

TERADYNE, INC
Form 10-Q
November 14, 2011
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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 October 2, 2011

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 7, 2011 was 184,056,173 shares.

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

| | October 2, 2011 | December 31, 2010 |
|---|---------------------------|----------------------|
| | (in thousands, | |
| | except per share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,095,163 | \$ 397,737 |
| Marketable securities | 96,536 | 409,061 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,106 and \$3,752 at October 2, 2011 and December 31, 2010, respectively | 143,523 | 168,756 |
| Inventories: | | |
| Parts | 91,934 | 78,109 |
| Assemblies in process | 23,403 | 16,013 |
| Finished goods | 18,002 | 22,719 |
| | 133,339 | 116,841 |
| Deferred tax assets | 23,176 | 22,730 |
| Prepayments and other current assets | 64,087 | 52,780 |
| Current assets from discontinued operations | | 8,713 |
| Total current assets | 1,555,824 | 1,176,618 |
| Property, plant and equipment, at cost | 800,959 | 773,374 |
| Less: accumulated depreciation | 568,383 | 542,266 |
| Net property, plant and equipment | 232,576 | 231,108 |
| Long-term marketable securities | 40,712 | 248,696 |
| Retirement plan assets | 14,684 | 13,981 |
| Intangible assets, net | 101,604 | 122,941 |
| Other assets | 17,277 | 16,542 |
| Long-term assets from discontinued operations | | 469 |
| Total assets | \$ 1,962,677 | \$ 1,810,355 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 77,768 | \$ 81,142 |
| Accrued employees compensation and withholdings | 75,495 | 105,374 |
| Deferred revenue and customer advances | 79,464 | 105,568 |
| Other accrued liabilities | 52,554 | 57,145 |
| Accrued income taxes | 5,135 | 8,465 |
| Current debt | 2,605 | 2,450 |
| Current liabilities from discontinued operations | | 3,560 |
| Total current liabilities | 293,021 | 363,704 |
| Long-term deferred revenue and customer advances | 39,358 | 71,558 |

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| | | |
|--|---------|---------|
| Retirement plan liabilities | 74,718 | 72,071 |
| Deferred tax liabilities | 9,946 | 9,849 |
| Long-term other accrued liabilities | 18,908 | 19,448 |
| Long-term debt | 156,839 | 150,182 |
| Long-term liabilities of discontinued operations | | 1,355 |

| | | |
|-------------------|---------|---------|
| Total liabilities | 592,790 | 688,167 |
|-------------------|---------|---------|

Commitments and contingencies (Note O)

SHAREHOLDERS EQUITY

| | | |
|---|-----------|-----------|
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 184,122 shares and 182,035 shares issued and outstanding at October 2, 2011 and December 31, 2010, respectively | 23,015 | 22,754 |
| Additional paid-in capital | 1,283,266 | 1,269,526 |
| Accumulated other comprehensive loss | (122,925) | (128,216) |
| Retained earnings (accumulated deficit) | 186,531 | (41,876) |

| | | |
|---------------------------|-----------|-----------|
| Total shareholders equity | 1,369,887 | 1,122,188 |
|---------------------------|-----------|-----------|

| | | |
|---|--------------|--------------|
| Total liabilities and shareholders equity | \$ 1,962,677 | \$ 1,810,355 |
|---|--------------|--------------|

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, 2010, 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 | |
|---|--|-----------------|---------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands, except per share amounts) | | | |
| Net revenues: | | | | |
| Products | \$ 274,944 | \$ 432,030 | \$ 931,979 | \$ 1,082,250 |
| Services | 69,445 | 59,361 | 200,090 | 173,750 |
| Total net revenues | 344,389 | 491,391 | 1,132,069 | 1,256,000 |
| Cost of revenues: | | | | |
| Cost of products | 138,617 | 188,758 | 451,975 | 474,052 |
| Cost of services | 35,927 | 30,834 | 102,754 | 89,371 |
| Total cost of revenues | 174,544 | 219,592 | 554,729 | 563,423 |
| Gross profit | 169,845 | 271,799 | 577,340 | 692,577 |
| Operating expenses: | | | | |
| Engineering and development | 46,799 | 49,048 | 142,169 | 146,326 |
| Selling and administrative | 55,304 | 60,560 | 171,014 | 172,977 |
| Acquired intangible asset amortization | 6,754 | 7,291 | 21,336 | 21,959 |
| Restructuring and other, net | 1,465 | (1,977) | 3,157 | (703) |
| Total operating expenses | 110,322 | 114,922 | 337,676 | 340,559 |
| Income from operations | 59,523 | 156,877 | 239,664 | 352,018 |
| Interest income | 3,049 | 1,466 | 5,739 | 5,989 |
| Interest expense and other | (6,068) | (6,033) | (17,560) | (19,695) |
| Income from continuing operations before income taxes | 56,504 | 152,310 | 227,843 | 338,312 |
| Income tax provision | 1,759 | 6,606 | 15,084 | 20,909 |
| Income from continuing operations | 54,745 | 145,704 | 212,759 | 317,403 |
| Income from discontinued operations before income taxes | | 1,706 | 1,278 | 2,326 |
| Income tax provision (benefit) | | 70 | (267) | 140 |
| Income from discontinued operations | | 1,636 | 1,545 | 2,186 |
| Gain on disposal of discontinued operations (net of income tax of \$0, \$0, \$4,578, \$0, respectively) | | | 24,371 | |
| Net income | \$ 54,745 | \$ 147,340 | \$ 238,675 | \$ 319,589 |
| Income per common share from continuing operations: | | | | |
| Basic | \$ 0.30 | \$ 0.80 | \$ 1.15 | \$ 1.77 |
| Diluted | \$ 0.25 | \$ 0.65 | \$ 0.93 | \$ 1.44 |

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Net income per common share:

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Basic | \$ 0.30 | \$ 0.81 | \$ 1.29 | \$ 1.78 |
| Diluted | \$ 0.25 | \$ 0.66 | \$ 1.05 | \$ 1.45 |
| Weighted average common share basic | 185,102 | 181,239 | 185,063 | 179,365 |
| Weighted average common share diluted | 221,892 | 229,389 | 228,141 | 229,069 |

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, 2010, 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 | |
|---|--------------------------------------|----------------------------|
| | October 2, 2011 | October 3, 2010 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 238,675 | \$ 319,589 |
| Less: income from discontinued operations | 1,545 | 2,186 |
| Less: gain on disposal of discontinued operations | 24,371 | |
| Income from continuing operations | 212,759 | 317,403 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 38,426 | 39,469 |
| Amortization | 37,547 | 34,610 |
| Stock-based compensation | 22,514 | 22,758 |
| Provision for excess and obsolete inventory | 10,756 | 5,181 |
| Other | 1,379 | 1,852 |
| Changes in operating assets and liabilities, net of businesses sold: | | |
| Accounts receivable | 25,233 | (181,052) |
| Inventories | (1,034) | 9,696 |
| Prepayments and other assets | (13,553) | 1,031 |
| Deferred revenue and customer advances | (58,304) | 76,020 |
| Accounts payable and accrued expenses | (47,483) | 95,289 |
| Retirement plan contributions | (6,393) | (50,849) |
| Accrued income taxes | (3,064) | 14,625 |
| Net cash provided by operating activities from continuing operations | 218,783 | 386,033 |
| Net cash (used for) provided by operating activities from discontinued operations | (4,225) | 3,757 |
| Net cash provided by operating activities | 214,558 | 389,790 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (66,623) | (53,959) |
| Purchases of available-for-sale marketable securities | (593,261) | (478,260) |
| Proceeds from sales and maturities of available-for-sale marketable securities | 1,112,855 | 94,846 |
| Proceeds from sales of trading marketable securities | | 23,750 |
| Proceeds from life insurance | | 1,091 |
| Net cash provided by (used for) investing activities from continuing operations | 452,971 | (412,532) |
| Net cash provided by investing activities from discontinued operations | 39,062 | |
| Net cash provided by (used for) investing activities | 492,033 | (412,532) |
| Cash flows from financing activities: | | |
| Issuance of common stock under employee stock option and stock purchase plans | 17,216 | 42,225 |
| Payments of long-term debt | (2,518) | (2,305) |
| Repurchase of common stock | (23,863) | |
| Net cash (used for) provided by financing activities | (9,165) | 39,920 |

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| | | |
|--|--------------|------------|
| Increase in cash and cash equivalents | 697,426 | 17,178 |
| Cash and cash equivalents at beginning of period | 397,737 | 416,737 |
| Cash and cash equivalents at end of period | \$ 1,095,163 | \$ 433,915 |

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, 2010, 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; and

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

B. Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Teradyne and its subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of such interim financial statements. Certain prior year s amounts were reclassified to conform to the current year presentation. The December 31, 2010 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne s Annual Report on Form 10-K, filed with the SEC on March 1, 2011 for the year ended December 31, 2010.

On March 21, 2011, Teradyne completed the sale of Diagnostic Solutions, its automotive diagnostic and test business unit. The results of operations of Diagnostic Solutions as well as balance sheet and cash flow amounts pertaining to this business have been classified as discontinued operations in the condensed consolidated financial statements (see Note D Discontinued Operations).

Preparation of Financial Statements

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

Net Income (Loss) per Common Share

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Except where the result would be antidilutive, diluted net income (loss) per common share is calculated by dividing net income (loss) by the sum of the weighted average number of common shares plus common stock equivalents, if applicable.

Prior to the fourth quarter of 2010, net income for diluted net income (loss) per share includes an impact of convertible notes that represents interest expense that would have not been recorded if the notes converted at the beginning of the period. Dilutive potential common shares include incremental shares from assumed conversion of the convertible notes and the convertible notes hedge warrant shares. Incremental shares from assumed

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conversion of the convertible notes 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 will be issued upon conversion. The result of this calculation, representing total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period. Convertible notes hedge warrant shares 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 will be issued upon conversion. The result of this calculation, representing total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period.

With respect to the Teradyne's convertible debt, Teradyne intends to settle its conversion spread (i.e., the intrinsic value of the embedded option feature contained in the convertible debt) in shares. Teradyne accounts for its conversion spread using the treasury stock method. In the fourth quarter of 2010, Teradyne determined that it had the ability and intent to settle the principal amount of the convertible debt in cash; accordingly as of the fourth quarter of 2010, the principal amount has been excluded from the determination of diluted earnings per share.

C. Recently Issued Accounting Pronouncements

In March 2010, FASB issued an Accounting Standards Update (ASU) 2010-17, *Milestone Method of Revenue Recognition*, to Accounting Standards Codification (ASC) 605, *Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. Teradyne adopted this final consensus prospectively in January 2011. This adoption had no material impact on Teradyne's financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement*. This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareowners' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. This ASU requires changes in presentation only and Teradyne does not expect it will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income*. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareowners' equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. This ASU requires changes in presentation only and Teradyne does not expect it will have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This new guidance is intended to simplify goodwill impairment testing by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. This

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new guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. Teradyne does not expect this guidance to have a material impact on its consolidated financial statements.

D. 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 and October 3, 2010 were as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|-----------------|---------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Net revenues | \$ | \$ 10,695 | \$ 9,086 | \$ 30,485 |
| Income from discontinued operations before income taxes | \$ | \$ 1,706 | \$ 1,278 | \$ 2,326 |
| Gain from disposal of discontinued operations before income taxes | | | 28,949 | |
| Income tax provision | | 70 | 4,311 | 140 |
| Income from discontinued operations | \$ | \$ 1,636 | \$ 25,916 | \$ 2,186 |

E. 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 nine months ended October 2, 2011 and October 3, 2010. 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.

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

During the nine months ended October 2, 2011 and October 3, 2010, there were no significant transfers in and out of Level 1 and Level 2.

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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 October 2, 2011 and December 31, 2010.

| | October 2, 2011 | | | Total |
|---|---|---|--|-------------------|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| (in thousands) | | | | |
| Assets | | | | |
| Available for sale securities: | | | | |
| Money market funds | \$ 840,816 | \$ | \$ | \$ 840,816 |
| Corporate debt securities | | 41,436 | | 41,436 |
| Commercial paper | | 37,774 | | 37,774 |
| U.S. government agency securities | | 34,046 | | 34,046 |
| U.S. Treasury securities | 10,997 | | | 10,997 |
| Equity and debt mutual funds | 7,554 | | | 7,554 |
| Certificates of deposit and time deposits | | 5,154 | | 5,154 |
| Non-U.S. government securities | 287 | | | 287 |
| Total | 859,654 | 118,410 | | 978,064 |
| Derivatives | | 109 | | 109 |
| Total | \$ 859,654 | \$ 118,519 | \$ | \$ 978,173 |

Reported as follows:

| | (Level 1) | (Level 2) | (Level 3) | Total |
|--------------------------------------|------------|------------|-----------|------------|
| (in thousands) | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 840,816 | \$ | \$ | \$ 840,816 |
| Marketable securities | 9,040 | 87,496 | | 96,536 |
| Long-term marketable securities | 9,798 | 30,914 | | 40,712 |
| Prepayments and other current assets | | 109 | | 109 |
| | \$ 859,654 | \$ 118,519 | \$ | \$ 978,173 |

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| | December 31, 2010 | | | Total |
|---|---|---|--|-------------------|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| | | | | |
| Assets | | | | |
| Available for sale securities: | | | | |
| U.S. government agency securities | \$ | \$ 341,510 | \$ | \$ 341,510 |
| Money market funds | 238,607 | | | 238,607 |
| U.S. Treasury securities | 138,707 | | | 138,707 |
| Commercial paper | | 103,448 | | 103,448 |
| Corporate debt securities | | 92,578 | | 92,578 |
| Certificates of deposit and time deposits | | 11,076 | | 11,076 |
| Equity and debt mutual funds | 8,003 | | | 8,003 |
| Non-U.S. government securities | 278 | | | 278 |
| Total | \$ 385,595 | \$ 548,612 | \$ | \$ 934,207 |
| Liabilities | | | | |
| Derivatives | \$ | \$ 632 | \$ | \$ 632 |
| Total | \$ | \$ 632 | \$ | \$ 632 |

Reported as follows:

| | (Level 1) | (Level 2) | (Level 3) | Total |
|---------------------------------|-------------------|-------------------|-----------|-------------------|
| | (in thousands) | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 238,607 | \$ 37,843 | \$ | \$ 276,450 |
| Marketable securities | 62,294 | 346,767 | | 409,061 |
| Long-term marketable securities | 84,694 | 164,002 | | 248,696 |
| | \$ 385,595 | \$ 548,612 | \$ | \$ 934,207 |
| Liabilities | | | | |
| Other accrued liabilities | \$ | \$ 632 | \$ | \$ 632 |

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

| | For the Three Months Ended | |
|---------------------------------|---|---|
| | October 2, 2011 | October 3, 2010 |
| | Long-Term Auction Rate Securities | Long-Term Auction Rate Securities |
| | (in thousands) | |
| Balance at beginning of period | \$ | \$ 2,836 |
| Sale of auction rate securities | | (50) |

| | | | |
|--------------------------|----|----|-------|
| Balance at end of period | \$ | \$ | 2,786 |
|--------------------------|----|----|-------|

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| | For the Nine Months Ended | | | |
|--|---|---------|---|----------|
| | October 2, 2011 | | October 3, 2010 | |
| | Long-Term Auction Rate Securities | UBS Put | Long-Term Auction Rate Securities (in thousands) | UBS Put |
| Balance at beginning of period | \$ | \$ | \$ 23,649 | \$ 2,830 |
| Sale of auction rate securities and exercise of UBS Put | | | (21,063) | (2,687) |
| Change in unrealized gain included in interest income | | | 200 | |
| Change in unrealized loss included in interest expense and other | | | | (143) |
| Balance at end of period | \$ | \$ | \$ 2,786 | \$ |

During the three and nine months ended October 2, 2011, Teradyne recorded a net gain of \$2.2 million from sales of marketable securities. During the nine months ended October 3, 2010, Teradyne recorded a net loss of \$0.4 million from sales of marketable securities and exercise of UBS Put.

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

The carrying amounts and fair values of financial instruments at October 2, 2011 and December 31, 2010 were as follows:

| | October 2, 2011 | | December 31, 2010 | |
|-----------------------|-----------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (in thousands) | | | |
| Cash equivalents | \$ 840,816 | \$ 840,816 | \$ 276,450 | \$ 276,450 |
| Marketable securities | 137,248 | 137,248 | 657,757 | 657,757 |
| Convertible debt(1) | 152,933 | 402,800 | 144,059 | 506,350 |
| Japan loan | 6,511 | 6,511 | 8,573 | 8,573 |

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

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

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

| | October 2, 2011 | | | Fair Market Value of Investments with Unrealized Losses |
|---|-----------------|--------------------|--|--|
| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | |
| Money market funds | \$ 840,816 | \$ | \$ | \$ 840,816 |
| Corporate debt securities | 39,850 | 1,756 | (170) | 41,436 |
| Commercial paper | 37,776 | 3 | (5) | 37,774 |
| U.S. government agency securities | 33,888 | 158 | | 34,046 |
| U.S. Treasury securities | 10,920 | 77 | | 10,997 |
| Equity and debt mutual funds | 7,511 | 330 | (287) | 7,554 |
| Certificates of deposit and time deposits | 5,154 | | | 5,154 |
| Non-U.S. government securities | 287 | | | 287 |

| | | | | |
|------------|----------|----------|------------|-----------|
| \$ 976,202 | \$ 2,324 | \$ (462) | \$ 978,064 | \$ 41,754 |
|------------|----------|----------|------------|-----------|

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Reported as follows:

| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
|---------------------------------|------------|-----------------|-------------------------------------|-------------------|---|
| Cash and cash equivalents | \$ 840,816 | \$ | \$ | \$ 840,816 | \$ |
| Marketable securities | 96,529 | 35 | (28) | 96,536 | 34,497 |
| Long-term marketable securities | 38,857 | 2,289 | (434) | 40,712 | 7,257 |
| | \$ 976,202 | \$ 2,324 | \$ (462) | \$ 978,064 | \$ 41,754 |

| | December 31, 2010 Available-for-Sale | | | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
|---|---|-----------------|-------------------------------------|-------------------|---|
| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
| U.S. government agency securities | \$ 341,349 | \$ 334 | \$ (173) | \$ 341,510 | \$ 97,542 |
| Money market funds | 238,607 | | | 238,607 | |
| U.S. Treasury securities | 138,354 | 360 | (7) | 138,707 | 10,030 |
| Commercial paper | 103,472 | 1 | (25) | 103,448 | 33,210 |
| Corporate debt securities | 92,464 | 170 | (56) | 92,578 | 43,434 |
| Certificates of deposit and time deposits | 11,068 | 8 | | 11,076 | |
| Equity and debt mutual funds | 7,056 | 1,378 | (431) | 8,003 | 1,088 |
| Non-U.S. government securities | 261 | 17 | | 278 | |
| | \$ 932,631 | \$ 2,268 | \$ (692) | \$ 934,207 | \$ 185,304 |

Reported as follows:

| | Cost | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
|---------------------------------|------------|-----------------|-------------------------------------|-------------------|---|
| Cash and cash equivalents | \$ 276,447 | \$ 3 | \$ | \$ 276,450 | \$ |
| Marketable securities | 408,934 | 178 | (51) | 409,061 | 103,761 |
| Long-term marketable securities | 247,250 | 2,087 | (641) | 248,696 | 81,543 |
| | \$ 932,631 | \$ 2,268 | \$ (692) | \$ 934,207 | \$ 185,304 |

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

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

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

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

As of October 2, 2011, the fair market value of investments with unrealized losses totaled \$41.8 million. Of this value, \$0.1 million had unrealized losses greater than one year and \$41.7 million had unrealized losses less than one year. As of December 31, 2010, the fair market value of investments with unrealized losses totaled \$185.3 million. Of this value, \$5.0 million had unrealized losses greater than one year and \$180.3 million had unrealized losses less than one year.

Table of Contents**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 \$72.2 million and \$82.6 million at October 2, 2011 and December 31, 2010, respectively.

The following table summarizes the fair value of derivative instruments at October 2, 2011 and December 31, 2010.

| | Balance Sheet Location | October 2, 2011 | December 31, 2010 |
|--|--------------------------------------|--------------------|----------------------|
| | | (in thousands) | |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts | Prepayments and other current assets | \$ 109 | \$ |
| Foreign exchange contracts | Other accrued liabilities | | 632 |
| | | \$ 109 | \$ 632 |

The following table summarizes the effect of derivative instruments in the statement of operations recognized during the three and nine months ended October 2, 2011 and October 3, 2010. The table does not reflect the corresponding gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies.

| | Location of (Losses) Gains Recognized in Statement of Operations | For the Three Months Ended | | For the Nine Months Ended | |
|--|--|-------------------------------|--------------------|------------------------------|--------------------|
| | | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | | (in thousands) | | | |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts | Interest expense and other | \$ (1,429) | \$ 209 | \$ (858) | \$ (1,054) |
| | | \$ (1,429) | \$ 209 | \$ (858) | \$ (1,054) |

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

F. 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 October 2, 2011, approximately \$2.6 million of the outstanding loan principal is included in current debt and approximately \$3.9 million is classified as long-term debt.

Table of Contents**Convertible Senior Notes**

In April 2009, Teradyne issued 4.50% convertible senior notes (the "Notes") at an aggregate principal amount of \$190 million. The Notes will mature on March 15, 2014, unless earlier repurchased by Teradyne or converted. The Notes are senior unsecured obligations and rank equally with all of Teradyne's existing and future senior debt and senior to any of Teradyne's subordinated debt.

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

During the three months ended October 2, 2011, the following circumstance that allows holders to convert their Notes at their option prior to December 15, 2013 occurred: the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter. As of November 14, 2011, no holders have exercised their option to convert their Notes.

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

Separately, Teradyne entered into a warrant transaction with a strike price of approximately \$7.67 per share, which is 75% higher than the closing price of Teradyne's common stock on March 31, 2009.

The 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 October 2, 2011 and December 31, 2010. The tables below represent the components of Teradyne's convertible senior notes:

| | October 2, 2011 | December 31, 2010 |
|--|--------------------|----------------------|
| | (in thousands) | |
| Debt principal | \$ 190,000 | \$ 190,000 |
| Unamortized debt discount | 37,067 | 45,941 |
| Net carrying amount of the convertible debt | \$ 152,933 | \$ 144,059 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Contractual interest expense | \$ 2,114 | \$ 2,138 | \$ 6,460 | \$ 6,509 |
| Amortization of the discount component and debt issue fees | 3,263 | 2,783 | 9,484 | 8,263 |
| Total interest expense on the convertible debt | \$ 5,377 | \$ 4,921 | \$ 15,944 | \$ 14,772 |

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As of October 2, 2011, the unamortized discount was \$37.1 million, which will be amortized over approximately 2.5 years, and the carrying amount of the equity component was \$63.4 million. As of October 2, 2011, 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 \$382.1 million.

G. 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.

| | October 2, 2011 | December 31, 2010 |
|---|--------------------|----------------------|
| | (in thousands) | |
| Customer advances | \$ 79,299 | \$ 132,559 |
| Maintenance, training and extended warranty | 31,320 | 36,626 |
| Undelivered elements | 7,351 | 5,858 |
| Acceptance | 852 | 2,083 |
| Total deferred revenue and customer advances | \$ 118,822 | \$ 177,126 |

H. Product Warranty

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 9,262 | \$ 10,636 | \$ 9,886 | \$ 6,435 |
| Accruals for warranties issued during the period | 3,502 | 5,212 | 11,056 | 14,069 |
| Adjustments related to pre-existing warranties | (491) | (391) | (2,563) | (37) |
| Settlements made during the period | (3,220) | (3,464) | (9,326) | (8,474) |
| Balance at end of period | \$ 9,053 | \$ 11,993 | \$ 9,053 | \$ 11,993 |

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 | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 10,308 | \$ 5,643 | \$ 8,972 | \$ 4,055 |
| Deferral of new extended warranty revenue | 1,324 | 2,193 | 5,123 | 5,408 |
| Recognition of extended warranty deferred revenue | (2,194) | (800) | (4,657) | (2,427) |

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| | | | | |
|--------------------------|----------|----------|----------|----------|
| Balance at end of period | \$ 9,438 | \$ 7,036 | \$ 9,438 | \$ 7,036 |
|--------------------------|----------|----------|----------|----------|

Table of Contents**I. Stock-Based Compensation**

During the nine months ended October 2, 2011, Teradyne granted service-based restricted stock units to employees, and service-based stock options and service and performance-based restricted stock units to executive officers. The total number of restricted stock units granted was 1.7 million at a weighted average grant date fair value of \$16.20. Restricted stock units vest in equal installments over four years. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting are forfeited. The total number of stock options granted to executive officers was 0.1 million at a weighted average grant date fair value of \$6.74. The 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 October 3, 2010, Teradyne granted service-based restricted stock units to employees, and service and performance-based restricted stock units and stock options to executive officers. The total number of restricted stock units granted was 2.6 million at a weighted average grant date fair value of \$9.42. The total number of stock options granted was 0.3 million at a weighted average grant date fair value of \$4.10. Restricted stock units and stock options vest in equal installments over four years. The stock options have a term of seven years from the date of grant.

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

| | For the Nine Months Ended | |
|-----------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 |
| Expected life (years) | 4.00 | 4.75 |
| Interest rate | 1.5% | 2.4% |
| Volatility-historical | 52.1% | 48.8% |
| Dividend yield | 0.0% | 0.0% |

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

The weighted-average fair value of employee stock purchase rights granted in the first and last six months of 2011 was \$3.66 and \$4.01, respectively, and the first and last six months of 2010 was \$3.05 and \$2.77, 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 | |
|-----------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 |
| Expected life (years) | 0.5 | 0.5 |
| Interest rate | 0.14% | 0.20% |
| Volatility-historical | 41.0% | 48.0% |
| Dividend yield | 0.0% | 0.0% |

Table of Contents**J. Comprehensive Income**

Comprehensive income is calculated as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Net income | \$ 54,745 | \$ 147,340 | \$ 238,675 | \$ 319,589 |
| Foreign currency translation adjustment | | 264 | 2,266 | (99) |
| Unrealized (losses) gains on investments, net of tax of \$0, \$0, \$0 and \$0 | (1,057) | 1,435 | 256 | 1,731 |
| Actuarial (losses) gains arising during period, net of tax of \$0, \$293, \$(5) and \$1,540 | (5) | 342 | (4,206) | 17,929 |
| Amortization included in net periodic pension and post-retirement costs: | | | | |
| Actuarial losses, net of tax of \$11, \$21, \$30 and \$109 | 2,226 | 1,333 | 6,681 | 4,040 |
| Prior service costs, net of tax of \$0, \$0, \$0 and \$0 | 5 | 32 | 17 | 278 |
| Settlement loss net of tax of \$0, \$0, \$73 and \$0 | | | 277 | |
| Comprehensive income | \$ 55,914 | \$ 150,746 | \$ 243,966 | \$ 343,468 |

K. Intangible Assets

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

| | Gross Carrying Amount | October 2, 2011 | | Weighted Average Useful Life |
|---|-----------------------------|-----------------------------|---------------------------|------------------------------------|
| | | Accumulated Amortization | Net Carrying Amount | |
| | (in thousands) | | | |
| Developed technology | \$ 121,055 | \$ 78,406 | \$ 42,649 | 6.1 years |
| Customer relationships and service and software maintenance contracts | 91,271 | 40,671 | 50,600 | 8.6 years |
| Trade names and trademarks | 14,840 | 6,485 | 8,355 | 11.5 years |
| Customer backlog | 300 | 300 | | 0.5 years |
| Total intangible assets | \$ 227,466 | \$ 125,862 | \$ 101,604 | 7.6 years |

| | Gross Carrying Amount | December 31, 2010 | | Weighted Average Useful Life |
|---|-----------------------------|-----------------------------|---------------------------|------------------------------------|
| | | Accumulated Amortization | Net Carrying Amount | |
| | (in thousands) | | | |
| Developed technology | \$ 121,055 | \$ 65,610 | \$ 55,445 | 6.1 years |
| Customer relationships and service and software maintenance contracts | 91,271 | 32,749 | 58,522 | 8.6 years |
| Trade names and trademarks | 14,840 | 5,866 | 8,974 | 11.5 years |
| Customer backlog | 300 | 300 | | 0.5 years |
| Total intangible assets | \$ 227,466 | \$ 104,525 | \$ 122,941 | 7.6 years |

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Aggregate intangible asset amortization expense was \$6.8 million and \$21.3 million, respectively, for the three and nine months ended October 2, 2011 and \$7.3 million and \$22.0 million, respectively, for the three and nine months ended October 3, 2010. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

| Year | Amount (in thousands) |
|------------------|--------------------------|
| 2011 (remainder) | \$ 6,485 |
| 2012 | 25,732 |
| 2013 | 24,683 |
| 2014 | 21,598 |
| 2015 | 4,575 |

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 | |
|--|--|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands, except per share amounts) | | | |
| Income from continuing operations | \$ 54,745 | \$ 145,704 | \$ 212,759 | \$ 317,403 |
| Income from discontinued operations | | 1,636 | 1,545 | 2,186 |
| Gain on disposal of discontinued operations | | | 24,371 | |
| Net income for basic net income per share | \$ 54,745 | \$ 147,340 | \$ 238,675 | \$ 319,589 |
| Income impact of assumed conversion of convertible notes(1) | | 4,438 | | 13,203 |
| Net income for diluted net income per share | \$ 54,745 | \$ 151,778 | \$ 238,675 | \$ 332,792 |
| Weighted average common shares-basic | 185,102 | 181,239 | 185,063 | 179,365 |
| Effect of dilutive potential common shares: | | | | |
| Incremental shares from assumed conversion of convertible notes(2) | 19,540 | 34,703 | 21,870 | 34,703 |
| Convertible notes hedge warrant shares(3) | 13,475 | 8,506 | 16,737 | 9,618 |
| Restricted stock units | 3,377 | 2,848 | 3,942 | 2,880 |
| Stock options | 346 | 2,044 | 454 | 2,439 |
| Employee stock purchase rights | 52 | 49 | 75 | 64 |
| Dilutive potential common shares | 36,790 | 48,150 | 43,078 | 49,704 |
| Weighted average common shares-diluted | 221,892 | 229,389 | 228,141 | 229,069 |
| Net income per common share-basic | | | | |
| Continuing operations | \$ 0.30 | \$ 0.80 | \$ 1.15 | \$ 1.77 |
| Discontinued operations | | 0.01 | 0.14 | 0.01 |
| | \$ 0.30 | \$ 0.81 | \$ 1.29 | \$ 1.78 |
| Net income per common share-diluted | | | | |
| Continuing operations | \$ 0.25 | \$ 0.65 | \$ 0.93 | \$ 1.44 |
| Discontinued operations | | 0.01 | 0.12 | 0.01 |

| | | | | | | | |
|----|------|----|------|----|------|----|------|
| \$ | 0.25 | \$ | 0.66 | \$ | 1.05 | \$ | 1.45 |
|----|------|----|------|----|------|----|------|

- (1) Income impact of convertible notes for the three and nine months ended October 3, 2010 represents interest expense that would have not been recorded if the notes converted at the beginning of the period.
- (2) Incremental shares from assumed conversion of the convertible notes for the three and nine months ended 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 will be issued upon conversion. The result of this calculation, representing total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period. For the three and nine months ended October 3, 2010, incremental shares from assumed conversion of the convertible notes represent the 34.7 million of shares that will be issued upon conversion.

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(3) Convertible notes hedge warrant shares for the three and nine months ended 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 will be issued upon conversion. The result of this calculation, representing 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 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.

The computation of diluted net income per common share for the three and nine months ended October 3, 2010 excludes the effect of the potential exercise of stock options to purchase approximately 4.4 million and 5.5 million shares and restricted stock units of 0.1 million and 0.1 million shares, respectively, because the effect would have been anti-dilutive.

With respect to the Teradyne's convertible debt, Teradyne intends to settle its conversion spread (i.e., the intrinsic value of the embedded option feature contained in the convertible debt) in shares. Teradyne accounts for its conversion spread using the treasury stock method. In the fourth quarter of 2010, Teradyne determined that it had the ability and intent to settle the principal amount of the convertible debt in cash, accordingly as of the fourth quarter of 2010; the principal amount has been excluded from the determination of diluted earnings per share.

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

M. Restructuring and Other, Net**Restructuring**

In response to a downturn in the industry in 2008 and 2009, Teradyne initiated restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The tables below represent activity related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by July 2012. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. Teradyne expects to pay approximately \$0.9 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$0.6 million as of October 2, 2011.

| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|------------------------------|------------------------------|---|-----------|
| Pre-2010 Activities | | | |
| Balance at December 31, 2009 | \$ 2,905 | \$ 10,166 | \$ 13,071 |
| Change in estimate | 240 | (2,672) | (2,432) |
| Cash payments | (3,124) | (4,193) | (7,317) |
| Balance at December 31, 2010 | 21 | 3,301 | 3,322 |
| Change in estimate | | (432) | (432) |
| Cash payments | (21) | (242) | (263) |
| Balance at April 3, 2011 | | 2,627 | 2,627 |
| Cash payments | | (301) | (301) |
| Balance at July 3, 2011 | | 2,326 | 2,326 |
| Cash payments | | (211) | (211) |
| Balance at October 2, 2011 | \$ | \$ 2,115 | \$ 2,115 |

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| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|------------------------------|------------------------------|---|--------|
| 2010 Activities | | | |
| <i>Q1 2010 Activity:</i> | | | |
| Provision | \$ 405 | \$ | \$ 405 |
| Cash payments | (405) | | (405) |
| Balance at December 31, 2010 | \$ | \$ | \$ |
| <i>Q2 2010 Activity:</i> | | | |
| Provision | \$ 890 | \$ | \$ 890 |
| Cash payments | (402) | | (402) |
| Balance at December 31, 2010 | 488 | | 488 |
| Provision | 202 | | 202 |
| Cash payments | (690) | | (690) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| <i>Q3 2010 Activity:</i> | | | |
| Provision | \$ 382 | \$ | \$ 382 |
| Cash payments | (72) | | (72) |
| Other | (184) | | (184) |
| Balance at December 31, 2010 | 126 | | 126 |
| Change in estimate | (47) | | (47) |
| Cash payments | (79) | | (79) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| <i>Q4 2010 Activity:</i> | | | |
| Provision | \$ 98 | \$ | \$ 98 |
| Balance at December 31, 2010 | 98 | | 98 |
| Provision | 117 | | 117 |
| Cash payments | (215) | | (215) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| 2011 Activity | | | |
| <i>Q1 2011 Activity:</i> | | | |
| Provision | \$ 572 | \$ | \$ 572 |
| Cash payments | (241) | | (241) |
| Balance at April 3, 2011 | 331 | | 331 |
| Cash payments | (154) | | (154) |
| Balance at July 3, 2011 | 177 | | 177 |
| Change in estimate | (9) | | (9) |
| Cash payments | (43) | | (43) |
| Balance at October 2, 2011 | \$ 125 | \$ | \$ 125 |

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| | | | |
|----------------------------|--------|----------|----------|
| <i>Q2 2011 Activity:</i> | | | |
| Provision | \$ 344 | \$ | \$ 344 |
| Balance at July 3, 2011 | 344 | | 344 |
| Cash payments | (57) | | (57) |
| Balance at October 2, 2011 | \$ 287 | \$ | \$ 287 |
| Balance at October 2, 2011 | \$ 412 | \$ 2,115 | \$ 2,527 |

During the nine months ended October 2, 2011, Teradyne recorded the following restructuring charges:

Q2 2011 Action:

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

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Q1 2011 Action:

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

Pre-2010 Actions:

\$(0.4) million related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in System Test Group segment, and the North Reading, MA facility across both segments.

Q2 2010 Actions:

\$0.2 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.

Q3 2010 Actions:

\$0.1 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments. During the nine months ended October 3, 2010, Teradyne recorded the following restructuring charges:

Q3 2010 Actions:

\$0.4 million of severance charges related to headcount reductions of 10 people in Systems Test Group.

Q2 2010 Actions:

\$0.7 million of severance charges related to headcount reductions of approximately 6 people in Systems Test Group.

Q1 2010 Actions:

\$0.4 million of severance charges related to headcount reductions of 4 people in Semiconductor Test.

Q2 2009 Actions:

\$0.2 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.

Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

Other

During the nine months ended October 2, 2011, Teradyne recorded \$1.3 million of acquisition costs, and \$0.9 million charge related to a non-U.S. pension settlement.

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.

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and to the extent that such contributions are tax deductible. The assets of these plans consist primarily of equity and fixed income securities. In addition, Teradyne has foreign unfunded defined benefit pension plans and an unfunded supplemental executive defined benefit plan in the United States to provide retirement benefits in excess of levels allowed by the Employment Retirement Income Security Act and the Internal Revenue Code.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---------------------------------|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Service cost | \$ 656 | \$ 760 | \$ 2,117 | \$ 2,687 |
| Interest cost | 4,380 | 4,410 | 13,180 | 13,192 |
| Expected return on plan assets | (4,178) | (5,020) | (12,545) | (15,153) |
| Amortization of unrecognized: | | | | |
| Prior service cost | 155 | 182 | 466 | 545 |
| Net loss | 2,192 | 1,325 | 6,576 | 4,091 |
| Settlement | | 442 | 850 | 442 |
| Total net periodic pension cost | \$ 3,205 | \$ 2,099 | \$ 10,644 | \$ 5,804 |

In the nine months ended October 2, 2011, Teradyne contributed \$5.1 million primarily to its foreign pension plans.

Post-Retirement Benefit Plans

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

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Service cost | \$ 15 | \$ 15 | \$ 44 | \$ 42 |
| Interest cost | 135 | 138 | 404 | 530 |
| Amortization of unrecognized: | | | | |
| Prior service benefit | (150) | (150) | (449) | (267) |
| Net loss | 45 | 29 | 135 | 58 |
| Total net periodic post-retirement cost | \$ 45 | \$ 32 | \$ 134 | \$ 363 |

O. Commitments and Contingencies**Purchase Commitments**

As of October 2, 2011, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments aggregate to approximately \$132.2 million, of which \$127.3 million is for less than one year.

Table of Contents**Legal Claims**

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

P. Segment Information

Teradyne has two operating segments (Semiconductor Test and Systems Test Group) which are its reportable segments. 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. The Semiconductor Test segment includes operations related to the design, manufacturing and marketing of semiconductor test products and services. The Systems Test Group segment includes operations related to the design, manufacturing and marketing of products and services for military/aerospace instrumentation test, hard disk drive test and circuit-board test and inspection.

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, 2010. Segment information is as follows:

| | Semiconductor Test | Systems Test Group | Corporate and Eliminations | Consolidated |
|--|-----------------------|-----------------------|----------------------------------|--------------|
| | (in thousands) | | | |
| Three months ended October 2, 2011: | | | | |
| Net revenues | \$ 241,394 | \$ 102,995 | \$ | \$ 344,389 |
| Income (loss) from continuing operations before income taxes(1)(2) | 35,608 | 25,238 | (4,342) | 56,504 |
| Three months ended October 3, 2010: | | | | |
| Net revenues | \$ 448,273 | \$ 43,118 | \$ | \$ 491,391 |
| Income (loss) from continuing operations before income taxes(1)(2) | 156,303 | 1,149 | (5,142) | 152,310 |
| 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) | 203,501 | 39,551 | (15,209) | 227,843 |
| Nine months ended October 3, 2010: | | | | |
| Net revenues | \$ 1,151,010 | \$ 104,990 | \$ | \$ 1,256,000 |
| Income (loss) from continuing operations before income taxes(1)(2) | 363,300 | (10,325) | (14,663) | 338,312 |

(1) 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 for the three months and nine months ended October 2, 2011 and October 3, 2010 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 | |
|--|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Cost of revenues provision for excess and obsolete inventory | \$ 4,202 | \$ 3,500 | \$ 10,144 | \$ 3,996 |
| Restructuring and other, net | 137 | 91 | 2,307 | 1,172 |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-----------------|---------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Cost of revenues provision for excess and obsolete inventory | \$ 211 | \$ 227 | \$ 612 | \$ 1,185 |
| Restructuring and other, net | | (1,984) | (246) | (1,755) |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|------------------------------|----------------------------|-----------------|---------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| | (in thousands) | | | |
| Restructuring and other, net | \$ 1,328 | \$ (84) | \$ 1,096 | \$ (120) |

Q. Stock Repurchase Program

In November 2010, the Board authorized a stock repurchase program for up to \$200 million. For the three months ended October 2, 2011, and cumulatively as of October 2, 2011, Teradyne repurchased 2.0 million shares of common stock for \$23.9 million at an average price of \$12.06.

R. Subsequent Event

On October 5, 2011, Teradyne completed its acquisition of LitePoint Corporation (LitePoint) located in Sunnyvale, California, for approximately \$510 million, net of LitePoint's cash and tax benefits, and up to \$70 million payable upon achievement of certain performance targets through 2012. The acquisition was completed by acquiring all of the outstanding common and preferred stock of LitePoint. The fair value of assets and liabilities acquired has not been disclosed because Teradyne has not completed the valuation.

LitePoint designs, develops, and supports advanced wireless test solutions for developers of wireless devices and consumer electronics, contract manufacturers, and wireless integrated circuit designers. The acquisition will allow Teradyne to expand its served market into wireless product testing.

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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 Teradyne's filings with the Securities and Exchange Commission. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010. 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, and aerospace and defense industries. Our automatic test equipment products and services include:

semiconductor test (Semiconductor Test) systems; and

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

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), manufacturers of circuit boards, HDD manufacturers, aerospace and military contractors as well as the United States Department of Defense.

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

Commencing in the fourth quarter of 2009, we experienced improvement in our Semiconductor Test business. We believe our acquisitions of Nextest and Eagle Test and our entry into the high speed memory and HDD markets have enhanced our opportunities for growth. We will continue to invest in our business to expand further our addressable markets while tightly managing our costs. As the last seven quarters have demonstrated, with our current cost structure, we can achieve significantly higher profitability than we achieved at comparable revenue levels in the past.

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

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On March 21, 2011, we completed the sale of our Diagnostic Solutions business unit, which was included in the Systems Test Group segment, to SPX Corporation for \$40.2 million in cash. We sold this business as its growth potential as a stand-alone business 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.

On October 5, 2011, we completed our acquisition of LitePoint Corporation (LitePoint) for approximately \$510 million, net of LitePoint's cash and tax benefits, and up to \$70 million payable upon achievement of certain performance targets through 2012. LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi enabled devices.

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. There have been no significant changes during the nine months ended October 2, 2011 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, 2010.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|--------------------|------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 | October 2, 2011 | October 3, 2010 |
| Percentage of total net revenues: | | | | |
| Net revenue: | | | | |
| Products | 80% | 88% | 82% | 86% |
| Services | 20 | 12 | 18 | 14 |
| Total net revenues | 100 | 100 | 100 | 100 |
| Cost of revenues: | | | | |
| Cost of products | 40 | 38 | 40 | 38 |
| Cost of services | 10 | 6 | 9 | 7 |
| Total cost of revenues | 50 | 44 | 49 | 45 |
| Gross profit | 50 | 56 | 51 | 55 |
| Operating expenses: | | | | |
| Engineering and development | 14 | 10 | 13 | 12 |
| Selling and administrative | 16 | 12 | 15 | 14 |
| Acquired intangible asset amortization | 2 | 1 | 2 | 2 |
| Restructuring and other, net | | | | |
| Total operating expenses | 32 | 23 | 30 | 27 |
| Income from operations | 17 | 32 | 21 | 28 |
| Interest & other | (1) | (1) | (1) | (1) |
| Income from continuing operations before income taxes | 16 | 31 | 20 | 27 |
| Income tax provision | 1 | 1 | 1 | 2 |
| Income from continuing operations | 16 | 30 | 19 | 25 |
| Income from discontinued operations before income taxes | | | | |
| Income tax benefit | | | | |
| Income from discontinued operations | | | | |
| Gain on disposal of discontinued operations | | | 2 | |
| Net income | 16% | 30% | 21% | 25% |

Results of Operations*Third Quarter 2011 Compared to Third Quarter 2010**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:

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| | For the Three Months Ended | |
|--------------------|-------------------------------|--------------------|
| | October 2, 2011 | October 3, 2010 |
| Semiconductor Test | 0.8 | 0.6 |
| Systems Test Group | 0.4 | 1.9 |
| Total Company | 0.7 | 0.7 |

Table of Contents*Revenue*

Net revenues for our two reportable segments were as follows:

| | For the Three Months Ended | | Dollar Change |
|--------------------|----------------------------|----------------------------------|---------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Semiconductor Test | \$ 241.4 | \$ 448.3 | \$ (206.9) |
| Systems Test Group | 103.0 | 43.1 | 59.9 |
| | \$ 344.4 | \$ 491.4 | \$ (147.0) |

The decrease of \$206.9 million or 46% in Semiconductor Test revenue was due to a decrease across all System-on-Chip and memory product sales partially offset by an increase in System-on-Chip service revenue. The increase in Systems Test Group revenue of \$59.9 million or 139% was primarily due to the increase in sales of Hard Disk Drive test systems.

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

| | For the Three Months Ended | |
|---------------|----------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 |
| United States | 16% | 12% |
| China | 13 | 12 |
| Japan | 12 | 5 |
| Malaysia | 11 | 21 |
| Taiwan | 10 | 15 |
| Singapore | 8 | 9 |
| Korea | 8 | 8 |
| Thailand | 8 | 0 |
| Europe | 7 | 6 |
| Philippines | 6 | 11 |
| Rest of World | 1 | 1 |
| | 100% | 100% |

Gross Profit

Our gross profit was as follows:

| | For the Three Months Ended | | Dollar/Point Change |
|--------------------------|----------------------------|----------------------------------|---------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Gross Profit | \$ 169.8 | \$ 271.8 | \$ (102.0) |
| Percent of Total Revenue | 49.3% | 55.3% | (6.0) |

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The decrease in gross profit of 6.0 points was the result of a decrease of 4.5 points related to product mix primarily from higher Hard Disk Drive test system sales, a decrease of 2.9 points due to lower volume. These decreases were partially offset by an increase of 1.4 points primarily due to lower variable compensation.

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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 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 October 3, 2010, we recorded an inventory provision of \$3.7 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$3.7 million of total excess and obsolete provisions recorded in the three months ended October 3, 2010, \$3.5 million was related to Semiconductor Test and \$0.2 million was related to Systems Test Group.

During the three months ended October 2, 2011 and October 3, 2010, we scrapped \$4.2 million and \$1.6 million of inventory, respectively. During the three months ended October 2, 2011 and October 3, 2010, we sold \$1.5 million and \$1.3 million, respectively, of previously written-down or written-off inventory. As of October 2, 2011, we had inventory related reserves for amounts which had been written-down or written-off totaling \$125.1 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 |
|-----------------------------|---------------------------------------|--|--------------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Engineering and Development | \$ 46.8 | \$ 49.0 | \$ (2.2) |
| Percent of Total Revenue | 13.6% | 10.0% | |

The decrease of \$2.2 million in engineering and development expenses is due primarily to lower variable compensation.

Selling and Administrative

Selling and administrative expenses were as follows:

| | For the Three Months Ended | | Dollar Change |
|----------------------------|---------------------------------------|--|--------------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Selling and Administrative | \$ 55.3 | \$ 60.6 | \$ (5.3) |
| Percent of Total Revenue | 16.1% | 12.3% | |

The decrease of \$5.3 million in selling and administrative expenses is due primarily to lower variable compensation, partially offset by an increase in marketing and selling expenses for new products and customers.

Table of Contents*Restructuring and Other, Net**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 tables below represent activity related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by July 2012. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$0.9 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$0.6 million as of October 2, 2011.

| | Severance and Benefits | Facility Exit Costs | Total |
|-----------------------------------|---------------------------------------|------------------------------------|--------------|
| | | (in thousands) | |
| <i>Pre-2010 Activities</i> | | | |
| Balance at December 31, 2009 | \$ 2,905 | \$ 10,166 | \$ 13,071 |
| Change in estimate | 240 | (2,672) | (2,432) |
| Cash payments | (3,124) | (4,193) | (7,317) |
| Balance at December 31, 2010 | 21 | 3,301 | 3,322 |
| Change in estimate | | (432) | (432) |
| Cash payments | (21) | (242) | (263) |
| Balance at April 3, 2011 | | 2,627 | 2,627 |
| Cash payments | | (301) | (301) |
| Balance at July 3, 2011 | | 2,326 | 2,326 |
| Cash payments | | (211) | (211) |
| Balance at October 2, 2011 | \$ | \$ 2,115 | \$ 2,115 |
| <i>2010 Activities</i> | | | |
| <i>Q1 2010 Activity:</i> | | | |
| Provision | \$ 405 | \$ | \$ 405 |
| Cash payments | (405) | | (405) |
| Balance at December 31, 2010 | \$ | \$ | \$ |
| <i>Q2 2010 Activity:</i> | | | |
| Provision | \$ 890 | \$ | \$ 890 |
| Cash payments | (402) | | (402) |
| Balance at December 31, 2010 | 488 | | 488 |
| Provision | 202 | | 202 |
| Cash payments | (690) | | (690) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| <i>Q3 2010 Activity:</i> | | | |
| Provision | \$ 382 | \$ | \$ 382 |
| Cash payments | (72) | | (72) |

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| | | | | |
|------------------------------|--|-------|----|-------|
| Other | | (184) | | (184) |
| Balance at December 31, 2010 | | 126 | | 126 |
| Change in estimate | | (47) | | (47) |
| Cash payments | | (79) | | (79) |
| Balance at April 3, 2011 | | \$ | \$ | \$ |
| <i>Q4 2010 Activity:</i> | | | | |
| Provision | | \$ 98 | \$ | \$ 98 |
| Balance at December 31, 2010 | | 98 | | 98 |
| Provision | | 117 | | 117 |
| Cash payments | | (215) | | (215) |
| Balance at April 3, 2011 | | \$ | \$ | \$ |

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| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|----------------------------|------------------------------|---|----------|
| 2011 Activity | | | |
| <i>Q1 2011 Activity:</i> | | | |
| Provision | \$ 572 | \$ | \$ 572 |
| Cash payments | (241) | | (241) |
| Balance at April 3, 2011 | 331 | | 331 |
| Cash payments | (154) | | (154) |
| Balance at July 3, 2011 | 177 | | 177 |
| Change in estimate | (9) | | (9) |
| Cash payments | (43) | | (43) |
| Balance at October 2, 2011 | \$ 125 | \$ | \$ 125 |
| <i>Q2 2011 Activity:</i> | | | |
| Provision | \$ 344 | \$ | \$ 344 |
| Balance at July 3, 2011 | 344 | | 344 |
| Cash payments | (57) | | (57) |
| Balance at October 2, 2011 | \$ 287 | \$ | \$ 287 |
| Balance at October 2, 2011 | \$ 412 | \$ 2,115 | \$ 2,527 |

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

During the three months ended October 3, 2010, we recorded the following restructuring charges:

Q3 2010 Actions:

\$0.4 million of severance charges related to headcount reductions of approximately 10 people in Systems Test Group.

Q2 2010 Actions:

\$0.1 million of additional severance charges related to headcount reductions in Semiconductor Test.

Q2 2009 Actions:

\$(0.1) million related to a change in the estimated severance benefits related to headcount reduction activities in Semiconductor Test.

Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

Other

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

Interest and Other

Interest income increased by \$1.6 million, from the third quarter of 2010 to 2011, due primarily to a gain from sales of marketable securities.

Table of Contents*Income Taxes*

For the three months ended October 2, 2011, we recorded a tax provision of \$1.8 million from continuing operations, which consisted of U.S. state and foreign taxes. For the three months ended October 3, 2010, we recorded a tax provision of \$6.6 million from continuing operations, which consisted primarily of foreign taxes. Due to the continued uncertainty of realization, we have maintained our valuation allowance at October 2, 2011 for deferred tax assets in the U.S. and Singapore. We will continue to assess the level of the valuation allowance required in future periods. Should more positive than negative evidence regarding the realizability of tax attributes exist in a future period, the valuation allowance may be reduced or eliminated altogether. The factors and evidence being considered include, but are not limited to, the cumulative profit or loss position, the amount and extent of future projected earnings, changes in our business (including mergers and acquisitions) and volatility of the industries we operate in, primarily the semiconductor industry. We may have sufficient positive evidence in the near term that may result in the reduction of the valuation allowance. Reduction of the valuation allowance, in whole or in part, would result in a significant non-cash income tax benefit during the period of reduction.

Nine Months of 2011 Compared to Nine Months of 2010*Revenue*

Net revenues for our two reportable segments were as follows:

| | For the Nine Months Ended | | Dollar Change |
|--------------------|--------------------------------------|--|--------------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Semiconductor Test | \$ 903.8 | \$ 1,151.0 | \$ (247.2) |
| Systems Test Group | 228.3 | 105.0 | 123.3 |
| | \$ 1,132.1 | \$ 1,256.0 | \$ (123.9) |

The decrease of \$247.2 million or 21% in Semiconductor Test revenue was due to a decrease in System-on-Chip product sales, partially offset by an increase in memory product sales and service revenue. The increase of \$123.3 million or 117% in Systems Test Group revenue was primarily due to the increase in sales of Hard Disk Drive test systems.

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

| | For the Nine Months Ended | |
|---------------|--------------------------------------|----------------------------|
| | October 2, 2011 | October 3, 2010 |
| United States | 15% | 14% |
| Taiwan | 12 | 21 |
| Korea | 12 | 7 |
| Malaysia | 11 | 14 |
| China | 11 | 9 |
| Philippines | 10 | 11 |
| Japan | 8 | 5 |
| Europe | 7 | 5 |
| Thailand | 7 | 3 |
| Singapore | 6 | 10 |
| Rest of World | 1 | 1 |
| | 100% | 100% |

Table of Contents*Gross Profit*

Our gross profit was as follows:

| | For the Nine Months Ended | | Dollar/Point Change |
|--------------------------|------------------------------|-------------------------------------|------------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Gross Profit | \$ 577.3 | \$ 692.6 | \$ (115.3) |
| Percent of Total Revenue | 51.0% | 55.1% | (4.1) |

The decrease of 4.1 points was the result of a decrease of 3.1 points related to product mix primarily from higher Hard Disk Drive test system sales, a decrease of 0.6 points due to higher inventory provisions and a decrease of 0.4 points due to lower volume.

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 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 in the nine months ended October 2, 2011, \$10.2 million was related to Semiconductor Test and \$0.6 million was related to Systems Test Group.

During the nine months ended October 3, 2010, we recorded an inventory provision of \$5.2 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$5.2 million of total excess and obsolete provisions recorded in the nine months ended October 3, 2010, \$4.0 million was related to Semiconductor Test and \$1.2 million was related to Systems Test Group.

During the nine months ended October 2, 2011 and October 3, 2010, we scrapped \$6.8 million and \$3.6 million of inventory, respectively. During the nine months ended October 2, 2011 and October 3, 2010, we sold \$5.2 million and \$6.5 million, respectively, of previously written-down or written-off inventory. As of October 2, 2011, we had inventory related reserves for amounts which had been written-down or written-off totaling \$125.1 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 | | Dollar Change |
|-----------------------------|------------------------------|-------------------------------------|------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Engineering and Development | \$ 142.2 | \$ 146.3 | \$ (4.1) |
| Percent of Total Revenue | 12.6% | 11.6% | |

The decrease of \$4.1 million in engineering and development expenses is due primarily to lower variable compensation.

Table of Contents*Selling and Administrative*

Selling and administrative expenses were as follows:

| | For the Nine Months Ended | | Dollar Change |
|----------------------------|------------------------------|-------------------------------------|------------------|
| | October 2, 2011 | October 3, 2010 (in millions) | |
| Selling and Administrative | \$ 171.0 | \$ 173.0 | \$ (2.0) |
| Percent of Total Revenue | 15.1% | 13.8% | |

The decrease of \$2.0 million in selling and administrative expenses is due primarily to lower variable compensation, partially offset by an increase in marketing and selling expenses for new products and customers.

*Restructuring and Other, Net**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 tables below represent activity related to these actions. The remaining accrual for severance and benefits is reflected in the accrued employees' compensation and withholdings account on the balance sheet and is expected to be paid by July 2012. The remaining accrual for lease payments on vacated facilities is reflected in the other accrued liabilities account and the long-term other accrued liabilities account and is expected to be paid over the lease terms, the latest of which expires in 2013. We expect to pay approximately \$0.9 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$0.6 million as of October 2, 2011.

| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|------------------------------|------------------------------|---|-----------|
| Pre-2010 Activities | | | |
| Balance at December 31, 2009 | \$ 2,905 | \$ 10,166 | \$ 13,071 |
| Change in estimate | 240 | (2,672) | (2,432) |
| Cash payments | (3,124) | (4,193) | (7,317) |
| Balance at December 31, 2010 | 21 | 3,301 | 3,322 |
| Change in estimate | | (432) | (432) |
| Cash payments | (21) | (242) | (263) |
| Balance at April 3, 2011 | | 2,627 | 2,627 |
| Cash payments | | (301) | (301) |
| Balance at July 3, 2011 | | 2,326 | 2,326 |
| Cash payments | | (211) | (211) |
| Balance at October 2, 2011 | \$ | \$ 2,115 | \$ 2,115 |
| 2010 Activities | | | |
| <i>Q1 2010 Activity:</i> | | | |
| Provision | \$ 405 | \$ | \$ 405 |
| Cash payments | (405) | | (405) |

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| | | | |
|------------------------------|--------|----|--------|
| Balance at December 31, 2010 | \$ | \$ | \$ |
| <i>Q2 2010 Activity:</i> | | | |
| Provision | \$ 890 | \$ | \$ 890 |
| Cash payments | (402) | | (402) |
| Balance at December 31, 2010 | 488 | | 488 |
| Provision | 202 | | 202 |
| Cash payments | (690) | | (690) |
| Balance at April 3, 2011 | \$ | \$ | \$ |

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| | Severance and Benefits | Facility Exit Costs (in thousands) | Total |
|------------------------------|------------------------------|---|----------|
| <i>Q3 2010 Activity:</i> | | | |
| Provision | \$ 382 | \$ | \$ 382 |
| Cash payments | (72) | | (72) |
| Other | (184) | | (184) |
| Balance at December 31, 2010 | 126 | | 126 |
| Change in estimate | (47) | | (47) |
| Cash payments | (79) | | (79) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| <i>Q4 2010 Activity:</i> | | | |
| Provision | \$ 98 | \$ | \$ 98 |
| Balance at December 31, 2010 | 98 | | 98 |
| Provision | 117 | | 117 |
| Cash payments | (215) | | (215) |
| Balance at April 3, 2011 | \$ | \$ | \$ |
| 2011 Activity | | | |
| <i>Q1 2011 Activity:</i> | | | |
| Provision | \$ 572 | \$ | \$ 572 |
| Cash payments | (241) | | (241) |
| Balance at April 3, 2011 | 331 | | 331 |
| Cash payments | (154) | | (154) |
| Balance at July 3, 2011 | 177 | | 177 |
| Change in estimate | (9) | | (9) |
| Cash payments | (43) | | (43) |
| Balance at October 2, 2011 | \$ 125 | \$ | \$ 125 |
| <i>Q2 2011 Activity:</i> | | | |
| Provision | \$ 344 | \$ | \$ 344 |
| Balance at July 3, 2011 | 344 | | 344 |
| Cash payments | (57) | | (57) |
| Balance at October 2, 2011 | \$ 287 | \$ | \$ 287 |
| Balance at October 2, 2011 | \$ 412 | \$ 2,115 | \$ 2,527 |

During the nine months ended October 2, 2011, we recorded the following restructuring charges:

Q2 2011 Action:

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

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Q1 2011 Action:

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

Pre-2010 Actions:

\$(0.4) million related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in System Test Group segment, and the North Reading, MA facility across both segments.

Q2 2010 Actions:

\$0.2 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.

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Q3 2010 Actions:

\$0.1 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments. During the nine months ended October 3, 2010, we recorded restructuring charges related to ongoing efforts to lower expenses and our cost structure and an additional charge due to a change in estimated severance benefits related to a prior period activity. The restructuring charges consisted of the following activities:

Q3 2010 Actions:

\$0.4 million of severance charges related to headcount reductions of 10 people in Systems Test Group.

Q2 2010 Actions:

\$0.7 million of severance charges related to headcount reductions of approximately 6 people in Systems Test Group

Q1 2010 Actions:

\$0.4 million of severance charges related to headcount reductions of 4 people in Semiconductor Test.

Q2 2009 Actions:

\$0.2 million related to a change in the estimated severance benefits related to headcount reduction activities across both segments.

Pre-2009 Actions:

\$(2.4) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

Other

During the nine months ended October 2, 2011, we recorded \$1.3 million of acquisition costs, and \$0.9 million charge related to a non-U.S. pension settlement.

Interest and Other

Interest expense and other decreased by \$2.1 million, from the first nine months of 2010 to 2011, primarily due to a loss on the exercise of the auction rate securities related UBS Put recorded in the second quarter of 2010, partially offset by higher convertible debt discount amortization in 2011.

Income Taxes

For the nine months ended October 2, 2011, we recorded a tax provision of \$15.1 million from continuing operations, which consisted of U.S. state and foreign taxes. For the nine months ended October 3, 2010, we recorded a tax provision of \$20.9 million from continuing operations, which consisted primarily of foreign taxes. Due to the continued uncertainty of realization, we have maintained our valuation allowance at October 2, 2011 for deferred tax assets in the U.S. and Singapore. We will continue to assess the level of the valuation allowance required in future periods. Should more positive than negative evidence regarding the realizability of tax attributes exist in a future period, the valuation allowance may be reduced or eliminated altogether. The factors and evidence being considered include, but are not limited to, the cumulative

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profit or loss position, the amount and extent of future projected earnings, changes in our business (including mergers and acquisitions) and volatility of the industries we operate in, primarily the semiconductor industry. We may have sufficient positive evidence in the near term that may result in the reduction of the valuation allowance. Reduction of the valuation allowance, in whole or in part, would result in a significant non-cash income tax benefit during the period of reduction.

Table of Contents**Contractual Obligations**

The following table reflects our contractual obligations as of October 2, 2011:

| | Total | Payments Due by Period | | | | |
|---|-------------------|------------------------|-------------------|------------------|----------------------|------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years | Other |
| Long-Term Debt Obligations (1) | \$ 196,510 | \$ 2,605 | \$ 193,905 | \$ | \$ | \$ |
| Interest on Debt | 21,478 | 8,598 | 12,880 | | | |
| Operating Lease Obligations | 32,429 | 11,657 | 13,902 | 6,316 | 554 | |
| Purchase Obligations | 132,200 | 127,300 | 4,900 | | | |
| Retirement Plan Contributions | 78,805 | 3,291 | 8,435 | 8,973 | 58,106 | |
| Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP (2) | 68,212 | | 40,669 | | | 27,543 |
| Total | \$ 529,634 | \$ 153,451 | \$ 274,691 | \$ 15,289 | \$ 58,660 | \$ 27,543 |

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

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance increased by \$176.9 million in the first nine months of 2011, to \$1.2 billion. Cash activity for the nine months ended October 2, 2011 and October 3, 2010 was as follows:

| | For the Nine Months Ended | |
|---|---------------------------|-----------------|
| | October 2, 2011 | October 3, 2010 |
| | (in millions) | |
| Cash provided by operating activities: | | |
| Income from continuing operations, adjusted for non-cash items | \$ 323.4 | \$ 421.3 |
| Change in operating assets and liabilities, net of businesses sold | (104.6) | (35.2) |
| Cash (used for) provided by discontinued operations | (4.2) | 3.7 |
| Total cash provided by operating activities | 214.6 | 389.8 |
| Cash provided by (used for) investing activities from continuing operations | 452.9 | (412.5) |
| Cash provided by investing activities from discontinued operations | 39.1 | |
| Total cash provided by (used for) investing activities | 492.0 | (412.5) |
| Total cash (used for) provided by financing activities | (9.2) | 39.9 |
| Increase in cash and cash equivalents | \$ 697.4 | \$ 17.2 |

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 decrease in operating assets was due to a \$25.2 million decrease in accounts receivable resulting from increased collections, partially offset by a \$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, a \$5.0 million decrease in deferred revenue, a \$3.4 million decrease in accounts payable due to decreased sales volume, and a \$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 \$1,112.8 million proceeds from sales and maturities of marketable securities, partially offset by \$593.3 million used for purchases of marketable securities and \$66.6 million used for purchases of property, plant and equipment.

Financing activities during the nine months ended October 2, 2011 used cash of \$9.2 million, due to the 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 payments on long-term debt, partially offset by \$17.2 million from the issuance of common stock under stock option and stock purchase plans.

In the nine months ended October 3, 2010, changes in operating assets and liabilities, net of businesses sold, used cash of \$35.2 million. This was due to a \$170.3 million increase in operating assets and a \$135.1 million increase in operating liabilities. The increase in operating assets was due to an increase in accounts receivable of \$181.0 million due to higher sales volume, partially offset by a \$9.7 million decrease in inventories due to higher sales volume, and a decrease in prepayments and other assets of \$1.0 million. The increase in operating liabilities was due to a \$68.5 million increase in customer advance payments, a \$66.6 million increase in accounts payable, a \$30.1 million increase in accrued employee compensation due to higher variable compensation, a \$14.6 million increase in accrued income taxes, and a \$7.5 million increase in deferred revenue, partially offset by \$50.8 million of retirement plan contributions and a 1.4 million decrease in other accrued liabilities.

Investing activities during the nine months ended October 3, 2010 used cash of \$412.5 million, due to \$478.2 million used for purchases of marketable securities and \$54.0 million used for purchases of property, plant and equipment, partially offset by proceeds from sales of marketable securities that provided cash of \$118.6 million, and proceeds from life insurance that provided cash of \$1.1 million.

Financing activities during the nine months ended October 3, 2010 provided cash of \$39.9 million, \$42.2 million was from the issuance of common stock under stock option and stock purchase plans which was partially offset by \$2.3 million of cash used for payments on long-term debt.

On October 5, 2011, Teradyne completed its acquisition of LitePoint for approximately \$510 million, net of LitePoint's cash and tax benefits, and up to \$70 million payable upon achievement of certain performance targets through 2012. The \$510 million was paid in cash. The \$70 million performance payment, if earned, may be paid in cash or in stock.

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

Equity Compensation Plans

As discussed in Note M Stock Based Compensation in our 2010 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan).

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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 March 2010, FASB issued an Accounting Standards Update 2010-17, *Milestone Method of Revenue Recognition*, to Accounting Standards Codification 605, *Revenue Recognition*. The guidance in this consensus allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The scope of this consensus is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. The consensus is effective prospectively to milestones achieved in fiscal years, and interim periods within those years, after June 15, 2010. We adopted this final consensus prospectively in January 2011 and the adoption had no material impact on our financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement*. This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareowners' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. This ASU requires changes in presentation only and we do not expect it will have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income*. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareowners' equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. This ASU requires changes in presentation only and we do not expect it will have a material impact on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This new guidance is intended to simplify goodwill impairment testing by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. This new guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not expect this guidance to have a material impact on our consolidated financial statements.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a. Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on March 1, 2011. 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, 2010.

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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.

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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

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, 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 with the addition of new risk factors set forth below.

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.

We may not fully realize the benefits of our acquisitions or strategic alliances.

In October 2011, we acquired LitePoint Corporation (LitePoint). We may not be able to realize the benefit of acquiring LitePoint or successfully grow LitePoint s business. We may continue to acquire additional businesses, form strategic alliances or create joint ventures with third parties that we believe will complement or augment our existing businesses. We may not be able to realize the expected synergies and cost savings from the integration with our existing operations of other businesses or technologies that we may acquire. In addition, the integration process for our acquisitions may be complex, costly and time consuming and include unanticipated issues, expenses and liabilities. We may have difficulty in developing, manufacturing and marketing the products of a newly acquired company in a manner that enhances the performance of our combined businesses or product lines and allows us to realize value from expected synergies. Following an acquisition, we may not achieve the revenue or net income levels that justify the acquisition. Acquisitions may also result in one-time charges (such as acquisition-related expenses, write-offs or restructuring charges) or in the future, impairment of goodwill, that adversely affect our operating results. Additionally, we may fund acquisitions of new businesses, strategic alliances or joint ventures by utilizing our cash, raising debt, issuing shares of our common stock, or by other means.

The recent natural disaster in Japan could disrupt our operations and those of our customers and adversely affect our results of operations.

The recent events in Japan, including earthquakes, tsunamis and the related damage, have created economic uncertainty in that country. The combined effect of these events could impact short-term, end-user demand, disrupt our global supply chain for components manufactured in Japan, increase the cost of components that we acquire due to reduced supply, as well as cause other unforeseen effects to our business. As a result of the events in Japan, we purchased buffer inventory for certain components that are sourced in Japan and we may make additional inventory purchases in the future. Based on a review of our global supply chain and the customers test facilities we serve in Japan, we do not expect a significant impact on our long-term ability to manufacture and sell our products, however, this situation remains uncertain and there can be no assurance that an adverse effect on our business, financial condition and operating results will not result from these events.

Our operations and the operations of our customers and suppliers are subject to risks of natural catastrophic events, widespread health epidemics, acts of war, terrorist attacks and the threat of domestic and international terrorist attacks, any one of which could result in cancellation of orders, delays in deliveries or other business activities, or loss of customers and could negatively affect our business and results of operations.

Our business is international in nature, with our sales, service and administrative personnel and our customers and suppliers located in numerous countries throughout the world. Our operations and those of our customers and suppliers are subject to disruption for a variety of reasons, including work stoppages, acts of war,

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terrorism, health epidemics, fires, earthquakes, hurricanes, volcanic eruptions, energy shortages, telecommunication failures, tsunamis, flooding or other natural disasters. Such disruption could materially increase our costs and expenses as well as cause delays in, among other things, shipments of products to our customers, our ability to perform services requested by our customers, or the installation and acceptance of our products at customer sites. Any of these conditions could have a material adverse effect on our business, financial conditions and results of operations.

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

In November 2007, Teradyne's Board of Directors (the Board) authorized a \$400 million stock repurchase program. The cumulative repurchases under this program as of December 31, 2008 totaled 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14 per share. As of November 4, 2008, the Board suspended the stock repurchase program.

In November 2010, the Board cancelled the November 2007 stock repurchase program and authorized a new stock repurchase program for up to \$200 million. The cumulative repurchases as of October 2, 2011 totaled 2.0 million shares of common stock for \$23.9 million at an average price of \$12.06.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended October 2, 2011 (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 4, 2011 - July 31, 2011 | 4 | \$ 12.92 | 4 | \$ 199,943 |
| August 1, 2011 - August 28, 2011 | 1,524 | \$ 12.26 | 1,528 | \$ 181,261 |
| August 29, 2011 - October 2, 2011 | 450 | \$ 11.38 | 1,978 | \$ 176,138 |
| | 1,978 | \$ 12.06 | 1,978 | \$ 176,138 |

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.

Table of Contents**Item 6: Exhibits**

| Exhibit Number | Description |
|-----------------------|--|
| 2.1 | Agreement and Plan of Merger by and among Teradyne, Inc., Lager Acquisition Corp., and LitePoint Corporation, dated as of September 14, 2011 filed as Exhibit 2.1 to Teradyne's Current Report on Form 8-K filed October 6, 2011 |
| 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 14, 2011