | Discount rate for revenue earn-out | 3.5% |
| | | | Discount rate for new product earn-out | 3.5% |

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 |
| Payment | (38,149) |
| Balance at September 30, 2012 | \$ 16,513 |

On October 24, 2012 Teradyne paid \$14.4 million of the contingent consideration.

For the nine months ended September 30, 2012 and October 2, 2011, proceeds from sales of available-for-sale marketable securities were \$70.9 million and \$627.4 million, respectively. The proceeds from the sales of marketable securities during the nine months ended October 2, 2011 were used to fund Teradyne's acquisition of LitePoint.

During the three and nine months ended September 30, 2012, Teradyne recorded a net gain of \$0.3 million and \$0.9 million, respectively, from sales of marketable securities. During the three and nine months ended October 2, 2011, Teradyne recorded a net gain of \$2.2 million 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 September 30, 2012 and December 31, 2011 were as follows:

| | September 30, 2012 | | December 31, 2011 | |
|---------------------------|--------------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (in thousands) | | | |
| Cash and cash equivalents | \$ 485,692 | \$ 485,692 | \$ 573,736 | \$ 573,736 |
| Marketable securities | 523,131 | 523,131 | 180,909 | 180,909 |
| Convertible debt(1) | 166,268 | 499,225 | 156,098 | 485,925 |
| Japan loan | 5,151 | 5,151 | 6,431 | 6,431 |

(1)

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

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

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The following tables summarize the composition of available for sale marketable securities at September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | | Fair Market Value of Investments with Unrealized Losses |
|---|--------------------|-----------------|-------------------------------------|-------------------|---|
| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | |
| U.S. Treasury securities | \$ 267,831 | \$ 190 | \$ (1) | \$ 268,020 | \$ 175 |
| U.S. government agency securities | 146,418 | 237 | | 146,655 | |
| Corporate debt securities | 44,858 | 2,689 | (57) | 47,490 | 872 |
| Commercial paper | 44,474 | 6 | (4) | 44,476 | 10,235 |
| Equity and debt mutual funds | 8,471 | 1,084 | (3) | 9,552 | 148 |
| Certificates of deposit and time deposits | 6,658 | 2 | | 6,660 | |
| Non-U.S. government securities | 278 | | | 278 | |
| | \$ 518,988 | \$ 4,208 | \$ (65) | \$ 523,131 | \$ 11,430 |

Reported as follows:

| | September 30, 2012 | | | | Fair Market Value of Investments with Unrealized Losses |
|---------------------------------|--------------------|-----------------|-------------------------------------|-------------------|---|
| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | |
| Marketable securities | \$ 344,777 | \$ 77 | \$ (4) | \$ 344,850 | \$ 10,235 |
| Long-term marketable securities | 174,211 | 4,131 | (61) | 178,281 | 1,195 |
| | \$ 518,988 | \$ 4,208 | \$ (65) | \$ 523,131 | \$ 11,430 |

| | December 31, 2011 | | | | Fair Market Value of Investments with Unrealized Losses |
|---|-------------------|-----------------|-------------------------------------|-------------------|---|
| | 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 | |
| | \$ 178,625 | \$ 2,581 | \$ (297) | \$ 180,909 | \$ 64,571 |

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 |

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As of September 30, 2012, the fair market value of marketable securities with unrealized losses totaled \$11.4 million. There were no unrealized losses greater 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 September 30, 2012 were as follows:

| | September 30, 2012 | |
|------------------------------------|--------------------|-------------------|
| | Cost | Fair Market Value |
| Due within one year | \$ 344,777 | \$ 344,850 |
| Due after 1 year through 5 years | 155,621 | 157,028 |
| Due after 5 years through 10 years | 2,819 | 3,025 |
| Due after 10 years | 15,771 | 18,228 |
| Total | \$ 518,988 | \$ 523,131 |

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 \$84.5 million and \$85.4 million at September 30, 2012 and December 31, 2011, respectively.

The following table summarizes the fair value of derivative instruments at September 30, 2012 and December 31, 2011.

| | Balance Sheet Location | September 30, | December 31, |
|--|---------------------------|---------------|--------------|
| | | 2012 | 2011 |
| (in thousands) | | | |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts | Other accrued liabilities | \$ 106 | \$ 314 |
| | | \$ 106 | \$ 314 |

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The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and nine months ended September 30, 2012 and October 2, 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 Nine Months Ended | | |
|--|-------------------------------|--------------------|------------------------------|--------------------|----------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 | |
| | (in thousands) | | | | |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts | Interest expense and other | \$ (1,197) | \$ (1,429) | \$ (677) | \$ (858) |
| | | \$ (1,197) | \$ (1,429) | \$ (677) | \$ (858) |

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 September 30, 2012, approximately \$3.9 million of the outstanding loan principal is included in current debt and approximately \$1.3 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, at the option of the holder, 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 September 30, 2012, the following circumstance occurred that allows holders to convert their Notes at their option prior to December 15, 2013: 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 November 9, 2012, no holders have exercised their option to convert their Notes into shares of common stock.

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

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

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 September 30, 2012 and December 31, 2011. The tables below represent the components of Teradyne's convertible senior notes:

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Debt principal | \$ 190,000 | \$ 190,000 |
| Unamortized debt discount | 23,732 | 33,902 |
| Net carrying amount of the convertible debt | \$ 166,268 | \$ 156,098 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|-------------------------------|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Contractual interest expense | \$ 2,114 | \$ 2,114 | \$ 6,413 | \$ 6,460 |
| Amortization of the discount component and debt issue fees | 3,710 | 3,263 | 10,781 | 9,484 |
| Total interest expense on the convertible debt | \$ 5,824 | \$ 5,377 | \$ 17,194 | \$ 15,944 |

As of September 30, 2012, the unamortized discount was \$23.7 million, which will be amortized over approximately 1.50 years, and the carrying amount of the equity component was \$63.4 million. As of September 30, 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 \$493.5 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.

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Customer advances | \$ 44,152 | \$ 70,001 |
| Maintenance, training and extended warranty | 50,208 | 33,953 |
| Undelivered elements | 7,200 | 7,939 |
| Acceptance | | 318 |

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| | | |
|--|------------|------------|
| Total deferred revenue and customer advances | \$ 101,560 | \$ 112,211 |
|--|------------|------------|

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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 Nine Months Ended | |
|--|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 11,047 | \$ 9,262 | \$ 8,154 | \$ 9,886 |
| Accruals for warranties issued during the period | 4,118 | 3,502 | 13,543 | 11,056 |
| Adjustments related to pre-existing warranties | 1,226 | (491) | 1,369 | (2,563) |
| Settlements made during the period | (3,813) | (3,220) | (10,488) | (9,326) |
| Balance at end of period | \$ 12,578 | \$ 9,053 | \$ 12,578 | \$ 9,053 |

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 Nine Months Ended | |
|---|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 20,754 | \$ 10,308 | \$ 12,742 | \$ 8,972 |
| Deferral of new extended warranty revenue | 8,733 | 1,324 | 21,015 | 5,123 |
| Recognition of extended warranty deferred revenue | (2,007) | (2,194) | (6,277) | (4,657) |
| Balance at end of period | \$ 27,480 | \$ 9,438 | \$ 27,480 | \$ 9,438 |

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 nine months ended September 30, 2012, Teradyne granted 1.7 million of restricted stock unit awards to employees at a weighted average grant date fair value of \$16.73 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 nine months ended October 2, 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.

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

| | For the Nine Months Ended | |
|-----------------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 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 nine months ended September 30, 2012 and October 2, 2011 was \$3.75 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 Nine Months Ended | |
|-----------------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 |
| Expected life (years) | 0.5 | 0.5 |
| Interest rate | 0.11% | 0.14% |
| Volatility-historical | 42.7% | 41.0% |
| Dividend yield | 0.0% | 0.0% |

K. Goodwill and Intangible Assets**Goodwill**

On October 5, 2011, Teradyne completed its acquisition of LitePoint Corporation (LitePoint) located in Sunnyvale, California. During the three months ended September 30, 2012, Teradyne recorded a decrease in goodwill by \$3.4 million and recorded a \$3.4 million income tax receivable.

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The changes in the carrying amount of goodwill by reporting units are as follows:

| | Semiconductor Test | Systems Test Group (in thousands) | Wireless Test | Total |
|--------------------------------|-----------------------|--|------------------|------------|
| Balance at December 31, 2010: | | | | |
| Goodwill | \$ 260,540 | \$ 148,183 | \$ | \$ 408,723 |
| Accumulated impairment losses | (260,540) | (148,183) | | (408,723) |
| Activity during the year | | | 352,778 | 352,778 |
| Balance at December 31, 2011: | | | | |
| Goodwill | 260,540 | 148,183 | 352,778 | 761,501 |
| Accumulated impairment losses | (260,540) | (148,183) | | (408,723) |
| Activity during the year | | | 352,778 | 352,778 |
| Activity during the year | | | (3,405) | (3,405) |
| Balance at September 30, 2012: | | | | |
| Goodwill | 260,540 | 148,183 | 349,373 | 758,096 |
| Accumulated impairment losses | (260,540) | (148,183) | | (408,723) |
| Activity during the year | | | \$ 349,373 | \$ 349,373 |

Intangible Assets

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

| | Gross Carrying Amount | September 30, 2012 Accumulated Amortization (in thousands) | Net Carrying Amount | Weighted Average Useful Life |
|---|-----------------------------|---|---------------------------|------------------------------------|
| Developed technology | \$ 358,155 | \$ 130,349 | \$ 227,806 | 6.3 years |
| Customer relationships and service and software maintenance contracts | 144,971 | 58,905 | 86,066 | 8.0 years |
| Trade names and trademarks | 33,840 | 10,024 | 23,816 | 9.0 years |
| Customer backlog | 1,000 | 1,000 | | 0.4 years |
| Total intangible assets | \$ 537,966 | \$ 200,278 | \$ 337,688 | 7.0 years |

| | Gross Carrying Amount | December 31, 2011 Accumulated Amortization (in thousands) | Net Carrying Amount | Weighted Average Useful Life |
|---|-----------------------------|--|---------------------------|------------------------------------|
| 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 |

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| | | | | |
|-------------------------|------------|------------|------------|-----------|
| Customer backlog | 1,000 | 1,000 | 0.4 years | |
| Total intangible assets | \$ 537,966 | \$ 144,991 | \$ 392,975 | 7.0 years |

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Aggregate intangible asset amortization expense was \$18.4 million and \$55.3 million, respectively, for the three and nine months ended September 30, 2012 and \$6.8 million and \$21.3 million, respectively, for the three and nine months ended October 2, 2011. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

| Year | Amortization Expense (in thousands) |
|------------------|--|
| 2012 (remainder) | \$ 18,221 |
| 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 Nine Months Ended | |
|---|--|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands, except per share amounts) | | | |
| Income from continuing operations | \$ 88,641 | \$ 56,706 | \$ 233,592 | \$ 214,728 |
| Income from discontinued operations | | | | 1,703 |
| Gain on disposal of discontinued operations | | | | 24,371 |
| Net income for basic net income per share | \$ 88,641 | \$ 56,706 | \$ 233,592 | \$ 240,802 |
| Weighted average common shares-basic | 187,364 | 185,102 | 186,592 | 185,063 |
| Effect of dilutive potential common shares: | | | | |
| Incremental shares from assumed conversion of convertible Note(1) | 21,890 | 19,540 | 22,397 | 21,870 |
| Convertible note hedge warrant shares(2) | 16,765 | 13,475 | 17,474 | 16,737 |
| Restricted stock units | 1,423 | 3,377 | 1,413 | 3,942 |
| Stock options | 1,735 | 346 | 2,075 | 454 |
| Employee stock purchase rights | 33 | 52 | 52 | 75 |
| Dilutive potential common shares | 41,846 | 36,790 | 43,411 | 43,078 |
| Weighted average common shares-diluted | 229,210 | 221,892 | 230,003 | 228,141 |
| Net income per common share-basic | | | | |
| Continuing operations | \$ 0.47 | \$ 0.31 | \$ 1.25 | \$ 1.16 |
| Discontinued operations | | | | 0.14 |
| | \$ 0.47 | \$ 0.31 | \$ 1.25 | \$ 1.30 |
| Net income per common share-diluted | | | | |
| Continuing operations | \$ 0.39 | \$ 0.26 | \$ 1.02 | \$ 0.94 |
| Discontinued operations | | | | 0.12 |
| | \$ 0.39 | \$ 0.26 | \$ 1.02 | \$ 1.06 |

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- (1) Incremental shares from assumed conversion of the convertible notes for the three and nine months ended September 30, 2012 and October 2, 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.

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- (2) Convertible note hedge warrant shares for the three and nine months ended September 30, 2012 and October 2, 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 nine months ended September 30, 2012 excludes the effect of the potential exercise of stock options to purchase approximately 0.3 million shares, and the computation of the three and nine months ended September 30, 2012 excludes the effect of the potential exercise of restricted stock units of 0.1 million and 0.4 million, because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and nine months ended October 2, 2011 excludes the effect of the potential exercise of stock options to purchase approximately 0.5 million and 0.8 million shares and restricted stock units of 1.4 million and 0.5 million, respectively, because the effect would have been anti-dilutive.

With respect to 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 nine months ended September 30, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, Teradyne recorded an \$8.4 million fair value adjustment to decrease the LitePoint acquisition contingent consideration. As of September 30, 2012, the estimated undiscounted range of outcomes for the contingent consideration is \$16.0 million to \$17.0 million. The decrease in the range from December 31, 2011 is due to \$44.0 million of contingent consideration payments and the \$8.4 million fair value decrease.

During the nine months ended October 2, 2011, Teradyne recorded \$1.3 million of acquisition costs related to its LitePoint acquisition and 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 its Semiconductor Test and Systems Test Group segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for lease payments on vacated facilities of \$1.3 million is reflected in the other accrued liabilities and is expected to be paid over the next twelve months, which expires in 2013. Teradyne's future lease commitments are net of expected sublease income of \$0.2 million as of September 30, 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 |
| Cash payments | | (175) | (175) |
| Balance at September 30, 2012 | \$ | \$ 1,289 | \$ 1,289 |
| 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 |

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| | | | |
|-------------------------------|--------|----------|----------|
| Change in estimate | (4) | | (4) |
| Cash payments | (282) | | (282) |
| Balance at September 30, 2012 | \$ | \$ | \$ |
| <i>Q3 2012 Activity:</i> | | | |
| Provision | \$ 687 | \$ | \$ 687 |
| Cash payments | (327) | | (327) |
| Balance at September 30, 2012 | \$ 360 | \$ | \$ 360 |
| Balance at September 30, 2012 | \$ 360 | \$ 1,289 | \$ 1,649 |

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During the nine months ended September 30, 2012, Teradyne recorded the following restructuring charges:

Q3 2012 Action:

\$0.7 million of severance charges related to headcount reductions of 9 people, of which \$0.5 million and 7 people were in Systems Test Group, \$0.2 million and 2 people in Wireless Test.

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 Nine Months Ended | |
|---|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Service cost | \$ 685 | \$ 656 | \$ 2,054 | \$ 2,092 |
| Interest cost | 4,111 | 4,380 | 12,333 | 13,164 |
| Expected return on plan assets | (4,090) | (3,902) | (12,269) | (11,720) |
| Amortization of unrecognized prior service cost | 58 | 155 | 174 | 466 |
| Settlement loss | | | | 680 |
| Actuarial loss | 1,937 | | 5,083 | 4,279 |
| Total net periodic pension cost | \$ 2,701 | \$ 1,289 | \$ 7,375 | \$ 8,961 |

In the nine months ended September 30, 2012, Teradyne contributed \$2.6 million to its defined benefit pension plans.

During the three months ended September 30, 2012, Teradyne offered to certain U.S. employees the option to receive their vested pension benefit as a one-time lump sum payment. Approximately 2,000 former employees selected to receive a one-time lump sum payment. Total one-time lump sum payments are expected to be approximately \$52.0 million, of which \$39.5 million was paid in the three months ended September 30, 2012, and the remainder is expected to be paid before December 31, 2012.

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.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Service cost | \$ 17 | \$ 15 | \$ 50 | \$ 45 |
| Interest cost | 109 | 135 | 328 | 405 |
| Amortization of unrecognized prior service benefit | (150) | (150) | (449) | (449) |
| Actuarial gain | | | (92) | (76) |
| Total net periodic post-retirement cost | \$ (24) | \$ | \$ (163) | \$ (75) |

O. Commitments and Contingencies**Purchase Commitments**

As of September 30, 2012, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments aggregate to approximately \$217.6 million, of which \$214.4 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. Income Taxes

Teradyne's effective tax rate for the three and nine months ended September 30, 2012 was 13.96% and 21.15%, respectively. Teradyne's effective tax rate for the three and nine months ended October 2, 2011 was 3.01% and 6.56%, respectively. Teradyne's effective tax rate is usually less than the 35 percent U.S. statutory tax rate primarily due to the geographic mix of income and profits earned by Teradyne's international subsidiaries being taxed at rates lower than the U.S. statutory rate. The effective tax rate for the three and nine months ended September 30, 2012, and the related income tax expense included approximately \$13 million of a deferred income tax benefit recorded in connection with Teradyne's plan to repatriate unremitted earnings of its Japanese subsidiary. The effective tax rate for the three and nine months ended October 2, 2011, included the effect of a full valuation allowance on Teradyne's deferred tax assets in the U.S. and Singapore.

Q. 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.

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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 September 30, 2012: | | | | | |
| Net revenues | \$ 310,979 | \$ 33,844 | \$ 118,571 | \$ | \$ 463,394 |
| Income (loss) from continuing operations before income taxes(1)(2) | 55,348 | (2,642) | 58,902 | (8,583) | 103,025 |
| Three months ended October 2, 2011: | | | | | |
| Net revenues | \$ 241,394 | \$ 102,995 | \$ | \$ | \$ 344,389 |
| Income (loss) from continuing operations before income taxes(1)(2) | 37,244 | 25,563 | | (4,342) | 58,465 |
| Nine months ended September 30, 2012: | | | | | |
| Net revenues | \$ 943,625 | \$ 202,894 | \$ 261,827 | \$ | \$ 1,408,346 |
| Income (loss) from continuing operations before income taxes(1)(2) | 181,594 | 30,964 | 97,729 | (14,026) | 296,261 |
| Nine months ended October 2, 2011: | | | | | |
| Net revenues | \$ 903,740 | \$ 228,329 | \$ | \$ | \$ 1,132,069 |
| Income (loss) from continuing operations before income taxes(1)(2) | 205,144 | 39,877 | | (15,209) | 229,812 |

- (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 nine months ended September 30, 2012 and October 2, 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 Nine Months Ended | |
|--|-------------------------------|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Cost of revenues provision for excess and obsolete inventory | \$ 3,085 | \$ 4,202 | \$ 9,254 | \$ 10,144 |
| Restructuring and other, net | (4) | 137 | 315 | 2,307 |
| Total | \$ 3,081 | \$ 4,339 | \$ 9,569 | \$ 12,451 |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Cost of revenues provision for excess and obsolete inventory | \$ 378 | \$ 211 | \$ 3,020 | \$ 612 |
| Restructuring and other, net | 451 | | 451 | (246) |
| Total | \$ 829 | \$ 211 | \$ 3,471 | \$ 366 |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Cost of revenues inventory step-up | \$ | \$ | \$ 6,089 | \$ |
| Cost of revenues provision for excess and obsolete inventory | 2,018 | | 4,134 | |
| Restructuring and other, net | 236 | | 236 | |
| Total | \$ 2,254 | \$ | \$ 10,459 | \$ |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|------------------------------|----------------------------|-----------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| | (in thousands) | | | |
| Restructuring and other, net | \$ | \$ 1,328 | \$ (8,406) | \$ 1,096 |
| Total | \$ | \$ 1,328 | \$ (8,406) | \$ 1,096 |

R. 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 nine months ended September 30, 2012, Teradyne did not repurchase any shares. In the three and nine months ended October 2, 2011, Teradyne repurchased 2.0 million shares of common stock for \$23.9 million at an average price of \$12.06. Cumulatively, as of September 30, 2012, Teradyne has repurchased 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

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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 our 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 storage test market 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.

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 nine months ended September 30, 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.

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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 range ("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.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 | September 30, 2012 | October 2, 2011 |
| Percentage of total net revenues: | | | | |
| Net revenues: | | | | |
| Products | 85% | 80% | 86% | 82% |
| Services | 15 | 20 | 14 | 18 |
| Total net revenues | 100 | 100 | 100 | 100 |
| Cost of revenues: | | | | |
| Cost of products | 37 | 40 | 39 | 40 |
| Cost of services | 7 | 10 | 7 | 9 |
| Total cost of revenues | 44 | 51 | 46 | 49 |
| Gross profit | 56 | 49 | 54 | 51 |
| Operating expenses: | | | | |
| Engineering and development | 14 | 13 | 13 | 12 |
| Selling and administrative | 15 | 16 | 15 | 15 |
| Acquired intangible asset amortization | 4 | 2 | 4 | 2 |
| Restructuring and other, net | | | (1) | |
| Total operating expenses | 33 | 32 | 32 | 30 |
| Income from operations | 23 | 18 | 22 | 21 |
| Interest income | | 1 | | 1 |
| Interest expense and other | (1) | (2) | (1) | (2) |
| Income from continuing operations before income taxes | 22 | 17 | 21 | 20 |
| Income tax provision | 3 | 1 | 4 | 1 |
| Income from continuing operations | 19 | 16 | 17 | 19 |
| Income from discontinued operations before income taxes | | | | |
| Income tax benefit | | | | |
| Income from discontinued operations | | | | |
| Gain on disposal of discontinued operations | | | | 2 |
| Net income | 19% | 16% | 17% | 21% |

Results of Operations*Third Quarter 2012 Compared to Third 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 | |
|--------------------|----------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 |
| Semiconductor Test | 0.5 | 0.8 |
| Systems Test Group | 0.7 | 0.4 |
| Wireless Test | 0.4 | |
| Total Company | 0.5 | 0.7 |

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Net revenues by reportable segments were as follows:

| | For the Three Months Ended | | Dollar Change |
|--------------------|----------------------------|----------------------------------|---------------|
| | September 30, 2012 | October 2, 2011 (in millions) | |
| Semiconductor Test | \$ 311.0 | \$ 241.4 | \$ 69.6 |
| Systems Test Group | 33.8 | 103.0 | (69.2) |
| Wireless Test | 118.6 | | 118.6 |
| | \$ 463.4 | \$ 344.4 | \$ 119.0 |

The increase of \$69.6 million or 29% in Semiconductor Test revenues was due to an increase in System-on-a-Chip product revenue partially offset by a decrease in memory product revenue. The decrease in Systems Test Group revenue of \$69.2 million or 67% was primarily due to a decrease in sales of Storage Test systems. The acquisition of LitePoint, which is our Wireless Test segment, completed in October of 2011, added \$118.6 million of revenue in the three months ended September 30, 2012.

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

| | For the Three Months Ended | |
|---------------|----------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 |
| China | 29% | 13% |
| Korea | 19 | 8 |
| Taiwan | 17 | 10 |
| United States | 12 | 16 |
| Japan | 7 | 12 |
| Europe | 5 | 7 |
| Malaysia | 3 | 11 |
| Singapore | 3 | 8 |
| Philippines | 3 | 6 |
| Thailand | 1 | 8 |
| Rest of World | 1 | 1 |
| | 100% | 100% |

Gross Profit

Our gross profit was as follows:

| September 30, | For the Three Months Ended | | Dollar/Point Change |
|---------------|----------------------------|--|---------------------|
| | October 2, | | |

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| | 2012 | 2011 (in millions) | |
|--------------------------|----------|-----------------------|---------|
| Gross Profit | \$ 260.2 | \$ 170.4 | \$ 89.8 |
| Percent of Total Revenue | 56.2% | 49.5% | 6.7 |

Gross profit as a percent of revenue increased by 6.7 percentage points primarily due to the addition of LitePoint, which had its highest quarterly revenue in its history.

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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 September 30, 2012, we recorded an inventory provision of \$5.5 million included in cost of revenues, due to the following factors:

A \$3.1 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

A \$2.0 million inventory write-down as a result of product transition in Wireless Test.

The remainder of the charge of \$0.4 million reflects downward revisions to previously forecasted demand levels in Systems Test Group.

During the three months ended October 2, 2011, we recorded an inventory provision of \$4.4 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$4.4 million of total excess and obsolete provisions recorded in the three months ended October 2, 2011, \$4.2 million was related to Semiconductor Test and \$0.2 million was related to Systems Test Group.

During the three months ended September 30, 2012 and October 2, 2011, we scrapped \$1.1 million and \$4.2 million of inventory, respectively. During the three months ended September 30, 2012 and October 2, 2011, we sold \$0.7 million and 1.5 million, respectively, of previously written-down or written-off inventory. As of September 30, 2012, we had inventory related reserves for amounts which had been written-down or written-off totaling \$132.4 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 | | Dollar Change |
|-----------------------------|-----------------------------------|--|----------------------|
| | September 30, 2012 | October 2, 2011 (in millions) | |
| Engineering and Development | \$ 63.1 | \$ 45.9 | \$ 17.2 |
| Percent of Total Revenue | 13.6% | 13.3% | |

The increase of \$17.2 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.

Selling and Administrative

Selling and administrative expenses were as follows:

| | For the Three Months Ended | | Dollar Change |
|--|-----------------------------------|------------------------|----------------------|
| | September 30, 2012 | October 2, 2011 | |

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| | | (in millions) | |
|----------------------------|---------|---------------|---------|
| Selling and Administrative | \$ 69.9 | \$ 54.8 | \$ 15.1 |
| Percent of Total Revenue | 15.1% | 15.9% | |

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The increase of \$15.1 million in selling and administrative expenses is due primarily to additional costs of \$13.2 million related to LitePoint.

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

As of September 30, 2012, the estimated undiscounted range of outcomes for the contingent consideration is \$16.0 million to \$17.0 million. The decrease in the range from July 1, 2012 is due to the \$38.1 million contingent consideration payment during the three months ended September 30, 2012.

During the three months ended October 2, 2011, we recorded \$1.3 million of acquisition costs.

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 \$1.3 million is reflected in the other accrued liabilities and is expected to be paid over the next twelve months, which expires in 2013. Our future lease commitments are net of expected sublease income of \$0.2 million as of September 30, 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 |
| Cash payments | | (175) | (175) |
| Balance at September 30, 2012 | \$ | \$ 1,289 | \$ 1,289 |
| <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 | \$ | \$ | \$ |

Q2 2011 Activity:

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| | | | |
|------------------------------|--------|----|--------|
| Provision | \$ 344 | \$ | \$ 344 |
| Cash payments | (115) | | (115) |
| Balance at December 31, 2011 | 229 | | 229 |
| Cash payments | (229) | | (229) |
| Balance at April 1, 2012 | \$ | \$ | \$ |

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| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|-------------------------------|------------------------------|---|----------|
| <i>2012 Activities</i> | | | |
| <i>Q2 2012 Activity:</i> | | | |
| Provision | \$ 286 | \$ | \$ 286 |
| Balance at July 1, 2012 | 286 | | 286 |
| Change in estimate | (4) | | (4) |
| Cash payments | (282) | | (282) |
| Balance at September 30, 2012 | \$ | \$ | \$ |
| <i>Q3 2012 Activity:</i> | | | |
| Provision | \$ 687 | \$ | \$ 687 |
| Cash payments | (327) | | (327) |
| Balance at September 30, 2012 | \$ 360 | \$ | \$ 360 |
| Balance at September 30, 2012 | \$ 360 | \$ 1,289 | \$ 1,649 |

During the three months ended September 30, 2012, we recorded the following restructuring charges:

Q3 2012 Action:

\$0.7 million of severance charges related to headcount reductions of 9 people, of which \$0.5 million and 7 people were in Systems Test Group, \$0.2 million and 2 people were in Wireless Test.

During the three months ended October 2, 2011, we did not record any restructuring charges.

Interest and Other

Interest income decreased by \$2.0 million from the three months ended October 2, 2011 to the three months ended September 30, 2012, due to a decrease in marketable securities as a result of the LitePoint acquisition.

Income Taxes

For the three months ended September 30, 2012, we recorded a tax provision of \$14.4 million which consisted of foreign taxes and U.S. deferred tax provision. The tax provision of \$14.4 million is net of a deferred income tax benefit of approximately \$13 million recorded in connection with our plan to repatriate unremitted earnings of our Japanese subsidiary. For the three months ended October 2, 2011, we recorded a tax provision of \$1.8 million, 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 September 30, 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*Nine Months of 2012 Compared to Nine Months of 2011**Revenues*

Net revenues by reportable segments were as follows:

| | For the Nine Months Ended | | Dollar Change |
|--------------------|---------------------------|----------------------------------|---------------|
| | September 30, 2012 | October 2, 2011 (in millions) | |
| Semiconductor Test | \$ 943.6 | \$ 903.8 | \$ 39.8 |
| Systems Test Group | 202.9 | 228.3 | (25.4) |
| Wireless Test | 261.8 | | 261.8 |
| | \$ 1,408.3 | \$ 1,132.1 | \$ 276.2 |

The increase of \$39.8 million or 4% in Semiconductor Test revenue was primarily due to an increase in System-on-a-Chip product revenue, partially offset by a decrease in memory product revenue. The decrease in Systems Test Group revenue of \$25.4 million or 11% was primarily due to a decrease in sales of Storage Test systems. The acquisition of LitePoint, which is our Wireless Test segment, completed in October of 2011, added \$261.8 million of revenue in the nine months ended September 30, 2012.

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

| | For the Nine Months Ended | |
|---------------|---------------------------|-----------------|
| | September 30, 2012 | October 2, 2011 |
| China | 23% | 11% |
| Taiwan | 18 | 12 |
| Korea | 15 | 12 |
| United States | 12 | 15 |
| Philippines | 6 | 10 |
| Japan | 6 | 8 |
| Thailand | 5 | 7 |
| Europe | 5 | 7 |
| Malaysia | 4 | 11 |
| Singapore | 4 | 6 |
| Rest of World | 2 | 1 |
| | 100% | 100% |

Gross Profit

Our gross profit was as follows:

| | For the Nine Months Ended | | Dollar/Point Change |
|--|---------------------------|-----------------|---------------------|
| | September 30, 2012 | October 2, 2011 | |

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| | (in millions) | | |
|--------------------------|---------------|----------|----------|
| Gross Profit | \$ 760.6 | \$ 577.9 | \$ 182.7 |
| Percent of Total Revenue | 54.0% | 51.1% | 2.9 |

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Gross profit as a percent of revenue increased by 2.9 percentage points a result of an increase of 5.0 points related to the addition of LitePoint, which had its highest nine month revenue in its history, partially offset by a decrease of 1.5 points due to System-on-a-Chip product mix.

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 nine months ended September 30, 2012, we recorded an inventory provision of \$16.4 million included in cost of revenues, due to the following factors:

A \$5.7 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

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 \$2.0 million inventory write-down as a result of product transition in Wireless Test.

The remainder of the charge of \$5.5 million primarily reflects downward revisions to previously forecasted demand levels, of which \$3.0 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 nine months ended October 2, 2011, we recorded an inventory provision of \$10.8 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$10.8 million of total excess and obsolete provisions recorded, \$10.2 million was related to Semiconductor Test and \$0.6 million was related to Systems Test Group.

During the nine months ended September 30, 2012 and October 2, 2011, we scrapped \$8.0 million and \$6.8 million of inventory, respectively. During the nine months ended September 30, 2012 and October 2, 2011, we sold \$3.2 million and \$5.2 million, respectively, of previously written-down or written-off inventory. As of September 30, 2012, we had inventory related reserves for amounts which had been written-down or written-off totaling \$132.4 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

| | For the Nine Months Ended | | |
|-----------------------------|------------------------------|-------------------------------------|------------------|
| | September 30, 2012 | October 2, 2011 (in millions) | Dollar Change |
| Engineering and Development | \$ 189.7 | \$ 141.4 | \$ 48.3 |
| Percent of Total Revenue | 13.5% | 12.5% | |

The increase of \$48.3 million in engineering and development expenses is due primarily to additional costs of \$27.8 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 Nine Months Ended | | |
|----------------------------|------------------------------|-------------------------------------|------------------|
| | September 30, 2012 | October 2, 2011 (in millions) | Dollar Change |
| Selling and Administrative | \$ 211.1 | \$ 170.4 | \$ 40.7 |
| Percent of Total Revenue | 15.0% | 15.1% | |

The increase of \$40.7 million in selling and administrative expenses is due primarily to additional costs of \$36.2 million related to LitePoint.

*Restructuring and Other, Net**Other*

During the nine months ended September 30, 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 of fair value adjustment to decrease the LitePoint acquisition contingent consideration. As of September 30, 2012, the estimated undiscounted range of outcomes for the contingent consideration is \$16.0 million to \$17.0 million. The decrease in the range from December 31, 2011 is due to \$44.0 million of contingent consideration payments and the \$8.4 million fair value decrease.

During the nine months ended October 2, 2011, we recorded \$1.3 million of acquisition costs related to our LitePoint acquisition, and \$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 our Semiconductor Test and Systems Test Group segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for lease payments on vacated facilities of \$1.3 million is reflected in the other accrued liabilities and is expected to be paid over the next twelve months, which expires in 2013. Our future lease commitments are net of expected sublease income of \$0.2 million as of September 30, 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 |
| Cash payments | | (175) | (175) |

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| | | | |
|-------------------------------|----|----------|----------|
| Balance at September 30, 2012 | \$ | \$ 1,289 | \$ 1,289 |
|-------------------------------|----|----------|----------|

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| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|-------------------------------|------------------------------|---|----------|
| 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 |
| Change in estimate | (4) | | (4) |
| Cash payments | (282) | | (282) |
| Balance at September 30, 2012 | \$ | \$ | |
| <i>Q3 2012 Activity:</i> | | | |
| Provision | \$ 687 | \$ | \$ 687 |
| Cash payments | (327) | | (327) |
| Balance at September 30, 2012 | \$ 360 | \$ | \$ 360 |
| Balance at September 30, 2012 | \$ 360 | \$ 1,289 | \$ 1,649 |

During the nine months ended September 30, 2012, we recorded the following restructuring charges:

Q3 2012 Action:

\$0.7 million of severance charges related to headcount reductions of 9 people, of which \$0.5 million and 7 people were in Systems Test Group and \$0.2 million and 2 people in Wireless Test.

Interest and Other

Interest income decreased by \$2.9 million from the nine months ended October 2, 2011 to the nine months ended September 30, 2012, due to a decrease in marketable securities due to the LitePoint acquisition. Interest expense and other increased by \$1.0 million from the nine months ended October 2, 2011 to the nine months ended September 30, 2012, due primarily to an increase in interest expense related to our convertible note.

Income Taxes

For the nine months ended September 30, 2012, we recorded a tax provision of \$62.7 million, from continuing operations, which consisted of foreign taxes and U.S. deferred tax provision. The tax provision of \$62.7 million is net of a deferred income tax benefit of approximately \$13 million recorded in connection with our plan to repatriate unremitted earnings of our Japanese subsidiary. For the nine months ended October 2, 2011, we recorded a tax provision of \$15.1 million from continuing operations, which consisted primarily of foreign taxes.

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On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. At September 30, 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.

Contractual Obligations

The following table reflects our contractual obligations as of September 30, 2012:

| | Total | Less than 1 year | Payments Due by Period | | | Other |
|--|------------|---------------------|-----------------------------|-----------|----------------------|-----------|
| | | | 1-3 years (in thousands) | 3-5 years | More than 5 years | |
| Long-Term Debt Obligations(1) | \$ 195,151 | \$ 3,863 | \$ 191,288 | \$ | \$ | \$ |
| Interest on Debt | 12,938 | 8,631 | 4,307 | | | |
| Contingent Acquisition Payments | 16,513 | 16,513 | | | | |
| Operating Lease Obligations | 51,393 | 13,689 | 19,560 | 9,837 | 8,307 | |
| Purchase Obligations | 217,622 | 214,429 | 3,193 | | | |
| Retirement Plan Contributions | 51,680 | 5,265 | 10,609 | 11,271 | 24,535 | |
| Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP(2) | 80,735 | | 30,592 | | | 50,143 |
| Total | \$ 626,032 | \$ 262,390 | \$ 259,549 | \$ 21,108 | \$ 32,842 | \$ 50,143 |

(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".

Table of Contents**Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balances increased by \$254.2 million in the nine months ended September 30, 2012, to \$1.0 billion. Cash activity for the nine months ended September 30, 2012 and October 2, 2011 was as follows:

| | For the Nine Months Ended | |
|---|------------------------------|--------------------|
| | September 30, 2012 | October 2, 2011 |
| | (in millions) | |
| Cash provided by operating activities: | | |
| Income from continuing operations, adjusted for non-cash items | \$ 387.6 | \$ 323.4 |
| Change in operating assets and liabilities, net of businesses sold | (25.4) | (104.6) |
| Cash used for discontinued operations | | (4.2) |
| Total cash provided by operating activities | 362.2 | 214.6 |
| Cash (used for) provided by investing activities from continuing operations | (430.6) | 452.9 |
| Cash provided by investing activities from discontinued operations | | 39.1 |
| Total cash (used for) provided by investing activities | (430.6) | 492.0 |
| Total cash used for financing activities | (19.7) | (9.2) |
| (Decrease) Increase in cash and cash equivalents | \$ (88.0) | \$ 697.4 |

In the nine months ended September 30, 2012, changes in operating assets and liabilities, net of businesses sold, used cash of \$25.4 million. This was due to a \$43.8 million increase in operating assets, partially offset by an \$18.4 million increase in operating liabilities.

The increase in operating assets was due to a \$76.1 million increase in accounts receivable due to higher sales volume, partially offset by a \$25.1 million decrease in inventories, and a \$7.3 million decrease in other assets mainly due to a decrease in prepayments.

The increase in operating liabilities was due to a \$50.3 million increase in accrued income taxes, a \$4.3 million increase in accounts payable due to increased sales volume, and a \$0.8 million increase in other accrued liabilities, partially offset by a \$22.7 million decrease in accrued employee compensation due primarily to variable compensation payments, a \$10.7 million decrease in customer advance payments and deferred revenue and \$3.7 million of retirement plan contributions.

Investing activities during the nine months ended September 30, 2012 used cash of \$430.6 million, due to \$513.0 million used for purchases of marketable securities and \$91.1 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$70.9 million and \$102.6 million, respectively.

Financing activities during the nine months ended September 30, 2012 used cash of \$19.7 million, \$17.9 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 \$44.0 million of cash used for payments related to LitePoint acquisition contingent consideration and \$1.2 million of cash used for a payment on long-term debt.

In the nine months ended October 2, 2011, changes in operating assets and liabilities, net of businesses sold, used cash of \$104.6 million. This was due to a \$10.6 million decrease in operating assets and a \$115.2 million decrease in operating liabilities.

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The increase in operating assets was due to a \$25.2 million decrease in accounts receivable resulting from increased collections, partially offset by \$13.6 million increase in prepayments due primarily to supplier prepayments and a \$1.0 million increase in inventories. The decrease in operating liabilities was due to a \$53.3 million decrease in customer advance payments due to shipments of systems prepaid by customers, a \$43.9 million decrease in accrued employee compensation due primarily to variable compensation payments, \$6.4 million of retirement plan contributions, and a \$5.0 million decrease in deferred revenue, a \$3.4 million decrease in accounts payable due to decreased sales volume, and \$3.1 million decrease in accrued income taxes.

Investing activities during the nine months ended October 2, 2011 provided cash of \$452.9 million, due to \$593.3 million used for purchases of marketable securities and \$66.6 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$627.4 million and \$485.4 million, respectively.

Financing activities during the nine months ended October 2, 2011 used cash of \$9.2 million, due to repurchase of 2.0 million shares of common stock for \$23.9 million at an average price of \$12.06 per share, \$2.5 million for payment on long-term debt, partially offset by \$17.2 million from the issuance of common stock under stock option and stock purchase plans.

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. 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. We have approximately \$300 million of cash outside the U.S. that if repatriated would incur additional taxes. 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.

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.

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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 September 30, 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 September 30, 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 |
|--------------------------------------|---|--|---|---|
| July 2, 2012 – July 29, 2012 | | \$ | | \$ 168,825 |
| July 30, 2012 – August 26, 2012 | | \$ | | \$ 168,825 |
| August 27, 2012 – September 30, 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.

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The following table includes information with respect to our common stock shares withheld to satisfy withholding tax obligations during the three months ended September 30, 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 |
|--------------------------------------|---|--|---|---|
| July 2, 2012 - July 29, 2012 | 2 | \$ 14.01 | | |
| July 30, 2012 - August 26, 2012 | 4 | \$ 15.41 | | |
| August 27, 2012 - September 30, 2012 | 2 | \$ 15.63 | | |
| | 8 | \$ 15.15 | | |

Item 4: Mine Safety Disclosures

Not Applicable

Table of Contents**Item 6: Exhibits**

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

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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)

November 9, 2012