

TERADYNE, INC  
Form 10-Q  
August 12, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 3, 2011 July 3, 2011 1

OR

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

For the transition period from to

Commission File No. 001-06462

**TERADYNE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: TERADYNE, INC - Form 10-Q

**Massachusetts**  
(State or Other Jurisdiction of

**04-2272148**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

**01864**  
(Zip Code)

**978-370-2700**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's only class of Common Stock as of August 8, 2011 was 186,184,101 shares.

**Table of Contents**

**TERADYNE, INC.**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of July 3, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 3, 2011 and July 4, 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 3, 2011 and July 4, 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 6. <u>Exhibits</u>	39

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

	<b>July 3, 2011</b>	<b>December 31, 2010</b>
	(in thousands,	
	except per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 455,398	\$ 397,737
Marketable securities	453,942	409,061
Accounts receivable, net of allowance for doubtful accounts of \$4,097 and \$3,752 at July 3, 2011 and December 31, 2010, respectively	207,823	168,756
Inventories:		
Parts	90,964	78,109
Assemblies in process	21,039	16,013
Finished goods	29,515	22,719
	141,518	116,841
Deferred tax assets	22,801	22,730
Prepayments and other current assets	61,946	52,780
Current assets from discontinued operations		8,713
Total current assets	1,343,428	1,176,618
Property, plant and equipment, at cost	795,778	773,374
Less: accumulated depreciation	562,346	542,266
Net property, plant and equipment	233,432	231,108
Long-term marketable securities	281,978	248,696
Retirement plan assets	14,456	13,981
Intangible assets, net	108,357	122,941
Other assets	16,644	16,542
Long-term assets from discontinued operations		469
Total assets	\$ 1,998,295	\$ 1,810,355
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 106,993	\$ 81,142
Accrued employees compensation and withholdings	75,018	105,374
Deferred revenue and customer advances	98,723	105,568
Other accrued liabilities	59,889	57,145
Accrued income taxes	9,888	8,465
Current debt	2,475	2,450
Current liabilities from discontinued operations		3,560
Total current liabilities	352,986	363,704
Long-term deferred revenue and customer advances	50,064	71,558

Edgar Filing: TERADYNE, INC - Form 10-Q

Retirement plan liabilities	77,154	72,071
Deferred tax liabilities	9,973	9,849
Long-term other accrued liabilities	19,359	19,448
Long-term debt	154,821	150,182
Long-term liabilities of discontinued operations		1,355
Total liabilities	664,357	688,167

Commitments and contingencies (Note O)

**SHAREHOLDERS EQUITY**

Common stock, \$0.125 par value, 1,000,000 shares authorized, 186,002 shares and 182,035 shares issued and outstanding at July 3, 2011 and December 31, 2010, respectively	23,250	22,755
Additional paid-in capital	1,292,727	1,269,525
Accumulated other comprehensive loss	(124,094)	(128,216)
Retained earnings (accumulated deficit)	142,055	(41,876)
Total shareholders equity	1,333,938	1,122,188
Total liabilities and shareholders equity	\$ 1,998,295	\$ 1,810,355

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2010, are an integral part of the condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
	(in thousands, except per share amounts)			
Net revenues:				
Products	\$ 341,316	\$ 386,734	\$ 657,035	\$ 650,220
Services	69,203	58,537	130,645	114,389
Total net revenues	410,519	445,271	787,680	764,609
Cost of revenues:				
Cost of products	159,995	164,421	313,358	285,294
Cost of services	35,438	29,948	66,827	58,537
Total cost of revenues	195,433	194,369	380,185	343,831
Gross profit	215,086	250,902	407,495	420,778
Operating expenses:				
Engineering and development	47,393	49,341	95,370	97,278
Selling and administrative	57,481	57,730	115,710	112,417
Acquired intangible asset amortization	7,291	7,313	14,582	14,668
Restructuring and other, net	1,279	371	1,692	1,274
Total operating expenses	113,444	114,755	227,354	225,637
Income from operations	101,642	136,147	180,141	195,141
Interest income	1,403	3,681	2,690	4,523
Interest expense and other	(5,316)	(7,755)	(11,492)	(13,662)
Income from continuing operations before income taxes	97,729	132,073	171,339	186,002
Income tax provision	7,839	9,543	13,325	14,373
Income from continuing operations	89,890	122,530	158,014	171,629
(Loss) Income from discontinued operations before income taxes		(381)	1,278	620
Income tax benefit			(267)	
(Loss) Income from discontinued operations		(381)	1,545	620
(Loss) Gain on disposal of discontinued operations (net of income tax of \$0, \$0, \$4,578, \$0, respectively)	(832)		24,371	
Net income	\$ 89,058	\$ 122,149	\$ 183,930	\$ 172,249
Income per common share from continuing operations:				
Basic	\$ 0.48	\$ 0.68	\$ 0.85	\$ 0.97
Diluted	\$ 0.39	\$ 0.55	\$ 0.68	\$ 0.79

## Edgar Filing: TERADYNE, INC - Form 10-Q

Net income per common share:

Basic	\$ 0.48	\$ 0.68	\$ 0.99	\$ 0.97
Diluted	\$ 0.39	\$ 0.55	\$ 0.80	\$ 0.79
Weighted average common share basic	185,367	179,990	185,044	178,429
Weighted average common share diluted	230,452	231,541	231,266	228,909

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2010, are an integral part of the condensed consolidated financial statements.

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

	<b>For the Six Months Ended</b>	
	<b>July 3, 2011</b>	<b>July 4, 2010</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 183,930	\$ 172,249
Less: income from discontinued operations	1,545	620
Less: gain on disposal of discontinued operations	24,371	
<b>Income from continuing operations</b>	<b>158,014</b>	<b>171,629</b>
<b>Adjustments to reconcile income from continuing operations to net cash provided by operating activities:</b>		
Depreciation	25,645	26,403
Amortization	25,291	23,105
Stock-based compensation	14,682	15,141
Provision for excess and obsolete inventory	6,343	1,454
Tax benefit related to stock options and restricted stock units	(3,717)	
Other	1,424	1,659
<b>Changes in operating assets and liabilities, net of businesses sold:</b>		
Accounts receivable	(39,067)	(123,184)
Inventories	(15,006)	24,231
Prepayments and other assets	(10,348)	15,544
Deferred revenue and customer advances	(28,339)	(62,901)
Accounts payable and accrued expenses	(9,279)	52,377
Retirement plan contributions	(5,241)	(24,677)
Accrued income taxes	5,406	11,346
<b>Net cash provided by operating activities from continuing operations</b>	<b>125,808</b>	<b>132,127</b>
Net cash (used for) provided by operating activities from discontinued operations	(4,225)	1,850
<b>Net cash provided by operating activities</b>	<b>121,583</b>	<b>133,977</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(44,467)	(35,706)
Purchases of available-for-sale marketable securities	(498,541)	(223,820)
Proceeds from sales and maturities of available-for-sale marketable securities	420,477	47,267
Proceeds from sales of trading marketable securities		23,700
Proceeds from life insurance		1,091
<b>Net cash used for investing activities from continuing operations</b>	<b>(122,531)</b>	<b>(187,468)</b>
Net cash provided by investing activities from discontinued operations	39,062	
<b>Net cash used for investing activities</b>	<b>(83,469)</b>	<b>(187,468)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock under employee stock option and stock purchase plans	17,052	41,873
Tax benefit related to stock options and restricted stock units	3,717	
Payments of long-term debt	(1,222)	(1,123)
<b>Net cash provided by financing activities</b>	<b>19,547</b>	<b>40,750</b>



Edgar Filing: TERADYNE, INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	57,661	(12,741)
Cash and cash equivalents at beginning of period	397,737	416,737
Cash and cash equivalents at end of period	\$ 455,398	\$ 403,996

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2010, are an integral part of the condensed consolidated financial statements.

---

**Table of Contents**

**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**A. The Company**

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

semiconductor test ( Semiconductor Test ) systems; and

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

**B. Accounting Policies**

*Basis of Presentation*

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

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

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

*Preparation of Financial Statements*

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

**C. Recently Issued Accounting Pronouncements**

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



**Table of Contents**

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

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income. This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareowners' equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. Teradyne is currently evaluating the impact of this new ASU.

**D. Discontinued Operations**

On March 21, 2011, Teradyne completed the sale of its Diagnostic Solutions business unit, which was included in the Systems Test Group segment, to SPX Corporation for \$40.2 million in cash. Teradyne sold this business as its growth potential as a stand-alone business within Teradyne was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations for all periods presented. Net revenues and (loss) income from discontinued operations for the three and six months ended July 3, 2011 and July 4, 2010 were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
	(in thousands)			
Net revenues	\$	\$ 9,505	\$ 9,086	\$ 19,790
(Loss) Income from discontinued operations before income taxes	\$	\$ (381)	\$ 1,278	\$ 620
(Loss) Gain from disposal of discontinued operations before income taxes		(832)	28,949	
Income tax provision			4,311	
(Loss) Income from discontinued operations	\$ (832)	\$ (381)	\$ 25,916	\$ 620

## E. Financial Instruments and Derivatives

### Financial Instruments

Teradyne uses the market and income approach to value its financial instruments and there was no change in valuation techniques used by Teradyne during the six months ended July 3, 2011 and July 4, 2010. As defined in ASC 820-10, *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities are carried at fair value and are classified in one of the following three categories:

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

Level 2: Inputs other than Level 1, that are observable either directly or indirectly as of the reporting date. For example, a common approach for valuing fixed income securities is the use of matrix pricing. Matrix

**Table of Contents**

pricing is a mathematical technique used to value securities by relying on the securities' relationship to other benchmark quoted prices.

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

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

During the six months ended July 3, 2011 and July 4, 2010, there were no significant transfers in and out of Level 1 and Level 2.

The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of July 3, 2011 and December 31, 2010.

	July 3, 2011			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
<b>Assets</b>				
Available for sale securities:				
Money market funds	\$ 288,944	\$	\$	\$ 288,944
U.S. government agency securities		240,102		240,102
Commercial paper		235,540		235,540
U.S. Treasury securities	138,455			138,455
Corporate debt securities		129,084		129,084
Equity and debt mutual funds	8,754			8,754
Certificates of deposit and time deposits		8,381		8,381
Non-U.S. government securities	298			298
<b>Total</b>	<b>436,451</b>	<b>613,107</b>		<b>1,049,558</b>
Derivatives		135		135
<b>Total</b>	<b>\$ 436,451</b>	<b>\$ 613,242</b>	<b>\$</b>	<b>\$ 1,049,693</b>

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
(in thousands)				
<b>Assets</b>				
Cash and cash equivalents	\$ 288,944	\$ 24,694	\$	\$ 313,638
Marketable securities	64,529	389,413		453,942
Long-term marketable securities	82,978	199,000		281,978
Prepayments and other current assets		135		135
	\$ 436,451	\$ 613,242	\$	\$ 1,049,693



**Table of Contents**

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