

TERADYNE, INC
Form 10-Q
November 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2008

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 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 October 31, 2008 was 169,288,060 shares.

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TERADYNE, INC.

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

| | September 28, 2008 | December 31, 2007 |
|--|-----------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 292,573 | \$ 562,371 |
| Marketable securities | 15,502 | 75,593 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,282 and \$4,493 on September 28, 2008 and December 31, 2007, respectively | 193,870 | 189,487 |
| Inventories: | | |
| Parts | 43,162 | 27,627 |
| Assemblies in process | 46,780 | 31,272 |
| Finished Goods | 30,705 | 21,414 |
| Net inventories | 120,647 | 80,313 |
| Deferred tax assets | 30,814 | 3,216 |
| Prepayments and other current assets | 44,088 | 33,953 |
| Total current assets | 697,494 | 944,933 |
| Property, plant, and equipment, at cost | 758,879 | 825,771 |
| Less: accumulated depreciation | 463,711 | 473,064 |
| Net property, plant, and equipment | 295,168 | 352,707 |
| Marketable securities | 159,901 | 104,978 |
| Goodwill | 242,521 | 69,147 |
| Intangible assets, net | 91,559 | 5,992 |
| Other assets | 25,102 | 24,855 |
| Long-term deferred tax assets | | 6,280 |
| Retirement plans assets | 48,854 | 46,396 |
| Total assets | \$ 1,560,599 | \$ 1,555,288 |

LIABILITIES

| | | |
|--|-----------|-----------|
| Current liabilities: | | |
| Accounts payable | \$ 64,206 | \$ 57,426 |
| Accrued employee compensation and withholdings | 62,664 | 71,691 |
| Deferred revenue and customer advances | 67,794 | 41,928 |
| Other accrued liabilities | 54,800 | 47,002 |
| Accrued income taxes | 238 | 5,187 |
| Total current liabilities | 249,702 | 223,234 |
| Retirement plans liabilities | 74,958 | 80,388 |
| Deferred tax liabilities | 21,351 | |
| Long-term other accrued liabilities | 27,056 | 22,492 |

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| | | |
|---|--------------|--------------|
| Total liabilities | 373,067 | 326,114 |
| Commitments and contingencies (Note N) | | |
| SHAREHOLDERS EQUITY | | |
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 169,065 and 173,088 shares issued and outstanding at September 28, 2008 and December 31, 2007, respectively | 21,133 | 21,636 |
| Additional paid-in capital | 1,113,319 | 1,105,441 |
| Accumulated other comprehensive loss | (44,134) | (46,028) |
| Retained earnings | 97,214 | 148,125 |
| Total shareholders equity | 1,187,532 | 1,229,174 |
| Total liabilities and shareholders equity | \$ 1,560,599 | \$ 1,555,288 |

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, 2007 are an integral part of the condensed consolidated financial statements.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|--|-----------------------|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands, except per share amounts) | | | |
| Net revenues: | | | | |
| Products | \$ 228,854 | \$ 239,299 | \$ 710,624 | \$ 663,435 |
| Services | 68,401 | 60,162 | 201,651 | 178,429 |
| Net revenues | 297,255 | 299,461 | 912,275 | 841,864 |
| Cost of revenues: | | | | |
| Cost of products | 130,105 | 117,268 | 373,337 | 329,597 |
| Cost of services | 39,220 | 37,947 | 118,657 | 117,404 |
| Total cost of revenues | 169,325 | 155,215 | 491,994 | 447,001 |
| Gross profit | 127,930 | 144,246 | 420,281 | 394,863 |
| Operating expenses: | | | | |
| Engineering and development | 52,969 | 52,245 | 164,272 | 153,924 |
| Selling and administrative | 58,614 | 62,178 | 189,298 | 187,307 |
| Acquired intangible asset amortization | 5,034 | 954 | 13,671 | 2,820 |
| In-process research and development | | | 1,100 | 16,700 |
| Restructuring and other, net | 28,589 | (3,119) | 53,100 | (304) |
| Operating expenses | 145,206 | 112,258 | 421,441 | 360,447 |
| (Loss) income from operations | (17,276) | 31,988 | (1,160) | 34,416 |
| Interest income | 2,740 | 7,784 | 10,284 | 27,182 |
| Interest expense and other | (5,851) | 143 | (5,865) | 2,688 |
| (Loss) income from continuing operations before income taxes | (20,387) | 39,915 | 3,259 | 64,286 |
| Provision for income taxes | 3,070 | 4,717 | 13,270 | 9,556 |
| (Loss) income from continuing operations | (23,457) | 35,198 | (10,011) | 54,730 |
| Income from discontinued operations before taxes | 768 | 6,084 | 768 | 6,795 |
| Provision for income taxes | | 293 | | 518 |
| Income from discontinued operations | 768 | 5,791 | 768 | 6,277 |
| Net (loss) income | \$ (22,689) | \$ 40,989 | \$ (9,243) | \$ 61,007 |
| (Loss) income from continuing operations per common share: | | | | |
| Basic | \$ (0.14) | \$ 0.19 | \$ (0.06) | \$ 0.29 |
| Diluted | \$ (0.14) | \$ 0.19 | \$ (0.06) | \$ 0.29 |
| Net (loss) income per common share: | | | | |
| Basic | \$ (0.13) | \$ 0.22 | \$ (0.05) | \$ 0.33 |

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| | | | | |
|--|-----------|---------|-----------|---------|
| Diluted | \$ (0.13) | \$ 0.22 | \$ (0.05) | \$ 0.32 |
| Weighted average common shares basic | 168,769 | 183,566 | 171,058 | 187,527 |
| Weighted average common shares diluted | 168,769 | 185,298 | 171,058 | 189,222 |

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, 2007 are an integral part of the condensed consolidated financial statements.

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

| | For the Nine Months Ended | |
|---|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (9,243) | \$ 61,007 |
| Income from discontinued operations | 768 | 381 |
| Gain on sale from discontinued operations | | 5,896 |
| (Loss) income from continuing operations | (10,011) | 54,730 |
| Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities: | | |
| Depreciation | 56,580 | 45,351 |
| Amortization | 15,394 | 5,902 |
| Stock-based compensation | 15,909 | 19,645 |
| In-process research and development charge | 1,100 | 16,700 |
| Loss (gain) on sale of land and building | 20,883 | (3,597) |
| Gain on sale of product lines | | (906) |
| Gain on life insurance | (1,352) | |
| Gain on sale of an equity investment | (2,811) | |
| Impairment of marketable securities | 8,504 | |
| Provision for excess and obsolete inventory | 24,969 | 1,479 |
| Non-cash charge for the sale of inventories revalued at the date of acquisition | 4,346 | |
| Other non-cash items, net | 323 | 890 |
| Changes in operating assets and liabilities, net of businesses and product lines acquired and sold: | | |
| Accounts receivable | 23,050 | (75,896) |
| Inventories | (4,642) | 26,724 |
| Other assets | (18,496) | (17,638) |
| Accounts payable, deferred revenue and accrued expenses | (4,794) | 2,900 |
| Retirement plans contributions | (5,290) | (2,128) |
| Income taxes payable | (4,736) | (30,790) |
| Net cash provided by continuing operations | 118,926 | 43,366 |
| Net cash provided by (used for) discontinued operations | 768 | (3,103) |
| Net cash provided by operating activities | 119,694 | 40,263 |
| Cash flows from investing activities: | | |
| Investments in property, plant and equipment | (75,528) | (63,788) |
| Acquisition of technology | | (17,600) |
| Proceeds from sale of product lines and business | | 906 |
| Proceeds from sale of land and building | 44,072 | 7,888 |
| Proceeds from life insurance | 3,049 | |
| Proceeds from sale of an equity investment | 2,811 | |
| Acquisition of business, net of cash acquired | (285,324) | |
| Purchases of available-for-sale marketable securities | (135,475) | (333,165) |
| Proceeds from sale and maturities of available-for-sale marketable securities | 131,800 | 396,436 |
| Net cash used for continuing operations | (314,595) | (9,323) |
| Net cash provided by discontinued operations | | 10,765 |
| Net cash (used for) provided by investing activities | (314,595) | 1,442 |
| Cash flows from financing activities: | | |
| Repurchase of common stock | (91,191) | (203,562) |

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| | | |
|---|------------|------------|
| Issuance of common stock under employee stock option and stock purchase plans | 16,294 | 22,910 |
| Net cash used for financing activities | (74,897) | (180,652) |
| Decrease in cash and cash equivalents | (269,798) | (138,947) |
| Cash and cash equivalents at beginning of period | 562,371 | 568,025 |
| Cash and cash equivalents at end of period | \$ 292,573 | \$ 429,078 |

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, 2007 are an integral part of the condensed

consolidated financial statements.

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TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. The Company

Teradyne, Inc. is a leading global supplier of automatic test equipment.

Teradyne's automatic test equipment products and services include:

semiconductor test (Semiconductor Test), and

military/aerospace (Mil/Aero) test instrumentation and systems, circuit-board test and inspection systems (Commercial Board Test) and automotive diagnostic and test systems (Diagnostic Solutions), collectively Systems Test Group

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in Teradyne's filings with the Securities and Exchange Commission (the SEC). See also Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations Certain Factors That May Affect Future Results , Item 1A: Risk Factors and Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007.

B. Accounting Policies

Basis of Presentation

The condensed consolidated interim financial statements include the accounts of Teradyne and its subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair statement of such interim financial statements. Certain prior year's amounts were reclassified to conform to the current year presentation. The December 31, 2007 condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by generally accepted accounting principles.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne's Annual Report on Form 10-K, filed with the SEC on February 28, 2008 for the year ended December 31, 2007.

On August 1, 2007, Teradyne completed the sale of Broadband Test Systems, its voice and broadband access network test division. The results of operations of Broadband Test Systems as well as cash flow amounts pertaining to this business have been classified as discontinued operations in the condensed consolidated financial statements.

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.

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TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

C. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations*. (SFAS No. 141(R)) This Statement replaces FASB Statement No. 141, *Business Combinations*. SFAS No. 141(R) establishes new principles and requirements for how an acquiring company 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations occurring in the fiscal year beginning on or after December 15, 2008. Teradyne is currently evaluating the impact of adopting this standard.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161), an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 expands the current disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, such that entities must now provide enhanced disclosures on a quarterly basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for under SFAS No. 133 and how derivatives and related hedged items affect the entity's financial position, performance and cash flow. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. Teradyne will adopt SFAS No. 161 in fiscal year 2009.

In April 2008, the FASB issued Staff Position No.142-3 (FSP No. 142-3), *Determination of the Useful Life of Intangible Assets*. This FSP amends the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, about estimating useful lives of recognized intangible assets and requires additional disclosures related to renewing or extending the terms of a recognized intangible asset. In estimating the useful life of a recognized intangible asset, the FSP requires companies to consider their historical experience in renewing or extending similar arrangements together with the asset's intended use, regardless of whether the arrangements have explicit renewal or extension provisions. The FSP is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets.

On October 10, 2008, the FASB issued FSP FAS No. 157-3, *Fair Value Measurements* (FSP FAS 157-3), which clarifies the application of SFAS No. 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. Teradyne currently does not have any financial assets with an inactive market.

D. Financial Instruments

Effective January 1, 2008, Teradyne has adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157) for financial assets and liabilities. As defined in SFAS No.157, 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. Teradyne uses the market approach technique to value its financial instruments and there were no changes in valuation techniques during the quarter or nine months ended September 28, 2008. SFAS No.157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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, and therefore is considered a Level 2 input.

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.

Teradyne's marketable securities consist primarily of high quality, corporate debt securities that are valued using matrix pricing. Teradyne has reviewed and agrees with the valuation methodologies and procedures utilized by these parties. The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of September 28, 2008.

| | Level 1 | September 28, 2008 | | Total |
|----------------------------------|-----------------|--------------------|-----------|-------------------|
| | | Level 2 | Level 3 | |
| | | (in thousands) | | |
| Assets: | | | | |
| Short-term marketable securities | \$ | \$ 15,502 | \$ | \$ 15,502 |
| Long-term marketable securities | 7,881 | 152,020 | | 159,901 |
| Total | \$ 7,881 | \$ 167,522 | \$ | \$ 175,403 |

On a quarterly basis Teradyne reviews its investments to identify and evaluate investments 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.

Teradyne has determined that it does not intend to hold the marketable securities for a period of time sufficient to allow for recovery in market value and recognized an other-than-temporary impairment loss in the amount of \$8.5 million, in the three and nine months ended September 28, 2008, primarily related to mortgage backed debt securities and financial institutions' debt securities.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****E. 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 following represents the activity in the warranty accrual and is included in other accrued liabilities.

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 9,782 | \$ 10,249 | \$ 9,340 | \$ 12,897 |
| Acquisition | | | 492 | |
| Accruals for warranties issued during the period | 3,284 | 3,540 | 10,493 | 10,369 |
| Accruals related to pre-existing warranties (includes changes in estimates) | (99) | 174 | 1,083 | (1,696) |
| Settlements made during the period | (3,808) | (3,923) | (12,249) | (11,530) |
| Balance at end of period | \$ 9,159 | \$ 10,040 | \$ 9,159 | \$ 10,040 |

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 following represents the activity in the extended warranty and is included in short-term deferred revenue and long-term other accrued liabilities.

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Balance at beginning of period | \$ 7,103 | \$ 7,602 | \$ 6,610 | \$ 8,350 |
| Deferral of new extended warranty revenue | 1,144 | 617 | 4,024 | 2,550 |
| Recognition of extended warranty deferred revenue | (1,118) | (1,523) | (3,505) | (4,204) |
| Balance at end of period | \$ 7,129 | \$ 6,696 | \$ 7,129 | \$ 6,696 |

F. Stock-Based Compensation

During the nine months ended September 28, 2008, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 3.1 million at the weighted average grant date fair value of \$10.66. Service based awards granted to employees and executives vest in equal installments over four years. A significant number of awards granted to executive officers were performance-based restricted stock units. The performance-based restricted stock units granted to the executives in January 2008 cliff vest on the third anniversary of the grant. The amount of actual performance-based awards that will vest will be determined on or near the first anniversary of the grant. Awards granted to non-employee directors vest on the first anniversary of the grant date.

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During the nine months ended September 30, 2007, Teradyne granted restricted stock units to employees, executives and directors. The total number of shares granted was 2.0 million at the weighted average grant date fair value of \$15.19. Service based awards granted to employees and executives vest in equal installments over

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

four years. A significant number of awards granted to executive officers were performance-based restricted stock units. The performance-based restricted stock units granted to the executives in January 2007 vest in equal installments over four years. The amount of actual performance-based awards that will vest was determined on or near the first anniversary of the grant. Awards granted to non-employee directors vested on the first anniversary of the grant date.

G. Comprehensive Income

Comprehensive income is calculated as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|-------------------------------|-----------------------|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Net (loss) income | \$ (22,689) | \$ 40,989 | \$ (9,243) | \$ 61,007 |
| Foreign currency translation adjustments | (638) | (272) | (1,693) | (38) |
| Change in unrealized loss on foreign exchange contracts | | (55) | | |
| Change in unrealized (loss) income on marketable securities, net of taxes of \$0, \$0, \$0 and \$0 | (689) | 2,047 | (1,566) | 4,212 |
| Reclassification adjustment for realized losses on marketable securities included in net loss | 3,484 | | 1,235 | |
| Retirement plans net gain, net of taxes of \$50, \$(13), \$484 and \$47 | 492 | 861 | 3,480 | 4,605 |
| Retirement plans prior service benefit, net of taxes of \$0, \$0, \$0 and \$0 | 153 | 153 | 460 | 460 |
| Retirement plans net transition asset, net of taxes of \$(9), \$(28), \$(1) and \$(47) | (6) | 29 | (22) | 5 |
| Comprehensive (loss) income | \$ (19,893) | \$ 43,752 | \$ (7,349) | \$ 70,251 |

H. Goodwill and Intangible Assets

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

| | Semiconductor Test | Systems Test Group (in thousands) | Total |
|---------------------------------|-----------------------|---|------------|
| Balance at December 31, 2007 | \$ | \$ 69,147 | \$ 69,147 |
| Goodwill acquired during period | 173,374 | | 173,374 |
| Balance at September 28, 2008 | \$ 173,374 | \$ 69,147 | \$ 242,521 |

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

Amortizable intangible assets consist of the following and are included in intangible and other assets:

| | September 28, 2008 | | | Weighted Average Useful Life |
|---|--------------------------------------|--|------------------------------------|---|
| | Gross Carrying Amount | Accumulated Amortization (in thousands) | Net Carrying Amount | |
| Completed technology | \$ 72,793 | \$ 23,866 | \$ 48,927 | 6.2 years |
| Customer relationships and service and software maintenance contracts | 50,679 | 8,662 | 42,017 | 6.9 years |
| Trade names and trademarks | 4,100 | 3,485 | 615 | 7.5 years |
| Total intangible assets | \$ 127,572 | \$ 36,013 | \$ 91,559 | 6.5 years |

| | December 31, 2007 | | | Weighted Average Useful Life |
|---|--------------------------------------|--|------------------------------------|---|
| | Gross Carrying Amount | Accumulated Amortization (in thousands) | Net Carrying Amount | |
| Completed technology | \$ 19,193 | \$ 15,734 | \$ 3,459 | 7.5 years |
| Customer relationships and service and software maintenance contracts | 4,779 | 3,678 | 1,101 | 8.0 years |
| Trade names and trademarks | 3,800 | 2,929 | 871 | 8.0 years |
| Acquired workforce | 700 | 139 | 561 | 4.0 years |
| Total intangible assets | \$ 28,472 | \$ 22,480 | \$ 5,992 | 7.6 years |

Aggregate intangible asset amortization expense was \$5.0 million for the three months ended September 28, 2008 and \$1.0 million for the three months ended September 30, 2007. Aggregate intangible asset amortization expense was \$13.7 million for the nine months ended September 28, 2008 and \$2.8 million for the nine months ended September 30, 2007. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

| Year | Amount (in thousands) |
|------------------|----------------------------------|
| 2008 (remainder) | \$ 5,034 |
| 2009 | 19,368 |
| 2010 | 16,697 |
| 2011 | 15,239 |
| 2012 | 13,112 |

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

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|--|-----------------------|---------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands, except per share amounts) | | | |
| (Loss) income from continuing operations | \$ (23,457) | \$ 35,198 | \$ (10,011) | \$ 54,730 |
| Income from discontinued operations | 768 | 5,791 | 768 | 6,277 |
| Net (loss) income | \$ (22,689) | \$ 40,989 | \$ (9,243) | \$ 61,007 |
| Shares used in (loss) income per common share basic | 168,769 | 183,566 | 171,058 | 187,527 |
| Effect of dilutive potential common shares: | | | | |
| Employee and director stock options | | 858 | | 991 |
| Restricted stock units | | 837 | | 647 |
| Employee stock purchase rights | | 37 | | 57 |
| Dilutive potential common shares | | 1,732 | | 1,695 |
| Shares used in net (loss) income per common share diluted | 168,769 | 185,298 | 171,058 | 189,222 |
| Net (loss) income per common share basic | | | | |
| Continuing operations | \$ (0.14) | \$ 0.19 | \$ (0.06) | \$ 0.29 |
| Discontinued operations | 0.01 | 0.03 | 0.01 | 0.04 |
| | \$ (0.13) | \$ 0.22 | \$ (0.05) | \$ 0.33 |
| Net (loss) income per common share diluted | | | | |
| Continuing operations | \$ (0.14) | \$ 0.19 | \$ (0.06) | \$ 0.29 |
| Discontinued operations | 0.01 | 0.03 | 0.01 | 0.03 |
| | \$ (0.13) | \$ 0.22 | \$ (0.05) | \$ 0.32 |

The computation of diluted net (loss) income per common share for the three and nine months ended September 28, 2008 excludes the effect of the potential exercise of options to purchase approximately 16.2 million and 16.4 million shares and restricted stock units of 1.4 million and 1.4 million shares, respectively, because the effect would have been anti-dilutive.

The computation of diluted net (loss) income per common share for the three and nine months ended September 30, 2007 excludes the effect of the potential exercise of options to purchase approximately 14.1 million and 14.1 million shares, respectively, because the effect would have been anti-dilutive.

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

The tables below represent activity related to restructuring and other, net, in the nine months ended September 28, 2008. The accrual for severance payments and employee benefits is reflected in accrued employee compensation and withholdings and is expected to be paid by the end of the first quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2012. Teradyne expects to pay approximately \$3.1 million against the lease accruals over the next twelve months. Teradyne's future lease commitments are net of expected sublease income of \$8.3 million as of September 28, 2008.

2008 Activities

| (in thousands) | Loss on Sale of Real Estate | Facility Related | Severance and Benefits | Long-Lived Asset Impairment | Total |
|------------------------------------|--------------------------------------|---------------------|------------------------------|-----------------------------------|----------|
| Balance at December 31, 2007 | \$ | \$ | \$ | \$ | \$ |
| Charge | 20,883 | 13,748 | 15,569 | 550 | 50,750 |
| Cash payments | | (896) | (12,716) | | (13,612) |
| Accelerated depreciation and other | (20,883) | (11,966) | | (550) | (33,399) |
| Balance at September 28, 2008 | \$ | \$ 886 | \$ 2,853 | \$ | \$ 3,739 |

During the nine months ended September 28, 2008, Teradyne recorded the following restructuring activities:

\$22.6 million loss on the sale of real estate across both segments for a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$15.6 million of severance charges across all functions and segments related to headcount reductions of approximately 300 people;

\$12.0 million of facility charges across both segments related to the accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$1.7 million gain on the sale of real estate in the Semiconductor Test segment for a facility in Agoura Hills, CA;

\$0.7 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK;

\$0.7 million of facility charges in the Semiconductor Test segment related to the early exit of a facility in Ontario, Canada; and

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\$0.6 million charge in the Semiconductor Test segment for a long-lived asset impairment related to acquired intangible assets.

Table of Contents**TERADYNE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***2007 Activities*

| <i>(in thousands)</i> | Severance and Benefits |
|-------------------------------|---------------------------------------|
| Balance at December 31, 2007 | \$ 1,108 |
| Credits | (194) |
| Cash payments | (826) |
| Balance at September 28, 2008 | \$ 88 |

Pre-2007 Activities

| <i>(in thousands)</i> | Facility Related | Severance and Benefits | Total |
|-------------------------------|-----------------------------|---------------------------------------|--------------|
| Balance at December 31, 2007 | \$ 7,802 | \$ 250 | \$ 8,052 |
| Charges/ (Credits) | 2,676 | (132) | 2,544 |
| Cash payments | (1,446) | (62) | (1,508) |
| Balance at September 28, 2008 | \$ 9,032 | \$ 56 | \$ 9,088 |

During the nine months ended September 28, 2008, Teradyne recorded the following adjustment to its pre-2007 restructuring activities:

\$2.7 million facility related charge in the Systems Test Group segment for changes in the estimated amount and timing of sublease income on a facility in Westford, MA.

K. Stock Repurchase Program

In November 2007, Teradyne's Board of Directors authorized a \$400 million stock repurchase program. During the three months ended September 28, 2008, Teradyne did not repurchase any shares of common stock. For the nine months ended September 28, 2008, Teradyne repurchased 7.5 million shares of common stock for \$91.2 million at an average price of \$12.20 per share. The cumulative repurchases as of September 28, 2008 total 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14.

L. Acquisitions**Business***Nextest Systems Corporation*

On January 24, 2008, Teradyne completed its acquisition of Nextest Systems Corporation (Nextest) of San Jose, California, for a total purchase price of \$402.4 million, which consisted of \$367.8 million of cash paid to acquire the outstanding common stock of Nextest, at a price of \$20.00

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per share, \$28.5 million in fair value of assumed vested stock options and restricted stock units, which were converted into stock options and restricted stock units to purchase Teradyne's common stock, and \$6.1 million of acquisition related transaction costs, which primarily consisted of fees incurred for financial advisory and legal services. The fair value of stock options was estimated using the following weighted average assumptions:

| | |
|-------------------------|-----------|
| Expected life | 3.6 years |
| Expected volatility | 40.6% |
| Risk-free interest rate | 2.8% |
| Dividend yield | 0.0% |

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

Nextest designs, develops, manufactures, sells and services low-cost, high throughput automated test equipment systems for the semiconductor industry. Nextest competes in the flash memory, flash card, and flash memory based system-on-chip (SOC) markets. Nextest's products are used to test flash memory, microcontrollers, image sensors, smart cards and field programmable logic devices. The acquisition allows Teradyne to enter the flash memory test segment. Nextest is included within Teradyne's Semiconductor Test segment.

The Nextest acquisition was accounted for as a purchase business combination and, accordingly, the results have been included in Teradyne's consolidated results of operation from the date of acquisition. The allocation of the total purchase price of Nextest's net tangible and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The purchase price allocation is preliminary pending the final determination of the fair value of certain acquired tax assets and assumed tax liabilities. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of \$173.4 million was allocated to goodwill, which is not deductible for tax purposes. The following represents the preliminary allocation of the purchase price:

| | Amount (in thousands) |
|--|----------------------------------|
| Goodwill | \$ 173,374 |
| Other intangible assets | 99,800 |
| Tangible assets acquired and liabilities assumed: | |
| Cash and cash equivalents | 88,513 |
| Other current assets | 55,332 |
| Non-current assets | 16,306 |
| Accounts payable and current liabilities | (26,487) |
| Other long-term liabilities | (5,542) |
| In-process research and development | 1,100 |
| Total purchase price | \$ 402,396 |

Teradyne estimated the fair value of other intangible assets using the income approach. Acquired other intangible assets will be amortized on a straight-line basis over their estimated useful lives. The following table represents components of these other intangible assets and their estimated useful lives at the acquisition date:

| | Fair Value (in thousands) | Estimated Useful Life (in years) |
|-----------------------------|--------------------------------------|---|
| Developed technology | \$ 53,600 | 5.8 |
| Customer relationships | 45,900 | 6.8 |
| Tradenames | 300 | 1.0 |
| Total intangible assets | \$ 99,800 | 6.2 |

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

The following pro forma information gives effects of the acquisition as if the acquisition occurred on January 1, 2008 and 2007. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisitions been in effect for the periods presented:

| | For the Three Months Ended | | For the Nine Months Ended | | | |
|-------------------------------------|----------------------------|---------|---------------------------|---------|----|---------|
| | September 30, | | September 28, | | | |
| | 2007 | | 2008 | | | |
| Revenue | \$ | 322,443 | \$ | 922,006 | \$ | 899,778 |
| Net income (loss) | | 33,879 | | (9,892) | | 31,330 |
| Net income (loss) per common share: | | | | | | |
| Basic | \$ | 0.18 | \$ | (0.06) | \$ | 0.17 |
| Diluted | \$ | 0.18 | \$ | (0.06) | \$ | 0.16 |

The nine months pro forma results above include the following non recurring expense items: in-process research and development charge of \$1.1 million and acquired inventory fair value adjustment of \$4.3 million, in both nine months periods presented.

Eagle Test Systems, Inc

On September 1, 2008, Teradyne entered into an agreement to acquire Eagle Test Systems, Inc., a Delaware corporation (Eagle). At the effective time of the acquisition, each outstanding share of Eagle 's common stock will convert into the right to receive \$15.65 per share in cash for a total purchase price of approximately \$250 million, net of cash acquired and including the fair value of fully vested employee equity instruments. The acquisition is expected to close in the fourth quarter of 2008.

Technology

On March 7, 2007, Teradyne purchased in-process enabling test technology and hired certain engineers from MOSAID Technologies Inc. (MOSAID) for \$17.6 million, which included \$0.6 million in fees directly related to the acquisition. Of the purchase price, \$16.7 million was allocated to in-process research and development and therefore was immediately charged to the statement of operations. The balance of the purchase price was allocated to acquired workforce and fixed assets. In the nine months ended September 28, 2008, Teradyne recorded an impairment charge of \$0.6 million to write-off the acquired workforce asset.

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

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

Components of net periodic pension cost for all plans for the three and nine months ended September 28, 2008 and September 30, 2007 are as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|--------------------------------|----------------------------|--------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Net Periodic Benefit Cost: | | | | |
| Service cost | \$ 1,167 | \$ 1,387 | \$ 3,657 | \$ 4,197 |
| Interest cost | 4,386 | 4,133 | 13,242 | 12,407 |
| Expected return on plan assets | (5,148) | (4,866) | (15,493) | (14,629) |
| Amortization of unrecognized: | | | | |
| Net transition obligation | (7) | (17) | (22) | (49) |
| Prior service cost | 212 | 212 | 636 | 635 |
| Net loss | 332 | 905 | 1,045 | 2,727 |
| Curtailment gain | | | (357) | |
| Total expense | \$ 942 | \$ 1,754 | \$ 2,708 | \$ 5,288 |

Teradyne contributed \$0.9 million to its United Kingdom Pension Plan, \$1.0 million to its Japan Pension Plan, \$0.9 million to its U.S. Pension Plan and \$0.4 million to its other foreign Pension Plans in the nine months ended September 28, 2008.

Post-Retirement Benefit Plans

In addition to receiving pension benefits, Teradyne's U.S. employees who meet specific retirement eligibility requirements as of their termination dates may participate in Teradyne's Welfare Plan, which includes death benefits, and medical and dental benefits up to age 65. Death benefits provide a fixed amount to retirees' survivors and are available to all retirees.

Substantially all of Teradyne's current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

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

Components of net periodic postretirement benefits cost are as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|-------------------------------|-------------------------------|-----------------------|------------------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Net Periodic Benefit Cost: | | | | |
| Service cost | \$ 42 | \$ 63 | \$ 126 | \$ 190 |
| Interest cost | 307 | 329 | 920 | 986 |
| Amortization of unrecognized: | | | | |
| Prior service cost | (59) | (58) | (176) | (176) |
| Net loss | 35 | 71 | 105 | 214 |
| Total expense | \$ 325 | \$ 405 | \$ 975 | \$ 1,214 |

Teradyne contributed \$2.1 million to its U.S. Post-Retirement Benefits Plan in the nine months ended September 28, 2008.

N. Commitments and Contingencies**Legal Claims**

On July 11, 2008, Xyratex Technology, Ltd (Xyratex) filed a complaint against Teradyne in the United States Federal District Court in Los Angeles, California alleging that certain Teradyne disk drive test products infringe one of Xyratex 's patents. The complaint was served on Teradyne on October 29, 2008. The suit seeks temporary, preliminary and permanent injunctive relief as well as unspecified monetary damages, including treble damages, for patent infringement.

On September 5, 2001, after Teradyne 's August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of our then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. Teradyne petitioned the Ninth Circuit for a rehearing of the ruling that it reversed. In October 2007, the Ninth Circuit denied Teradyne 's petition for rehearing and remanded the case back to the District Court. On August 29, 2008, the District Court granted Teradyne 's motion for judgment on the pleadings. On September 11, 2008, the plaintiffs filed their notice of appeal.

In 2001, Teradyne was designated as a Potentially Responsible Party (PRP) at a clean-up site in Los Angeles, California. This claim arose out of Teradyne 's acquisition of Perception Laminates in August 2000. Prior to that date, Perception Laminates had itself acquired certain assets of Alco Industries Inc. under an asset purchase agreement in 1992. Neither Teradyne nor Perception Laminates have ever conducted any operations at the Los Angeles site. Teradyne asked the State of California to drop the PRP designation, but California has not yet agreed to do so.

Teradyne believes that it has meritorious defenses against the above unsettled claims and intends to vigorously contest them. While it is not possible to predict or determine the outcomes of the unsettled claims or

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

to provide possible ranges of losses that may arise, Teradyne believes the potential losses associated with all of these actions are unlikely to have a material adverse effect on its consolidated financial position, but could possibly be material to its consolidated results of operations of any one period.

In addition, Teradyne is subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. Although there can be no assurance, there are no such matters pending that Teradyne expects to be material with respect to its business, financial position or results of operations.

O. Segment Information

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

Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income from continuing operations before taxes. The accounting policies of the business segments are the same as those described in Note B: Accounting Policies in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2007. Due to the sale of Broadband Test Systems on August 1, 2007, its results have been excluded from segment reporting and included in discontinued operations for the three and nine months ended September 30, 2007. Segment information for the three and nine months ended September 28, 2008 and September 30, 2007 is as follows:

| | Semiconductor Test | Systems Test Group | Corporate and Eliminations (in thousands) | Consolidated |
|---|-----------------------|--------------------------|--|--------------|
| Three months ended September 28, 2008: | | | | |
| Net sales | \$ 242,500 | \$ 54,755 | \$ | \$ 297,255 |
| Loss from continuing operations before taxes(1)(2) | (11,671) | (2,452) | (6,264) | (20,387) |
| Three months ended September 30, 2007: | | | | |
| Net sales | \$ 243,470 | \$ 55,991 | \$ | \$ 299,461 |
| Income from continuing operations before taxes(1)(2) | 24,507 | 3,623 | 11,785 | 39,915 |
| Nine months ended September 28, 2008: | | | | |
| Net sales | \$ 753,751 | \$ 158,524 | \$ | \$ 912,275 |
| Income (loss) from continuing operations before taxes(1)(2) | 11,871 | (9,059) | 447 | 3,259 |
| Nine months ended September 30, 2007: | | | | |
| Net sales | \$ 668,118 | \$ 173,746 | \$ | \$ 841,864 |
| Income from continuing operations before taxes(1)(2) | 18,119 | 13,075 | 33,092 | 64,286 |

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

(2) Included in the income from continuing operations before taxes for each of the segments for the three and nine months ended September 28, 2008 and September 30, 2007 are charges that include restructuring and other, net, in-process research and development and inventory charges, as follows:

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

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|---------------------------------------|----------------------------|--------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Cost of revenues inventory charges(1) | \$ 20,190 | \$ 138 | \$ 22,229 | \$ 492 |
| Restructuring and other, net | 23,772 | (830) | 42,805 | 1,742 |
| In-process research and development | | | 1,100 | 16,700 |
| Total | \$ 43,962 | \$ (692) | \$ 66,134 | \$ 18,934 |

(1) Included in the cost of revenues for the three and nine months ended September 28, 2008 are charges for excess inventory provision recorded as a result of the significant decrease in forecasted semiconductor demand coupled with a product transition.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|------------------------------------|----------------------------|--------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Cost of revenues inventory charges | \$ 1,525 | \$ 279 | \$ 2,740 | \$ 987 |
| Restructuring and other, net | 4,266 | 1,351 | 9,011 | 1,055 |
| Total | \$ 5,791 | \$ 1,630 | \$ 11,751 | \$ 2,042 |

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|------------------------------|----------------------------|--------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (in thousands) | | | |
| Restructuring and other, net | \$ 551 | \$ (3,640) | \$ 1,284 | \$ (3,101) |
| Total | \$ 551 | \$ (3,640) | \$ 1,284 | \$ (3,101) |

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

We have identified the policies which are critical to understanding our business and our results of operations. Management believes that there have been no significant changes during the nine months ended September 28, 2008 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|--------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| Percentage of total net revenues: | | | | |
| Products | 77% | 80% | 78% | 79% |
| Services | 23 | 20 | 22 | 21 |
| Total net revenues | 100 | 100 | 100 | 100 |
| Cost of revenues: | | | | |
| Cost of products | 44 | 39 | 41 | 39 |
| Cost of services | 13 | 13 | 13 | 14 |
| Total cost of revenues | 57 | 52 | 54 | 53 |
| Gross profit | 43 | 48 | 46 | 47 |
| Operating expenses: | | | | |
| Engineering and development | 18 | 17 | 18 | 18 |
| Selling and administrative | 20 | 21 | 21 | 22 |
| Acquired intangible asset amortization | 2 | | 1 | 1 |
| In-process research and development | | | | 2 |
| Restructuring and other, net | 9 | (1) | 6 | |
| Operating expenses | 49 | 37 | 46 | 43 |
| (Loss) income from operations | (6) | 11 | | 4 |
| Interest & Other | (1) | 2 | | 3 |
| (Loss) income from continuing operations before income taxes | (7) | 13 | | 7 |
| Provision for income taxes | 1 | 1 | 1 | 1 |
| (Loss) income from continuing operations | (8) | 12 | (1) | 6 |
| Income from discontinued operations before income taxes | | 2 | | 1 |
| Provision for income taxes | | | | |
| Income from discontinued operations | | 2 | | 1 |

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| | | | | |
|--|------|-----|------|-----|
| Net (loss) income | (8)% | 14% | (1)% | 7% |
| Provision for income taxes as a percentage of (loss) income from continuing operations before income taxes | 15% | 12% | 407% | 15% |

Table of Contents**Third Quarter 2008 Compared to Third Quarter 2007****Bookings**

Net bookings for our two reportable segments were as follows:

| | For the Three Months Ended | | Dollar Change |
|--------------------|----------------------------|-------------------------------------|---------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Semiconductor Test | \$ 151.8 | \$ 217.2 | \$ (65.4) |
| Systems Test Group | 46.3 | 56.1 | (9.8) |
| | \$ 198.1 | \$ 273.3 | \$ (75.2) |

Semiconductor Test orders decreased 30% or \$65.4 million from the third quarter of 2007 to 2008 due primarily to lower demand from our Outsourced Semiconductor Assembly and Test (OSAT) customers in the third quarter of 2008. Nextest contributed \$13.7 million of bookings in the third quarter of 2008.

Systems Test Group orders decreased 17% or \$9.8 million from the third quarter of 2007 to 2008 due primarily to lower Mil/Aero board test program-related bookings.

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the third quarter of 2008 and 2007, there were no significant cancellations penalties received. Due to possible changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules and/or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations.

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

| | For the Three Months Ended | |
|-----------------|----------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 |
| United States | 32% | 22% |
| South East Asia | 21 | 19 |
| Japan | 14 | 9 |
| Europe | 13 | 11 |
| Singapore | 9 | 14 |
| Taiwan | 7 | 15 |
| Korea | 3 | 9 |
| Rest of World | 1 | 1 |
| | 100% | 100% |

Backlog of unfilled orders for our two reportable segments was as follows:

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| | For the Three Months Ended | |
|--------------------|----------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 |
| | (in millions) | |
| Semiconductor Test | \$ 179.8 | \$ 224.5 |
| Systems Test Group | 84.9 | 93.0 |
| | \$ 264.7 | \$ 317.5 |

Table of Contents*Revenue*

Net revenues for our two reportable segments were as follows:

| | For the Three Months Ended | | Dollar Change |
|--------------------|----------------------------|-------------------------------------|---------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Semiconductor Test | \$ 242.5 | \$ 243.5 | \$ (1.0) |
| Systems Test Group | 54.8 | 56.0 | (1.2) |
| | \$ 297.3 | \$ 299.5 | \$ (2.2) |

Semiconductor Test revenue decreased \$1.0 million from the third quarter of 2007 to the third quarter of 2008. The Nextest acquisition added \$19.4 million of sales in third quarter of 2008; Semiconductor Test sales were lower due to decreased demand.

The decrease in Systems Test Group revenue of \$1.2 million or 2% was primarily due to lower Mil/Aero board test program-related sales.

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

| | For the Three Months Ended | |
|-------------------|----------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 |
| United States | 23% | 19% |
| Taiwan | 19 | 11 |
| South East Asia | 19 | 17 |
| Singapore | 14 | 15 |
| Japan | 9 | 11 |
| Europe | 8 | 13 |
| Korea | 6 | 12 |
| Rest of the World | 2 | 2 |
| | 100% | 100% |

Gross Profit

Our gross profit was as follows:

| | For the Three Months Ended | | Dollar/Point Change |
|--------------------------|----------------------------|-------------------------------------|---------------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Gross Profit | \$ 127.9 | \$ 144.2 | \$ (16.3) |
| Percent of Total Revenue | 43.0% | 48.2% | (5.2) |

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Gross profit as a percentage of revenue decreased from the third quarter of 2007 to the third quarter of 2008 by 5.2 percentage points. A decrease of 7.2 points was due to a \$21.3 million increase in provision for excess inventory recorded as a result of the significant decrease in forecasted semiconductor demand coupled with a product transition; this decrease was partially offset by improved service margins in our Semiconductor Test group.

We assess the carrying value of our inventory on a quarterly basis by estimating future demand and comparing that demand against on-hand and on-order inventory provisions. Forecasted revenue information is

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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.

The provision for excess and obsolete inventory included in cost of revenues was \$21.7 million and \$0.4 million for the three months ended September 28, 2008 and September 30, 2007, respectively. During the three months ended September 28, 2008 and September 30, 2007, we scrapped \$2.6 million and \$3.0 million of inventory, respectively, and sold \$0.2 million and \$0.0 million of previously written-down or written-off inventory, respectively. As of September 28, 2008, we have inventory related reserves for amounts which had been written-down or written-off totaling \$119.7 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

| | For the Three Months Ended | | Dollar Change |
|-----------------------------|----------------------------|-------------------------------------|---------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Engineering and Development | \$ 53.0 | \$ 52.2 | \$ 0.8 |
| Percent of Total Revenue | 17.8% | 17.4% | |

The increase of \$0.8 million in engineering and development expenses is primarily due to an increase in spending related to investments in adjacent markets and the acquisition of Nextest, partially offset by lower variable compensation and a decrease in Semiconductor Test spending.

Selling and Administrative

Selling and administrative expenses were as follows:

| | For the Three Months Ended | | Dollar Change |
|----------------------------|----------------------------|-------------------------------------|---------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Selling and Administrative | \$ 58.6 | \$ 62.2 | \$ (3.6) |
| Percent of Total Revenue | 19.7% | 20.8% | |

The decrease of \$3.6 million from the third quarter of 2007 to 2008 is primarily due to lower variable compensation of \$7.1 million and lower general and administrative expenses and facilities costs of \$1.8 million, partially offset by an increase due to the acquisition of Nextest.

Restructuring and Other, Net

The tables below represent activity related to restructuring and other, net, in the three months ended September 28, 2008. The accrual for severance payments and employee benefits is reflected in accrued employee compensation and withholdings, and is expected to be paid by the end of the first quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid over the lease terms, the latest of which expires in 2012. We expect to pay approximately \$3.1 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$8.3 million as of September 28, 2008.

Table of Contents**2008 Activities**

| (in thousands) | Loss on Sale of Real Estate | Facility Related | Severance and Benefits | Total |
|------------------------------------|--------------------------------|---------------------|------------------------------|----------|
| Balance at June 29, 2008 | \$ | \$ 776 | \$ 4,127 | \$ 4,903 |
| Charges | 22,565 | 3,404 | 2,620 | 28,589 |
| Cash payments | | (303) | (3,894) | (4,197) |
| Accelerated depreciation and other | (22,565) | (2,991) | | (25,556) |
| Balance at September 28, 2008 | \$ | \$ 886 | \$ 2,853 | \$ 3,739 |

During the three months ended September 28, 2008, we recorded the following restructuring activities:

\$22.6 million loss on the sale of real estate across both segments for a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$3.0 million of facility charges across both segments related to accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of manufacturing to an outsourced partner;

\$2.6 million of severance charges across all functions and segments related to headcount reductions of approximately 30 people; and

\$0.3 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK.

The restructuring actions taken during the three months ended September 28, 2008, are expected to generate quarterly cost savings of approximately \$1.8 million.

2007 Activities

| (in thousands) | Severance and Benefits |
|-------------------------------|---------------------------|
| Balance at June 29, 2008 | \$ 358 |
| Charges | |
| Cash payments | (270) |
| Balance at September 28, 2008 | \$ 88 |

Pre-2007 Activities

| (in thousands) | Facility Related | Severance and Benefits | Total |
|--------------------------|---------------------|------------------------------|----------|
| Balance at June 29, 2008 | \$ 9,583 | \$ 56 | \$ 9,639 |

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| | | | | |
|-------------------------------|----------|----|----|----------|
| Charges | | | | |
| Cash payments | (551) | | | (551) |
| Balance at September 28, 2008 | \$ 9,032 | \$ | 56 | \$ 9,088 |

Table of Contents*Interest Income and Other, net*

Interest income decreased by \$5.1 million from \$7.8 million in the third quarter of 2007 to \$2.7 million in the third quarter of 2008, due primarily to lower cash balances as a result of the acquisition of Nextest and stock repurchase activity. In the quarter ended September 28, 2008, Interest Expense and Other included an \$8.5 million other-than-temporary impairment of marketable securities, \$2.8 million gain on sale of an equity investment, \$1.4 million gain on life insurance and a \$1.2 million charge for acquisition financing fees.

Income Taxes

The tax expense of \$3.1 million and \$4.7 million for the third quarter of 2008 and 2007, respectively, consists primarily of foreign taxes. The effective tax rate of 15% for the third quarter of 2008 was caused by temporary differences that do not result in a tax benefit due to the valuation allowance. As a result of incurring significant operating losses from 2001 through 2003, we determined that it is more likely than not that our deferred tax assets in the U.S. may not be realized, and since the fourth quarter of 2002 we have established a full valuation allowance for these net deferred tax assets. If we generate sustained future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance would be reversed. If the valuation allowance was reversed, a portion would be recorded as an increase to additional paid in capital, and the remainder would be recorded as a reduction to income tax expense.

*Nine Months of 2008 Compared to Nine Months of 2007**Bookings*

Net bookings for our two reportable segments were as follows:

| | For the Nine Months Ended | | Dollar Change |
|-----------------------|------------------------------|--|------------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Semiconductor Test(1) | \$ 676.2 | \$ 679.2 | \$ (3.0) |
| Systems Test Group | 141.2 | 146.7 | (5.5) |
| | \$ 817.4 | \$ 825.9 | \$ (8.5) |

(1) Includes Nextest bookings from January 24, 2008 through September 28, 2008.

Semiconductor Test orders decreased \$3.0 million from the first nine months of 2007 to the first nine months of 2008 due primarily to lower demand from our OSAT and Integrated Device Manufacturer (IDM) customers in the first nine months of 2008, this was partially offset by an increase due to the acquisition of Nextest.

Systems Test Group decrease in orders of \$5.5 million or 4% was primarily due to a decrease in orders in our Diagnostic Solutions business unit.

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. In the first nine months of 2008 and 2007, there were no significant cancellations penalties received. Due to possible changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules and/or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations.

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

| | For the Nine Months Ended | |
|-------------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 |
| United States | 23% | 20% |
| Taiwan | 19 | 17 |
| South East Asia | 18 | 16 |
| Singapore | 11 | 15 |
| Japan | 11 | 11 |
| Europe | 10 | 11 |
| Korea | 7 | 9 |
| Rest of the World | 1 | 1 |
| | 100% | 100% |

Revenue

Net revenues for our two reportable segments were as follows:

| | For the Nine Months Ended | | Dollar Change |
|--------------------|---------------------------|--------------------|---------------|
| | September 28, 2008 | September 30, 2007 | |
| | | (in millions) | |
| Semiconductor Test | \$ 753.8 | \$ 668.2 | \$ 85.6 |
| Systems Test Group | 158.5 | 173.7 | (15.2) |
| | \$ 912.3 | \$ 841.9 | \$ 70.4 |

Semiconductor Test revenue increased \$85.6 million or 13% from the first nine months of 2007 to the first nine months of 2008 primarily due to \$61.6 million of sales from our Nextest acquisition, and an increase in service revenue.

The decrease in Systems Test Group revenue of \$15.2 million or 9% was spread across all Systems Test Group business units.

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

| | For the Nine Months Ended | |
|-----------------|---------------------------|--------------------|
| | September 28, 2008 | September 30, 2007 |
| United States | 21% | 23% |
| Taiwan | 20 | 12 |
| South East Asia | 19 | 15 |
| Singapore | 11 | 16 |
| Japan | 10 | 12 |
| Europe | 9 | 12 |
| Korea | 7 | 8 |

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| | | |
|-------------------|------|------|
| Rest of the World | 3 | 2 |
| | 100% | 100% |

Table of Contents*Gross Profit*

Our gross profit was as follows:

| | For the Nine Months Ended | | Dollar/ Point Change |
|--------------------------|------------------------------|--|----------------------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Gross Profit | \$ 420.3 | \$ 394.9 | \$ 25.4 |
| Percent of Total Revenue | 46.1% | 46.9% | (0.8) |

Gross margins as a percentage of revenue decreased from the first nine months of 2007 to the first nine months of 2008 by 0.8 percentage points. A decrease of 2.6 points was due to a \$23.5 million increase in provision for excess inventory recorded as a result of the significant decrease in forecasted semiconductor demand coupled with a product transition; this decrease was partially offset by improved service margins in our Semiconductor Test group.

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

The provisions for excess and obsolete inventory included in cost of revenues were \$25.0 million and \$1.5 million for the nine months ended September 28, 2008 and September 30, 2007, respectively. During the nine months ended September 28, 2008 and September 30, 2007, we scrapped \$12.7 million and \$12.8 million of inventory, respectively, and sold \$1.5 million and \$0.6 million of previously written-down or written-off inventory, respectively. As of September 28, 2008, we have inventory related reserves for amounts which had been written-down or written-off of \$119.7 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 |
|-----------------------------|------------------------------|--|------------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Engineering and Development | \$ 164.3 | \$ 153.9 | \$ 10.4 |
| Percent of Total Revenue | 18.0% | 18.3% | |

The increase of \$10.4 million in engineering and development expenses is primarily due to an increase in spending related to investments in adjacent markets and the acquisition of Nextest, partially offset by lower variable compensation and a decrease in Semiconductor Test spending.

Table of Contents*Selling and Administrative*

Selling and administrative expenses were as follows:

| | For the Nine Months Ended | | Dollar Change |
|----------------------------|------------------------------|--|------------------|
| | September 28, 2008 | September 30, 2007 (in millions) | |
| Selling and Administrative | \$ 189.3 | \$ 187.3 | \$ 2.0 |
| Percent of Total Revenue | 20.8% | 22.2% | |

The increase of \$2.0 million from the first nine months of 2007 to the first nine months of 2008 is primarily due to the acquisition of Nextest, partially offset by \$7.3 million of lower variable compensation and \$3.5 million of lower general and administrative expenses and facilities costs.

Restructuring and Other, Net

The tables below represent activity related to restructuring and other, net, in the nine months ended September 28, 2008. The accrual for severance payments and employee benefits is reflected in accrued employee compensation and withholdings and is expected to be paid by the end of the first quarter of 2009. The accrual for lease payments on vacated facilities is reflected in other accrued liabilities and other long-term accrued liabilities and is expected to be paid out over the lease terms, the latest of which expires in 2012. We expect to pay out approximately \$3.1 million against the lease accruals over the next twelve months. Our future lease commitments are net of expected sublease income of \$8.3 million as of September 28, 2008.

2008 Activities

| (in thousands) | Loss on Sale of Real Estate | Facility Related | Severance and Benefits | Long-Lived Asset Impairment | Total |
|------------------------------------|-----------------------------------|---------------------|------------------------------|-----------------------------------|----------|
| Balance at December 31, 2007 | \$ | \$ | \$ | \$ | \$ |
| Charges | 20,883 | 13,748 | 15,569 | 550 | 50,750 |
| Cash payments | | (896) | (12,716) | | (13,612) |
| Accelerated depreciation and other | (20,883) | (11,966) | | (550) | (33,399) |
| Balance at September 28, 2008 | \$ | \$ 886 | \$ 2,853 | \$ | \$ 3,739 |

During the nine months ended September 28, 2008, we recorded the following restructuring activities:

\$22.6 million loss on the sale of real estate across both segments for a manufacturing facility in North Reading, MA as a result of the transfer of this activity to an outsourced partner;

\$15.6 million of severance charges across all functions and segments related to headcount reductions of approximately 300 people;

\$12.0 million of facility charges across both segments related to the accelerated depreciation of a manufacturing facility in North Reading, MA as a result of the transfer of this activity to an outsourced partner;

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\$1.7 million gain on the sale of real estate in our Semiconductor Test segment for a facility in Agoura Hills, CA;

\$0.7 million of facility charges across both segments related to the early exit of a facility in Bracknell, UK;

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\$0.7 million of facility charges in our Semiconductor Test segment related to the early exit of a facility in Ontario, Canada; and

\$0.6 million charge in our Semiconductor Test segment for a long-lived asset impairment related to acquired intangible assets. The restructuring actions taken during the nine months ended September 28, 2008, are expected to generate quarterly cost savings of approximately \$8.1 million.

2007 Activities

| (in thousands) | Severance and Benefits |
|-------------------------------|------------------------------|
| Balance at December 31, 2007 | \$ 1,108 |
| Credits | (194) |
| Cash payments | (826) |
| Balance at September 28, 2008 | \$ 88 |

Pre-2007 Activities

| (in thousands) | Facility Related | Severance and Benefits | Total |
|-------------------------------|---------------------|------------------------------|----------|
| Balance at December 31, 2007 | \$ 7,802 | \$ 250 | \$ 8,052 |
| Charges/ (Credits) | 2,676 | (132) | 2,544 |
| Cash payments | (1,446) | (62) | (1,508) |
| Balance at September 28, 2008 | \$ 9,032 | \$ 56 | \$ 9,088 |

During the nine months ended September 28, 2008, we recorded the following adjustment to our pre-2007 restructuring activities:

\$2.7 million facility related charge in our Systems Test Group segment for changes in the estimated amount and timing of sublease income on a facility in Westford, MA.

In-process Research and Development

On January 24, 2008, we completed our acquisition of Nextest for the total purchase price of \$402.4 million. Of the purchase price, \$1.1 million has been allocated to in-process research and development and therefore has been immediately charged to the statement of operations.

On March 7, 2007, we purchased in-process enabling test technology and hired certain engineers from MOSAID for \$17.6 million, which included \$0.6 million in fees directly related to the acquisition. Of the purchase price, \$16.7 million was allocated to in-process research and development and therefore was immediately charged to the statement of operations. The balance of the purchase price was allocated to acquired workforce and fixed assets. In the nine months ended September 28, 2008, we recorded an impairment charge of \$0.6 million to write-off the acquired workforce asset.

Interest Income and Other, net

Interest income decreased by \$16.9 million from \$27.2 million in the first nine months of 2007 to \$10.3 million in the first nine months of 2008, due primarily to lower cash balances as a result of the acquisition of Nextest and stock repurchase activity. For the quarter and nine months ended September 28, 2008, Interest

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Expense and Other included an \$8.5 million other-than-temporary impairment of marketable securities, \$2.8 million gain on sale of an equity investment, \$1.4 million gain on life insurance and a \$1.2 million charge for acquisition financing fees. For the nine months ended September 30, 2007, Interest and Other, net included a \$1.8 million gain for the recognition of fair value of an asset related to an equity investment.

Income Taxes

The tax expense of \$13.3 million and \$9.6 million for the first nine months of 2008 and 2007, respectively, consists primarily of foreign taxes. The year to date effective tax rate of 407% was caused by temporary differences that do not result in a tax benefit due to the valuation allowance. As a result of incurring significant operating losses from 2001 through 2003, we determined that it is more likely than not that our deferred tax assets may not be realized, and since the fourth quarter of 2002 we have established a full valuation allowance for our net deferred tax assets. If we generate sustained future taxable income against which these tax attributes may be applied, some portion or all of the valuation allowance will be reversed. If the valuation allowance was reversed, a portion would be recorded as an increase to additional paid in capital, and the remainder would be recorded as a reduction to income tax expense.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance decreased \$275.0 million in the first nine months of 2008, to \$468.0 million. Cash and cash equivalents activity for the first nine months of 2008 and 2007 were as follows:

| | For the Nine Months Ended | |
|--|--------------------------------------|-------------------------------|
| | September 28, 2008 | September 30, 2007 |
| | (in millions) | |
| Cash provided by operating activities: | | |
| Net income from continuing operations, adjusted for non-cash items | \$ 133.8 | \$ 140.2 |
| Changes in operating assets and liabilities, net of businesses and product lines acquired and sold | (14.9) | (96.8) |
| Cash provided by (used for) discontinued operations | 0.8 | (3.1) |
| Total cash provided by operating activities | 119.7 | 40.3 |
| Cash used for investing activities from continuing operations | (314.6) | (9.3) |
| Cash provided by investing activities from discontinued operations | | 10.8 |
| Total cash (used for) provided by investing activities | (314.6) | 1.5 |
| Total cash used for financing activities | (74.9) | (180.7) |
| | | |
| Decrease in cash and cash equivalents | \$ (269.8) | \$ (138.9) |

Changes in operating assets and liabilities, net of product lines and businesses sold and acquired, used cash of \$14.9 million in the first nine months of 2008 due primarily to an increase in other assets of \$18.5 million, an increase in inventories of \$4.6 million, retirement plan contributions of \$5.3 million, and a decrease in income taxes payable of \$4.7 million. These decreases in cash were offset by a decrease in accounts receivable of \$23.1 million due to a decrease in days sales outstanding from 66 days as of December 31, 2007 to 60 days as of September 28, 2008 as a result of improved collections. Changes in operating assets and liabilities used cash of \$96.8 million in the first nine months of 2007 due primarily to an increase in accounts receivable of \$75.9 million and a decrease in income taxes payable of \$30.8 million for taxes paid primarily in foreign jurisdictions.

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Accounts receivable increased \$75.9 million, primarily in the Semiconductor Test segment, partially due to increased volume since the end of the year and partially due to an increase in days sales outstanding from 65 days as of December 31, 2006 to 71 days as of September 30, 2007 due to an increase in extended payment terms to certain customers which are generally secured by bank letters of credit. Inventory decreased \$26.7 million in the first nine months of 2007 primarily in our Semiconductor Test and to a lesser extent in the Systems Test Group.

Investing activities consist of purchases, sales and maturities of marketable securities, proceeds from asset disposals, cash paid for assets and purchases of capital assets and businesses. Investing activities used cash of \$314.6 million in the first nine months of 2008, primarily due to \$285.3 million of cash used for the acquisition of Nextest, net of cash acquired. Investing activities used cash of \$9.3 million in the first 9 months of 2007, partially due to the acquisition of technology for \$17.6 million in the first quarter of 2007.

Financing activities include issuance of our common stock and repurchases of our common stock. During the nine months ended September 28, 2008, we repurchased 7.5 million shares of common stock for \$91.2 million at an average price of \$12.20. During the nine months ended September 30, 2007, we repurchased 13.1 million shares of our common stock for \$203.6 million at an average price of \$15.52 per share.

We operate in a highly cyclical industry and we may experience, with relatively short notice, significant fluctuations in demand for our products. This could result in a material effect on our liquidity position. We believe that our cash, cash equivalents and marketable securities balance of \$468.0 million and funds available under financing arrangements will be sufficient to meet our cash requirements for at least the foreseeable future. However, if financing is necessary, there can be no assurance that such capital will be available or that the terms will be acceptable to us. Inflation has not had a significant long-term impact on earnings.

Equity Compensation Plans

Discussed in Note O: Stock Based Compensation in our 2007 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan), a cash and equity compensation incentive plan.

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

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations. (SFAS No. 141(R)) This Statement replaces FASB Statement No. 141, Business Combinations. SFAS No. 141(R) establishes new principles and requirements for how an acquiring company 1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, 2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations occurring in the fiscal year beginning on or after December 15, 2008. We are currently evaluating the impact of adopting this standard.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), an amendment of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 expands the current disclosure

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requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, such that entities must now provide enhanced disclosures on a quarterly basis regarding how and why the entity uses derivatives; how derivatives and related hedged items are accounted for under SFAS No. 133 and how derivatives and related hedged items affect the entity's financial position, performance and cash flow. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. We will adopt SFAS No. 161 in fiscal year 2009.

In April 2008 the FASB issued Staff Position No.142-3 (FSP No. 142-3), *Determination of the Useful Life of Intangible Assets*. This FSP amends the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, about estimating useful lives of recognized intangible assets and requires additional disclosures related to renewing or extending the terms of recognized intangible asset. In estimating the useful life of a recognized intangible asset, the FSP requires companies to consider their historical experience in renewing or extending similar arrangements together with the asset's intended use, regardless of whether the arrangements have explicit renewal or extension provisions. The FSP is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets.

On October 10, 2008, the FASB issued FSP FAS No. 157-3, *Fair Value Measurements* (FSP FAS 157-3), which clarifies the application of SFAS No. 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. We currently do not have any financial assets with an inactive market.

Certain Factors That May Affect Future Results

From time to time, information we provide, statements made by our employees or information included in our filings with the SEC (including this Form 10-Q) contain statements that are not purely historical, but are forward looking statements, made under Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which involve risks and uncertainties. In particular, forward looking statements made herein include projections, plans and objectives for our business, financial condition, operating results, future operations, or future economic performance, statements relating to the sufficiency of capital to meet working capital requirements, capital expenditures, including future lease payments and commitments and contributions to our pension plan, expectations as to customer orders and demand for our products and statements relating to backlog, bookings and cancellations, gross margins and pricing considerations. These statements are neither promises nor guarantees but involve risks and uncertainties, both known and unknown, which could cause our actual future results to differ materially from those stated in any forward looking statements. Factors that may cause such differences include, but are not limited to the following:

demand for our products is and may continue to be affected by conditions affecting the markets in which we operate including uncertainties related to the global economy in general;

our access to credit is affected by the continued volatility and further deterioration in the financial markets, including uncertainties and disruptions in credit markets and the availability of credit;

we may not realize the benefits of recent and future acquisitions, and strategic alliances, such as Nextest Systems Corporation and (once acquired) Eagle Test Systems;

the planned acquisition of Eagle Test Systems may not be consummated;

we are subject to intense competition;

our business is dependent on the current and anticipated market for electronics, which historically has been highly cyclical;

our operating results are likely to fluctuate significantly;

we are subject to risks of operating internationally;

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if we fail to develop new technologies to adapt to our customers' needs, if we delay new product introductions, and if our customers fail to accept our new products, our revenues will be adversely affected;

if our suppliers do not meet product or delivery requirements, we could have reduced revenues and earnings;

our operations may be adversely impacted if our outsourced service providers fail to perform;

we may incur higher tax rates than expected;

we have taken measures to ensure that we are prepared to address slowdowns in the market for our products, which could have long-term negative effects on our business or impact our ability to adequately address a rapid increase in customer demand;

we may incur significant liabilities if we fail to comply with environmental regulations;

we currently are and in the future may be subject to litigation that could have an adverse effect on our business;

we have significant guarantees and indemnification obligations;

if we are unable to protect our intellectual property, we may lose a valuable asset or may incur costly litigation to protect our rights;

our business may suffer if we are unable to attract and retain key employees;

our business is impacted by worldwide economic cycles, which are difficult to predict;

acts of war, terrorist attacks and the threat of domestic and international terrorist attacks may adversely impact our business; and

provisions of our charter and by-laws and Massachusetts law make a takeover of Teradyne more difficult.

These factors, and others, are discussed from time to time in our filings with the SEC, including our Annual Report on Form 10-K filed with the SEC on February 28, 2008 for the year ended December 31, 2007 and at Item 1A of this Quarterly Report on Form 10-Q.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a. Quantitative and Qualitative Disclosures About Market Risks, in our Annual Report on Form 10-K filed with the SEC on February 28, 2008. 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, 2007.

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.

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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

On July 11, 2008, Xyratex Technology, Ltd (Xyratex) filed a complaint against Teradyne in the United States Federal District Court in Los Angeles, California alleging that certain Teradyne disk drive test products infringe one of Xyratex 's patents. The complaint was served on Teradyne on October 29, 2008. The suit seeks temporary, preliminary and permanent injunctive relief as well as unspecified monetary damages, including treble damages, for patent infringement.

On September 5, 2001, after our August 2000 acquisition of Herco Technology Corp. and Perception Laminates, Inc., the former owners of those companies filed a complaint against Teradyne and two of our then executive officers in the Federal District Court in San Diego, California, asserting securities fraud and breach of contract related to the acquisition. The District Court dismissed certain of the plaintiffs ' claims, granted partial summary judgment against them with respect to their breach of contract claim and denied their motion for reconsideration. In July 2007, after an appeal by the plaintiffs, the U.S. Court of Appeals for the Ninth Circuit affirmed in part and reversed in part the District Court rulings. We petitioned the Ninth Circuit for rehearing and remanded the case back to the District Court. On August 29, 2008, the District Court granted Teradyne 's motion for judgment on the pleadings. On September 11, 2008, the plaintiffs filed their notice of appeal.

In 2001, we were designated as a Potentially Responsible Party (PRP) at a clean-up site in Los Angeles, California. This claim arose out of our acquisition of Perception Laminates in August 2000. Prior to that date, Perception Laminates had itself acquired certain assets of Alco Industries Inc. under an asset purchase agreement in 1992. Neither Teradyne nor Perception Laminates have ever conducted any operations at the Los Angeles site. We have asked the State of California to drop the PRP designation, but California has not yet agreed to do so.

We believe that we have meritorious defenses against the above unsettled claims and intend to vigorously contest them. While it is not possible to predict or determine the outcomes of the unsettled claims or to provide possible ranges of losses that may arise, we believe the potential losses associated with all of these actions are unlikely to have a material adverse effect on our consolidated financial position, but could possibly be material to our consolidated results of operations of any one period.

In addition, we are subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. Although there can be no assurance, there are no such matters pending that we expect to be material with respect to our business, financial position or results of operations.

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, 2007, which could materially affect our business, financial condition or future results. The risk factors set forth in our Annual Report on Form 10-K remain applicable to our business, with the addition of the new risk factors set forth below.

The risks described below and 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.

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Our business is impacted by worldwide economic cycles, which are difficult to predict.

Capital equipment providers in the electronics and semiconductor industries, such as Teradyne, have, in the past, been negatively impacted by sudden slowdowns in the global economies, and resulting reductions in customer capital investments. The duration of slowdowns in global economies and reductions in customer capital investments, which may adversely impact our business, are difficult to predict.

The global financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken historic actions intended to address extreme market conditions that include severely restricted credit. There may be a further deterioration in financial markets and confidence in major economies. These economic developments affect businesses such as ours and those of our customers and vendors in a number of ways that could result in unfavorable consequences to us. Any decline in economic conditions may reduce customer purchases of our products, thereby reducing our revenues and earnings. Although we are taking actions to address the effects of the current economic crisis, including implementing cost control and reduction measures, we cannot predict whether these will be sufficient to offset certain of the negative trends that might affect our business. We are unable to predict the likely duration and severity of the current disruption in financial markets, credit availability and adverse economic conditions throughout the world.

We may not be able to realize the benefits of our acquisitions.

In January 2008, we acquired Nextest Systems Corporation. On September 1, 2008, we entered into an Agreement and Plan of Merger to acquire Eagle Test Systems, Inc. We may not be able to realize the synergies and cost savings from the integration of Nextest Systems Corporation and (once acquired) Eagle Test Systems, Inc. with our existing operations and company culture. Integration and other risks associated with business combinations can be more pronounced for larger and more complicated transactions such as our recently completed acquisition of Nextest Systems Corporation and our pending acquisition of Eagle Test Systems, Inc. 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. We cannot assure you that, following an acquisition, we will 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) that adversely affect our operating results. Additionally we may fund acquisitions by utilizing our cash, raising debt, issuing shares of our common stock, or by other means. In the case of our pending acquisition of Eagle Test Systems, Inc. we expect to obtain financing for a portion of the acquisition. However, there can be no assurance that such financing will be available or that the terms will be acceptable to us. Using our own cash or incurring debt to finance an acquisition may prevent us from pursuing other business opportunities.

We may need additional financing, which could be difficult to obtain.

We expect that our cash, cash equivalents and marketable securities balance of \$468 million and funds available under financing arrangements will be sufficient to meet our cash requirements for the foreseeable future. However, if financing is necessary, we cannot be certain that we will be able to obtain such financing or that the terms will be acceptable to us. Further, if we issue convertible debt securities, stockholders may experience additional dilution. In addition, financings may place restrictions on how we operate our business. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products and services, take advantage of future opportunities, grow our business or respond to competitive pressures, which could adversely harm our business.

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Third parties may claim we are infringing their intellectual property and we could suffer significant litigation costs, licensing expenses or be prevented from selling our products.

We receive notifications from time to time that we may be in violation of patents held by others. Recently we were served with patent infringement litigation from Xyratex Technology Ltd (Xyratex). The Xyratex matter is further described in Item 1: Legal Proceedings. An assertion of patent infringement against us such as the Xyratex suit, if successful, could have a material adverse effect on our ability to sell certain products or it could force us to seek a license to the intellectual property rights of others or alter such products so that they no longer infringe the intellectual property rights of others. A license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. Additionally, patent litigation, such as the Xyratex suit, could require a significant use of management resources and involve a lengthy and expensive defense, even if we eventually prevail. If we do not prevail, we might be forced to pay significant damages, obtain licenses, modify our products, or stop making our products; each of which could have a material adverse affect on our financial condition and operating results.

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

In November 2007, our Board of Directors authorized a stock repurchase program. Under the program, we are permitted to spend an aggregate of \$400 million to repurchase shares of our common stock in open market repurchases, in privately negotiated transactions or through other appropriate means. During the three months ended September 28, 2008, we did not repurchase any shares. The cumulative repurchases as of September 28, 2008 total 8.5 million shares of common stock for \$102.6 million at an average price of \$12.14.

Item 6: Exhibits

| Exhibit Number | Description |
|-----------------------|--|
| 10.1 | 2006 Equity and Cash Compensation Incentive Plan, as amended * (filed herewith) |
| 10.2 | Deferral Plan for Non-Employee Directors, as amended * (filed herewith) |
| 31.1 | Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |

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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 7, 2008