



# **FORM 10-Q**

**TERADYNE, INC - TER**

**Filed: November 07, 2008 (period: September 28, 2008)**

Quarterly report which provides a continuing view of a company's financial position

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## [PART I](#)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended 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

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**TERADYNE, INC.**

(Exact name of registrant as specified in its charter)

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Massachusetts  
(State or Other Jurisdiction of  
Incorporation or Organization)

04-2272148  
(I.R.S. Employer  
Identification No.)

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

01864  
(Zip Code)

978-370-2700  
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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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PART I

Item 1: Financial Statements

TERADYNE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 28, 2008	December 31, 2007
(in thousands)		
<b>ASSETS</b>		
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	<u>\$ 1,560,599</u>	<u>\$ 1,555,288</u>
<b>LIABILITIES</b>		
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
Total liabilities	<u>373,067</u>	<u>326,114</u>
Commitments and contingencies (Note N)		
<b>SHAREHOLDERS' EQUITY</b>		
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	<u>1,187,532</u>	<u>1,229,174</u>
Total liabilities and shareholders' equity	<u>\$ 1,560,599</u>	<u>\$ 1,555,288</u>

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.

**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
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.

**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)
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.

**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.

**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.

## 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.

	September 28, 2008			Total
	Level 1	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	<u>\$ 7,881</u>	<u>\$ 167,522</u>	<u>\$ —</u>	<u>\$ 175,403</u>

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.

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.

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

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	<u>\$ (19,893)</u>	<u>\$ 43,752</u>	<u>\$ (7,349)</u>	<u>\$ 70,251</u>

**H. Goodwill and Intangible Assets**

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

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

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	Accumulated Amortization (in thousands)	Net	
	Carrying Amount		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	<u>\$ 127,572</u>	<u>\$ 36,013</u>	<u>\$ 91,559</u>	6.5 years

	December 31, 2007			Weighted Average Useful Life
	Gross	Accumulated Amortization (in thousands)	Net	
	Carrying Amount		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	<u>\$ 28,472</u>	<u>\$ 22,480</u>	<u>\$ 5,992</u>	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

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	<u>\$ (22,689)</u>	<u>\$ 40,989</u>	<u>\$ (9,243)</u>	<u>\$ 61,007</u>
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	<u>—</u>	<u>1,732</u>	<u>—</u>	<u>1,695</u>
Shares used in net (loss) income per common share—diluted	<u>168,769</u>	<u>185,298</u>	<u>171,058</u>	<u>189,222</u>
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
	<u>\$ (0.13)</u>	<u>\$ 0.22</u>	<u>\$ (0.05)</u>	<u>\$ 0.33</u>
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
	<u>\$ (0.13)</u>	<u>\$ 0.22</u>	<u>\$ (0.05)</u>	<u>\$ 0.32</u>

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.

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	<u>\$ —</u>	<u>\$ 886</u>	<u>\$ 2,853</u>	<u>\$ —</u>	<u>\$ 3,739</u>

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

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*2007 Activities*

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

*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	<u>\$ 9,032</u>	<u>\$ 56</u>	<u>\$ 9,088</u>

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 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%

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:

	<u>Amount</u> <u>(in thousands)</u>
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	<u>\$ 402,396</u>

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:

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

## 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	For the Nine Months	
	Ended	Ended	
	September 30, 2007	September 28, 2008	September 30, 2007
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.

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.

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

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:

	<u>Semiconductor Test</u>	<u>Systems Test Group</u>	<u>Corporate and Eliminations</u>	<u>Consolidated</u>
	(in thousands)			
<b>Three months ended September 28, 2008:</b>				
Net sales	\$ 242,500	\$ 54,755	\$ —	\$ 297,255
Loss from continuing operations before taxes(1)(2)	(11,671)	(2,452)	(6,264)	(20,387)
<b>Three months ended September 30, 2007:</b>				
Net sales	\$ 243,470	\$ 55,991	\$ —	\$ 299,461
Income from continuing operations before taxes(1)(2)	24,507	3,623	11,785	39,915
<b>Nine months ended September 28, 2008:</b>				
Net sales	\$ 753,751	\$ 158,524	\$ —	\$ 912,275
Income (loss) from continuing operations before taxes(1)(2)	11,871	(9,059)	447	3,259
<b>Nine months ended September 30, 2007:</b>				
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:

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	<u>\$ 43,962</u>	<u>\$ (692)</u>	<u>\$ 66,134</u>	<u>\$ 18,934</u>

- (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	<u>\$ 5,791</u>	<u>\$ 1,630</u>	<u>\$ 11,751</u>	<u>\$ 2,042</u>

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	<u>\$ 551</u>	<u>\$ (3,640)</u>	<u>\$ 1,284</u>	<u>\$ (3,101)</u>

[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
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%

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### 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	
Semiconductor Test	\$ 151.8	\$ 217.2	\$ (65.4)
Systems Test Group	46.3	56.1	(9.8)
	<u>\$ 198.1</u>	<u>\$ 273.3</u>	<u>\$ (75.2)</u>

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
	<u>100%</u>	<u>100%</u>

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

	For the Three Months Ended	
	September 28, 2008	September 30, 2007
Semiconductor Test	\$ 179.8	\$ 224.5
Systems Test Group	84.9	93.0
	<u>\$ 264.7</u>	<u>\$ 317.5</u>

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### 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)
	<u>\$ 297.3</u>	<u>\$ 299.5</u>	<u>\$ (2.2)</u>

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
	<u>100%</u>	<u>100%</u>

### 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)

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	
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	
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	<u>\$ —</u>	<u>\$ 886</u>	<u>\$ 2,853</u>	<u>\$ 3,739</u>

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	<u>\$ 88</u>

**Pre-2007 Activities**

(in thousands)	Facility Related	Severance and Benefits	Total
Balance at June 29, 2008	\$ 9,583	\$ 56	\$ 9,639
Charges	—	—	—
Cash payments	(551)	—	(551)
Balance at September 28, 2008	<u>\$ 9,032</u>	<u>\$ 56</u>	<u>\$ 9,088</u>

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### *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)
	<u>\$ 817.4</u>	<u>\$ 825.9</u>	<u>\$ (8.5)</u>

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(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
	<u>100%</u>	<u>100%</u>

## 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	<u>158.5</u>	<u>173.7</u>	<u>(15.2)</u>
	<u>\$ 912.3</u>	<u>\$ 841.9</u>	<u>\$ 70.4</u>

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
Rest of the World	3	2
	<u>100%</u>	<u>100%</u>

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### 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.

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### 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;
- \$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	<u>\$ 88</u>

### 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	<u>\$ 9,032</u>	<u>\$ 56</u>	<u>\$ 9,088</u>

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. 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.

## 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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## **Table of Contents**

*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**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
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)

**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

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**Gregory R. Beecher**  
Vice President,  
Chief Financial Officer and Treasurer  
(Duly Authorized Officer  
and Principal Financial Officer)

November 7, 2008

## TERADYNE, INC.

## 2006 EQUITY AND CASH COMPENSATION INCENTIVE PLAN

(as amended through November 4, 2008)

**1. Purpose and Eligibility.**

The purpose of this 2006 Equity and Cash Compensation Incentive Plan (the “*Plan*”) of Teradyne, Inc. is to provide equity ownership and compensation opportunities in the Company (each an “*Award*”) to employees, officers, directors, consultants and advisors of the Company and its Subsidiaries, all of whom are eligible to receive Awards under the Plan. Any person to whom an Award has been granted under the Plan is called a “*Participant*.” Additional definitions are contained in Section 14(a).

**2. Administration.**

a. *Administration by Committee of Independent Members of the Board of Directors.* The Plan will be administered by a committee (the “*Committee*”) composed solely of members of the Board of Directors of the Company that are “independent,” as defined pursuant to Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, and as proscribed under Rule 303A.02 of the New York Stock Exchange (“*NYSE*”) Listed Company Manual, or any amendment, supplement or modification thereto; *provided, however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned the Committee under the Plan and when so acting shall have the benefit of all of the provisions of the Plan pertaining to the Committee’s exercise of its authorities hereunder. The Committee, in its sole discretion, shall have the authority to grant Awards, to adopt, amend and repeal rules relating to the Plan, to interpret and correct the provisions of the Plan and any Award, and, subject to the limitations of the Plan, to modify and amend any Award. All decisions by the Committee shall be final and binding on all interested persons. Neither the Company nor any member of the Committee shall be liable for any action or determination relating to the Plan.

b. *Delegation to Executive Officers.* To the extent permitted by applicable law, the Committee may delegate to one or more executive officers of the Company the power to grant Awards and exercise such other powers under the Plan as the Committee may determine; *provided, however*, that the Committee shall fix the maximum number of Awards to be granted and the maximum number of shares issuable to any one Participant pursuant to Awards granted by such executive officer or officers. The Committee may, by a resolution adopted by the Committee, authorize one or more executive officers of the Company to do one or both of the following: (i) designate employees of the Company or of any of its subsidiaries to be recipients of Awards and (ii) determine the number, type and terms of such Awards to be received by such employees, subject to the limitations of the Plan; *provided, however*, that, in each case, the resolution so authorizing such officer or officers shall specify the maximum number and type of Awards such officer or officers may so award. The Committee may not authorize an officer to designate himself or herself as a recipient of any such Awards or to grant Awards to other executive officers of the Company.

**3. Stock Available for Awards.**

a. *Number of Shares.* Subject to adjustment under Section 3(c), the aggregate number of shares (the “*Authorized Shares*”) of the Company’s common stock, \$0.125 par value per share (the “*Common Stock*”), that may be issued pursuant to the Plan shall be 12,000,000 shares of Common Stock. If any Award expires, is terminated, surrendered, forfeited, expires unexercised, is settled in cash in lieu of Common Stock or is exchanged for other Awards, in whole or in part, the unissued Common Stock covered by such Award shall again be available for the grant of Awards under the Plan. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares. Notwithstanding anything to the contrary in this Plan, the foregoing limitations shall be subject to adjustment under Section 3(c), but only to the extent that such adjustment will not affect the status of any Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code.

b. *Per-Participant Limit.* Subject to adjustment under Section 3(c), no Participant may be granted stock-based Awards during any one fiscal year to purchase more than 2,000,000 shares of Common Stock.

c. *Adjustment to Common Stock.* In the event of any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off, split-up, or other similar change in capitalization or event, (i) the number and class of securities available for Awards under the Plan and the per-Participant share limit, (ii) the number and class of securities, vesting schedule and exercise price per share subject to each outstanding stock-based Award, (iii) the repurchase price per security subject to repurchase, and (iv) the terms of each other outstanding stock-based Award shall be adjusted by the Company (or substituted Awards may be made) to the extent the Committee shall determine, in good faith, that such an adjustment (or substitution) is appropriate. If Section 11(f)(i) applies for any event, this Section 3(c) shall not be applicable.

d. *Fractional Shares.* No fractional shares shall be issued under the Plan and the Participant shall, at the Committee's discretion, receive either cash in lieu of such fractional shares or a full share for each fractional share.

#### 4. Stock Options.

a. *General.* The Committee may grant options to purchase Common Stock (each, an "Option") and determine the terms and conditions of each Option, including, but not limited to (i) the number of shares subject to such Option or a formula for determining such, (ii) subject to Section 4(e) hereof, the exercise price of the Options and the means of payment for the shares, (iii) the Performance Criteria (as defined in Section 11(d)), if any, and level of achievement of such Performance Criteria that shall determine the number of shares or Options granted, issued, retainable and/or vested, (iv) the terms and conditions of the grant, issuance and/or forfeiture of the shares or Options, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan.

b. *Incentive Stock Options.* An Option that the Committee intends to be an "incentive stock option" as defined in Section 422 of the Code (an "Incentive Stock Option") shall be granted only to employees of the Company and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Committee and the Company shall have no liability if an Option or any part thereof that is intended to be an Incentive Stock Option does not qualify as such.

c. *Nonstatutory Stock Options.* An Option or any part thereof that does not qualify as an Incentive Stock Option is referred to herein as a "Nonstatutory Stock Option."

d. *Dollar Limitation.* For so long as the Code shall so provide, Options granted to any employee under the Plan (and any other plans of the Company) which are intended to constitute Incentive Stock Options shall not constitute Incentive Stock Options to the extent that such Options, in the aggregate, become exercisable for the first time in any one calendar year for shares of Common Stock with an aggregate Fair Market Value (as defined in Section 14 and determined as of the respective date or dates of grant) of more than \$100,000 (or such other limit as may be provided by the Code). To the extent that any such Incentive Stock Options exceed the \$100,000 limitation (or such other limit as may be provided by the Code), such Options shall be Nonstatutory Stock Options.

e. *Exercise Price.* The Committee shall establish the exercise price (or determine the method by which the exercise price shall be established) at the time each Option is granted and specify the exercise price in the applicable Option agreement, *provided*, that the exercise price per share specified in the agreement relating to each Option granted under the Plan shall not be less than the Fair Market Value per share of Common Stock on the date of such grant. In the case of an Incentive Stock Option to be granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, the price per share specified in the agreement relating to such Incentive Stock Option shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the date of grant (or such other limit as may be provided by the Code). For purposes of determining stock ownership under this subsection, the rules of Section 424(d) of the Code shall apply. Subject to Section 3(c), an Option may not be amended subsequent to its issuance to reduce the price at which it is exercisable unless such amendment is approved by the Company's shareholders.

f. *Duration of Options.* Each Option shall be exercisable at such times and subject to such terms, conditions and expiration as the Committee may specify in the applicable Option agreement; *provided*, that no Option shall be exercisable for a period of time greater than ten (10) years from the date of grant of such Option; *provided, further*, that Incentive Stock Options granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company shall be exercisable for a maximum of five (5) years from the date of grant of such Option (or such other limit as may be provided by the Code). For purposes of determining stock ownership under this subsection, the rules of Section 424(d) of the Code shall apply.

g. *Vesting of Options.* Subject to Section 11(f) and Section 11(j) and except as provided in Section 13, at the time of the grant of an Option, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Options. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee.

h. *Exercise of Option.* Options may be exercised only by delivery to the Company at its principal office address or to such transfer agent as the Company shall designate of a written notice of exercise specifying the number of shares as to which such Option is being exercised, signed by the proper person, or by notification of the Company-designated third party commercial provider (the “*Third Party Commercial Provider*”), in accordance with the procedures approved by the Company and to which the holder of the Option shall have ongoing access by means of accessing such person’s account maintained with the Third Party Commercial Provider, together with payment in full as specified in Section 4(i) for the number of shares for which the Option is exercised.

i. *Payment Upon Exercise.* Common Stock purchased upon the exercise of an Option shall be paid for by one or any combination of the following forms of payment:

(i) in United States dollars in cash or by check payable to order of the Company or by fund transfer from the Option holder’s account maintained with the Third Party Commercial Provider;

(ii) at the discretion of the Committee, through delivery of shares of Common Stock having a Fair Market Value equal as of the date of the exercise to the cash exercise price of the Option, *provided*, that such shares were not acquired by the Participant in the prior six months;

(iii) at the discretion of the Committee and consistent with applicable law, through the delivery of an assignment to the Company of a sufficient amount of the proceeds from the sale of the Common Stock acquired upon exercise of the Option and an authorization to the Third Party Commercial Provider to pay that amount to the Company, which sale shall be at the Participant’s direction at the time of exercise; or

(iv) at the discretion of the Committee, by any combination of (i), (ii), or (iii) above.

If the Committee exercises its discretion to permit payment of the exercise price of an Incentive Stock Option by means of the methods set forth in clauses (ii), (iii) or (iv) of the preceding sentence, such discretion shall be exercised in writing in the instrument evidencing the Award of the Incentive Stock Option.

j. *Notice to Company of Disqualifying Disposition.* By accepting an Incentive Stock Option granted under the Plan, each optionee agrees to notify the Company in writing immediately after such optionee makes a disqualifying disposition of any stock acquired pursuant to the exercise of the Incentive Stock Options. A “disqualifying disposition” is generally any disposition occurring on or before the later of (a) the date two years following the date the Incentive Stock Option was granted or (b) the date one year following the date the Incentive Stock Option was exercised.

k. *Issuances of Securities.* Except as provided in Section 3(c) or as otherwise expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Options. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

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## 5. Stock Appreciation Rights

a. *General.* A Stock Appreciation Right (a “SAR”) is an Award entitling the holder, upon exercise, to receive an amount in cash or Common Stock, or a combination thereof (such form to be determined by the Committee), determined solely by reference to appreciation, from and after the date of grant, in the Fair Market Value of a share of Common Stock. The date as of which such appreciation or other measure is determined shall be the exercise date of the SAR Award.

b. *Grants.* SARs may be granted in tandem with, or independently of, Options granted under the Plan.

(1) *Tandem Awards.* When SARs are expressly granted in tandem with Options: (i) the SARs will be exercisable only at such time or times, and to the extent, that the related Option is exercisable, and will be exercisable in accordance with the procedure required for exercise of the related Option; (ii) the SARs will terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a SAR granted with respect to less than the full number of shares covered by an Option will not be terminated until and only to the extent that the number of shares as to which the related Option has been exercised or has terminated exceeds the number of shares not covered by the SAR; (iii) the Option will terminate and no longer be exercisable upon the exercise of the related SAR; and (iv) the SAR will be transferable only with the related Option.

(2) *Independent Stock Appreciation Rights.* A SAR not expressly granted in tandem with an Option will become exercisable at such time or times, and on such conditions, as the Committee may specify in the SAR Award.

c. *Terms and Conditions.* The Committee shall determine all terms and conditions of a SAR Award, including, but not limited to (i) the number of shares subject to such SAR Award or a formula for determining such, (ii) the Performance Criteria, if any, and level of achievement of such Performance Criteria that shall determine the number of shares granted, issued, retainable and/or vested or the amount of cash payable, (iii) the terms and conditions on the grant, issuance and/or forfeiture of the shares, and (iv) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan.

d. *Vesting of SAR Awards.* Subject to Section 11(f) and Section 11(j), at the time of the grant of a SAR Award, the Committee shall establish a vesting date or vesting dates with respect to such SAR Award, *provided* that SARs awarded in tandem with Options shall be subject to the same vesting date or vesting dates established by the Committee pursuant to Section 4(g) for such related Options and shall be exercisable only to the extent that such related Option shall then be exercisable. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee.

## 6. Restricted Stock.

a. *Grants.* The Committee may grant Awards entitling recipients to acquire shares of Common Stock, subject to (i) delivery to the Company by the Participant of cash, a check or other sufficient legal consideration in an amount at least equal to the par value of the shares purchased, (ii) the right of the Company to repurchase or reacquire all or part of such shares at their issue price or other stated or formula price from the Participant in the event that conditions specified by the Committee in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Committee for such Award (each, a “*Restricted Stock Award*”), and (iii) Section 6(b).

b. *Terms and Conditions.* A Participant that is the holder of a Restricted Stock Award, whether vested or unvested, shall be entitled to enjoy all shareholder rights with respect to the shares of Common Stock underlying such Restricted Stock Award, including the right to receive dividends and vote such shares. Subject to Section 6(c), the Committee shall determine all terms and conditions of any such Restricted Stock Award, including, but not limited to (i) the number of shares subject to such Restricted Stock Award or a formula for determining such, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the Performance Criteria, if any, and level of achievement of such Performance Criteria that shall determine the number of shares granted, issued, retainable and/or vested, (iv) the terms and

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conditions on the grant, issuance and/or forfeiture of the shares, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. At the Committee's election, shares of Common Stock issued in respect of a Restricted Stock Award may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapses, or (ii) evidenced by a stock certificate that may bear a legend indicating that the ownership of the shares of Common Stock represented by such certificate is subject to the restrictions, terms and conditions of this Plan and the Restricted Stock Award. Any stock certificates issued in respect of a Restricted Stock Award shall be registered in the name of the Participant. All certificates registered in the name of the Participant shall, unless otherwise determined by the Committee, be deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). After the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or, if the Participant has died, to the beneficiary designated by the Participant, in a manner determined by the Committee, to receive amounts due or exercise rights of the Participant in the event of the Participant's death (the "*Designated Beneficiary*"). In the absence of an effective designation by a Participant, Designated Beneficiary shall mean the Participant's estate.

c. *Vesting of Restricted Stock.* Subject to Section 11(f) and Section 11(j), at the time of the grant of a Restricted Stock Award, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Restricted Stock Award, which vesting dates may be based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee; *provided*, that all Restricted Stock Awards, other than Awards granted under Section 11(l), shall have a minimum vesting period of no less than one (1) year for Restricted Stock Awards granted subject to Performance Criteria and no less than three (3) years for all other Restricted Stock Awards.

## **7. Restricted Stock Unit.**

a. *Grants.* The Committee may grant Awards entitling recipients to acquire shares of Common Stock in the future, with the future delivery of the Common Stock subject to a risk of forfeiture or other restrictions that will lapse upon the satisfaction of one or more specified conditions (each, a "*Restricted Stock Unit*").

b. *Terms and Conditions.* Subject to Section 7(c), the Committee shall determine all terms and conditions of any such Restricted Stock Unit, including, but not limited to (i) the number of shares subject to such Restricted Stock Unit or a formula for determining such, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the Performance Criteria, if any, and level of achievement of such Performance Criteria that shall determine the number of shares granted, issued, retainable and/or vested, (iv) the terms and conditions on the grant, issuance and/or forfeiture of the shares, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. A Participant may not vote the shares represented by a Restricted Stock Unit. A Restricted Stock Unit may be settled in cash or Common Stock, as determined by the Committee, with the amount of the cash payment based on the Fair Market Value of the shares of Common Stock at the time of vesting. Any such settlements may be subject to such conditions, restrictions and contingencies as the Committee shall establish.

c. *Vesting of Restricted Stock Unit.* Subject to Section 11(f) and Section 11(j), at the time of the grant of a Restricted Stock Unit, the Committee shall establish a vesting date or vesting dates with respect to the shares of Common Stock covered by such Restricted Stock Unit, which vesting dates may be based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee; *provided*, that all Awards of Restricted Stock Units, other than Awards granted under Section 11(l), shall have a minimum vesting period of no less than one (1) year for Restricted Stock Units granted subject to Performance Criteria and no less than three (3) years for all other Restricted Stock Units.

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## 8. Phantom Stock.

a. *General.* The Committee may grant Awards entitling recipients to receive, in cash or shares, the Fair Market Value of shares of Common Stock (“*Phantom Stock*”) upon the satisfaction of one or more specified conditions.

b. *Terms and Conditions.* Subject to Section 8(c), the Committee shall determine the terms and conditions of a Phantom Stock Award, including, but not limited to (i) the number of shares subject to or represented by such Phantom Stock Award or a formula for determining such, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the Performance Criteria, if any, and level of achievement of such Performance Criteria that shall determine the number of shares granted, issued, retainable and/or vested or the amount of cash payable, (iv) the terms and conditions on the grant, issuance and/or forfeiture of the shares or Phantom Stock Award, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. A Participant may not vote the shares represented by a Phantom Stock Award. Any settlements of Phantom Stock Awards may be subject to such conditions, restrictions and contingencies as the Committee shall establish.

c. *Vesting of Phantom Stock.* Subject to Section 11(f) and Section 11(j), at the time of the grant of a Phantom Stock Award, the Committee shall establish a vesting date or vesting dates with respect to such Phantom Stock Award. The Committee may establish vesting dates based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee.

## 9. Other Stock-Based Awards.

The Committee shall have the right to grant other Awards based upon the Common Stock and having such terms and conditions as the Committee may determine, including, without limitation, the grant of shares based upon certain conditions and/or Performance Criteria, the grant of securities convertible into Common Stock and the grant of stock units. The Committee shall determine the terms and conditions of any such Awards, including, but not limited to (i) the number of shares subject to such Award or a formula for determining such, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the Performance Criteria, if any, and level of achievement of such Performance Criteria that shall determine the number of shares granted, issued, retainable and/or vested, (iv) the terms and conditions on the grant, issuance and/or forfeiture of the shares or Award, and (v) such further terms and conditions as may be determined from time to time by the Committee, in each case not inconsistent with this Plan. Subject to Section 11(f) and Section 11(j), at the time of the grant of an Award under this Section 9, the Committee shall establish a vesting date or vesting dates with respect to such Award, which vesting date may be based upon the passage of time and/or the satisfaction of Performance Criteria or other conditions as deemed appropriate by the Committee; *provided*, that all Full Value Awards granted under this Section 9, other than Full Value Awards granted under Section 11(l) herein, shall have a minimum vesting period of no less than one (1) year for Full Value Awards subject to Performance Criteria and no less than three (3) years for all other Full Value Awards granted hereunder.

## 10. Cash Awards.

a. *Grants.* The Committee may grant cash awards (each, a “*Cash Award*”), either alone, in addition to, or in tandem with other Awards granted under the Plan.

b. *Terms and Conditions.* The Committee shall determine the terms and conditions of any such Cash Award. From time to time, the Committee shall establish administrative rules and procedures governing the administration of Cash Awards.

c. *Variable Compensation Awards.* A Cash Award that the Committee intends to be a “*Variable Compensation Award*” subject to Section 162(m) of the Code, provides a variable compensation payment each year to the Company’s executive officers and certain eligible senior employees each year based on certain Performance Criteria that may include, among other criteria, overall corporate and/or individual business group’s or division’s performance during the prior fiscal year, as determined by the Committee. Variable Compensation Awards are calculated based on a percentage of the Participant’s base annual salary

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(“*Variable Compensation Factor*”) and start at 5% for new Participants. Variable Compensation Factors are reviewed annually and typically do not exceed 100%. A newly hired executive officer or employee, who is approved for eligibility for Variable Compensation Awards, will be eligible to receive a Variable Compensation Award for their first year of employment, pro-rated from the date of hire. The Committee may rely upon the recommendation of the Company’s senior management in granting Variable Compensation Awards to eligible Participants who do not constitute executive officers of the Company, including as to the amount and terms of any such Awards and the satisfaction of Performance Criteria. No Participant may be granted Variable Compensation Awards that would result in a payment of more than \$3 million during any one fiscal year.

#### **11. General Provisions Applicable to Awards.**

a. *Transferability of Awards.* Except as the Committee may otherwise determine or provide in an Award, Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant, *provided, however*, that Nonstatutory Stock Options may be transferred to a grantor-retained annuity trust or a similar estate-planning vehicle in which the trust is bound by all provisions of the Option which are applicable to the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees of such an Option.

b. *Documentation.* Each Award granted under the Plan, with the exception of Cash Awards, shall be evidenced by a written Award agreement in such form as the Committee shall from time to time approve. Award agreements shall comply with the terms and conditions of the Plan and may contain such other provisions not inconsistent with the terms and conditions of the Plan as the Committee shall deem advisable. In the case of an Incentive Stock Option, the Award agreement shall contain, or refer to, such provisions relating to exercise and other matters as are required of “incentive stock options” under the Code. Award agreements may be evidenced by an electronic transmission (including an e-mail or reference to a website or other URL) sent to the Participant through the Company’s normal process for communicating electronically with its employees. As a condition to receiving an Award, the Committee may require the Participant to affirmatively accept the Award and agree to the terms and conditions set forth in the Award agreement by physically and/or electronically executing the Award agreement or by otherwise physically and/or electronically acknowledging such acceptance and agreement. With or without such affirmative acceptance, however, the Committee may prescribe conditions (including the exercise or attempted exercise of any benefit conferred by the Award) under which the proposed Participant may be deemed to have accepted the Award and agreed to the terms and conditions set forth in the Award agreement.

c. *Committee Discretion.* The terms of each type of Award need not be identical, and the Committee need not treat Participants uniformly.

d. *Performance Criteria.* For purposes of this Plan, the term “*Performance Criteria*” shall mean any one or more of the following performance criteria, applied to either the Company as a whole or to a division, business unit or Subsidiary, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee in the Award: cash flow; earnings per share; earnings before interest, taxes and amortization; return on equity; total shareholder return; share price performance; return on capital; return on assets or net assets; revenue; income or net income; operating income or net operating income; operating profit or net operating profit; operating margin or profit margin; return on operating revenue; return on invested capital; market segment share; product release schedules; new product innovation; product cost reduction; brand recognition/acceptance; product ship targets; process improvement results; verification of business strategy and/or business plan; improvement of strategic position; adaptation to changes in the marketplace or environment; or customer satisfaction. If the Award so provides, the Committee may appropriately evaluate achievement against Performance Criteria to take into account any of the following events that occurs during a performance period: asset write-downs; litigation or claim judgments or settlements; the effect of changes in tax law; accounting principles or other such laws or provisions affecting reported results; accruals for reorganization and restructuring programs

and any extraordinary non-recurring charges or other events. The Committee may prescribe the foregoing criteria either individually or in combination. The Committee's determination of the achievement of any Performance Criteria shall be conclusive. The minimum vesting period for all Full Value Awards granting shares of Common Stock subject to Performance Criteria, other than Full Value Awards granted under Section 11(l) herein, shall be no less than one (1) year.

e. *Termination of Status.* Except as otherwise specified herein, the Committee shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or Designated Beneficiary, may exercise rights under the Award under such circumstances, subject to applicable law and the provisions of the Code.

f. *Acquisition or Liquidation of the Company.*

(i) *Consequences of an Acquisition.* If the Company is to be consolidated with or acquired by another entity in a merger or other reorganization in which the holders of the outstanding voting stock of the Company immediately preceding the consummation of such event shall, immediately following such event, hold, as a group, less than a majority of the voting securities of the surviving or successor entity, or in the event of a sale of all or substantially all of the Company's assets or otherwise (each, an "*Acquisition*"), the Committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "*Successor Committee*"), shall, as to outstanding Awards, either (A) make appropriate provision for the continuation of such Awards by substituting on an equitable basis for the shares then subject to such Awards either (1) the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition, (2) shares of stock of the surviving or successor corporation or (3) such other securities as the Committee or the Successor Committee deems appropriate, the Fair Market Value of which shall not materially exceed the Fair Market Value of the shares of Common Stock subject to such Awards immediately preceding the Acquisition; or (B) upon written notice to the Participants, provide that all Awards must be exercised, to the extent then exercisable or to be exercisable as a result of the Acquisition, within a specified number of days of the date of such notice, at the end of which period the Awards shall terminate; or (C) terminate all Awards in exchange for a cash payment equal to the excess, if any, of the Fair Market Value of the shares subject to such Awards (to the extent then exercisable or to be exercisable as a result of the Acquisition) over the exercise price thereof, if any; or (D) in the case of Awards that may be settled in whole or in part in cash, provide for equitable treatment of such Awards.

(ii) *Substitution of Awards Upon Certain Events.* In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Committee may grant Awards under the Plan in substitution for stock and stock-based awards issued by such entity or an affiliate thereof. The substitute Awards shall be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

(iii) *Liquidation or Dissolution.* In the event of the proposed liquidation or dissolution of the Company, each Award, except for Cash Awards already earned, to the extent not then exercised or vested, will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Committee.

g. *Withholding.* Each Participant shall pay to the Company, or make provisions satisfactory to the Company for payment, of any taxes required by law to be withheld in connection with Awards to such Participant no later than the date of the event creating the tax withholding obligation. The Committee may allow Participants to satisfy such tax withholding obligations in whole or in part by transferring shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

h. *Amendment of Awards.* The Committee may amend, modify or terminate any outstanding Award including, but not limited to, substituting therefor another Award of the same or a different type, changing the date of exercise or realization, the vesting provisions (subject to the minimum vesting requirements set

forth herein), Performance Criteria, or level of achievement of Performance Criteria, and converting an Incentive Stock Option to a Nonstatutory Stock Option; *provided that*, except as otherwise provided in Section 11(f)(i), the Participant's consent to such action shall be required unless the Committee determines that the action, taking into account any related action, would not materially and adversely affect the Participant; *provided, further*, that subject to Section 3(c), an Option may not be amended subsequent to its issuance either to reduce the price at which such previously issued Option is exercisable or to extend the period of time for which such previously-issued Option shall be exercisable beyond ten (10) years unless such amendment is approved by the Company's shareholders. Furthermore, no Option shall be canceled and replaced with Options having a lower exercise price unless such cancellation and exchange is approved by the Company's shareholders.

i. *Conditions on Delivery of Stock.* The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations, and (iv) the Participant has paid to the Company, or made provisions satisfactory to the Company for payment of, any taxes required by law to be withheld in connection with the Award.

j. *Acceleration.* The Committee may at any time provide (i) that any Option shall become immediately exercisable in full or in part, (ii) that Awards that may be settled in whole or in part in cash may become immediately exercisable in full or in part, and (iii) in connection with the disability, death or retirement of a Participant or in connection with an event contemplated by Section 11(f)(i), (A) that any Restricted Stock Award or Restricted Stock Unit shall become exercisable in full or in part or shall be free of some or all restrictions or the risk of forfeiture or (B) that any other Full Value Award shall become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be. The Committee may take the actions contemplated by the preceding sentence despite the fact that such actions may (x) cause the application of Sections 280G and 4999 of the Code if an event contemplated by Section 11(f)(i) occurs, or (y) disqualify all or part of an Option as an Incentive Stock Option. In the event of the acceleration of the exercisability of one or more outstanding Options, including pursuant to Section 11(f)(i), the Committee may provide, as a condition of accelerated exercisability of any or all such Options, that the Common Stock or other substituted consideration, including cash, as to which exercisability has been accelerated shall be restricted and subject to forfeiture back to the Company at the election of the Company at the cost thereof upon termination of employment or other relationship, with the timing and other terms of the vesting of such restricted Common Stock or other consideration being not less favorable to the Participant than the timing and other terms of the superseded vesting schedule of the related Option.

k. *Option or SAR Award Exchange.* The Committee may, from time to time, upon obtaining shareholder approval therefor, undertake an exchange program under which employees deemed eligible by the Committee may elect to surrender for cancellation then existing Awards under the Plan or outstanding, unexercised options previously granted under the Company's 1991 Employee Stock Option Plan, 1997 Employee Stock Option Plan and 1996 Non-Employee Director Stock Option Plan, that have, at the time, an exercise price at or above a level determined by the Board of Directors or the Committee in exchange for cash and/or another Award under the Plan, the form of such consideration to be determined by the Committee.

l. *Exception to Minimum Vesting Periods.* The Committee may grant up to 5% of the maximum, aggregate shares of Common Stock authorized for issuance hereunder in the form of Restricted Stock Awards, Restricted Stock Units and other Awards based upon Common Stock that do not comply with the minimum vesting periods set forth in Sections 6(c), 7(c), 9 and 13.

m. *Compliance with Section 409A.* Any other provision of the Plan or any Award to the contrary notwithstanding, the Plan and every Award hereunder shall be construed, administered and enforced as

necessary to comply with applicable requirements of Section 409A of the Code and the Treasury and IRS rulings and regulations issued thereunder, so that no Participant shall (without such Participant's express written consent) incur any of the additional tax or interest liabilities of Section 409A(a)(B) of the Code with respect to any Award. The Plan and each Award are hereby modified and limited as necessary to comply with applicable requirements of Section 409A.

## 12. Foreign Jurisdictions.

To the extent that the Committee determines that the material terms set by the Committee or imposed by the Plan preclude the achievement of the material purposes of the Plan in jurisdictions outside the United States, the Committee will have the authority and discretion to modify those terms and provide for such other terms and conditions as the Committee determines to be necessary, appropriate or desirable to accommodate differences in local law, policy or custom or to facilitate administration of the Plan. The Committee may adopt or approve sub-plans, appendices or supplements to, or amendments, restatements or alternative versions of, the Plan as it may consider necessary, appropriate or desirable for such purpose, without thereby affecting the terms of the Plan as in effect for any other purpose. The special terms and any appendices, supplements, amendments, restatements or alternative versions, however, shall not include any provisions that are inconsistent with the terms of the Plan as then in effect, unless the Plan could have been amended to eliminate such inconsistency without further approval by the shareholders. The Committee shall also have the authority and discretion to delegate the foregoing powers to appropriate officers of the Company.

## 13. Grant of Awards to Non-Employee Directors.

Each person who is a member of the Board of Directors and who is not an employee of the Company (each, a "*Non-Employee Director*") shall be automatically granted Awards having a Fair Market Value or exercisable for shares having a Fair Market Value, as the case may be, on the day of such grant as follows:

a. on the date such Non-Employee Director is first elected or appointed to the Board of Directors (other than pursuant to an election at an annual meeting of shareholders, in which case, paragraph b and only paragraph b below shall apply) equal to the value of the Automatic Annual Grant, as prorated daily to reflect the period between the directors date of election or appointment and the date of the next Automatic Annual Grant; and

b. on the date in each year which is the earlier of (i) the date that the annual meeting of shareholders is held and (ii) the last Thursday in May, equal to \$110,000 ("Automatic Annual Grant").

Awards granted under this Section 13 may be any of the following: Restricted Stock Units, Restricted Stock, Nonstatutory Stock Options, SARs, or cash, or a combination of the foregoing. Awards granted under the Plan shall be in addition to the annual Board and Committee cash retainers paid by the Company to the Non-Employee Directors. The type of Awards granted under this Section 13 shall be determined, in each instance, at the Committee's discretion (subject to the foregoing limitations). The number of shares, if any, covered by Awards granted under this Section 13 shall be subject to adjustment in accordance with the provisions of Section 3(c) of this Plan. Subject to Section 11(f) and Section 11(j), an Award of Restricted Stock or Restricted Stock Units granted pursuant to this Section 13 shall have a minimum vesting period of no less than one (1) year for Restricted Stock or Restricted Stock Units granted subject to Performance Criteria and no less than three (3) years for all other Restricted Stock or Restricted Stock Units granted, unless such Award is granted under Section 11(l), and shall expire on the date which is ten (10) years after the date of grant of such Award. Any Options, SARs or other cash Awards granted pursuant to this Section 13 may, at the Committee's discretion, be immediately exercisable or paid in their entirety on the date of grant.

## 14. Miscellaneous.

### a. *Definitions.*

(i) "*Company*" for purposes of eligibility under the Plan, shall include Teradyne, Inc. and any present or future subsidiary corporations of Teradyne, Inc., as defined in Section 424(f) of the Code

(a “*Subsidiary*”), and any present or future parent corporation of Teradyne, Inc., as defined in Section 424(e) of the Code. For purposes of Awards other than Incentive Stock Options, the term “*Company*” shall include any other entity in which the Company has a direct or indirect significant interest, as determined by the Committee in its sole discretion.

(ii) “*Code*” means the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

(iii) “*Employee*” for purposes of eligibility under the Plan shall include a person to whom an offer of employment has been extended by the Company and who has actually commenced employment with the Company, whether full or part-time status.

(iv) “*Fair Market Value*” of the Company’s Common Stock on any date means (i) the closing price (on that date) of the Common Stock on the principal national securities exchange on which the Common Stock is traded, if the Common Stock is then traded on a national securities exchange; or (ii) the average of the closing bid and asked prices last quoted (on that date) by an established quotation service for over-the-counter securities, if the Common Stock is not then traded on a national securities exchange; or (iii) if the Common Stock is not publicly traded, the fair market value of the Common Stock as determined by the Committee after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Stock in private transactions negotiated at arm’s length; *provided*, that, in all events the Fair Market Value shall represent the Committee’s good faith determination of the fair market value of the Common Stock. The Committee’s determination shall be conclusive as to the Fair Market Value of the Common Stock.

(v) “*Full Value Awards*” means Restricted Stock, Restricted Stock Units and Awards other than (a) Options or (b) SARs or (c) Cash Awards or (d) other stock-based Awards for which the Participant pays the intrinsic value (whether directly or by forgoing a right to receive a cash payment from the Company).

b. *Legal Consideration for Issuance of Shares.* Unless otherwise determined by the Committee, in the case of Awards of Restricted Stock, Restricted Stock Units, or Awards that are settled in whole or in part with shares of Common Stock, to the extent such Awards do not otherwise require the payment by the Participant of cash consideration that exceeds the par value of the shares of Common Stock received in connection therewith, the services rendered or to be rendered by the Participant shall satisfy the legal requirement of payment of par value for such shares of Common Stock.

c. *No Right To Employment or Other Status.* No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan.

d. *No Rights As Shareholder.* Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a shareholder with respect to any shares of Common Stock to be distributed with respect to an Award until becoming the record holder thereof.

e. *Effective Date and Term of Plan.* The Plan shall become effective on the date on which it is approved by the shareholders of the Company (the “*Effective Date*”). No Awards shall be granted under the Plan after the completion of ten (10) years from the Effective Date, but Awards previously granted may extend beyond that date.

f. *Amendment of Plan.* The Committee may amend this Plan at any time, provided that any material amendment to the Plan will not be effective unless approved by the Company’s shareholders. For this purpose, a material amendment is any amendment that would (i) other than pursuant to Section 3(c), materially increase either the aggregate number of shares of Common Stock available for issuance under the Plan; or the maximum number of shares of Common Stock issuable in one fiscal year to a Participant; (ii) expand or limit the class of persons eligible to receive Awards or otherwise participate in the Plan; (iii) subject to Section 3(c), reduce the price at which a previously-issued Option is exercisable or extend

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the period of time for which a previously-issued Option shall be exercisable beyond ten (10) years; (iv) subject to Section 11(f) and Section 11(j), amend the minimum vesting provisions of Full Value Awards; or (v) require shareholder approval pursuant to the requirements of the NYSE and/or any other exchange on which the Company is then listed or pursuant to applicable law.

g. *Governing Law.* The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of The Commonwealth of Massachusetts, exclusive of reference to rules and principles of conflicts of law.

Teradyne, Inc.  
Deferral Plan for Non-Employee Directors  
(Restated Effective January 1, 2005)

WHEREAS, Teradyne, Inc. (the "Company") has established the Teradyne, Inc. Deferral Plan for Non-Employee Directors, effective January 1, 2001, and amended as of March 1, 2003, (the "Prior Plan") which provides each Non-Employee Director of the Company with an election to defer receipt of his or her Compensation from the Company; and

WHEREAS, the Company wishes to amend and restate such Prior Plan to comply with Section 409A with respect to Compensation deferred after December 31, 2004 and expand the elections permitted under the Prior Plan.

NOW, THEREFORE, the Company hereby amends and restates the Prior Plan to read in its entirety as set forth below, as so amended and restated (the "Plan"). The Plan has been operated in compliance with Section 409A since January 1, 2005 with respect to amounts subject to Section 409A. This amendment and restatement is intended to memorialize any changes in operation of the Plan as of that date as required by Section 409A. All other changes are effective as otherwise provided herein.

1. *Eligibility.*

Each person who is a Non-Employee Director on December 1, 2004 is eligible to participate in the Plan for the Plan Year beginning January 1, 2005. All other persons who are Non-Employee Directors on December 1 of any calendar year beginning in or after December 1, 2005 are eligible to participate in the Plan Year beginning the immediately following January 1. A Non-Employee Director who is eligible to participate may become a Participant by making a deferral election with respect to Compensation payable in the following Plan Year under Section 2. Eligibility to participate in the Plan for any Non-Employee Director automatically ends upon the termination of the individual's status as a member of the Board of Directors. If the Non-Employee Director becomes an Employee then any deferral election for Compensation payable in the Plan Year in which such employment commences shall remain in effect for the balance of the Plan Year but no further deferral elections may be made under the Plan.

2. *Participation.*

A. Each Non-Employee Director who makes an election to defer the receipt of Compensation for any Plan Year must complete a Deferral Election Form, no later than the December 1 prior to the first day of the Plan Year with respect to which it is intended to be effective and deliver such completed form to the Company's HR director or other designated Company Employee. A Deferral Election Form may be modified or withdrawn by the Participant prior to December 1 preceding the Plan Year to which it relates. The last completed form delivered to the HR director prior to or on December 1 and not withdrawn as of that date, shall be considered the Deferral Election Form for the upcoming Plan Year and shall be irrevocable after such December 1.

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B. Each Non-Employee Director who does not timely complete and deliver a Deferral Election Form for any Plan Year shall not defer receipt of any Compensation for such Plan Year and shall receive any and all Compensation to which he or she is entitled during such Plan Year in accordance with the Company's customary practices.

3. *Elections.*

The Deferral Election Form for each Plan Year Deferral shall include the following elections:

A. An election to defer all the cash Compensation or, effective for Plan Years beginning January 1, 2007, all the Shares or both that are otherwise payable to the Non-Employee Director in the next Plan Year.

B. An election of the manner in which the cash portion of the Plan Year Deferral shall be allocated under the terms of Section 4(B)(1), as amended from time to time.

C. An election as to whether the Plan Year Deferral is payable, on distribution, in a lump sum or, effective for Plan Years beginning on or after January 1, 2007, such number of annual installments (up to a maximum of 15) as the Non-Employee Director elects.

4. *Accounting.*

A. The Company or its designee shall establish an account for each Participant for recordkeeping purposes only, including sufficient subaccounts to reflect all of Participant's elections in Section 3 for all such Participant's Plan Year Deferrals. The account and subaccounts are intended only for the purposes of determining the amounts to be distributed to the Participant under the Plan. Grandfathered Accounts shall be subject only to the terms of the Plan which were in effect under the Prior Plan, unless the Board elects at any time, to make them subject to the terms of the amended and restated Plan by a resolution to that effect.

B. The account and subaccount shall be adjusted as follows:

1. Cash deferred by any Participant will be allocated, in accordance with the Participant's election, to either (a) a notional account, or (b) a Deferred Stock Unit account ("DSU Account").

a. Notional Account. Any amount which the Participant has allocated to a notional account, shall be credited with earnings, quarterly, at the rate in effect at the beginning of each Plan Year on 10 year Treasury Notes.

b. DSU Account. Any amount which the Participant has allocated to the DSU Account will be converted into a number of Deferred Stock Units on the date the cash amounts deferred would have been paid to the Participant. The number of Deferred Stock Units credited to the Participant's DSU Account with respect to each cash deferral shall be determined by dividing the cash amount deferred by the Fair Market Value of the Common Stock on such date. If any cash dividends are subsequently declared with respect to the Common Stock then the cash that would

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have been paid to the Participant as dividends if he or she had owned the number of whole shares of Common Stock represented by the Deferred Stock Units shall, on the date such dividend is paid, be credited to the notional account of the Participant with respect to the Plan Year Deferral to which such Deferred Stock Units relate and shall thereafter be credited with earnings as provided in Section 4(B)(1)(a).

2. Any Shares deferred by the Participant shall be separately accounted for under this Section 4(B)(2), in a subaccount of the DSU Account. The number of Shares deferred shall also be converted into Deferred Stock Units, crediting the Participant with one Deferred Stock Unit for each Share deferred. Any Shares which are not vested at the time they are credited to the DSU Account shall be continue to vest in accordance with the terms of the applicable agreement evidencing the award of such Shares. Any cash dividends payable with respect to the deferred Shares shall be treated as specified in Section 4(B)(1)(b) and shall vest in accordance with the terms applicable to the Shares.

5. *Voting and Dividend Rights in Deferred Stock Units.*

No Participant shall be entitled to any voting rights or to receive (except as provided in Section 4(B)) any dividends with respect to any amounts or Shares treated as converted into Deferred Stock Units.

6. *Distributions.*

A. Generally. Distributions of each Plan Year Deferral shall be made as a lump sum, or in installments, in accordance with the terms of the Deferral Election Form the Participant has completed with respect to the Plan Year Deferral. A Participant shall become entitled to distributions following his or her separation from service as defined in Section 409A. Such distributions shall be made or commence within 90 days after the date of the Participant's separation from service, subject to the provisions of Section 6(F). If distributions are to be made in installments then each annual installment shall be made within 30 days before or after the anniversary of the first installment distribution, except that if the first installment is delayed in accordance with Section 6(F), then each successive annual installment will be made within 90 days day following the anniversary of the Participant's separation from service.

B. Lump Sum. Any distributions of a Plan Year Deferral to be made in a lump sum shall consist of (i) cash, which is an amount equal to the aggregate balance in the Participant's notional account with respect to such Plan Year Deferral on the distribution date, and (ii) that number of shares of Common Stock equal to the aggregate number of vested Deferred Stock Units with respect to such Plan Year Deferral in the Participant's DSU Account on the distribution date. Any unvested Deferred Stock Units shall be forfeited upon the Participant's termination of service as a member of the Board of Directors. The cash and the shares of Common Stock may be distributed separately and at different times within the 90 day payment period.

C. Installments. Each installment distribution of any Plan Year Deferral shall consist of (i) such amount of cash as is determined by dividing the aggregate balance in the Participant's notional account with respect to such Plan Year Deferral on the date of such installment

distribution by the total number of remaining installment distributions elected by the Participant in his or her Deferral Election Form with respect to such Plan Year Deferral and (ii) that number of shares of Common Stock equal to the aggregate number of vested Deferred Stock Units in the Participant's DSU Account with respect to such Plan Year Deferral on the date of such installment distribution divided by the total number of remaining installment distributions elected by the Participant in his or her Deferral Election Form with respect to such Plan Year Deferral; provided that the number of shares of Common Stock distributed may be rounded up or down to the nearest one share for ease of administration.

D. Form of Distribution. Amounts allocated to the notional account shall be distributed in cash and amounts allocated to DSU Account shall be distributed in shares of Common Stock. Shares of Common Stock distributed under the Plan shall be issued from either the 2006 Equity and Cash Compensation Incentive Plan of the Company (the "2006 Compensation Plan") with respect to any Shares deferred subsequent to the adoption of the 2006 Compensation Plan by the Company's shareholders, or the Company's 1997 Employee Stock Option Plan with respect to any Shares deferred prior to the adoption of the 2006 Compensation Plan by the Company's shareholders. Distribution shall be made to the Participant, or if the Participant has died to the Participant's Beneficiary. The Company may distribute the value of any fractional Deferred Stock Unit in cash, based on the Fair Market Value on the date any shares of Common Stock are distributed.

E. Death. If the Participant dies prior to the total distribution of his or her account then the vested balance that is undistributed at the time of the Participant's death, notwithstanding any prior election by the Participant for installment distributions, shall be distributed to the Participant's Beneficiary, in a lump sum, within 90 days following the Participant's death.

F. Specified Employee. If at the time of separation from service the Participant is considered a specified employee as defined in Section 409A then, notwithstanding the foregoing, the distribution of his or her account shall not be made, or commence, until six months and one day after such separation from service, but installments shall thereafter be distributed as if the initial installment had been made on the date of separation.

G. Special 2008 Election. Notwithstanding the foregoing terms of the Plan, in accordance with the transition provisions of IRS Notice 2007-86, the Participants who have previously made a proper election to defer Compensation for 2005, 2006, 2007 and 2008 may designate, in such manner as the HR director determines, prior to December 31, 2008, whether such Plan Year Deferrals shall be distributed in a lump sum or in installments, and if in installments, the number of such installments.

#### *7. Amendments and Termination.*

The Board of Directors may amend or terminate the Plan at any time, which may include, without limitation, action to prohibit any future deferral under the Plan; provided that no such action shall decrease the value of the Participant's account with respect to Deferral Elections made prior to such termination or amendment and such amendment or termination shall be consistent with Section 409A.

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8. *Definitions.*

As used in the Plan, the following terms shall have the following meanings:

- A. "Beneficiary" means the person designated or determined under Section 10(C).
- B. "Board of Directors" means the Board of Directors of the Company.
- C. "Committee" means the Compensation Committee, or any successor to such Compensation Committee, or any other Committee of the Board of Directors authorized by the Board of Directors to administer the Plan.
- D. "Common Stock" means the common stock, \$0.125 par value per share, of the Company.
- E. "Compensation" means any meetings fees, retainer or other amounts (except for reimbursed expenses), whether in cash or, effective January 1, 2007, in Shares, payable to the Non-Employee Director for services as such Non-Employee Director.
- F. "Deferral Election Form" means the document or other communication by which the HR Director has Non-Employee Directors elect to defer receipt of Compensation under the Plan.
- G. "Deferred Stock Units", which are expressed as a number in the DSU account of a Participant refer to the number of shares of Common Stock that a Participant will become entitled to receive upon distribution of his or her Plan Year Deferrals in accordance with Section 6.
- H. "Employee" means a common law employee of Teradyne, Inc. or any of its subsidiaries.
- I. "Fair Market Value" of the Common Stock means, prior to June 1, 2006, the opening price for the date it is being determined, as officially quoted by the New York Stock Exchange. Effective June 1, 2006, Fair Market Value shall have the meaning set forth in the 2006 Compensation Plan.
- J. "Grandfathered Accounts" mean those accounts for Participants which were established with respect to deferrals prior to December 31, 2004 which had not been distributed on such date.
- K. "Non-Employee Director" means any person who is (i) a member of the Board of Directors but who is not an Employee of the Company, and (ii) is eligible to receive awards under the 2006 Compensation Plan (or, prior to its approval by the Company's shareholders, was eligible to receive awards under the Company's 1997 Employee Stock Option Plan).
- L. "Participant" means a Non-Employee Director who is eligible to defer receipt of Compensation under Section 1 and who has delivered a completed Deferral Election Form in accordance with Section 2.
- M. "Plan Year" means the calendar year. The first plan year of the Plan, as amended and restated, begins January 1, 2005.

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N. "Plan Year Deferral" means cash or Shares deferred for any Plan Year in accordance with a Non-Employee Director's Deferral Election Form.

O. "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and guidance issued thereunder from time to time.

P. "Shares" means either Restricted Stock or Restricted Stock Units granted under the 2006 Compensation Plan of the Company.

9. *Dilutions and Other Adjustments.*

In the event of any change in the outstanding shares of the Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change, then the Board of Directors or the Committee shall determine, in their sole discretion, that such change equitably requires an adjustment in the number or kind of shares then held in a Participant's DSU account, then such adjustments shall be made and such determination shall be conclusive and binding for all purposes.

10. *Miscellaneous Provisions.*

A. The Plan shall be administered by the Committee, which shall have the exclusive right and full discretion to interpret the Plan and make all determinations necessary or advisable for its administration, including, without limitation, the authority to remedy ambiguities inconsistencies or omissions. All determinations by the Committee shall be final and binding on all persons.

B. The Plan shall be an unfunded plan and a Participant's rights and interest under the Plan may not be anticipated, mortgaged, assigned or otherwise encumbered, transferred, or conveyed in advance of actual receipt and any attempt so to do shall be null and void. No part of the amounts payable shall, prior to actual payment be subject to seizure, attachment, garnishment or sequestration for the payment of any debts or judgments of any kind. Any amounts deferred under the Plan shall remain the assets of the Company until paid in accordance with the provisions of the Plan, and in the event of the Company's insolvency, will be subject to the claims of the Company's general creditors. In the event of the Company's insolvency, a Participant shall be a general creditor of the Company with respect to his or her claim for benefits hereunder.

C. Each Participant shall have the right to designate, from time to time, a beneficiary, primary as well as contingent, to receive benefits payable in accordance with the terms of the Plan. If the HR director has not received a completed beneficiary designation form during the Participant's life then the Participant's beneficiary under the Plan shall be his or her spouse, if any, and if none, his or her estate. The delivery of a completed beneficiary designation form to the HR Director shall replace any prior form.

D. The Company may establish one or more trusts pursuant to one or more trust agreements between the Company and a trustee named in such agreement, and as amended from time to time, on such terms as the Company shall determine (the "Trust"). The Company may transfer

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assets to said Trust, as it determines in its sole discretion, for purposes of providing for the payment of its liabilities under the Plan. The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Company, the Participants and any creditors of the Company to the assets of the Trust. To the extent any distributions are made from said Trust to any Participant for purposes of satisfying any obligation the Company may have under the Plan that distribution shall reduce the Company's obligation hereunder.

E. The Plan is intended to comply with Section 409A with respect to those accounts which are subject to its terms and to such extent shall be administered in accordance with its terms and that intention; provided that the Company shall have no obligation to any Participant or his or her beneficiary if there is any failure to comply with Section 409A or with respect to any liability incurred by such Participant or any other person as a result of such failure.

F. The Plan is established and shall be construed in accordance with the laws of the Commonwealth of Massachusetts.

G. The provisions of the Plan shall bind and inure to the benefit of the Company and its successors and assigns, or any Participant and his or her beneficiaries.

H. Distributions hereunder shall be subject to any applicable tax withholding and the Company shall have the discretion to withhold cash for such purpose to the extent available to satisfy any withholding obligation with respect to any cash or Common Stock distributed under the Plan.

I. If any distribution is to be made to any person who is a minor or is declared incompetent or to a person the Board of Directors determines in good faith to be incapable of handling the disposition of such person's property (which the Board of Directors shall have no obligation to determine), the Board of Directors may direct payment to the guardian, legal representative or person having the care and custody of such person and such payment shall discharge the Company's obligations hereunder to the extent of such payment.

Approved by the Teradyne, Inc. Board of Directors May 24, 2006.

Amended by the Teradyne, Inc. Board of Directors on November 4, 2008.

## CERTIFICATIONS

I, Michael A. Bradley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradyne, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

By:                   /s/ MICHAEL A. BRADLEY                    
                  Michael A. Bradley  
                  Chief Executive Officer

**CERTIFICATIONS**

I, Gregory R. Beecher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradyne, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

By:           /s/ GREGORY R. BEECHER            
           **Gregory R. Beecher**  
           **Chief Financial Officer and Treasurer**

**CERTIFICATION PURSUANT TO  
18 U.S.C SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Teradyne, Inc. (the "Company") on Form 10-Q for the period ending September 28, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael A. Bradley, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C (S)1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ MICHAEL A. BRADLEY

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**Michael A. Bradley**  
**Chief Executive Officer**  
**November 7, 2008**

**CERTIFICATION PURSUANT TO  
18 U.S.C SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Teradyne, Inc. (the "Company") on Form 10-Q for the period ending September 28, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory R. Beecher, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C (S)1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ GREGORY R. BEECHER

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**Gregory R. Beecher**  
Chief Financial Officer and Treasurer  
November 7, 2008

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