TERADYNE, INC
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

For the fiscal year ended December 31, 2011

OR

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

Commission file number 001-06462

TERADYNE, INC.

(Exact Name of Registrant as Specified in Its Charter)

MASSACHUSETTS	**04-2272148**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
600 RIVERPARK DRIVE	**01864**

NORTH READING, MASSACHUSETTS

(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (978) 370-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.125 per share	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 such filing requirements for the past 90 days. Yes x 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 proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. x

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 x 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 x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 1, 2011 was approximately $2.2 billion based upon the closing price of the registrant s Common Stock on the New York Stock Exchange on that date.

The number of shares outstanding of the registrant s only class of Common Stock as of February 22, 2012 was 186,457,258 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement in connection with its 2012 annual meeting of shareholders are incorporated by reference into Part III.

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TERADYNE, INC.

FORM 10-K

PART I

Item 1: ***Business***

Teradyne, Inc. (the Company or Teradyne) was founded in 1960 and is a leading global supplier of automatic test equipment.

We design, develop, manufacture and sell automatic test systems and solutions used to test complex electronics in the consumer electronics, automotive, computing, telecommunications, wireless, and aerospace and defense industries. Our automatic test equipment products and services include:

- semiconductor test (Semiconductor Test) systems,
- military/aerospace (Mil/Aero) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Commercial Board Test) systems (collectively these products represent Systems Test Group), and
- wireless test (Wireless Test) systems.

We have a broad customer base which includes integrated device manufacturers (IDMs), outsourced semiconductor assembly and test providers (OSATs), wafer foundries, fabless companies that design, but contract with others for the manufacture of integrated circuits (ICs), developers of wireless devices and consumer electronics, manufacturers of circuit boards, automotive companies, wireless product manufacturers, storage device manufacturers, aerospace and military contractors as well as the United States Department of Defense.

In 2011, we acquired LitePoint Corporation (LitePoint) to expand our product portfolio of test equipment in the wireless test sector. LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi enabled devices. LitePoint is our Wireless Test segment.

In 2009, we entered the High Speed dynamic random access memory (DRAM) testing market with our UltraFlex-M product. High speed DRAM memory devices are used for high-end graphics applications in personal computer and gaming consoles.

In 2009, we also entered the market for hard disk drive test systems with our Neptune product. The Neptune product line currently is used to test 2.5 inch hard disk drives for laptops, notebooks and consumer electronic storage devices.

In 2008, we acquired Nextest Systems Corporation (Nextest) and Eagle Test Systems, Inc. (Eagle Test) to expand our product portfolio of automatic test equipment for the semiconductor industry. Nextest develops systems to test integrated circuits such as microcontrollers, image sensors, smart cards and field programmable logic devices for the flash memory, flash card and flash memory based system-on-a-chip (SOC) markets. Eagle Test develops systems to test analog, mixed-signal and radio frequency semiconductors used in digital cameras, MP3 players, cellular telephones, video/multimedia products, automotive electronics and notebook and desktop computers. Nextest and Eagle Test are included within our Semiconductor Test segment.

Investor Information

We are a Massachusetts corporation incorporated on September 23, 1960. We are subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act). We file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports,

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proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file documents electronically.

You can access financial and other information, including the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, our Corporate Governance Guidelines and Code of Conduct, by clicking the Investors link on our web site at www.teradyne.com. We make available, free of charge, copies of our filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act through our web site as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Products

Semiconductor Test

We design, manufacture, sell and support Semiconductor Test products and services on a worldwide basis. The test systems we provide are used both for wafer level and device package testing. These chips are used in automotive, communications, consumer, computer and electronic game applications, among others. Semiconductor devices span a broad range of functionality, from very simple low-cost devices such as appliance microcontrollers, operational amplifiers or voltage regulators to complex digital signal processors, microprocessors, high-density as well as high speed memory devices. Semiconductor Test products and services are sold to IDMs that integrate the fabrication of silicon wafers into their business, Fabless companies that outsource the manufacturing of silicon wafers, Foundries that cater to the processing and manufacturing of silicon wafers, and OSATs that provide test and assembly services for the final packaged devices to both Fabless companies and IDMs. Fabless companies perform the design of integrated circuits without manufacturing capabilities, and use Foundries for wafer manufacturing and OSATs for test and assembly. These customers obtain the overall benefit of comprehensively testing devices and reducing the total costs associated with testing by using our Semiconductor Test systems to:

- improve and control product quality;
- measure and improve product performance;
- reduce time to market; and
- increase production yields.

Our FLEX Test Platform architecture advances our core technologies to produce test equipment that is designed for high efficiency multi-site testing. Multi-site testing involves the simultaneous testing of many devices and functions in parallel. Leading semiconductor manufacturers are using multi-site testing to significantly improve their Cost of Test economics. The FLEX Test Platform architecture addresses customer requirements through the following key capabilities:

1) A high efficiency multi-site architecture that eliminates tester overhead such as instrument setup, synchronization and data movement, and signal processing;

2) The IG-XL software operating system which provides fast program development, including instant conversion from single to multi-site test; and

3) Broad technology coverage by instruments designed to cover the range of test parameters, coupled with a Universal Slot test head design that allows easy test system reconfiguration to address changing test needs.

FLEX Test Platform purchases are being made by IDMs, OSATs, Foundries and Fabless customers. The FLEX Test Platform has become a widely used test solution at OSATs and test houses by providing versatile testers that can handle the widest range of devices, allowing OSATs to leverage their capital investments. The

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broad consumer, automotive and broadband markets have historically driven most of the device volume growth in the semiconductor industry. These markets include smart phones, cell phones, set top boxes, HDTVs, game controllers, computer graphics, and automotive controllers to name a few. These end use markets continue to be drivers for the FLEX Test Platform family of products because they require a wide range of technologies and instrument coverage. The FLEX Test Platform has an installed base of more than 3,000 customer systems to date and it continues to grow. The introduction of the UltraFLEX-M tester in 2009 extends the FLEX Test Platform into the High Speed DRAM testing market.

Our J750 test system shares the IG-XL software environment with the family of FLEX Test Platform systems. The J750 is designed to address the highest volume semiconductor devices such as microcontrollers that are central to the functionality of almost every consumer electronics product, from small appliances to automotive engine controllers. J750 test systems combine compact packaging, high throughput and ease of production test. We extended the J750 platform technology to create the IP750 Image Sensor test system. The IP750 is focused on testing image sensor devices used in digital cameras and other imaging products. We continue to invest in the J750 platform with new instrument releases that bring new capabilities to existing market segments and expand the J750 platform to critical new devices that include high end microcontrollers and the latest generation of cameras. The J750 platform has an installed base of over 3,700 systems and it continues to grow.

Our acquisition of Nextest in January of 2008 expanded our product offerings to include the Magnum test platform. The Magnum products address the requirements of mass production test of memory devices such as flash memory and DRAM. Flash and DRAM memory are widely used core building blocks in modern electronic products finding wide application in consumer, industrial, and computing equipment. Magnum II is the newest member of the family. With test rates up to 800 megabits per second and a versatile architecture designed for maximal throughput, Magnum II tests flash and DRAM devices, an important advantage for large memory producers that manufacture both types of memory. The Magnum platform has an installed base of over 1,200 systems and it continues to grow.

Our acquisition of Eagle Test in November of 2008 expanded our product offerings to include the ETS platform. The ETS platform is used by semiconductor manufacturers and assembly and test subcontractors, primarily in the low pin count analog/mixed signal discrete markets that cover more cost sensitive applications. Eagle Test s proprietary SmartPin technology enables multiple semiconductor devices to be tested simultaneously, or in parallel, on an individual test system, permitting greater test throughput. Semiconductors tested by Eagle Test s systems are incorporated into a wide range of products in historically high-growth markets, including digital cameras, MP3 players, cell phones, video/multimedia products, automotive electronics, computer peripherals, and notebook and desktop computers. The ETS platform has an installed base of over 2,300 systems and it continues to grow.

Systems Test Group

Our Systems Test Group segment is comprised of three business units: Mil/Aero, Storage Test and Commercial Board Test.

Mil/Aero

Our expertise in the test and diagnosis of printed circuit boards (PCB) and subsystems has proven to be essential in supporting the ever-demanding military, defense and aerospace markets. Our test solutions for these markets include high-performance systems, instruments and software solutions that manufacturers and repair depots depend on to ensure the readiness of military and commercial electronic systems.

New programs from tactical aircraft to missile systems, as well as widespread enhancement programs, continue to fuel the demand for high performance test systems. We are a leading provider of test instrumentation and systems with performance well suited to the demands of military/aerospace electronics manufacturers and

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repair depots worldwide. Success in this market is illustrated by our penetration into major Department of Defense programs across all U.S. military service branches and many allied military services worldwide.

Storage Test

Leveraging our expertise in functional test and semiconductor test, we introduced the Neptune product line in 2009. This product is targeted at the high growth 2.5 inch hard disk drive market. In 2010, we expanded our Neptune product line to address the enterprise drive market.

The storage growth for laptops, netbooks and consumer electronics combined with the growth in storage density is driving the need for high density test solutions for the 2.5 inch HDD segment. The Neptune product line addresses the challenges of high throughput automated manufacturing environments while at the same time meeting the performance requirements for next generation HDDs. Our products are targeted at the HDD manufacturers and used as part of the manufacturing and test process of drives.

Commercial Board Test

Our test and inspection systems are sold to the electronics manufacturers of cell phones, servers, computers, Internet switches, automobiles and military avionics systems worldwide.

We manufacture in-circuit test (ICT) systems that are used to assess electrical interconnections, verify interoperation and find faulty circuits on fully assembled and soldered PCBs. Fast, accurate and cost-effective diagnostic capabilities are hallmark features of our ICT systems, including the TestStation and Spectrum product families used in a variety of in-line, high-volume PCB test applications. Supporting technologies such as our patented SafeTest technology allow TestStation users to safely troubleshoot the low-voltage components and interconnects commonly found in battery-powered portable consumer electronics and low-power commercial equipment. In addition to standard ICT equipment, we offer combinational test platforms and handler-ready in-line test systems for high-volume board manufacturing.

Wireless Test

Our acquisition of LitePoint in October of 2011 expanded our product offerings in the wireless test industry. LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi enabled devices. LitePoint collaborates with developers, component manufacturers, and industry leaders to create agile systems capable of analyzing the entire wireless landscape. Using easy-to-deploy, innovative test methodologies running on software-controlled module design, LitePoint s IQ product line is designed for high-volume, low-cost product test. LitePoint s products fall into two categories: cellular and connectivity.

Cellular

The LitePoint IQxstream is a multi-DUT cellular communication solution for verification and calibration of 2G/3G/4G mobile devices including smart phones, tablets and data cards. The IQxstream s non-signaling technology delivers test speeds which allow for superior test coverage and increased throughput over traditional cellular test methods, thus avoiding economic vs. test quality tradeoffs common with slower, traditional approaches.

Connectivity

LitePoint offers a suite of products for connectivity testing. The LitePoint IQ2010 is a comprehensive one-box solution for multi-com connectivity needs including WiFi, Bluetooth, GPS, FM, WiMax and ZigBee. When combined with the IQxstream, the IQ2010 creates a system for testing smart phones, tablets, and other multi-radio devices that include cellular technology. The LitePoint IQflex® is a testing solution focused on

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wireless LAN and Bluetooth manufacturing test. LitePoint IQnxnPlus and IQnxn® are testing solutions for complex WiFi and WiMAX devices that utilize multiple input and multiple output RF configurations commonly called MIMO, used in R&D environments. The LitePoint IQview® helps simplify WiFi and Bluetooth device development. The IQview offers compatibility with the IQflex manufacturing solution enabling test software developed on the IQview to run on the IQflex platform deployed in manufacturing environments.

LitePoint IQfact and IQfactPlus are turnkey, chipset specific, solutions enabling rapid volume manufacturing with a minimum of engineering effort. IQfact solutions can be customized for a specific end product and then deployed on LitePoint test equipment.

Discontinued Operations

On March 21, 2011, our Diagnostic Solutions business unit was sold to SPX Corporation. This business provided electronic test and diagnostic systems to the automotive OEMs and their major subcontractors. This business unit was in our Systems Test Group segment.

On August 1, 2007, our Broadband Test Division business was sold to Tollgrade Communications, Inc. This business provided test systems for testing lines and qualifying lines for DSL telephone networks. This business unit was in our Other Test Systems segment.

Diagnostic Solutions and Broadband Test Division have been reflected as discontinued operations in the accompanying financial statements.

Summary of Net Revenue by Reportable Segment

Our three reportable segments accounted for the following percentages of consolidated net revenue for each of last three years:

	2011	2010	2009
Semiconductor Test	77%	90%	71%
Systems Test Group	21	10	29
Wireless Test	2		
	100%	100%	100%

Sales and Distribution

In fiscal years 2011 and 2010, no single customer accounted for more than 10% of our consolidated net revenue. In 2009, revenues from Western Digital Corporation accounted for more than 10% of our consolidated net revenue. Western Digital Corporation is a customer of our Systems Test Group segment. In each of the years 2011, 2010 and 2009, our three largest customers in aggregate accounted for 19%, 21% and 27% of our consolidated net revenue, respectively.

Direct sales to United States government agencies accounted for 2%, 1% and 4% of our consolidated net revenue in 2011, 2010 and 2009, respectively. Approximately 8%, 8% and 14% of Systems Test Group s revenue in 2011, 2010 and 2009, respectively, was to United States government agencies and 17%, 35% and 21% of Systems Test Group s revenue in 2011, 2010 and 2009, respectively, was to government contractor customers.

We have sales and service offices located throughout North America, Asia and Europe, as our customers outside the United States are located primarily in these geographic areas. We sell in these areas predominantly through a direct sales force. Our manufacturing activities are primarily conducted through subcontractors and outsourced contract manufacturers with a significant operation concentrated in China.

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Sales to customers outside the United States accounted for 84%, 85% and 75% of our consolidated net revenue in 2011, 2010 and 2009, respectively. Sales to customers located in China were 13%, 9% and 5% of consolidated net revenue in 2011, 2010 and 2009, respectively. Sales to customers located in Taiwan were 12%, 18% and 14% of consolidated net revenue in 2011, 2010 and 2009, respectively. Sales to customers located in Japan were 10%, 5% and 6% of our consolidated net revenue in 2011, 2010 and 2009, respectively. Sales to customers located in Malaysia were 10%, 13% and 12% of our consolidated net revenues in 2011, 2010 and 2009, respectively. Sales to customers located in Korea were 10%, 8% and 5% of our consolidated net revenues in 2011, 2010 and 2009, respectively. Sales are attributed to geographic areas based on the location of the customer site.

See also Item 1A: Risk Factors and Note Q: Operating Segment, Geographic and Significant Customer Information in Notes to Consolidated Financial Statements.

Competition

We face significant competition throughout the world in each of our reportable segments. Competitors in the Semiconductor Test segment include, among others, Advantest Corporation (Advantest) and LTX Credence Corporation (LTX). The merger between Advantest and Verigy may result in a combined company that may be a stronger competitor in certain markets. Competitors in the Systems Test Group include, among others, Agilent Technologies, Inc. and Xyratex Ltd. Competitors in our Wireless Test segment include Agilent, Aeroflex, Inc., Anritsu Company and Rohde & Schwarz GmbH & Co. KG, among others.

Some of our competitors have substantially greater financial and other resources to pursue engineering, manufacturing, marketing and distribution of their products. We also face competition from emerging Asian equipment companies and from internal suppliers at several of our customers. Some of our competitors have introduced or announced new products with certain performance characteristics which may be considered equal or superior to those we currently offer. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. See also Item 1A: Risk Factors.

Backlog

At December 31, 2011 and 2010, our backlog of unfilled orders in our three reportable segments was as follows:

	2011	2010
	(in millions)	
Semiconductor Test	$ 274.8	$ 334.2
Systems Test Group	175.3	152.0
Wireless Test	4.4	
	$ 454.5	$ 486.2

Of the backlog at December 31, 2011, approximately 99% of the Semiconductor Test backlog, 91% of Systems Test Group backlog, and 100% of Wireless Test backlog, is expected to be delivered in 2012.

Customers may delay delivery of products or cancel orders suddenly and without significant notice, subject to possible cancellation penalties. Due to possible customer changes in delivery schedules and cancellation 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.

Raw Materials

Our products contain electronic and mechanical components that are provided by a wide range of suppliers. Certain of these components are standard products, while others are manufactured to our specifications. We can

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experience occasional delays in obtaining timely delivery of certain items. While the majority of our components are available from multiple suppliers, certain items are obtained from sole sources. We may experience a temporary adverse impact if any of our sole source suppliers delays or ceases to deliver products.

Intellectual Property and Licenses

The development of our products, both hardware and software, is based in significant part on proprietary information, our brands and technology. We protect our rights in proprietary information, brands and technology through various methods, such as:

- patents;
- copyrights;
- trademarks;
- trade secrets;
- standards of business conduct and related business practices; and
- technology license agreements, software license agreements, non-disclosure agreements, employment agreements, and other agreements.

However, these protections might not be effective in all circumstances. Competitors might independently develop similar technology or exploit our proprietary information and our brands in countries where we lack enforceable intellectual property rights or where enforcement of such rights through the legal system provides an insufficient deterrent. Also, intellectual property protections can lapse or be invalidated through appropriate legal processes. We do not believe that any single piece of intellectual property or proprietary rights is essential to our business.

Employees

As of December 31, 2011, we employed approximately 3,200 people. Since the inception of our business, we have experienced no work stoppages or other labor disturbances. We have no collective bargaining contracts.

Engineering and Development Activities

The highly technical nature of our products requires a large and continuing engineering and development effort. Engineering and development expenditures for the years ended December 31, 2011, 2010 and 2009 were $195.6 million, $193.0 million, and $161.3 million, respectively. These expenditures amounted to approximately 14%, 12%, and 21% of consolidated net revenue in 2011, 2010, and 2009, respectively.

Environmental Affairs

We are subject to various federal, state, and local government laws and regulations relating to the protection of employee health and safety and the environment. We accrue for all known environmental liabilities when it becomes probable that we will incur cleanup costs and those costs can reasonably be estimated. The amounts accrued do not cover sites that are in the preliminary stages of investigation. Estimated environmental costs are not expected to materially affect the financial position or results of our operations in future periods. However, estimates of future costs are subject to change due to protracted cleanup periods and changing environmental remediation laws and regulations.

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OUR EXECUTIVE OFFICERS

Pursuant to General Instruction G(3) of Form 10-K, the following table is included in Part I of this Annual Report on Form 10-K in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders. The table sets forth the names of all of our executive officers and certain other information relating to their positions held with Teradyne and other business experience. Our executive officers do not have a specific term of office but rather serve at the discretion of the Board of Directors.

Executive Officer	Age	Position	Business Experience For The Past 5 Years
Michael A. Bradley	63	Chief Executive Officer and President	Chief Executive Officer since 2004; President of Teradyne since 2003; President of Semiconductor Test from 2001 to 2003.
Gregory R. Beecher	54	Vice President, Chief Financial Officer and Treasurer	Vice President and Chief Financial Officer of Teradyne since 2001 and Treasurer of Teradyne from 2003 to 2005 and since 2006.
Charles J. Gray	50	Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary of Teradyne since April 2009; Vice President and General Counsel of Sonus Networks, Inc. from 2002 to 2008.
Jeffrey R. Hotchkiss	64	President of Systems Test Group	President of Systems Test Group since 2007; President of Assembly Test Systems from 2004 to 2007, and President of Diagnostic Solutions from 2005 to 2007.
Mark E. Jagiela	51	President of Semiconductor Test	President of Semiconductor Test since 2003; Vice President of Teradyne since 2001.

Item 1A: ***Risk Factors***
Risks Associated with Our Business

The risks described below 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.

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 customer capital investments are difficult to predict.

The global economy and financial markets experienced disruption in 2009 and 2008, 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. We are unable to predict the likely duration and severity of disruptions in financial markets, credit availability, and adverse economic conditions throughout the world. 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. Disruption and deterioration in economic conditions may reduce customer purchases of our products, thereby reducing our revenues and earnings. In addition, such adverse decline in economic conditions may, among other things, result in increased price competition for our products, increased risk of excess and obsolete inventories, increased risk in the collectability of our accounts receivable from our customers, increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs as a percentage of revenues.

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We have taken actions to address the effects of the economic crisis, including implementing cost control and reduction measures. If our business has another downturn, we may need to take further cost control and reduction measures.

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

Our business and results of operations depend in significant part upon capital expenditures of manufacturers of semiconductors and other electronics, which in turn depend upon the current and anticipated market demand for those products. As evidenced by our 2009 and 2008 business and results of operations, the market demand for electronics is impacted by economic slowdowns. Historically, the electronics and semiconductor industry has been highly cyclical with recurring periods of over-supply, which often have had a severe negative effect on demand for test equipment, including systems we manufacture and market. We believe that the markets for newer generations of electronic products such as those that we manufacture and market will also be subject to similar fluctuations. We are dependent on the timing of orders from our customers, and the deferral or cancellation of previous customer orders could have an adverse effect on our results of operations. We cannot ensure that the level of revenues or new orders for a fiscal quarter will be sustained in subsequent quarters. In addition, any factor adversely affecting the electronics industry or particular segments within the electronics industry may adversely affect our business, financial condition and operating results.

We are subject to intense competition.

We face significant competition throughout the world in each of our reportable segments. Some of our competitors have substantial financial and other resources to pursue engineering, manufacturing, marketing and distribution of their products. We also face competition from emerging Asian equipment companies and internal development at several of our customers. Some of our competitors have introduced or announced new products with certain performance characteristics which may be considered equal or superior to those we currently offer. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by competitors could cause a decline in revenues or loss of market acceptance of our products.

Our operating results are likely to fluctuate significantly.

Our operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability. The following factors are expected to impact future operations:

- a worldwide economic slowdown or disruption in the global financial markets;
- competitive pressures on selling prices;
- our ability to introduce, and the market acceptance of, new products;
- changes in product revenue mix resulting from changes in customer demand;
- the level of orders received which can be shipped in a quarter because of the tendency of customers to wait until late in a quarter to commit to purchase due to capital expenditure approvals and constraints occurring at the end of a quarter, or the hope of obtaining more favorable pricing from a competitor seeking the business;
- engineering and development investments relating to new product introductions, and the expansion of manufacturing, outsourcing and engineering operations in Asia;

provisions for excess and obsolete inventory relating to the lack of demand for and the discontinuance of products;

impairment charges for certain long-lived and intangible assets and goodwill;

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- parallel or multi-site testing could lead to a decrease in the ultimate size of the market for our products; and
- the ability of our suppliers and subcontractors to meet product quality or delivery requirements needed to satisfy customer orders for our products, especially if product demand continues to increase.

As a result of the foregoing and other factors, we have experienced and may continue to experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely affect our business, financial condition, operating results and stock price.

We are subject to risks of operating internationally.

A significant portion of our total revenue is derived from customers outside the United States. Our international sales and operations are subject to significant risks and difficulties, including:

- unexpected changes in legal and regulatory requirements affecting international markets;
- changes in tariffs and exchange rates;
- social, political and economic instability, acts of terrorism and international conflicts;
- difficulties in protecting intellectual property;
- difficulties in accounts receivable collection;
- cultural differences in the conduct of business;
- difficulties in staffing and managing international operations; and
- compliance with customs regulations.

In addition, an increasing portion of our products and the products we purchase from our suppliers are sourced or manufactured in foreign locations, including China, and a large portion of the devices our products test are fabricated and tested by foundries and subcontractors in Taiwan, Singapore, China and other parts of Asia. As a result, we are subject to a number of economic and other risks, particularly during times of political or financial instability in these regions. Disruption of manufacturing or supply sources in these international locations could materially adversely impact our ability to fill customer orders and potentially result in lost business.

If we fail to develop new technologies to adapt to our customers needs and if our customers fail to accept our new products, our revenues will be adversely affected.

We believe that our technological position depends primarily on the technical competence and creative ability of our engineers. In a rapidly evolving market, such as ours, the development or acquisition of new technologies, commercialization of those technologies into products and market acceptance and customer demand for those products are critical to our success. Successful product development or acquisition, introduction and acceptance depend upon a number of factors, including:

new product selection;

ability to meet customer requirements;

development of competitive products by competitors;

timely and efficient completion of product design;

timely and efficient implementation of manufacturing and manufacturing processes;

timely remediation of product performance issues, if any, identified during testing;

assembly processes and product performance at customer locations;

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- differentiation of our products from our competitors products;
- management of customer expectations concerning product capabilities and product life cycles;
- ability to attract and retain technical talent; and
- innovation that does not infringe on the intellectual property rights of third parties.

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

Certain components, including semiconductor chips, may be in short supply from time to time because of high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. Approximately 30% of material purchases require some custom work where having multiple suppliers would be cost prohibitive. If any of our suppliers were to cancel contracts or commitments or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders and have significantly decreased revenues and earnings, which would have a material adverse effect on our business, results of operations and financial condition. In addition, we rely on contract manufacturers for certain subsystems used in our products, and our ability to meet customer orders for those products depends upon the timeliness and quality of the work performed by these subcontractors, over whom we do not exercise any control.

To a certain extent, we are dependent upon the ability of our suppliers and contractors to help meet increased product or delivery requirements. It may be difficult for certain suppliers to meet delivery requirements in a period of rapid growth, therefore impacting our ability to meet our customers demands.

We rely on the financial strength of our suppliers. There can be no assurance that the loss of suppliers either as a result of financial viability, bankruptcy or otherwise will not have a material adverse effect on our business, results of operations or financial condition.

Our operations may be adversely impacted if our outsourced contract manufacturers or service providers fail to perform.

We depend on Flextronics International Ltd. (Flextronics) to manufacture and test our FLEX and J750 family of products from its facility in China and on other contract manufacturers to manufacture other products. If for any reason these contract manufacturers cannot provide us with these products in a timely fashion, or at all, we may not be able to sell these products to our customers until we enter a similar arrangement with an alternative contract manufacturer. If we experience a problem with our supply of products from Flextronics or our other contract manufacturers, it may take us significant time to either manufacture the product or find an alternate contract manufacturer, which could result in substantial expense and disruption to our business.

We have also outsourced a number of our general and administrative functions, including information technology, to reputable service providers, many of which are in foreign countries, sometimes impacting communication with them because of language and time difficulties. Their presence in foreign countries also increases the risk they could be exposed to political risk. Additionally, there may be difficulties encountered in coordinating the outsourced operations with existing functions and operations. If we fail in successfully coordinating and managing the outsourced service providers, it may cause an adverse effect on our operations which could result in a decline in our stock price.

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

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

We have increased our indebtedness.

On April 6, 2009, we completed a registered underwritten offering of $190.0 million aggregate principal amount of 4.50% Convertible Senior Notes (the Notes) due March 15, 2014 and received net proceeds of approximately $163.0 million. We used approximately $123.3 million of the net proceeds of this offering to repay all amounts outstanding under our revolving credit facility. Although we are no longer subject to the restrictive covenants under the revolving credit facility, we have incurred approximately $190.0 million principal amount of new indebtedness that the holders of the Notes may require us to repurchase upon the occurrence of certain fundamental changes involving the Company. In addition, on March 31, 2009, our wholly-owned subsidiary in Japan, Teradyne K.K., incurred approximately $10.0 million in indebtedness that we guaranteed. The level of our indebtedness, among other things, could:

- make it difficult to make payments on our other obligations;
- make it difficult to obtain any necessary future financing for working capital, capital expenditures, debt service requirements or other purposes;
- require the dedication of a substantial portion of any cash flow from operations to service for indebtedness, thereby reducing the amount of cash flow available for other purposes, including capital expenditures; and
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete.

Our convertible note hedge and warrant transactions could impact the value of our stock.

Concurrent with the offering of the Notes, we entered into a convertible note hedge transaction with Goldman, Sachs & Co. (the hedge counterparty) with a strike price equal to the initial conversion price of the Notes. The convertible note hedges cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of our common stock.

Separately and concurrent with the pricing of the Notes, we entered into a warrant transaction with the hedge counterparty with a strike price of $7.67 per share, which was 75% higher than the closing price of our common stock on March 31, 2009. The warrants will be net share settled and cover, subject to customary antidilution adjustments, approximately 31,963,470 shares of our common stock. On April 1, 2009, the hedge counterparty exercised its option to purchase warrants covering, subject to customary antidilution adjustments, an additional 2,739,726 shares of our common stock. However, we will not be obligated to deliver to the hedge counterparty more than 34,526,500 shares of common stock upon exercise of the warrants (which amount represented less than 19.99% of our outstanding shares of common stock as of March 31, 2009, without giving effect to any shares of common stock issuable pursuant to the warrant transaction), subject to customary antidilution adjustments.

The convertible note hedges are expected to reduce the potential dilution to our common stock upon any conversion of the Notes. However, the warrant transaction could separately have a dilutive effect to the extent

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that the market value per share of our common stock exceeds the applicable strike price of the warrant. The net cost of the convertible note hedge transaction to us, after being partially offset by the proceeds from the sale of the warrants, was approximately $21.7 million.

In connection with establishing its initial hedge of these convertible note hedge and warrant transactions, the hedge counterparty has entered into various derivative transactions with respect to our common stock and/or purchased shares of our common stock or other securities, including the Notes, concurrent with, or shortly after, the pricing of the Notes. In addition, the hedge counterparty may modify its hedge positions by entering into or unwinding various derivative transactions with respect to our common stock or by selling our common stock or other securities, including the Notes, in secondary market transactions (and may do so during any observation period related to the conversion of the Notes). These activities could adversely impact the value of our common stock and the Notes.

We have taken measures to significantly lower our fixed costs, which could have long-term negative effects on our business or impact our ability to adequately address a rapid increase in customer demand.

We have taken measures to address slowdowns in the market for our products. These measures include shifting more of our operations to lower cost regions, outsourcing manufacturing processes, divesting of certain businesses, implementing material cost reduction programs, reducing the number of our employees, and reducing planned capital expenditures and expense budgets. We cannot ensure that the measures we have taken will not impair our ability to effectively develop and market products, to remain competitive in the industries in which we compete, to operate effectively, to operate profitably during slowdowns or to effectively meet a rapid increase in customer demand. These measures may have long-term negative effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products, making it more difficult to hire and retain talented individuals and to quickly respond to customers or competitors in an upward cycle.

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

We are subject to both domestic and international environmental regulations and statutory strict liability relating to the use, storage, discharge, site cleanup and disposal of hazardous chemicals used in our manufacturing processes. If we fail to comply with present and future regulations, or are required to perform site remediation, we could be subject to future liabilities or cost, including penalties or the suspension of production. Present and future regulations may also:

- restrict our ability to expand facilities;
- restrict our ability to ship certain products into the European Union or elsewhere;
- require us to modify our operations logistics;
- require us to acquire costly equipment; or
- require us to incur other significant costs and expenses.

Pursuant to present regulations and agreements, we are conducting groundwater and subsurface assessment and monitoring and are implementing remediation and corrective action plans for facilities located in California, Massachusetts and New Hampshire which are no longer conducting manufacturing operations. As of December 31, 2011, we have not incurred material costs as result of the monitoring and remediation steps taken at the California, Massachusetts and New Hampshire sites.

On January 27, 2003, the European Union adopted the following directives: (i) the directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive); and (ii) the directive on Waste Electrical and Electronic Equipment (the WEEE Directive). The WEEE Directive became effective August 13, 2005 and the RoHS Directive became effective on July 6, 2006. Both the RoHS Directive and the WEEE Directive alter the form and manner in which electronic equipment is

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imported, sold and handled in the European Union. Other jurisdictions, such as China, have followed the European Union s lead in enacting legislation with respect to hazardous substances and waste removal. Ensuring compliance with the RoHS Directive, the WEEE Directive and similar legislation in other jurisdictions, and integrating compliance activities with our suppliers and customers could result in additional costs and disruption to operations and logistics and thus, could have a negative impact on our business, operations and financial condition.

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

From time to time, we may be subject to litigation or other administrative and governmental proceedings that could require significant management time and resources and cause us to incur expenses and, in the event of an adverse decision, pay damages in an amount that could have a material adverse effect on our financial position or results of operations.

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 have been sued for patent infringement in the past and receive notifications from time to time that we may be in violation of patents held by others. An assertion of patent infringement against us, if successful, could have a material adverse effect on our ability to sell our product 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 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 effect on our financial condition and operating results.

We may incur higher tax rates than we expect and may have exposure to additional international tax liabilities and costs.

We are subject to paying income taxes in the United States and various other countries where we operate. Our effective tax rate is dependent on where our earnings are generated and the tax regulations and the interpretation and judgment of administrative tax or revenue entities in the United States and other countries. We have pursued a global tax strategy which could adversely be affected by our failure to expand operations or earnings in certain countries, the mix of earnings and tax rates in the countries where we operate, changes to tax laws or an adverse tax ruling by administrative entities. We are also subject to tax audits in the countries where we operate. Any material assessment resulting from an audit from an administrative tax or revenue entity could also negatively affect our financial results.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. In certain foreign jurisdictions, we qualify for tax incentives based on our ability to meet, on a continuing basis, various tests relating to our employment levels, research and development expenditures and other qualification requirements in a particular foreign jurisdiction. While we intend to operate in such a manner to maintain and maximize our tax incentives, no assurance can be given that we have so qualified or that we will so qualify for any particular year or jurisdiction. If we fail to qualify and to remain qualified for certain foreign tax incentives, we may be subject to further taxation or an increase in our effective tax rate which would adversely impact our financial results. In addition, we may incur additional costs, including headcount expenses, in order to obtain or maintain a foreign tax incentive in a particular foreign jurisdiction.

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We have significant guarantees and indemnification obligations.

From time to time, we make guarantees to customers regarding the performance of our products and guarantee certain indebtedness, performance obligations or lease commitments of our subsidiary and affiliate companies. We also have agreed to provide indemnification to our officers, directors, employees and agents, to the extent permitted by law, arising from certain events or occurrences while the officer, director, employee or agent, is or was serving at our request in such capacity. If we become liable under any of these obligations, it could materially and adversely affect our business, financial condition and operating results. For additional information see Note J: Commitments and Contingencies Guarantees and Indemnification Obligations in Notes to Consolidated Financial Statements.

If we are unable to protect our intellectual property (IP), we may lose a valuable asset or may incur costly litigation to protect our rights.

We protect the technology that is incorporated in our products in several ways, including through patent, copyright, and trade secret protection and by contractual agreement. However, even with these protections, our IP may still be challenged, invalidated or subject to other infringement actions. While we believe that our IP has value in the aggregate, no single element of our IP is in itself essential. If a significant portion of our IP is invalidated or ineffective, our business could be materially adversely affected.

Our business may suffer if we are unable to attract and retain key employees.

Competition for employees with skills we require is intense in the high technology industry. Our success will depend on our ability to attract and retain key technical employees. The loss of one or more key or other employees, a decrease in our ability to attract additional qualified employees, or the delay in hiring key personnel could each have a material adverse effect on our business, results of operations or financial condition.

We may have additional pension funding obligations as a result of the weak performance of financial markets and its effect on plan assets.

Our future funding obligations for our U.S. defined benefit pension plan qualified with the Internal Revenue Service (IRS) depend upon the future performance of assets for this plan, the level of interest rates used to determine funding levels, the level of benefits provided for by the plan and any changes in government laws and regulations. Our U.S. qualified defined benefit pension plan currently holds a significant amount of fixed income securities. As of December 31, 2011, our U.S. qualified defined benefit pension plan had a funded status of approximately 102%. Due to significant declines in financial markets and deterioration in the value of our plan assets in 2008, we made additional discretionary contributions to our U.S. qualified defined benefit pension plan in 2009 and 2010 and may have to make additional contributions in future reporting periods, which may negatively affect our cash flow.

The natural disasters in Japan and the Philippines could disrupt our operations and those of our customers and adversely affect our results of operations.

The recent events in Japan and the Philippines, including earthquakes, tsunamis, flooding and the related damage, created economic uncertainty in those countries. Based on a review of our global supply chain and the customers test facilities we serve in Japan and the Philippines, we do not expect a significant impact on our ability to manufacture and sell our products, however, there can be no assurance that an adverse effect on our business, financial condition and operating results will not result from these events.

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

Our business is international in nature, with our sales, service and administrative personnel and our customers and suppliers located in numerous countries throughout the world. Our operations and those of our customers and suppliers are subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, health epidemics, fires, earthquakes, hurricanes, volcanic eruptions, energy shortages, telecommunication failures, tsunamis, flooding or other natural disasters. Such disruption could materially increase our costs and expenses as well as cause delays in, among other things, shipments of products to our customers, our ability to perform services requested by our customers, or the installation and acceptance of our products at customer sites. Any of these conditions could have a material adverse effect on our business, financial conditions and results of operations.

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

There are provisions in our basic corporate documents and under Massachusetts law that could discourage, delay or prevent a change in control, even if a change in control may be regarded as beneficial to some or all of our stockholders.

Item 1B: ***Unresolved Staff Comments***

None.

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Item 2: ***Properties***

The following table provides certain information as to our principal general offices and manufacturing facilities.

Location	Operating Segment	Major Activity+	Approximate Square Feet of Floor Space
Properties Owned:			
North Reading, Massachusetts	Semiconductor Test, Systems Test Group & Corporate	1-2-3-4-5-6	413,000
Agoura Hills, California	Semiconductor Test	3-5	120,000
Kumamoto, Japan	Semiconductor Test	2-3-4-5	79,000
Subtotal of Owned Properties			612,000
Properties Leased:			
Cebu, Philippines	Semiconductor Test	2-6	135,000
San Jose, California	Semiconductor Test (Nextest business unit)	2-3-4-5	128,000
Buffalo Grove, Illinois	Semiconductor Test (Eagle Test business unit)	2-3-4-5	95,000
Sunnyvale, California	Wireless Test	2-3-4-5-6	75,000
North Reading, Massachusetts	Corporate	1	60,000
Shanghai, China	Semiconductor Test & Systems Test Group	2-5-6	44,000
Tai Yuan, Taiwan	Semiconductor Test & Systems Test Group	5	43,000
Heredia, Costa Rica	Semiconductor Test	2-6	42,000
San Jose, California	Semiconductor Test	4-5	36,000
Subtotal of Leased Properties			658,000
Total Square Feet of Floor Space			1,270,000

+ Major activities have been separated into the following categories: 1. Corporate Administration, 2. Sales Support and Manufacturing, 3. Engineering and Development, 4. Marketing, 5. Sales and Administration, 6. Storage and Distribution.

Item 3: ***Legal Proceedings***

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. We believe that we have meritorious defenses against all pending claims and intend to vigorously contest them. While it is not possible to predict or determine the outcomes of any pending 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 business, financial position or results of operations.

Item 4: ***Mine Safety Disclosure: Not Applicable***

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PART II

Item 5: ***Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities***

The following table shows the market range for our common stock based on reported sales price on the New York Stock Exchange.

Period	**High**	**Low**
2010		
First Quarter	$ 11.57	$ 8.95
Second Quarter	13.37	9.25
Third Quarter	11.64	8.84
Fourth Quarter	14.44	10.51
2011		
First Quarter	$ 19.19	$ 13.38
Second Quarter	18.68	13.51
Third Quarter	15.30	10.76
Fourth Quarter	15.05	10.37

The number of record holders of our common stock at February 22, 2012 was 2,478.

We have never paid cash dividends because it has been our policy to use earnings to finance expansion and growth. Payment of future cash dividends will rest within the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements, and financial condition.

See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Equity Compensation Plans, for information on our equity compensation plans and our performance graph.

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

In November 2010, the Board cancelled the November 2007 stock repurchase program and authorized a new stock repurchase program for up to $200 million. The cumulative repurchases as of December 31, 2011 totaled 2.6 million shares of common stock for $31.2 million at an average price of $11.84.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended December 31, 2011 (in thousands except per share price):

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
October 3, 2011 October 30, 2011	654	$ 11.18	2,633	$ 168,825
October 31, 2011 November 27, 2011		$		$ 168,825

November 28, 2011	December 31, 2011	$	$ 168,825

We satisfy the minimum withholding tax obligation due upon the vesting and the conversion of restricted stock units into shares of our common stock, by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting and conversion that would satisfy the withholding amount due.

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Item 6: ***Selected Financial Data***

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(dollars in thousands, except per share amounts)				
Consolidated Statement of Operations Data (1)(2)(3)(4)(5)(6):					
Net revenues	$ 1,429,061	$ 1,566,162	$ 777,425	$ 1,047,917	$ 1,037,706
Income (loss) from continuing operations	347,893	374,602	(135,363)	(400,985)	74,852
Net income (loss)	373,809	379,730	(133,837)	(394,227)	77,711
Income (loss) from continuing operations per common share basic	1.88	2.08	(0.78)	(2.35)	0.41
Income (loss) from continuing operations per common share diluted	1.53	1.71	(0.78)	(2.35)	0.40
Net income (loss) per common share basic	2.02	2.11	(0.77)	(2.31)	0.42
Net income (loss) per common share diluted	1.65	1.73	(0.77)	(2.31)	0.42
Consolidated Balance Sheet Data:					
Total assets	2,188,639	1,810,355	1,235,337	1,241,655	1,555,288
Long-term debt obligations	159,956	150,182	141,100		

(1) As a result of the divestiture of Diagnostic Test Solutions in 2011 and Broadband Test Division in 2007, we are reporting both business units as discontinued operations for all periods presented.
(2) The Consolidated Statement of Operations Data for the year ended December 31, 2011 includes the results of operations of LitePoint from October 5, 2011, and for the year ended December 31, 2008 includes the results of operations of Nextest from January 24, 2008 and the results of operations of Eagle Test from November 15, 2008.
(3) The Consolidated Statement of Operations Data for the year ended December 31, 2011 includes a tax benefit of $129.3 million due primarily to the release of the deferred tax valuation allowance.
(4) The Consolidated Statement of Operations Data for the year ended December 31, 2009 includes $32.6 million of severance charges and $3.7 million of facilities charges related to the early exit of leased facilities.
(5) The Consolidated Statement of Operations Data for the year ended December 31, 2008 includes a $329.7 million goodwill impairment charge.
(6) The Consolidated Statement of Operations Data for the year ended December 31, 2008 includes $27.3 million of restructuring charges, primarily related to severance, $20.9 million of costs related to loss on sale of land and buildings and $12.0 million of facility charges related to accelerated depreciation.

Item 7: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Statements in this Annual Report on Form 10-K 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. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management s analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

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Overview

We are a leading global supplier of automatic test equipment. We design, develop, manufacture, and sell automatic test systems and solutions used to test complex electronics in the consumer electronics, automotive, computing, telecommunications, wireless, and aerospace and defense industries. Our automatic test equipment products and services include:

- semiconductor test (Semiconductor Test) systems; and
- military/aerospace (Mil/Aero) test instrumentation and systems, storage test systems (Storage Test), circuit-board test and inspection (Commercial Board Test) systems, collectively these products represent Systems Test Group ; and
- wireless test (Wireless Test) systems.

We have a broad customer base which includes integrated device manufacturers (IDMs), outsourced semiconductor assembly and test providers (OSATs), wafer foundries, fabless companies that design, but contract with others for the manufacture of integrated circuits (ICs), developers of wireless devices and consumer electronics, manufacturers of circuit boards, automotive companies, wireless product manufacturers, storage device manufacturers, aerospace and military contractors as well as the United States Department of Defense.

In 2011, we acquired LitePoint Corporation (LitePoint) to expand our product portfolio of test equipment in the wireless test sector. LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi enabled devices. LitePoint is our Wireless Test segment.

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

We believe our acquisitions of Nextest, Eagle Test and LitePoint, and our entry into the high speed memory and storage test markets have enhanced our opportunities for growth. We will continue to invest in our business to expand further our addressable markets while tightly managing our costs.

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

On March 21, 2011, we completed the sale of our Diagnostic Solutions business unit, which was included in the Systems Test Group segment, to SPX Corporation for $40.2 million in cash. We sold this business as its growth potential as a stand-alone business was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations.

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Critical Accounting Policies and Estimates

We have identified the policies discussed below as critical to understanding our business and our results of operations and financial condition. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

Preparation of Financial Statements and Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent liabilities. On an on-going basis, management evaluates its estimates, including those related to inventories, investments, goodwill, intangible and other long-lived assets, bad debts, income taxes, deferred tax assets, pensions, warranties, contingencies, and litigation. Management bases its estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Revenue Recognition

In October 2009, FASB amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. We elected to early adopt this accounting guidance at the beginning of our first quarter of 2010 on a prospective basis. Adoption had no material impact on our financial position or results of operations in 2010 and 2011.

We recognize revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, we defer revenue recognition until such events occur.

Our equipment has non-software and software components that function together to deliver the equipment s essential functionality. Revenue is recognized upon shipment or at delivery destination point, provided that customer acceptance criteria can be demonstrated prior to shipment. Certain contracts require us to perform tests of the product to ensure that performance meets the published product specifications or customer requested specifications, which are generally conducted prior to shipment. Where the criteria cannot be demonstrated prior to shipment, revenue is deferred until customer acceptance has been received. We also defer the portion of the sales price that is not due until acceptance, which represents deferred profit.

For multiple element arrangements, we allocate revenue to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of selling price (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BESP). For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis and the delivery or performance of the undelivered item must be considered probable and substantially in our control.

Our post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not

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affect the customers ability to use the product. We defer revenue for the selling price of installation and training. Extended warranties constitute warranty obligations beyond one year and we defer revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-20, *Separately Priced Extended Warranty and Product Maintenance Contracts.*

Our products are generally subject to warranty and related costs of the warranty are provided for in cost of revenue when product revenue is recognized. We classify shipping and handling costs in cost of revenue. Service revenue is recognized over the contractual period or as the services are performed.

We generally do not provide our customers with contractual rights of return for any of our products.

For transactions involving the sale of software, revenue is recognized in accordance with ASC 985-605, *Software Revenue Recognition.* We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectability is probable. In instances where an arrangement contains multiple elements, revenue related to the undelivered elements is deferred to the extent that vendor-specific objective evidence of fair value (VSOE) exists for such elements. In instances where VSOE does not exist for one or more of the undelivered elements of an arrangement, all revenue related to the arrangement is deferred until all elements have been delivered. VSOE is the price charged when the element is sold separately. Revenue for the separate elements is only recognized where the functionality of the undelivered element is not essential to the delivered element.

For certain contracts eligible for contract accounting under ASC 605-35, *Revenue Recognition Construction-Type and Production-Type Contracts,* revenue is recognized using the percentage-of-completion accounting method based upon the percentage of incurred costs to estimated total costs. These arrangements require significant production, modification, or customization. In all cases, changes to total estimated costs and anticipated losses, if any, are recognized in the period in which they are determined. With respect to contract change orders, claims or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. Such amounts are only included in the contract value when they can be reliably estimated and realization is reasonably assured, generally upon receipt of a customer approved change order.

Inventories

Inventories, which include materials, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out basis) or net realizable value. On a quarterly basis, we use consistent methodologies to evaluate all inventories for net realizable value. We record a provision for both excess and obsolete inventory when such write-downs or write-offs are identified through the quarterly review process. The inventory valuation is based upon assumptions about future demand, product mix, and possible alternative uses.

Equity Incentive and Stock Purchase Plans

Stock-based compensation expense is based on the grant-date fair value estimated in accordance with the provisions of ASC 718-10 *Compensation Stock Compensation* . As required by ASC 718-10, we have made an estimate of expected forfeitures and are recognizing compensation costs only for those stock-based compensation awards expected to vest.

Income Taxes

On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the amount of the valuation allowance. As a result of this review, undertaken at December 31, 2002, we concluded under applicable accounting criteria that it was more likely than not that our deferred tax assets would not be realized and established a valuation allowance in several jurisdictions, most notably the United States. At December 31, 2011, we reassessed this judgment and concluded that it is more likely than not that a substantial majority of our deferred tax assets will be realized through consideration of both the positive and negative evidence. The evidence consisted primarily of our three year U.S. historical cumulative profitability, projected future taxable income, forecasted utilization of the deferred tax assets and the fourth quarter of 2011 acquisition of LitePoint offset by the volatility of the industries we operate in, primarily the semiconductor industry. As such, we reduced the valuation allowance by $190.2 million, which was recorded as a tax benefit in the year ended December 31, 2011. We maintain a valuation allowance for certain deferred tax assets of $51.1 million, primarily related to excess stock compensation deductions associated with pre-2006 activity, state net operating losses and state tax credit carryforwards, due to uncertainty regarding their realization. Adjustments could be required in the future if we estimate that the amount of deferred tax assets to be realized is more or less than the net amount we have recorded.

Investments

We account for our investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities.* On a quarterly basis, we review our investments to identify and evaluate those that have an indication of a potential other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include:

- The length of time and the extent to which the market value has been less than cost;
- The financial condition and near-term prospects of the issuer; and
- The intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Goodwill, Intangible and Long-Lived Assets

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* This new guidance is intended to simplify goodwill impairment testing by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. We adopted this guidance in the fourth quarter of 2011 and determined that it is not more likely than not that the fair value of our reporting unit is less than its carrying value.

We assess the impairment of identifiable intangibles, long-lived assets, and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important in the determination of an impairment include significant underperformance relative to historical or projected future operating results, significant changes in the manner that we use the acquired asset and significant negative industry or economic trends. When we determine that the carrying value of intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate commensurate with the associated risks. We assess goodwill for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently, when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded in an amount equal to that excess.

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SELECTED RELATIONSHIPS WITHIN THE CONSOLIDATED

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2011	**2010**	**2009**
Percentage of net revenues:			
Net revenues:			
Products	81.2%	85.0%	74.2%
Services	18.8	15.0	25.8
Total net revenues	100.0	100.0	100.0
Cost of revenues:			
Cost of products	40.4	37.8	47.7
Cost of services	9.7	7.6	13.8
Total cost of revenues	50.1	45.3	61.5
Gross profit	49.9	54.7	38.5
Operating expenses:			
Engineering and development	13.7	12.3	20.8
Selling and administrative	16.4	14.5	25.1
Acquired intangible assets amortization	2.8	1.9	4.2
Restructuring and other	0.6	(0.1)	4.5
Total operating expenses	33.4	28.6	54.6
Income (loss) from operations	16.5	26.0	(16.1)
Interest and other, net	(1.2)	(1.2)	(2.4)
Income (loss) from continuing operations before income taxes	15.3	24.8	(18.5)
(Benefit) provision for income taxes	(9.0)	0.9	(1.1)
Income (loss) from continuing operations	24.3	23.9	(17.4)
Income from discontinued operations before income taxes	0.1	0.3	0.2
(Benefit) provision for income taxes	0.0	0.0	0.0
Income from discontinued operations	0.1	0.3	0.2
Gain on disposal of discontinued operations (net of taxes)	1.7	0.0	0.0
Net income (loss)	26.2%	24.2%	(17.2)%

Results of Operations

Book to Bill Ratio

Book to bill ratio is calculated as net bookings divided by net sales. Book to bill ratio by reportable segment was as follows:

	Three months ended December 31,		
	2011	**2010**	**2009**
Semiconductor Test	1.2	1.1	1.3
Systems Test Group	1.9	1.0	0.4
Wireless Test	0.7		

Total Company	1.3	1.1	1.1

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Revenues

Net revenues for our three reportable segments were as follows:

	2011	2010	2009 (in millions)	2010-2011 Dollar Change	2009-2010 Dollar Change
Semiconductor Test	$ 1,106.2	$ 1,413.3	$ 552.4	$ (307.1)	$ 860.9
Systems Test Group	294.5	152.9	225.0	141.6	(72.1)
Wireless Test	28.4			28.4	
	$ 1,429.1	$ 1,566.2	$ 777.4	$ (137.1)	$ 788.8

Semiconductor Test revenue decreased $307.1 million or approximately 22% from 2010 to 2011, due to a decrease in system-on-a-chip (SOC) product sales. Semiconductor Test product demand can fluctuate significantly from year to year based upon semiconductor device unit growth and installed base utilization. The 2011 decrease was due to lower volume from reduced demand.

Semiconductor Test revenue increased $860.9 million or approximately 156% from 2009 to 2010, due to a strong recovery in the semiconductor market, particularly in SOC test, and due to our strong market share in the higher growth Semiconductor Test segments such as power management, wireless and microcontroller.

The increase in Systems Test Group revenue of $141.6 million or approximately 93% from 2010 to 2011 was primarily due to the increase in sales of Storage Test systems, which was driven by new customers and new product applications.

The decrease in Systems Test Group revenue of $72.1 million or approximately 32% from 2009 to 2010 was primarily due to the decrease in sales of Storage Test systems and Mil/Aero systems and instruments, partially offset by an increase in Commercial Board Test sales.

The acquisition of LitePoint which was completed in October of 2011 added $28.4 million of revenue in 2011. Litepoint is our Wireless Test segment.

Our three reportable segments accounted for the following percentages of consolidated net revenue for each of the last three years:

	2011	2010	2009
Semiconductor Test	77%	90%	71%
Systems Test Group	21	10	29
Wireless Test	2		
	100%	100%	100%

Net revenue by region as a percentage of total revenue was as follows:

	2011	2010	2009
United States	16%	15%	25%
China	13	9	5
Taiwan	12	18	14
Malaysia	10	13	12
Korea	10	8	5

Japan	10	5	6
Philippines	9	12	6
Europe	7	6	7
Singapore	6	9	9
Thailand	6	4	9
Rest of the World	1	1	2
	100%	100%	100%

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The breakout of product and service revenue for the past three years was as follows:

	2011	2010	2009 (in millions)	2010-2011 Dollar Change	2009-2010 Dollar Change
Product Revenue	$ 1,160.2	$ 1,331.0	$ 576.5	$ (170.8)	$ 754.5
Service Revenue	268.9	235.2	200.9	33.7	34.3
	$ 1,429.1	$ 1,566.2	$ 777.4	$ (137.1)	$ 788.8

Our product revenue decreased $170.8 million or 13% in 2011 from 2010 primarily due to lower sales of SOC Semiconductor Test products. Semiconductor Test product sales demand can fluctuate significantly from year to year based upon semiconductor device unit growth and installed base utilization. The 2011 decrease was due to lower volume from reduced demand. The decrease was partially offset by an increase in sales of Storage Test systems, which was driven by new customers and new product applications. The LitePoint acquisition which was completed in October of 2011 added $27.8 million of product revenue in 2011. Service revenue, which is derived from the servicing of our installed base of products and includes maintenance contracts, repairs, extended warranties, parts sales, and applications support, increased $33.7 million or 14% due to higher volume.

Our product revenue increased $754.5 million or 131% in 2010 from 2009 primarily due to higher sales across all Semiconductor Test products. The increase was partially offset by a decrease in sales of Storage Test systems and Mil/Aero systems and instruments. Service revenue increased $34.3 million or 17%, due to higher volume.

In fiscal year 2011 and 2010, no single customer accounted for more than 10% of our consolidated net revenue. In 2009, revenues from one customer accounted for 13% of our consolidated net revenue. In each of the years 2011, 2010 and 2009, our three largest customers in aggregate accounted for 19%, 21% and 27% of our consolidated net revenue, respectively.

Gross Profit

	2011	2010	2009 (dollars in millions)	2010-2011 Dollar / Point Change	2009-2010 Dollar / Point Change
Gross Profit	$ 713.7	$ 856.0	$ 299.4	$ (142.3)	$ 556.6
Percent of Total Revenue	49.9%	54.7%	38.5%	(4.8)	16.2

Gross profit as a percentage of revenue decreased from 2010 to 2011 by 4.8 percentage points. This decrease was the result of a decrease of 2.9 points related to product mix primarily from higher Storage Test system sales, a decrease of 0.9 points for a charge to adjust LitePoint acquired inventory to fair value, a decrease of 0.5 points due to lower volume, and a decrease of 0.3 points due to higher inventory provisions.

Gross profit as a percentage of revenue increased from 2009 to 2010 by 16.2 percentage points. This increase in gross profit was the result of an increase of 8.9 points due to higher product sales volume, an increase of 6.6 points related to product mix and an increase of 1.8 points due to lower inventory provisions. These increases were partially offset by a decrease of 1.2 points primarily due to higher variable compensation.

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The breakout of product and service gross profit was as follows:

	2011	2010	2009	2010-2011 Dollar / Point Change	2009-2010 Dollar / Point Change
			(dollars in millions)		
Product Gross Profit	$ 583.1	$ 739.5	$ 205.6	$ (156.4)	$ 533.9
Percent of Product Revenue	50.3%	55.6%	35.7%	(5.3)	19.9
Service Gross Profit	$ 130.6	$ 116.5	$ 93.8	$ 14.1	$ 22.7
Percent of Service Revenue	48.6%	49.5%	46.7%	(0.9)	2.8

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

During the year ended December 31, 2011, we recorded an inventory provision of $11.6 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the $11.6 million of total excess and obsolete provisions recorded in 2011, $10.4 million was related to Semiconductor Test primarily due to product transition, $1.1 million was related to Systems Test Group, and $0.1 million was related to Wireless Test.

During the year ended December 31, 2010, we recorded an inventory provision of $6.0 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the $6.0 million of total excess and obsolete provisions recorded in 2010, $4.5 million was related to Semiconductor Test and $1.5 million was related to Systems Test Group.

During the year ended December 31, 2009, we recorded an inventory provision of $24.8 million included in cost of revenues, due to the following factors:

- Downward revisions to previously forecasted demand levels as a result of worsening economic conditions experienced in the semiconductor and automotive industries primarily in the first half of 2009 resulted in an inventory provision of $13.5 million for inventory not expected to be consumed;

- A decline in demand versus forecast for our Liquid Crystal Display (LCD) test product due to the global economic downturn, lower product pricing by competitors, the introduction of a new product by a competitor and consolidation among a number of the expected buyers of the product, resulted in an inventory provision of $8.6 million; and

- During late 2008, we introduced the next versions of our Nextest Magnum memory test product. At that time, it was anticipated that demand would continue for the existing version of the product within its installed base of customers. An overall decline in the memory market combined with a portion of our customers accelerating their purchasing of the newer version of the product resulted in an inventory provision of $2.7 million.

Of the $24.8 million of total excess and obsolete provisions recorded in 2009, $20.3 million was related to Semiconductor Test and $4.5 million was related to Systems Test Group.

During the year ended December 31, 2011, 2010 and 2009, we scrapped $9.2 million, $4.7 million and $29.6 million of inventory, respectively, and sold $8.1 million, $8.3 million and $4.3 million of previously written-down or written-off inventory, respectively. As of December 31, 2011, we had inventory related reserves for amounts which had been written-down or written-off totaling $123.5 million. We have no pre-determined timeline to scrap the remaining inventory.

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Engineering and Development

Engineering and development expenses were as follows:

	2011	2010	2009	2010-2011 Change	2009-2010 Change
			(dollars in millions)		
Engineering and Development	$ 195.6	$ 193.0	$ 161.3	$ 2.6	$ 31.7
Percent of Total Revenue	13.7%	12.3%	20.8%		

The increase of $2.6 million in engineering and development expenses from 2010 to 2011 was due primarily to additional costs of $6.0 million related to the acquisition of LitePoint in October 2011, partially offset by lower variable compensation.

The increase of $31.7 million in engineering and development expenses from 2009 to 2010 was due primarily to an $18.6 million increase in variable compensation and $6.2 million increase from the restoration of temporary salary reductions.

Selling and Administrative

Selling and administrative expenses were as follows:

	2011	2010	2009	2010-2011 Change	2009-2010 Change
			(dollars in millions)		
Selling and Administrative	$ 233.7	$ 226.8	$ 195.4	$ 6.9	$ 31.4
Percent of Total Revenue	16.4%	14.5%	25.1%		

The increase of $6.9 million in selling and administrative expenses from 2010 to 2011 was due primarily to additional costs of $9.7 million related to the acquisition of LitePoint in October 2011, partially offset by lower variable compensation.

The increase of $31.4 million in selling and administrative expenses from 2009 to 2010 was due primarily to a $25.1 million increase in variable compensation and $9.9 million from the restoration of temporary salary reductions, partially offset by a $5.3 million decrease in other spending related to workforce reductions and other cost reduction initiatives taken in 2009.

Acquired Intangible Assets Amortization

Acquired intangible assets amortization expense was as follows:

	2011	2010	2009	2010-2011 Change	2009-2010 Change
			(dollars in millions)		
Acquired Intangible Assets Amortization	$ 40.5	$ 29.3	$ 32.3	$ 11.2	$ (3.0)
Percent of Total Revenue	2.8%	1.9%	4.2%		

Acquired intangible assets amortization expense increased from 2010 to 2011 due to the LitePoint acquisition which was completed in October of 2011.

Acquired intangible assets amortization expense decreased from 2009 to 2010 because intangible assets related to the 2001 GenRad acquisition were fully amortized in 2009.

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Restructuring and Other

Restructuring

In response to a downturn in the industry in 2008 and 2009, we implemented restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for severance and benefits of $0.3 million is reflected in the accrued employees compensation and withholdings account on the balance sheet and is expected to be paid by July 2012. The remaining accrual for lease payments on vacated facilities of $1.9 million is reflected in the other accrued liabilities account and the long-term other accrued liabilities account, and is expected to be paid out over the lease terms, the latest of which expires in 2013. We expect to pay approximately $0.9 million against the lease accruals over the next twelve months. Our future lease commitments, as of December 31, 2011, are net of expected sublease income of $0.5 million. As of December 31, 2011, we have subleased approximately 37% of our unoccupied space.

During the year ended December 31, 2011, we recorded the following restructuring activities:

Q1 2011 Actions:

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

Q2 2011 Actions:

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

Q2 2010 Actions:

- $0.2 million related to a change in the estimated severance benefits related to headcount reductions in Semiconductor Test.

Q4 2010 Actions:

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

Pre-2009 Actions:

- $(0.5) million credit related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in System Test Group, and the North Reading, MA facility in Semiconductor Test and System Test Group.

During the year ended December 31, 2010, we recorded the following restructuring activities:

Q1 2010 Actions:

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

Q2 2010 Actions:

- $0.9 million of severance charges related to headcount reductions of approximately 6 people in Systems Test Group.

Q3 2010 Actions:

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

Q4 2010 Actions:

$0.1 million of severance charges related to the headcount reduction of 1 person in Systems Test Group.

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Q2 2009 Actions:

- $0.3 million related to a change in the estimated severance benefits related to headcount reduction activities in Semiconductor Test and System Test Group.

Pre-2009 Actions:

- $(2.7) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

During the year ended December 31, 2009, we recorded the following restructuring activities:

Q1 2009 Activity:

- $17.2 million of severance charges related to headcount reductions of approximately 515 people, of which $14.9 million and 460 people were in Semiconductor Test, $1.5 million and 39 people were in Systems Test Group, and $0.8 million and 16 people were in Corporate.

Q2 2009 Activity:

- $15.4 million of severance charges related to headcount reductions of approximately 304 people, of which $11.4 million and 267 people were in Semiconductor Test, $3.0 million and 25 people were in Corporate, and $1.0 million and 12 people were in Systems Test Group.

Q3 2009 Activity:

- $4.1 million of charges in Corporate related to the early exit of a leased facility in North Reading.

Pre-2009 Activity:

- $(0.4) million credit in Semiconductor Test for a revision in estimated sublease income at an exited leased facility in Ontario, Canada.

Other

During the year ended December 31, 2011, we recorded $7.3 million of other charges related to the following:

- $4.6 million related to LitePoint acquisition costs; and
- $2.7 million related to non-U.S pension settlements.

During the year ended December 31, 2009, we recorded $(1.0) million of other net credits related to the following:

$1.1 million of long-lived asset impairment charges across both segments primarily related to the disposal of fixed assets as a result of the consolidation of facilities in North Reading, Massachusetts;

$(2.0) million of credits related to finalization of certain Eagle Test purchase accounting items; and

$(0.1) million related to other miscellaneous.

Interest and Other

	2011	2010	2009	2010-2011 Change	2009-2010 Change
			(in millions)		
Interest income	$ 6.6	$ 5.9	$ 3.4	$ 0.7	$ 2.5
Interest expense and other, net	$ (23.7)	$ (24.5)	$ (22.4)	$ 0.8	$ (2.1)

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Interest income increased by $0.7 million, from $5.9 million in 2010 to $6.6 million in 2011, due primarily to higher cash and marketable securities balances in 2011.

Interest income increased by $2.5 million, from $3.4 million in 2009 to $5.9 million in 2010, due primarily to a gain on sale of auction rate securities.

Interest expense and other decreased by $0.8 million, from $24.5 million in 2010 to $23.7 million in 2011, due primarily to a loss on the exercise of the auction rate securities related UBS Put recorded in 2010, partially offset by higher convertible debt discount amortization in 2011.

Interest expense and other increased by $2.1 million, from $22.4 million in 2009 to $24.5 million in 2010, due primarily to a $6.0 million increase in interest expense related to our convertible senior notes and a loss of $2.7 million on the exercise of the auction rate security related UBS Put. In 2009, interest expense and other included $2.5 million for the write off of the remaining revolving credit facility issue costs due to the termination of our revolving credit facility agreement, $2.1 million in interest expense related to the revolving credit facility, and $2.8 million realized loss on sale and impairment of marketable securities.

Income (Loss) from Continuing Operations before Income Taxes

	2011	2010	2009 (in millions)	2010-2011 Change	2009-2010 Change
Semiconductor Test	$ 213.0	$ 417.1	$ (131.5)	$ (204.1)	$ 548.6
Systems Test Group	52.0	(8.4)	11.6	60.4	(20.0)
Wireless Test	(20.6)			(20.6)	
Corporate	(25.8)	(19.6)	(24.0)	(6.2)	4.4
	$ 218.6	$ 389.1	$ (143.9)	$ (170.5)	$ 533.0

The decrease in income from continuing operations before income taxes from 2010 to 2011 was primarily due to lower revenue in 2011 compared to 2010, an $11.2 million increase in intangible assets amortization, a $12.2 million charge to adjust LitePoint acquired inventory to fair value and a $9.0 million increase in restructuring and other costs.

The increase in income from continuing operations before income taxes from 2009 to 2010 was primarily due to higher revenue in 2010 compared to 2009 and lower restructuring and other costs in 2010.

Income Taxes

The income tax benefit from continuing operations for 2011 totaled $129.3 million, primarily attributable to the reduction of our deferred income tax valuation allowance. We considered the weight of both the positive and negative evidence as of December 31, 2011 and concluded that a substantial majority of the deferred tax assets will be realized. The income tax expense from continuing operations of $14.5 million for 2010 was related primarily to tax provisions for foreign taxes. The income tax benefit from continuing operations of $8.5 million for 2009 was primarily due to federal net operating loss carryback claims.

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Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2011:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
			Payments Due by Period (in thousands)			
Long-Term Debt Obligations (1)	$ 196,430	$ 2,573	$ 193,857	$	$	$
Interest on Debt	21,533	8,631	12,902			
Contingent Consideration	68,892	68,892				
Operating Lease Obligations	48,949	13,822	15,973	9,675	9,479	
Purchase Obligations	199,300	196,600	2,700			
Retirement Plan Contributions	55,422	4,993	10,491	11,074	28,864	
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP (2)	73,301		34,481			38,820
Total	$ 663,827	$ 295,511	$ 270,404	$ 20,749	$ 38,343	$ 38,820

(1) Long-Term Debt Obligations include current maturities.

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

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance decreased $300.8 million in 2011 from 2010 to $754.6 million. Cash activity for 2011, 2010 and 2009 was as follows:

	2011	2010	2009 (in millions)	2010-2011 Change	2009-2010 Change
Cash provided by operating activities:					
Income from continuing operations, adjusted for non cash items	$ 372.6	$ 508.6	$ 35.5	$ (136.0)	$ 473.1
Change in operating assets and liabilities, net of businesses sold and acquired	(94.0)	52.7	78.9	(146.7)	(26.2)
Cash (used for) provided by discontinued operations	(4.8)	5.0	7.4	(9.8)	(2.4)
Total cash provided by operating activities	$ 273.8	$ 566.3	$ 121.8	$ (292.5)	$ 444.5
Cash used for investing activities from continuing operations	(120.5)	(627.7)	(93.3)	507.2	(534.4)
Cash provided by (used for) investing activities from discontinued operations	39.0		(0.6)	39.0	0.6
Total cash used for investing activities	$ (81.5)	$ (627.7)	$ (93.9)	$ 546.2	$ (533.8)
Total cash (used for) provided by financing activities	$ (16.3)	$ 42.4	$ 66.1	$ (58.7)	$ (23.7)
Total increase (decrease) of cash and cash equivalents	$ 176.0	$ (19.0)	$ 94.0	$ 195.0	$ (113.0)

In 2011, changes in operating assets and liabilities, net of businesses sold and acquired, used cash of $94.0 million. This was due to a $43.2 million decrease in operating assets and a $137.2 million decrease in operating liabilities.

The decrease in operating assets was due to a $66.4 million decrease in accounts receivable resulting from increased collections, partially offset by a $22.6 million increase in prepayments due primarily to supplier prepayments and a $0.6 million increase in inventories. The decrease in operating liabilities was due to a $62.6 million decrease in customer advance payments due to shipments of systems prepaid by customers, a $28.3 million decrease in accrued employee compensation due primarily to variable compensation payments, a $19.9 million decrease in accounts payable due to decreased sales volume, $11.9 million of retirement plan contributions, a $8.7 million decrease in accrued income taxes, and a $5.8 million decrease in deferred revenue.

Investing activities during 2011 used cash of $120.5 million. In October 2011, we completed the acquisition of LitePoint for an initial cash purchase price, net of cash acquired, of $537.5 million. Capital expenditures were $86.1 million. Proceeds from sales and maturities of marketable securities were $1,194.9 million, partially offset by $691.8 million used for purchase of marketable securities. The net proceeds were used to acquire LitePoint.

Financing activities during 2011 used cash of $16.3 million, due to the repurchase of 2.6 million shares of common stock for $31.2 million at an average price of $11.84 per share and $2.5 million for payments on long-term debt, partially offset by $17.4 million from the issuance of common stock under stock option and stock purchase plans.

In 2010, changes in operating assets and liabilities, net of businesses sold and acquired, provided cash of $52.7 million. This was due to a $38.2 million increase in operating assets and a $90.9 million increase in operating liabilities. The increase in operating assets was due to an increase in accounts receivable of $50.4 million due to higher sales volume, partially offset by a $3.7 million decrease in inventories, and a decrease in other current assets of $8.5 million. The increase in operating liabilities was due to a $57.7 million increase in customer advance payments due primarily to an advanced payment received from one of our Semiconductor Test customers, a $44.5 million increase in accrued employee compensation due to higher variable compensation, a $15.0 million increase in accounts payable, a $15.0 million increase in deferred revenue, an $8.5 million increase in accrued income taxes, and a $2.7 million increase in other accrued liabilities, partially offset by $52.5 million of retirement plan contributions.

Investing activities during 2010 used cash of $627.7 million, due to $870.8 million used for purchases of marketable securities and $76.0 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of $318.1 million, and proceeds from life insurance that provided cash of $1.1 million.

Financing activities during 2010 provided cash of $42.4 million due to $44.7 million from the issuance of common stock under stock option and stock purchase plans which was partially offset by $2.3 million of cash used for payments on long-term debt related to the Japan loan.

In 2009, changes in operating assets and liabilities, net of businesses sold and acquired, provided cash of $78.9 million. This was due to a decrease in operating assets of $42.7 million and an increase in operating liabilities of $36.2 million. The decrease in operating assets consisted mainly of a decrease in inventory of $63.2 million partially offset by an increase of $19.3 million in accounts receivable due to higher sales volume. The increase in operating liabilities consisted of an increase in advanced customer payments, accounts payable, deferred revenue and other accrued expenses of $51.5 million partially offset by retirement plan contributions of $15.3 million. The $43.3 million increase in deferred revenue and customer advances in 2009 is due to an advanced payment of approximately $68.2 million received from one of our Semiconductor Test customers. The customer received an incremental discount and also wanted to secure its position in our manufacturing slot plan. This increase in customer advances was partially offset by a $24.9 million decrease in deferred revenue.

Investing activities in 2009 used cash of $93.3 million due to investments in property, plant and equipment of $41.3 million, payment of transaction fees related to the Eagle Test acquisition of $3.7 million, and purchases of marketable securities of $90.4 million, partially offset by sales and maturities of marketable securities that provided cash of $41.0 million, and proceeds from life insurance policies that provided cash of $1.1 million.

During 2009, financing activities provided cash of $66.1 million due to approximately $163.0 million of net proceeds from the issuance of the senior convertible notes, $10.0 million of long-term debt proceeds from a loan in Japan, and $15.7 million from the issuance of common stock under stock option and stock purchase plans. These increases were partially offset by $122.5 million of cash used for the repayment of our revolving credit facility and $1.1 million of cash used for principal payment on long-term debt.

On April 6, 2009, we completed a registered public offering of $190.0 million aggregate principal amount convertible senior notes (Notes) and settled the related convertible bond hedge and warrant transaction and received approximately $163.0 million as a result of these financing transactions. The Notes bear interest at a rate of 4.50% per annum, payable semi- annually in arrears on March 15 and September 15 of each year. The first interest payment was on September 15, 2009. The Notes will mature on March 15, 2014, unless earlier repurchased by us or converted. The Notes may be converted, under certain circumstances and during certain periods, at an initial conversion rate of approximately 182.65 shares of our common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $5.48. The convertible note hedge and warrant transaction will generally have the effect of increasing the conversion price of the Notes to approximately $7.67 per share of our common stock, representing a 75% conversion premium based upon the closing price of our common stock on March 31, 2009. We may not redeem the Notes prior to their maturity. Holders of the Notes may require us to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving the Company.

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

Retirement Plans

ASC 715-20, *Compensation Retirement Benefits Defined Benefit Plans* requires an employer with defined benefit plans or other postretirement benefit plans to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plans as defined by ASC 715-20. The pension asset or liability represents the difference between the fair value of the pension plan s assets and the projected benefit obligation as of December 31. For other postretirement benefit plans, the liability is the difference between the fair value of the plan s assets and the accumulated postretirement benefit obligation as of December 31.

Our pension expense, which includes the U.S. Qualified Pension Plan (U.S. Plan), certain qualified plans for non-U.S. subsidiaries, and a U.S. Supplemental Executive Defined Benefit Plan, was approximately $15.0 million for the year ended December 31, 2011. The largest portion of our 2011 pension expense was $7.0 million for our U.S. Plan. Pension expense is calculated based upon a number of actuarial assumptions, a significant input to the actuarial models that measure pension benefit obligations. Discount rate and expected return on assets are two assumptions which are important elements of pension plan expense and asset/liability measurement. We evaluate these critical assumptions at least annually on a plan and country specific basis. We evaluate other assumptions related to demographic factors, such as retirement age, mortality and turnover periodically, and update them to reflect our experience and expectations for the future.

In developing the expected return on U.S. Plan assets assumption, we evaluated input from our investment managers and pension consultants, including their review of asset class return expectations. Based on this review, we believe that 5.5% was an appropriate rate to use for 2011. We will continue to evaluate the expected return on plan assets at least annually, and will adjust the rate as necessary. The December 31, 2011 asset allocation for our U.S. Plan is 87% invested in fixed income securities, 12% invested in equity securities, and 1% invested in other securities. Our investment managers regularly review the actual asset allocation and periodically rebalance the portfolio to ensure alignment with our targeted allocations.

We base our determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return on assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future value of assets will be impacted as previously deferred gains or losses are recognized. As of December 31, 2011, under the U.S. Plan, we had cumulative gains of approximately $23.3 million, which remain to be recognized in the calculation of the market-related value of assets. The discount rate that we utilized for determining future pension obligations for the U.S. Plan is based on the Citigroup Pension Index adjusted for the U.S. Plan s expected cash flows and was 4.2% at December 31, 2011, down from 5.3% at December 31, 2010. We estimate that in 2012 we will recognize approximately $12.4 million of pension expense for the U.S. Plan. The U.S. Plan related pension expense estimate for 2012 is based on a 4.2% discount rate, and 5.0% return on U.S. Plan assets. Future pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the employee population participating in our pension plans. As of December 31, 2011, we had unrecognized pension losses and prior service costs of $134.1 million, of which $117.7 million is for the U.S. Plan.

We performed a sensitivity analysis, which expresses the potential U.S. Plan expense for the year ending December 31, 2012, that would result from changes to either the discount rate or the expected return on plan assets.

	Discount Rate		
Return on Plan Assets	**3.7%**	**4.2%**	**4.7%**
		(in millions)	
4.5%	$ 15.2	$ 13.8	$ 12.4
5.0%	13.8	12.4	11.0
5.5%	12.3	10.9	9.5

The assets of the U.S. Plan consist primarily of fixed income and equity securities. The value of our U.S. Plan assets has increased from $275.7 million at December 31, 2010 to $319.1 million at December 31, 2011. Our funding policy is to make contributions to our pension plans in accordance with local laws and to the extent that such contributions are tax deductible. During 2011, we made a contribution of $1.7 million to the U.S. Supplemental Executive Defined Benefit Pension Plan and $8.5 million contribution to certain qualified plans for non-U.S. subsidiaries. We expect to contribute approximately $1.8 million to the U.S. Supplemental Executive Defined Benefit Pension Plan in 2012. Contributions that will be made in 2012 to certain qualified plans for non-U.S. subsidiaries are based on local statutory requirements and will be approximately $1.7 million. We do not expect to make any contributions to the U.S. Plan in 2012.

Equity Compensation Plans

In addition to our 1996 Employee Stock Purchase Plan discussed in Note N: Stock Based Compensation in Notes to Consolidated Financial Statements, we have the 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan) under which equity securities are authorized for issuance. The 2006 Equity Plan was approved by stockholders on May 25, 2006. The 2006 Equity Plan replaced our 1996 Non-Employee Director Stock Option Plan, our 1997 Employee Stock Option Plan, and our 1991 Employee Stock Option Plan, each of which were terminated upon the shareholders approval of the 2006 Equity Plan. We may not issue any additional option grants or awards under the terminated plans, but the options and awards previously granted and currently outstanding under these plans will remain in effect until the earlier of the date of their exercise, vesting or expiration, as applicable.

At our annual meeting of stockholders held May 28, 2009, our stockholders approved an amendment to the 2006 Equity Plan to increase the number of shares issuable thereunder by 10.0 million, for an aggregate of

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22.0 million shares issuable thereunder, and our stockholders also approved an amendment to our 1996 Employee Stock Purchase Plan to increase the number of shares issuable thereunder by 5.0 million, for an aggregate of 25.4 million shares issuable thereunder.

The following table presents information about these plans as of December 31, 2011 (share numbers in thousands):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column one)
Equity plans approved by shareholders	6,892(1)	$ 7.57	12,161(3)
Equity plans not approved by shareholders(4,5,6)	4,282(2)	$ 3.24	
Total	11,174	$ 4.12	12,161

(1) Includes 5,809,270 shares of restricted stock units that are not included in the calculation of the weighted average exercise price.

(2) Includes 29,230 shares of restricted stock units that are not included in the calculation of the weighted average exercise price.

(3) Consists of 8,205,367 securities available for issuance under the 2006 Equity Plan and 3,955,578 of securities available for issuance under the Employee Stock Purchase Plan.

(4) In connection with the acquisition of Nextest (the Nextest Acquisition), we assumed the options and restricted stock units granted under the Nextest Systems Corporation 1998 Equity Incentive Plan, as amended, and the Nextest Systems Corporation 2006 Equity Incentive Plan (collectively, the Nextest Plans). Upon the consummation of the Nextest Acquisition, these options and restricted stock units were converted automatically into, respectively, options to purchase and restricted stock units representing, an aggregate of 4,417,594 shares of our common stock. No additional awards will be granted under the Nextest Plans. As of December 31, 2011, there were outstanding options exercisable for an aggregate of 1,036,584 shares of our common stock pursuant to the Nextest Plans, with a weighted average exercise price of $3.05 per share. As of December 31, 2011, there were outstanding restricted stock units covering an aggregate of 29,230 shares of our common stock, none of which are included in the calculation of the weighted average exercise price.

(5) In connection with the acquisition of Eagle Test (the Eagle Acquisition), we assumed the options granted under the Eagle Test Systems, Inc. 2003 Stock Option and Grant Plan and the Eagle Test Systems, Inc. 2006 Stock Option and Incentive Plan (collectively, the Eagle Plans). Upon the consummation of the Eagle Acquisition, these options were converted automatically into options to purchase an aggregate of 3,594,916 shares of our common stock. No additional awards will be granted under the Eagle Plans. As of December 31, 2011, there were outstanding options exercisable for an aggregate of 257,879 shares of our common stock pursuant to the Eagle Plans, with a weighted average exercise price of $3.65 per share.

(6) In connection with the acquisition of LitePoint Corporation (the LitePoint Acquisition), we assumed the options granted under the LitePoint Corporation 2002 Stock Plan (the LitePoint Plan). Upon the consummation of the LitePoint Acquisition, these options were converted automatically into options to purchase an aggregate of 2,828,344 shares of our common stock. No additional awards will be granted under the LitePoint Plan. As of December 31, 2011, there were outstanding options exercisable for an aggregate of 2,771,821 shares of our common stock pursuant to the LitePoint Plan, with a weighted average exercise price of $2.71 per share.

The purpose of the 2006 Equity Plan is to motivate employees, officers, directors, consultants and advisors by providing equity ownership and compensation opportunities in Teradyne. The aggregate number of shares available under the 2006 Equity Plan as of December 31, 2011 was 12,160,945 shares of our common stock. The 2006 Equity Plan authorizes the grant of stock-based awards in the form of (1) non-qualified and incentive stock

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options, (2) stock appreciation rights, (3) restricted stock awards and restricted stock unit awards, (4) phantom stock, and (5) other stock-based awards. Awards may be tied to time-based vesting schedules and/or performance-based vesting measured by reference to performance criteria chosen by the Compensation Committee of the Board of Directors, which administers the 2006 Equity Plan. Awards may be made to any employee, officer, consultant and advisor of Teradyne and our subsidiaries, as well as, to our directors. The maximum number of shares of stock-based awards that may be granted to one participant during any one fiscal year is 2,000,000 shares of common stock. The 2006 Equity Plan will expire on May 24, 2016.

As of December 31, 2011, total unrecognized compensation expense related to non-vested awards and options totaled $60.3 million, and is expected to be recognized over a weighted average period of 2.6 years.

Performance Graph

The following graph compares the change in our cumulative total shareholder return in our common stock with each of (i) the Standard & Poor s 500 Index and (ii) the Morningstar Semiconductor Equipment & Materials Industry Group. The comparison assumes $100.00 was invested on December 31, 2006 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any.

	Annual Rate of Return				
	2007	**2008**	**2009**	**2010**	**2011**
Teradyne, Inc.	-31%	-59%	154%	31%	-3%
Morningstar Semiconductor Equipment & Materials	4%	-57%	67%	12%	-14%
S&P 500 Index	5%	-37%	26%	15%	2%

(1) This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any other filing under the Securities Act or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

(2) The stock price performance shown on the graph is not necessarily indicative of future price performance. Information used on the graph was obtained from Aon Hewitt Associates, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

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Recently Issued Accounting Pronouncements

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

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

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* This new guidance is intended to simplify goodwill impairment testing by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. This new guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted and we adopted the standard in the fourth quarter of 2011. The adoption did not have a material impact on our financial position or results of operations.

Item 7A: ***Quantitative and Qualitative Disclosures About Market Risks***
Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, forward currency contracts and accounts receivable. Our cash equivalents consist primarily of money market funds invested in U.S. Treasuries and government agencies. Our fixed income available-for-sale marketable securities have a minimum rating of AA by one or more of the major credit rating agencies. We place forward currency contracts with high credit-quality financial institutions in order to minimize credit risk exposure. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of geographically dispersed customers. We perform ongoing credit evaluations of our customers financial condition and from time to time may require customers to provide a letter of credit from a bank to secure accounts receivable.

Exchange Rate Risk Management

We regularly enter into foreign currency forward contracts to hedge the value of our net monetary assets in Euro, British Pound, Japanese Yen and the Taiwan Dollar. These foreign currency forward contracts have maturities of approximately one month. These contracts are used to reduce our risk associated with exchange rate movements, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. We do not engage in currency speculation.

We performed a sensitivity analysis assuming a hypothetical 10% fluctuation in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of December 31, 2011, 2010 and 2009, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

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Interest Rate Risk Management

We are exposed to potential loss due to changes in interest rates. Our interest rate exposure is primarily in the United States in short-term and long-term marketable securities.

In order to estimate the potential loss due to interest rate risk, a 10% fluctuation in interest rates was assumed. Market risk for the short and long-term marketable securities was estimated as the potential change in the fair value resulting from a hypothetical change in interest rates for securities contained in the investment portfolio. The potential change in fair value from changes in interest rates is immaterial as of December 31, 2011 and 2010.

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Item 8: ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Teradyne, Inc. (the Company):

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Teradyne, Inc. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Controls over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management s Annual Report on Internal Controls over Financial Reporting appearing under Item 9A, management has excluded LitePoint Corporation from its assessment of internal control over financial reporting as of December 31, 2011 because it was acquired by the Company in a purchase business combination on October 5, 2011. We have also excluded LitePoint Corporation from our audit of internal control over financial reporting. LitePoint Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2011.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 29, 2012

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TERADYNE, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010

	2011	2010
	(in thousands, except per share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 573,736	$ 397,737
Marketable securities	96,502	409,061
Accounts receivable, less allowance for doubtful accounts of $4,102 and $3,752 in 2011 and 2010, respectively	129,330	168,756
Inventories:		
Parts	109,315	78,109
Assemblies in process	33,856	16,013
Finished goods	16,892	22,719
	160,063	116,841
Deferred tax assets	53,948	22,730
Prepayments and other current assets	86,308	52,780
Current assets from discontinued operations		8,713
Total current assets	1,099,887	1,176,618
Property, plant and equipment:		
Land	16,561	16,561
Buildings and improvements	131,743	130,091
Machinery and equipment	648,610	625,649
Construction in progress	1,280	1,073
Total property, plant and equipment	798,194	773,374
Less: Accumulated depreciation	565,987	542,266
Net property, plant and equipment	232,207	231,108
Marketable securities	84,407	248,696
Retirement plans assets	8,840	13,981
Intangible assets, net	392,975	122,941
Goodwill	352,778	
Other assets	17,545	16,542
Long-term assets from discontinued operations		469
Total assets	$ 2,188,639	$ 1,810,355
LIABILITIES		
Current liabilities:		
Accounts payable	69,842	81,142
Accrued employees compensation and withholdings	90,427	105,374
Deferred revenue and customer advances	78,670	105,568
Contingent consideration	68,892	
Other accrued liabilities	62,420	57,145
Accrued income taxes	860	8,465
Current debt	2,573	2,450
Current liabilities from discontinued operations		3,560
Total current liabilities	373,684	363,704

Long-term deferred revenue and customer advances	33,541	71,558
Retirement plans liabilities	76,638	72,071
Deferred tax liabilities	16,049	9,849
Long-term other accrued liabilities	23,711	19,448
Long-term debt	159,956	150,182
Long-term liabilities of discontinued operations		1,355
Total liabilities	683,579	688,167
Commitments and contingencies (Note J)		
SHAREHOLDERS EQUITY		
Common stock, $0.125 par value, 1,000,000 shares authorized, 183,587 and 182,035 shares issued and outstanding at December 31, 2011 and 2010, respectively	22,948	22,755
Additional paid-in capital	1,293,130	1,269,525
Accumulated other comprehensive loss	(129,875)	(128,216)
Retained earnings (accumulated deficit)	318,857	(41,876)
Total shareholders equity	1,505,060	1,122,188
Total liabilities and shareholders equity	$ 2,188,639	$ 1,810,355

The accompanying notes are an integral part of the consolidated financial statements.

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TERADYNE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2011	2010	2009
	(in thousands, except per share amounts)		
Net revenues:			
Products	$ 1,160,191	$ 1,330,942	$ 576,547
Services	268,870	235,220	200,878
Total net revenues	1,429,061	1,566,162	777,425
Cost of revenues:			
Cost of products	577,066	591,508	370,907
Cost of services	138,302	118,688	107,072
Total cost of revenues	715,368	710,196	477,979
Gross profit	713,693	855,966	299,446
Operating expenses:			
Engineering and development	195,600	193,017	161,342
Selling and administrative	233,711	226,820	195,353
Acquired intangible assets amortization	40,465	29,250	32,296
Restructuring and other	8,203	(817)	35,309
Total operating expenses	477,979	448,270	424,300
Income (loss) from operations	235,714	407,696	(124,854)
Interest income	6,617	5,861	3,417
Interest expense and other, net	(23,694)	(24,451)	(22,447)
Income (loss) from continuing operations before income taxes	218,637	389,106	(143,884)
(Benefit) provision for income taxes	(129,256)	14,504	(8,521)
Income (loss) from continuing operations	347,893	374,602	(135,363)
Income from discontinued operations before income taxes	1,278	5,406	1,247
(Benefit) provision for income taxes	(267)	278	(279)
Income from discontinued operations	1,545	5,128	1,526
Gain on disposal of discontinued operations (net of tax $4,578)	24,371		
Net income (loss)	$ 373,809	$ 379,730	$ (133,837)
Income (loss) from continuing operations per common share:			
Basic	$ 1.88	$ 2.08	$ (0.78)
Diluted	$ 1.53	$ 1.71	$ (0.78)
Net income (loss) per common share:			
Basic	$ 2.02	$ 2.11	$ (0.77)

Diluted	$ 1.65	$ 1.73	$ (0.77)
Weighted average common shares basic	184,683	179,924	173,604
Weighted average common shares diluted	226,820	226,807	173,604

The accompanying notes are an integral part of the consolidated financial statements.

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TERADYNE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

Years Ended December 31, 2011, 2010 and 2009

	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Compre-hensive Loss	Retained Earnings (Accumulated Deficit)	Total Shareholders Equity	Compre-hensive Income (Loss)
				(in thousands)			
Balance, December 31, 2008	169,651	$ 21,206	$ 1,124,390	$ (148,108)	$ (287,769)	$ 709,719	
Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of $2,433	5,257	658	12,612			13,270	
Convertible note hedge			39,736			39,736	
Stock-based compensation expense			24,639			24,639	
Tax benefit related to stock options and restricted stock units			1,049			1,049	
Comprehensive income:							
Net loss					(133,837)	(133,837)	$ (133,837)
Unrealized gain on investments, net of tax of $0				2,779		2,779	2,779
Foreign currency translation adjustment				816		816	816
Actuarial gains arising during period, net of tax of $589				1,836		1,836	1,836
Amortization included in net periodic pension and postretirement costs:							
Actuarial losses, net of tax of $221				4,007		4,007	4,007
Prior service costs, net of tax of $0				565		565	565
Total comprehensive loss							$ (123,834)
Balance, December 31, 2009	174,908	21,864	1,202,426	(138,105)	(421,606)	664,579	
Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of $7,269	7,127	891	36,519			37,410	
Stock-based compensation expense			30,580			30,580	
Comprehensive income:							
Net income					379,730	379,730	$ 379,730
Unrealized gain on investments, net of tax of $0				1,559		1,559	1,559
Foreign currency translation adjustment				(349)		(349)	(349)
Actuarial gains arising during period, net of tax of $1,826				2,991		2,991	2,991
Amortization included in net periodic pension and postretirement costs:							
Actuarial losses, net of tax of $133				5,378		5,378	5,378
Prior service costs, net of tax of $0				310		310	310
Total comprehensive income							$ 389,619
Balance, December 31, 2010	182,035	22,755	1,269,525	(128,216)	(41,876)	1,122,188	
Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of $12,297	4,185	522	4,566			5,088	
Stock-based compensation expense			32,337			32,337	
Repurchase of common stock	(2,633)	(329)	(17,770)		(13,076)	(31,175)	
Stock options issued in purchase acquisition			4,472			4,472	
Comprehensive income:							
Net income					373,809	373,809	$ 373,809
Unrealized gain on investments, net of tax of $666				(3)		(3)	(3)
Foreign currency translation adjustment				2,266		2,266	2,266
				(9,496)		(9,496)	(9,496)

Actuarial losses arising during period, net of tax of $(3,427)							
Amortization included in net periodic pension and postretirement costs:							
Actuarial losses, net of tax of $3,385				5,560		5,560	5,560
Prior service costs, net of tax of $9				14		14	14
Total comprehensive income							$ 372,150
Balance, December 31, 2011	183,587	$ 22,948	$ 1,293,130	$ (129,875)	$ 318,857	$ 1,505,060	

The accompanying notes are an integral part of the consolidated financial statements.

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TERADYNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 373,809	$ 379,730	$ (133,837)
Less: Income from discontinued operations	1,545	5,128	1,526
Less: Gain on disposal of discontinued operations	24,371		
Income (loss) from continuing operations	347,893	374,602	(135,363)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Depreciation	51,040	52,810	58,594
Amortization	62,284	46,217	45,817
Provision for excess and obsolete inventory	11,601	5,971	24,812
Stock-based compensation	32,337	29,777	24,354
Non cash charge for the sale of inventories revalued at the date of acquisition	12,178		15,413
Revolving credit facility issue cost charge			2,488
Tax benefit related to stock options and restricted stock units			(1,049)
Deferred taxes	(146,669)	(3,670)	(2,745)
Other	1,911	2,907	3,225
Changes in operating assets and liabilities, net of businesses sold and acquired:			
Accounts receivable	66,367	(50,418)	(19,312)
Inventories	(615)	3,715	63,185
Other assets	(22,600)	8,460	(1,196)
Deferred revenue and customer advances	(68,359)	72,744	43,306
Accounts payable and other accrued expenses	(48,222)	62,201	7,928
Retirement plan contributions	(11,851)	(52,452)	(15,291)
Accrued income taxes	(8,727)	8,465	271
Net cash provided by continuing operations	278,568	561,329	114,437
Net cash (used for) provided by discontinued operations	(4,804)	4,957	7,428
Net cash provided by operating activities	273,764	566,286	121,865
Cash flows from investing activities:			
Investments in property, plant and equipment	(86,097)	(76,044)	(41,306)
Purchases of available-for-sale marketable securities	(691,802)	(870,777)	(90,369)
Proceeds from sales and maturities of available-for-sale marketable securities	1,194,869	291,740	38,036
Proceeds from sales of trading marketable securities		26,330	3,000
Proceeds from life insurance		1,091	1,076
Acquisition of businesses, net of cash acquired	(537,489)		(3,741)
Net cash used for continuing operations	(120,519)	(627,660)	(93,304)
Net cash provided by (used for) discontinued operations	39,062		(626)
Net cash used for investing activities	(81,457)	(627,660)	(93,930)
Cash flows from financing activities:			
Issuance of common stock under stock option and stock purchase plans	17,385	44,679	15,703
Payments of long-term debt	(2,518)	(2,305)	(1,069)
Net proceeds from long-term debt			172,914
Repayment of revolving credit facility			(122,500)
Tax benefit related to stock options and restricted stock units			1,049
Repurchase of common stock	(31,175)		

Net cash (used for) provided by financing activities	(16,308)	42,374	66,097
Increase (decrease) in cash and cash equivalents	175,999	(19,000)	94,032
Cash and cash equivalents at beginning of year	397,737	416,737	322,705
Cash and cash equivalents at end of year	$ 573,736	$ 397,737	$ 416,737
Supplementary disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 10,094	$ 9,745	$ 7,106
Income taxes payments (refunds)	$ 36,043	$ (2,091)	$ (5,838)

The accompanying notes are an integral part of the consolidated financial statements.

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TERADYNE, INC.

NOTES TO 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) systems,
- military/aerospace (Mil/Aero) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Commercial Board Test) systems (collectively these products represent Systems Test Group), and
- wireless test (Wireless Test) systems.

B. ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Teradyne and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated. Certain prior years amounts were reclassified to conform to the current year presentation.

Preparation of Financial Statements and Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, management evaluates its estimates, including those related to inventories, investments, goodwill, intangible and other long-lived assets, doubtful accounts, income taxes, deferred tax assets, pensions, warranties, and loss contingencies. Management bases its estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Revenue Recognition

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing non-software and software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for arrangements with multiple deliverables. Teradyne elected to early adopt this accounting guidance at the beginning of its first quarter of 2010 on a prospective basis. Adoption had no material impact on its financial position or results of operations in 2011 or 2010.

Teradyne recognizes revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to its customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, Teradyne defers revenue recognition until such events occur.

Teradyne s equipment has non-software and software components that function together to deliver the equipment s essential functionality. Revenue is recognized upon shipment or at delivery destination point, provided that customer acceptance criteria can be demonstrated prior to shipment. Certain contracts require Teradyne to perform tests of the product to ensure that performance meets the published product specifications or customer requested specifications, which are generally conducted prior to shipment. Where the criteria cannot be demonstrated prior to shipment, revenue is deferred until customer acceptance has been received. Teradyne also defers the portion of the sales price that is not due until acceptance, which represents deferred profit.

For multiple element arrangements, Teradyne allocates revenue to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of selling price (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (BESP). For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis and the delivery or performance of the undelivered item must be considered probable and substantially in Teradyne s control.

Teradyne s post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not affect the customers ability to use the product. Teradyne defers revenue for the selling price of installation and training. Extended warranties constitute warranty obligations beyond one year and Teradyne defers revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-20, *Separately Priced Extended Warranty and Product Maintenance Contracts.*

Teradyne s products are generally subject to warranty and related costs of the warranty are provided for in cost of revenue when product revenue is recognized. Teradyne classifies shipping and handling costs in cost of revenue. Service revenue is recognized over the contractual period or as the services are performed.

Teradyne generally does not provide its customers with contractual rights of return for any of its products.

For transactions involving the sale of software, revenue is recognized in accordance with ASC 985-605, *Software Revenue Recognition.* Teradyne recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectability is probable. In instances where an arrangement contains multiple elements, revenue related to the undelivered elements is deferred to the extent that vendor-specific objective evidence of fair value (VSOE) exists for such elements. In instances where VSOE does not exist for one or more of the undelivered elements of an arrangement, all revenue related to the arrangement is deferred until all elements have been delivered. VSOE is the price charged when the element is sold separately. Revenue for the separate elements is only recognized where the functionality of the undelivered element is not essential to the delivered element.

For certain contracts eligible for contract accounting under ASC 605-35, *Revenue Recognition Construction-Type and Production-Type Contracts,* revenue is recognized using the percentage-of-completion accounting method based upon the percentage of incurred costs to estimated total costs. These arrangements require significant production, modification or customization. In all cases, changes to total estimated costs and anticipated losses, if any, are recognized in the period in which they are determined. With respect to contract change orders, claims or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. Such amounts are only included in the contract value when they can be reliably estimated and realization is reasonably assured, generally upon receipt of a customer approved change order. As of December 31, 2011 and 2010, Teradyne had $1.1 million and $0.1 million, respectively, in unbilled amounts on long-term contracts included in accounts receivable. These amounts will be billed on a milestone basis in accordance with contractual terms.

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As of December 31, 2011 and 2010, deferred revenue and customer advances consisted of the following and are included in the short and long-term deferred revenue and customer advances:

	2011	2010
	(in thousands)	
Customer advances	$ 70,001	$ 132,559
Maintenance, training and extended warranty	33,953	36,626
Undelivered elements	7,939	5,858
Acceptance	318	2,083
Total deferred revenue and customer advances	$ 112,211	$ 177,126

Product Warranty

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

	Amount (in thousands)
Balance at December 31, 2008	$ 7,552
Accruals for warranties issued during the period	7,950
Accruals related to pre-existing warranties	(769)
Settlements made during the period	(8,298)
Balance at December 31, 2009	6,435
Accruals for warranties issued during the period	17,084
Accruals related to pre-existing warranties	(1,338)
Settlements made during the period	(12,295)
Balance at December 31, 2010	9,886
Acquisition	327
Accruals for warranties issued during the period	13,167
Accruals related to pre-existing warranties	(2,689)
Settlements made during the period	(12,538)
Balance at December 31, 2011	$ 8,153

When Teradyne receives revenue for extended warranties, beyond one year, it is deferred and recognized on a straight-line basis over the contract period. Related costs are expensed as incurred. The balance below is included in short and long-term deferred revenue and customer advances.

	Amount (in thousands)
Balance at December 31, 2008	$ 6,604
Deferral of new extended warranty revenue	2,552
Recognition of extended warranty deferred revenue	(4,694)
Balance at December 31, 2009	4,462

Deferral of new extended warranty revenue		7,696
Recognition of extended warranty deferred revenue		(3,186)
Balance at December 31, 2010		8,972
Acquisition		3,151
Deferral of new extended warranty revenue		8,659
Recognition of extended warranty deferred revenue		(8,040)
Balance at December 31, 2011	$	12,742

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Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The volatility of the industries that Teradyne serves can cause certain of its customers to experience shortages of cash flows, which can impact their ability to make required payments. Teradyne maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Estimated allowances for doubtful accounts are reviewed periodically taking into account the customer s recent payment history, the customer s current financial statements and other information regarding the customer s credit worthiness. Account balances are charged off against the allowance when it is determined the receivable will not be recovered.

Inventories

Inventories, which include materials, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out basis) or net realizable value. On a quarterly basis, Teradyne uses consistent methodologies to evaluate all inventories for net realizable value. Teradyne records a provision for both excess and obsolete inventory when such write-downs or write-offs are identified through the quarterly review process. The inventory valuation is based upon assumptions about future demand, product mix and possible alternative uses.

Investments

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities.* ASC 320-10 requires that certain debt and equity securities be classified into one of three categories; trading, available-for-sale or held-to-maturity securities. On a quarterly basis, Teradyne reviews its investments to identify and evaluate those that have an indication of a potential other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include:

- The length of time and the extent to which the market value has been less than cost;
- The financial condition and near-term prospects of the issuer; and
- The intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

As 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. Teradyne uses the market and income approach techniques to value its financial instruments and there were no changes in valuation techniques during the years ended December 31, 2011, 2010 and 2009. ASC 820-10 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.

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.

In accordance with ASC 820-10, Teradyne measures its debt and equity investments at fair value. Teradyne s debt and equity investments are primarily classified within Level 2 with the exception of Teradyne s investments in auction rate securities and contingent consideration, which were classified within Level 3.

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Teradyne s investments in auction rate securities were classified within Level 3 because there were no active markets for the auction rate securities and therefore Teradyne was unable to obtain independent valuations from market sources. The valuation technique used under Level 3 consisted of a discounted cash flow analysis which included numerous factors, such as type of security, tax status, credit quality, duration, insurance and the portfolio composition as well as observable market data including yield or spreads of trading instruments. Teradyne determines the fair value of acquisition-related contingent consideration based on assessment of the probability that it would be required to make such payment.

Goodwill, Intangible and Long-Lived Assets

Teradyne accounts for goodwill and intangible assets in accordance with ASC 350-10, *Intangibles- Goodwill and Other.* Intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment at least annually in the fourth quarter, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. In September 2011, the FASB issued new guidance which provides an entity with the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If an entity determines this is the case, it is required to perform the two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized. If an entity determines that this is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amounts, the two-step goodwill impairment test is not required. This new guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. Teradyne adopted this guidance as of the fourth quarter of 2011.

Applying this new accounting guidance, Teradyne performed a qualitative assessment of its reporting unit and determined that is was not more-likely-than-not that the fair value of its reporting unit was less than its carrying amount.

In accordance with ASC 360-10*, Impairment or Disposal of Long-Lived Assets,* Teradyne reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. The cash flow estimates used to determine the impairment, if any, contain management s best estimates using appropriate assumptions and projections at that time.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the assets. Leasehold improvements and major renewals are capitalized and included in property, plant and equipment accounts while expenditures for maintenance and repairs and minor renewals are charged to expense. When assets are retired, the assets and related allowances for depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in operations.

Teradyne provides for depreciation of its assets principally on the straight-line method with the cost of the assets being charged to expense over their useful lives as follows:

Buildings	40 years
Building improvements	5 to 10 years
Leasehold improvements	Lesser of lease term or useful life
Furniture and fixtures	10 years
Test systems manufactured internally	6 years
Machinery and equipment	3 to 5 years
Software	3 to 5 years

Test systems manufactured internally are used by Teradyne for customer evaluations and manufacturing and support of its customers. Teradyne depreciates the test systems manufactured internally over a six-year life to

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cost of revenues and selling and administrative expenses. Teradyne often sells internally manufactured test equipment to customers. Upon the sale of an internally manufactured test system, the net book value of the system is transferred to inventory and expensed as cost of revenues. The net book value of internally manufactured test systems sold in the years ended December 31, 2011, 2010 and 2009 was $7.8 million, $12.2 million and $14.5 million, respectively.

Engineering and Development Costs

Teradyne s products are highly technical in nature and require a large and continuing engineering and development effort. Software development costs incurred prior to the establishment of technological feasibility are charged to expense. Software development costs incurred subsequent to the establishment of technological feasibility are capitalized until the product is available for release to customers. To date, the period between achieving technological feasibility and general availability of the product has been short and software development costs eligible for capitalization have not been material. Engineering and development costs are expensed as incurred and consist primarily of salaries, contractor fees, building costs, depreciation, and tooling costs.

Stock Compensation Plans and Employee Stock Purchase Plan

Equity Plans and Employee Stock Purchase Plan

Stock-based compensation expense is based on the grant-date fair value estimated in accordance with the provisions of ASC 718-10 *Compensation Stock Compensation*. As required by ASC 718-10, Teradyne has made an estimate of expected forfeitures and is recognizing compensation costs only for those stock-based compensation awards expected to vest.

Under its stock compensation plans, Teradyne has granted stock options and restricted stock units, and employees are eligible to purchase Teradyne s common stock through its Employee Stock Purchase Plan (ESPP).

Stock options to purchase Teradyne s common stock at 100% of the fair market value on the grant date generally vest in equal installments over four years from the grant date and have a maximum term of seven years.

Restricted stock unit awards granted to employees vest in equal annual installments over four years. Restricted stock unit awards granted to non-employee directors vest after a one year period, with 100% of the award vesting on the first anniversary of the grant date. A portion of restricted stock unit awards granted to executive officers is subject to time-based vesting and a portion of the 2011 and 2010 awards are subject to performance-based vesting. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting will be forfeited. Restricted stock units do not have common stock voting rights, and the shares underlying the restricted stock units are not considered issued and outstanding until they become vested. Teradyne expenses the cost of the restricted stock unit awards subject to time-based vesting, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse.

Under the ESPP, eligible employees may purchase shares of common stock through regular payroll deductions of up to 10% of their eligible compensation, to a maximum of shares with a fair market value of $25,000 per calendar year, not to exceed 6,000 shares. The price paid for the common stock is equal to 85% of the lower of the fair market value of Teradyne s common stock on the first business day and the last business day of the purchase period. There are two six-month purchase periods in each fiscal year.

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The effect to income (loss) from continuing operations for recording stock-based compensation for the years ended December 31 was as follows:

	2011	2010	2009
		(in thousands)	
Cost of revenue	$ 7,097	$ 6,536	$ 4,138
Engineering and development	10,001	9,209	7,648
Selling and administrative	15,239	14,032	12,568
Stock-based compensation	32,337	29,777	24,354
Income tax benefit			(1,049)
Total stock-based compensation expense after income taxes	$ 32,337	$ 29,777	$ 23,305

Valuation Assumptions

The total number of stock options granted in 2011, 2010 and 2009 were 0.1 million, 0.3 million and 1.1 million, respectively, at the weighted average grant date fair value of $6.74, $4.10 and $1.97, respectively. The fair value of the stock options at grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2011	2010	2009
Expected life (years)	4.00	4.75	4.75
Interest rate	1.5%	2.4%	1.6%
Volatility-historical	52.1%	48.8%	44.9%
Dividend yield	0.0%	0.0%	0.0%

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

The weighted-average fair value of employee stock purchase rights granted pursuant to the ESPP in the first and last six months of 2011 was $3.66 and $4.01, respectively, the first and last six months of 2010 was $3.05 and $2.77, respectively, and the first and last six months of 2009 was $1.66 and $2.49, respectively. The fair value of the employees purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2011	2010	2009
Expected life (years)	0.5	0.5	0.5
Interest rate	0.1%	0.2%	0.3%
Volatility-historical	41.0%	48.0%	73.6%
Dividend yield	0.0%	0.0%	0.0%

As of December 31, 2011, there were 4.0 million shares available for grant under the ESPP.

Income Taxes

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

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Advertising Costs

Teradyne expenses all advertising costs as incurred. Advertising costs were $1.0 million, $0.6 million and $0.7 million in 2011, 2010 and 2009, respectively.

Translation of Non-U.S. Currencies

The functional currency for all non-U.S. subsidiaries is the U.S. dollar. All foreign currency denominated monetary assets and liabilities are re-measured on a monthly basis into the functional currency using exchange rates in effect at the end of the period. All foreign currency denominated non-monetary assets and liabilities are re-measured into the functional currency using historical exchange rates. Net foreign exchange gains and losses resulting from re-measurement are included in interest expense and other and were a gain of $0.9 million, a gain of $2.5 million and a loss of $1.3 million, respectively, for the years ended December 31, 2011, 2010 and 2009. These amounts do not reflect the corresponding gain (loss) from foreign exchange contracts. See Note F: Financial Instruments regarding foreign exchange contracts. Revenue and expense amounts are translated using an average of exchange rates in effect during the period.

Net Income (Loss) per Common Share

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

Prior to the fourth quarter of 2010, net income for diluted net income (loss) per share includes an impact of convertible notes that represents interest expense that would have not been recorded if the notes converted at the beginning of the period. Dilutive potential common shares include incremental shares from assumed conversion of the convertible notes and the convertible notes hedge warrant shares. Incremental shares from assumed conversion of the convertible notes are calculated using the difference between the average Teradyne stock price for the period and the conversion price of $5.48, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period. Convertible notes hedge warrant shares are calculated using the difference between the average Teradyne stock price for the period and the warrant price of $7.67, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period. Teradyne s call option for 34.7 million shares at an exercise price of $5.48 is not used in the GAAP earnings per share calculation as its effect would be anti-dilutive.

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

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss), unrealized pension gains and losses, unrealized gains and losses on certain investments in debt and equity securities and cumulative translation adjustments.

C. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareowners equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. This ASU requires changes in presentation only and Teradyne does not expect it will have a material impact on its consolidated financial statements.

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

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* This new guidance is intended to simplify goodwill impairment testing by allowing companies to first assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the current two-step goodwill impairment test. This new guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted and Teradyne adopted the standard in the fourth quarter of 2011. The adoption did not have a material impact on Teradyne s financial position or results of operations.

D. Discontinued Operations

On March 21, 2011, Teradyne completed the sale of its Diagnostic Solutions business unit, which was included in the Systems Test Group segment, to SPX Corporation for $40.2 million in cash. Teradyne sold this business as its growth potential as a stand-alone business within Teradyne was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations for all periods presented. Net revenues and income from discontinued operations for the years ended December 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
		(in thousands)	
Net revenues	$ 9,086	$ 42,488	$ 41,982
Income from discontinued operation before income taxes	$ 1,278	$ 5,406	$ 1,247
Gain from disposal of discontinued operation before income taxes	28,949		
Income tax provision (benefit)	4,311	278	(279)
Income from discontinued operations	$ 25,916	$ 5,128	$ 1,526

E. ACQUISITIONS

Business

LitePoint Corporation

On October 5, 2011, Teradyne completed its acquisition of LitePoint Corporation (LitePoint) located in Sunnyvale, California. The total purchase price of $646.0 million consisted of $572.7 million of cash paid to acquire the outstanding common and preferred stock of LitePoint, $68.9 million in fair value of contingent consideration payable upon achievement of certain revenue targets through 2012 (the estimated undiscounted

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range of outcomes for the contingent consideration is $62.0 million to $74.0 million) and $4.5 million in fair value of assumed vested stock options, which were converted into stock options to purchase Teradyne s common stock. The fair value of stock options was estimated using the following weighted average assumptions:

Expected life (years)	6.2
Expected volatility	49.1%
Risk-free interest rate	1.3%
Dividend yield	0.0%

The liability of $68.9 million arising from the contingent consideration is recorded as of December 31, 2011 and there has been no change to the acquisition date amount recognized, nor any change in the range of outcomes or assumptions used to develop the fair value. Teradyne expects the majority of this liability to be paid over the next twelve months.

LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi enabled devices. LitePoint s IQ product line consists of cellular and connectivity test solutions used by developers and manufacturers of wireless devices and consumer electronics. LitePoint is Teradyne s Wireless Test operating and reportable segment.

The LitePoint 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 LitePoint 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 assets and assumed liabilities. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of $352.8 million was allocated to goodwill, which is not deductible for tax purposes. The purchase price allocation below reflects this adjustment. The following represents the allocation of the purchase price:

	Purchase Price Allocation (in thousands)
Goodwill	$ 352,778
Other intangible assets	310,500
Tangible assets acquired and liabilities assumed:	
Cash, cash equivalents and short term marketable securities	61,250
Other current assets	72,109
Non-current assets	5,838
Accounts payable and current liabilities	(37,177)
Long-term deferred tax liabilities	(115,463)
Other long-term liabilities	(3,788)
Total purchase price	$ 646,047

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

	Fair Value (in thousands)	Estimated Useful Life (in years)
Developed technology	$ 237,100	6.4
Customer relationships	53,700	7.0
Tradenames	19,000	7.0
Customer backlog	700	0.3

Total intangible assets	$	310,500	6.5

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For the period from October 5, 2011 to December 31, 2011, LitePoint contributed $28.4 million of revenues and had a $(20.6) million loss from continuing operations before taxes.

The following unaudited pro forma information gives effect to the acquisition of LitePoint as if the acquisition occurred on January 1, 2010. The unaudited 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 Year Ended	
	December 31, 2011	December 31, 2010
	(in thousands, except per share amounts)	
Revenue	$ 1,527,044	$ 1,652,153
Income from continuing operations	$ 329,461	$ 304,459
Net income	$ 355,377	$ 309,882
Income from continuing operations per common share:		
Basic	$ 1.78	$ 1.69
Diluted	$ 1.44	$ 1.40
Net income per common share:		
Basic	$ 1.92	$ 1.72
Diluted	$ 1.55	$ 1.42

The pro forma results above include non recurring expenses related to acquired inventory fair value adjustment of $18.3 million and $13.3 million of transaction fees incurred by both, Teradyne & LitePoint.

During the year ended December 31, 2011, Teradyne recorded $4.6 million of charges related to acquisition costs. These charges are included in restructuring and other.

F. FINANCIAL INSTRUMENTS

Cash Equivalents

Teradyne considers all highly liquid investments with maturities of three months or less at the date of acquisition to be cash equivalents.

Marketable Securities

Teradyne classifies investments in marketable securities as trading, available-for-sale or held-to-maturity at the time of purchase and periodically re-evaluates such classification. There were no securities classified as held-to-maturity or trading at December 31, 2011 or 2010. At December 31, 2011 and 2010, Teradyne s investments in equity and debt mutual funds, commercial paper, corporate debt securities and U.S. Treasury and government agency securities were classified as available-for-sale securities. Securities classified as available-for-sale are reported at fair value. Realized gains are recorded in interest income. Realized losses and other-than-temporary unrealized losses on available-for-sale securities are included in interest expense and other. For the year ended December 31, 2009, Teradyne recorded realized losses of $2.1 million on the sale of its marketable securities. There were no realized losses recorded in 2011 and 2010. Unrealized gains and losses are included in accumulated other comprehensive income (loss). The cost of securities sold is based on the specific identification method.

As a result of Teradyne s November 14, 2008 acquisition of Eagle Test, Teradyne acquired $26.5 million of auction rate securities (ARS) at fair value ($30.0 million par value). In addition, Teradyne acquired (1) the right (UBS Put) to sell its ARS back to UBS at par plus interest, at its sole discretion, during a two-year period beginning on June 30, 2010, and (2) received an option to borrow up to 75% of the fair value of the ARS at no cost. The ARS portfolio was repurchased by UBS in 2010 and Teradyne no longer owns any ARS securities. During 2009, Teradyne recorded a net gain of $0.7 million in interest income in its consolidated statement of operations for the changes in the ARS fair value. During 2009, Teradyne recorded a $0.5 million loss in interest expense for a decrease in the fair value of the UBS Put, which was subsequently exercised in June 2010.

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

	December 31, 2011			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets				
Available for sale securities:				
Money market funds	$ 396,329	$	$	$ 396,329
U.S. government agency securities		83,197		83,197
Corporate debt securities		44,829		44,829
Commercial paper		29,924		29,924
Certificates of deposit and time deposits		16,432		16,432
U.S. Treasury securities	14,180			14,180
Equity and debt mutual funds	8,237			8,237
Non-U.S. government securities	274			274
Total	$ 419,020	$ 174,382	$	$ 593,402
Liabilities				
Derivatives	$	$ 314	$	$ 314
Contingent consideration			68,892	68,892
Total	$	$ 314	$ 68,892	$ 69,206

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	$ 396,329	$ 16,164	$	$ 412,493
Marketable securities	9,044	87,458		96,502
Long-term marketable securities	13,647	70,760		84,407
	$ 419,020	$ 174,382	$	$ 593,402
Liabilities				
Other accrued liabilities	$	$ 314	$	$ 314
Contingent consideration			68,892	68,892
		$ 314	$ 68,892	$ 69,206

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

Reported as follows:

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

Changes in the fair value of Level 3 financial assets for the year ended December 31, 2011 and 2010 were as follows:

	Long-Term Auction Rate Securities	Long-Term UBS Put
	(in thousands)	
Balance at December 31, 2009	$ 23,649	$ 2,830
Sale of auction rate securities and exercise of UBS Put	(23,849)	(2,687)
Change in unrealized gain included in earnings	200	

Change in unrealized loss included in earnings		(143)
Balance at December 31, 2010 and 2011	$	$

Changes in the fair value of Level 3 contingent consideration for the year ended December 31, 2011 were as follows:

	Contingent Consideration (in thousands)
Balance at December 31, 2010	$
Acquisition of LitePoint	68,892
Balance at December 31, 2011	$ 68,892

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

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

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

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

Teradyne determined that it did not intend to hold certain 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 $0.7 million in the years ended December 31, 2009 primarily related to mortgage and asset backed debt securities.

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

	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Cash equivalents	$ 412,493	$ 412,493	$ 276,450	$ 276,450
Marketable securities	180,909	180,909	657,757	657,757
Convertible debt (1)	156,098	485,925	144,059	506,350
Japan loan	6,431	6,431	8,573	8,573

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

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

At December 31, 2011 and 2010, these investments are reported as follows:

	December 31, 2011				
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
Money market funds	$ 396,329	$	$	$ 396,329	$
U.S. government agency securities	83,070	152	(25)	83,197	28,510
Corporate debt securities	43,077	1,893	(141)	44,829	17,033
Commercial paper	29,932	2	(10)	29,924	9,479
Certificates of deposit and time deposits	16,437		(5)	16,432	5,800
U.S. Treasury securities	14,141	39		14,180	
Equity and debt mutual funds	7,876	477	(116)	8,237	3,749
Non-U.S. government securities	274			274	

	$ 591,136		$	2,563	$	(297)	$	593,402	$	64,571

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Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
Cash and cash equivalents	$ 412,493	$	$	$ 412,493	$
Marketable securities	96,518	24	(40)	96,502	35,595
Long-term marketable securities	82,125	2,539	(257)	84,407	28,976
	$ 591,136	$ 2,563	$ (297)	$ 593,402	$ 64,571

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

Reported as follows:

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

The contractual maturities of investments held at December 31, 2011 were as follows:

	Fair Value

	(in thousands)
Due within one year	$ 508,995
Due after 1 year through 5 years	64,320
Due after 5 years through 10 years	3,526
Due after 10 years	16,561
Total	$ 593,402

As of December 31, 2011, the fair market value of investments with unrealized losses totaled $64.6 million. Of this value, $2.4 million had unrealized losses for greater than one year and $62.2 million had unrealized losses for less than one year. As of December 31, 2010, the fair market value of investments with unrealized losses totaled $185.3 million. Of this value, $5.0 million had unrealized losses for greater than one year and $180.3 million had unrealized losses for less than one year. Teradyne reviews its investments to identify and evaluate

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investments that have an indication of possible impairment. Based on this review, Teradyne determined that the unrealized losses related to these investments, at December 31, 2011 and 2010, were temporary.

Derivatives

Teradyne conducts business in a number of foreign countries, with certain transactions denominated in local currencies. The purpose of Teradyne s foreign currency management is to minimize the effect of exchange rate fluctuations on certain foreign currency denominated net monetary assets. Teradyne does not use derivative financial instruments for trading or speculative purposes.

To minimize the effect of exchange rate fluctuations associated with the remeasurement of net monetary assets denominated in foreign currencies, Teradyne enters into foreign currency forward contracts. The change in fair value of these derivatives is recorded directly in earnings, and is used to offset the change in value of the net monetary assets denominated in foreign currencies.

At December 31, 2011 and 2010, Teradyne had the following contracts to buy and sell non-U.S. currencies for U.S. dollars and other non-U.S. currencies with the following notional amounts:

	December 31, 2011			December 31, 2010		
	Buy Position	Sell Position	Net Total	Buy Position	Sell Position	Net Total
			(in millions)			
Japanese Yen	$	$ 50.8	$ 50.8	$	$ 10.6	$ 10.6
Taiwan Dollar	(0.8)	6.3	5.5	(1.4)	8.6	7.2
British Pound Sterling		10.1	10.1	(11.6)	7.6	(4.0)
Euro	(15.2)	2.1	(13.1)	(22.7)	20.1	(2.6)
Total	$ (16.0)	$ 69.3	$ 53.3	$ (35.7)	$ 46.9	$ 11.2

The fair value of the outstanding contracts was $0.3 million and $0.6 million at December 31, 2011 and 2010, respectively, which represented unrealized losses on the outstanding contracts.

In 2011 and 2010, Teradyne recorded net realized losses of $1.3 million and $2.3 million, respectively, related to foreign currency forward contracts hedging net monetary positions. In 2009, Teradyne recorded net realized gains of $1.6 million related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in interest expense and other.

The following table summarizes the fair value of derivative instruments as of December 31, 2011 and 2010:

	Balance Sheet Location	December 31, 2011	December 31, 2010
		(in thousands)	
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other accrued liabilities	$ 314	$ 632
Total derivatives		$ 314	$ 632

The following table summarizes the effect of derivative instruments in the statement of operations recognized for the years ended December 31, 2011, 2010 and 2009 (the table does not reflect the corresponding (loss) gain from the remeasurement of the balance sheet):

	Location of (Losses) Gains Recognized in Statement of Operations	December 31, 2011	December 31, 2010	December 31, 2009
			(in thousands)	
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Interest expense and other	$ (1,327)	$ (2,289)	$ 1,590
Total derivatives		$ (1,327)	$ (2,289)	$ 1,590

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See Note G: Debt regarding derivatives related to the convertible senior notes.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, forward currency contracts and accounts receivable. Teradyne s cash equivalents consist primarily of money market funds invested in U.S. Treasuries and government agencies. Teradyne s fixed income available-for-sale marketable securities have a minimum rating of AA by one or more of the major credit rating agencies. Teradyne places foreign currency forward contracts with high credit-quality financial institutions in order to minimize credit risk exposure. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of geographically dispersed customers. Teradyne performs ongoing credit evaluations of its customers financial condition and from time to time may require customers to provide a letter of credit from a bank to secure accounts receivable.

G. DEBT

Long-term debt at December 31, 2011 and 2010 consisted of the following:

	2011	2010
	(in thousands)	
Convertible senior notes	$ 156,098	$ 144,059
Japan loan	6,431	8,573
Total debt	162,529	152,632
Current portion of long-term debt	2,573	2,450
Long-term debt	$ 159,956	$ 150,182

The debt principal payments for the next 5 years and thereafter are as follows:

Payments Due by Period	Debt Principal Payment
	(in thousands)
2012	$ 2,573
2013	2,571
2014	191,286
2015	
2016	
Beyond 2016	
Total	$ 196,430

Loan Agreement

On March 31, 2009, Teradyne K.K., Teradyne s wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately $10.0 million (the loan is denominated in Japanese Yen). The loan has a term of 5 years and a fixed interest rate of 1.4%. Approximately $6.0 million of the loan is collateralized by a real estate mortgage on Teradyne K.K. s building and land in Kumamoto, Japan (which had a net book value of $11.1 million as of December 31, 2011) and approximately $4.0 million is unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The loan is amortized over the term of the loan with semi-annual principal payments of approximately $1 million payable on September 30 and March 30 each year. At December 31, 2011, approximately $2.6 million of the outstanding loan principal is included in current debt and approximately $3.8 million is classified as long-term debt.

Convertible Senior Notes

On March 31, 2009, Teradyne entered into an underwriting agreement regarding a public offering of $175.0 million aggregate principal amount of 4.50% convertible senior notes due March 15, 2014 (the Notes). On April 1, 2009, the underwriters exercised their option to purchase an additional $15.0 million aggregate principal amount of the Notes for a total aggregate principal amount of $190.0 million. The Notes bear interest at a rate of 4.50% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2009. The Notes will mature on March 15, 2014, unless earlier repurchased by Teradyne or converted. The Notes are senior unsecured obligations and rank equally with all of Teradyne s existing and future senior debt and senior to any of Teradyne s subordinated debt.

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

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding December 15, 2013, under the following circumstances: (1) during the five business-day period after any five consecutive trading day period (the measurement period) in which the price per Note for each day of that measurement period was less than 98% of the product of the last reported sale price of Teradyne s common stock and the conversion rate for such date; (2) during any calendar quarter, if the last reported sale price of Teradyne s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of certain specified events. Additionally, the Notes are convertible during the last three months prior to the March 15, 2014 maturity date. Upon conversion, holders will receive, at Teradyne s option, shares of Teradyne common stock, cash or a combination of cash and shares of Teradyne common stock, subject to Teradyne s option to irrevocably elect to settle all future conversions in cash up to the principal amount of the Notes and shares of common stock for any excess.

During each calendar quarter of 2011 and 2010, one of the above described circumstances that allows holders to convert their Notes at their option prior to December 15, 2013 had occurred (the last reported sale price of Teradyne s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter). As of February 29, 2012, no holders have exercised the option to convert their Notes.

Teradyne may not redeem the Notes prior to their maturity. Holders of the Notes may require Teradyne to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving Teradyne (which include, among others, the liquidation or dissolution of Teradyne, the acquisition of 50% or more of the total voting shares of Teradyne, certain mergers and consolidations, and the delisting of Teradyne s stock).

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

Separately, Teradyne entered into a warrant transaction with a strike price of approximately $7.67 per share, which is 75% higher than the closing price of Teradyne s common stock on March 31, 2009. The warrants will be net share settled and will cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of Teradyne s common stock. Teradyne received approximately $43.0 million for the warrants.

The convertible note hedge and warrant transaction will generally have the effect of increasing the conversion price of the Notes to approximately $7.67 per share of Teradyne s common stock, representing a 75% conversion premium based upon the closing price of Teradyne s common stock on March 31, 2009.

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On April 6, 2009, Teradyne completed its registered public offering of the $190.0 million aggregate principal amount convertible senior notes and settled the related convertible bond hedge and warrant transaction and received approximately $163.0 million as a result of these financing transactions.

Teradyne considered the guidance of ASC 815-40, *Derivatives and Hedging Contracts in Entity s Own Equity* and concluded that the convertible note hedge is both indexed to Teradyne s stock and should be classified in stockholders equity in its statement of financial position. The convertible note hedge is considered indexed to Teradyne s stock as the terms of the convertible note hedge do not contain an exercise contingency and the settlement amount equals the difference between the fair value of a fixed number of Teradyne s shares and a fixed strike price. Because the only variable that can affect the settlement amount is Teradyne s stock price, which is an input to the fair value of a fixed-for-fixed option contract, the convertible note hedge is considered indexed to Teradyne s stock.

Teradyne assessed whether the convertible note hedge should be classified as equity under ASC 815-40. In the convertible note hedge contract the settlement terms permit net cash settlement or net share settlement, at the option of Teradyne. Therefore, the criteria as set forth in ASC 815-40 were evaluated by Teradyne. In reviewing the criteria, Teradyne noted the following: (1) the convertible note hedge does not require Teradyne to issue shares; (2) there are no cash payments for failure to make timely filings with the SEC; (3) in the case of termination, the convertible note hedge is settled in the same consideration as the holders of the underlying stock; (4) the counterparty does not have rights that rank higher than those of a shareholder of the stock underlying the convertible note hedge; and (5) there is no requirement to post collateral. Based on its analysis of those criteria, Teradyne concluded that the convertible note hedge should be recorded in equity and no further adjustment should be made in future periods to adjust the value of the convertible note hedge.

Teradyne analyzed the warrant transaction under ASC 815-40, Derivatives and Hedging Contracts in Entity s Own Equity and other relevant literature, and determined that it met the criteria for classification as an equity transaction and is considered indexed to Teradyne s stock. As a result, Teradyne recorded the proceeds from the warrants as an increase to additional paid-in capital. Teradyne does not recognize subsequent changes in fair value of the warrant in its financial statements.

The provisions of ASC 470-20, *Debt with Conversion and Other Options* are applicable to the Notes. ASC 470-20 requires Teradyne to separately account for the liability (debt) and equity (conversion feature) components of the Notes in a manner that reflects Teradyne s nonconvertible debt borrowing rate at the date of issuance when interest cost is recognized in subsequent periods. Teradyne allocated $63.4 million of the $190.0 million principal amount of the Notes to the equity component, which represents a discount to the debt and will be amortized into interest expense using the effective interest method through March 2014. Accordingly, Teradyne s effective annual interest rate on the Notes will be approximately 14.5%. The Notes are classified as long-term debt in the balance sheet based on their March 15, 2014 maturity date. Debt issuance costs of approximately $4.1 million are being amortized to interest expense over the five year term of the Notes. As of December 31, 2011, debt issuance costs were approximately $1.8 million.

The below tables represent the key components of Teradyne s convertible senior notes:

	December 31, 2011	December 31, 2010
	(in thousands)	
Debt principal	$ 190,000	$ 190,000
Unamortized discount	33,902	45,941
Net carrying amount of the convertible debt	$ 156,098	$ 144,059

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	For the year ended December 31, 2011	December 31, 2010
	(in thousands)	
Contractual interest expense on the coupon	$ 8,550	$ 8,550
Amortization of the discount component and debt issue fees recognized as interest expense	12,853	11,319
Total interest expense on the convertible debt	$ 21,403	$ 19,869

As of December 31, 2011, the unamortized discount was $33.9 million, which will be amortized over approximately 2.25 years, and the carrying amount of the equity component was $63.4 million. As of December 31, 2011, the conversion rate was equal to the initial conversion price of approximately $5.48 per share and the if-converted value of the Notes was $473.0 million.

Revolving Credit Facility

On November 14, 2008, in connection with the acquisition of Eagle Test, Teradyne entered into a credit agreement (the Credit Agreement) among Teradyne, as borrower, a syndicate of banks and certain direct and indirect domestic subsidiaries of Teradyne. The Credit Agreement provided for a senior secured revolving credit facility of $122.5 million. On November 14, 2008 and December 31, 2008, Teradyne borrowed $100.0 million and $22.5 million, respectively. The weighted average interest rate on the outstanding amount was 5.4% at December 31, 2008. Teradyne incurred $2.8 million in costs related to the revolving credit facility. These costs were being amortized over the three year term of the revolving credit facility.

On April 7, 2009, Teradyne repaid and terminated its revolving credit facility agreement. Teradyne used approximately $123.3 million of the net proceeds of the convertible senior notes transaction to repay $122.5 million of principal and $0.8 million of accrued interest outstanding under the revolving credit facility agreement. During the year ended December 31, 2009, Teradyne expensed the remaining revolving credit facility debt issue costs of approximately $2.5 million.

H. ACCUMULATED OTHER COMPREHENSIVE LOSS

At December 31, 2011 and 2010, the accumulated other comprehensive loss balances were as follows:

	2011	2010
	(in thousands)	
Retirement plans net actuarial loss, net of tax of $(2,662) and $(811)	$ (134,621)	$ (130,685)
Retirement plans prior service cost, net of tax of $9 and $0	3,128	3,115
Unrealized gain on investments, net of tax of $666 and $0	1,618	1,620
Foreign currency translation adjustments		(2,266)
Total accumulated other comprehensive loss	$ (129,875)	$ (128,216)

I. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Teradyne performs its annual goodwill impairment test as required under the provisions of ASC 350-10, *Intangibles Goodwill and Other* on December 31 of each fiscal year unless interim indicators of impairment exist. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are estimated using a discounted cash flow methodology.

Teradyne performed its 2011 annual goodwill impairment test at the Wireless Test reporting unit level which is an operating and reportable segment and the only operating and reportable segment that has goodwill.

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In performing the annual goodwill impairment test, in accordance with ASU 2011-08, Teradyne assessed qualitative factors to determine whether it was more likely than not that the fair value of the Wireless Test reporting unit was less than its carrying amount, including goodwill. Teradyne assessed the following events and circumstances with respect to the Wireless Test reporting unit: macroeconomic conditions; industry and market considerations; overall financial performance compared with actual and projected results from prior periods and changes in management, strategy or customers. After assessing the totality of these events and circumstances, Teradyne determined that it is not more likely than not that the fair value of the Wireless Test reporting unit is less than its carrying amount. Therefore remaining steps were not required to be performed and there was no resulting impairment.

The changes in the carrying amount of goodwill by reporting units for the years ended December 31, 2011 and 2010 are as follows:

	Semiconductor Test	Systems Test Group	Wireless Test	Total
		(in thousands)		
Balance at December 31, 2009:				
Goodwill	$ 260,540	$ 148,183	$	$ 408,723
Accumulated impairment losses	(260,540)	(148,183)		(408,723)
Activity during the year				
Balance at December 31, 2010:				
Goodwill	260,540	148,183		408,723
Accumulated impairment losses	(260,540)	(148,183)		(408,723)
Activity during the year			352,778	352,778
Balance at December 31, 2011:				
Goodwill	260,540	148,183	352,778	761,501
Accumulated impairment losses	(260,540)	(148,183)		(408,723)
	$	$	$ 352,778	$ 352,778

Intangible Assets

Amortizable intangible assets consist of the following and are included in intangible assets, net on the balance sheets:

	December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
		(in thousands)		
Developed technology	$ 358,155	$ 91,391	$ 266,764	6.3 years
Customer relationships and service and software maintenance contracts	144,971	45,230	99,741	8.0 years
Tradenames and trademarks	33,840	7,370	26,470	9.0 years
Customer backlog	1,000	1,000		0.4 years
Total intangible assets	$ 537,966	$ 144,991	$ 392,975	7.0 years

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

During the year ended December 31, 2009, Teradyne reduced the gross amount of intangible assets by $2.5 million for the excess tax benefit realized due to the exercise of stock options vested as of the Nextest and Eagle Test acquisition dates.

Aggregate intangible assets amortization expense for the years ended December 31, 2011, 2010 and 2009 was $40.5 million, $29.3 million, and $32.3 million, respectively. Estimated intangible assets amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2012	$ 73,508
2013	72,459
2014	69,374
2015	52,351
2016	52,351

J. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of December 31, 2011, Teradyne had entered into non-cancelable purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately $199.3 million.

Lease Commitments

Rental expense for the years ended December 31, 2011, 2010 and 2009 was $14.8 million, $14.3 million and $16.7 million, respectively.

Teradyne leases portions of its office and operating facilities under various operating lease arrangements. The following table reflects Teradyne s non-cancelable operating lease commitments:

	Non-cancelable Lease Commitments (1) (in thousands)
2012	$ 13,822
2013	9,716
2014	6,257
2015	5,422
2016	4,253
Beyond 2016	9,479

Total	$	48,949

(1) Lease payments have not been reduced by sublease income of $0.5 million due in the future under non-cancelable subleases.

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Legal Claims

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. Teradyne believes that it has meritorious defenses against all pending claims and intends to vigorously contest them. While it is not possible to predict or determine the outcomes of any pending claims or 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 business, financial position or results of operations.

Guarantees and Indemnification Obligations

Teradyne provides indemnification, to the extent permitted by law, to its officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent, is or was serving, at Teradyne s request in such capacity. Teradyne has entered into indemnification agreements with certain of its officers and directors. With respect to acquisitions, Teradyne provides indemnifications to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies bylaws and charter. As a matter of practice, Teradyne has maintained directors and officers liability insurance coverage including coverage for directors and officers of acquired companies.

Teradyne enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require Teradyne to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to Teradyne s products. From time to time, Teradyne also indemnifies customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability and environmental claims relating to the use of Teradyne s products and services or resulting from the acts or omissions of Teradyne, its employees, authorized agents or subcontractors. On occasion, Teradyne has also provided guarantees to customers regarding the performance of its products in addition to the warranty described below.

As a matter of ordinary business course, Teradyne warrants that its products, including software products, will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have a one year duration commencing from installation. A provision is recorded upon revenue recognition to cost of revenue for estimated warranty expense upon historical experience. When Teradyne receives revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight line basis over the contract period. Related costs are expensed as incurred. As of December 31, 2011 and 2010, Teradyne had a product warranty accrual of $8.2 million and $9.9 million, respectively, included in other accrued liabilities, and revenue deferrals related to extended warranties of $12.7 million and $9.0 million, respectively, included in short and long-term deferred revenue and customer advances.

In addition, and in the ordinary course of business, Teradyne provides minimum purchase guarantees to certain of its vendors to ensure continuity of supply against the market demand. Although some of these guarantees provide penalties for cancellations and/or modifications to the purchase commitments as the market demand decreases, most of the guarantees do not. Therefore, as the market demand decreases, Teradyne re-evaluates these guarantees and determines what charges, if any, should be recorded.

With respect to its agreements covering product, business or entity divestitures and acquisitions, Teradyne provides certain representations, warranties and covenants to purchasers and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. Many of the indemnification claims have a definite expiration date while some remain in force indefinitely. With respect to its acquisitions, Teradyne may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.

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As a matter of ordinary course of business, Teradyne occasionally guarantees certain indebtedness obligations of its subsidiary companies, limited to the borrowings from financial institutions, purchase commitments to certain vendors, and lease commitments to landlords.

Based on historical experience and information known as of December 31, 2011 and 2010, except for product warranty, Teradyne has not recorded any liabilities for these guarantees and obligations as of December 31, 2011 and 2010 because the amount would be immaterial.

K. NET INCOME (LOSS) PER COMMON SHARE

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

	2011	2010	2009
	(in thousands, except per share amounts)		
Income (loss) from continuing operations	$ 347,893	$ 374,602	$ (135,363)
Income from discontinued operations, net	1,545	5,128	1,526
Gain on disposal of discontinued operations	24,371		
Net income (loss) for basic net income (loss) per share	373,809	379,730	(133,837)
Income impact of assumed conversion of convertible notes (1)		13,203	
Net income (loss) for diluted net income (loss) per share	$ 373,809	$ 392,933	$ (133,837)
Weighted average common shares-basic	184,683	179,924	173,604
Effect of dilutive potential common shares:			
Incremental shares from assumed conversion of convertible notes (2)	21,504	30,848	
Convertible note hedge warrant shares (3)	16,224	10,492	
Restricted stock units	3,773	5,001	
Stock options	566	443	
Employee stock purchase rights	70	99	
Dilutive potential common shares	42,137	46,883	
Weighted average commons shares-diluted	226,820	226,807	173,604
Net income (loss) per common shares-basic:			
Continuing operations	$ 1.88	$ 2.08	$ (0.78)
Discontinued operations	0.14	0.03	0.01
	$ 2.02	$ 2.11	$ (0.77)
Net income (loss) per common shares-diluted:			
Continuing operations	$ 1.53	$ 1.71	$ (0.78)
Discontinued operations	0.12	0.02	0.01
	$ 1.65	$ 1.73	$ (0.77)

(1) Income impact of convertible notes for 2010 represents interest expense that would have not been recorded if the notes converted at the beginning of the period.

(2) Incremental shares from assumed conversion of the convertible notes for 2011 are calculated using the difference between the average Teradyne stock price for the period and the conversion price of $5.48, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing total intrinsic value of the convertible debt, is divided by the average Teradyne

stock price for the period. For 2010, incremental shares from assumed conversion of the convertible notes represent the 34.7 million of shares that will be issued upon conversion.

(3) Convertible notes hedge warrant shares for 2011 and 2010 are calculated using the difference between the average Teradyne stock price for the period and the warrant price of $7.67, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing total intrinsic value of

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the warrant, is divided by the average Teradyne stock price for the period. Teradyne s call option on its common stock (convertible note hedge transaction) is excluded from the calculation of diluted shares because the effect would be anti-dilutive. See Note G: Debt regarding convertible note hedge transaction.

The computation of diluted net income per common share for 2011 excludes the effect of the potential exercise of stock options to purchase approximately 0.7 million shares because the effect would have been anti-dilutive.

The computation of diluted net income per common share for 2010 excludes the effect of the potential exercise of stock options to purchase approximately 5.3 million shares because the effect would have been anti-dilutive.

The computation of diluted net loss per common share for the year ended December 31, 2009 excludes the effect of the potential exercise of all outstanding stock options, restricted stock units, warrants, and shares related to the Notes because Teradyne had a net loss and inclusion would be anti-dilutive.

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

L. RESTRUCTURING AND OTHER

Restructuring

In response to a downturn in the industry in 2008 and 2009, Teradyne implemented restructuring activities across all segments to reduce costs, principally through headcount reductions and facility consolidations. The remaining accrual for severance and benefits of $0.3 million is reflected in the accrued employees compensation and withholdings account on the balance sheet and is expected to be paid by July 2012. The remaining accrual for lease payments on vacated facilities of $1.9 million is reflected in the other accrued liabilities account and the long-term other accrued liabilities account, and is expected to be paid out over the lease terms, the latest of which expires in 2013. Teradyne expects to pay approximately $0.9 million against the lease accruals over the next twelve months. Teradyne s future lease commitments, as of December 31, 2011, are net of expected sublease income of $0.5 million. As of December 31, 2011, Teradyne has subleased approximately 37% of its unoccupied space.

	Severance and Benefits	Facility Exit Costs	Total
		(in thousands)	
Pre-2009 Activities			
Balance at December 31, 2008	$ 82	$ 8,472	$ 8,554
Cash payments	(82)	(2,341)	(2,423)
Balance at December 31, 2009		6,131	6,131
Change in estimate		(2,672)	(2,672)
Cash payments		(3,038)	(3,038)
Balance at December 31, 2010		421	421
Change in estimate		(254)	(254)
Cash payments		(167)	(167)
Balance at December 31, 2011	$	$	$

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	Severance and Benefits	Facility Exit Costs (in thousands)	Total
2009 Activities			
Q1 2009 Activity:			
Provision	$ 17,257	$	$ 17,257
Cash payments	(17,257)		(17,257)
Balance at December 31, 2009	$	$	$
Q2 2009 Activity:			
Provision	$ 15,454	$	$ 15,454
Cash payments	(12,549)		(12,549)
Balance at December 31, 2009	2,905		2,905
Change in estimate	240		240
Cash payments	(3,145)		(3,145)
Balance at December 31, 2010	$	$	$
Q3 2009 Activity:			
Provision	$	$ 4,071	$ 4,071
Cash payments		(246)	(246)
Other		100	100
Balance at December 31, 2009		3,925	3,925
Cash payments		(1,083)	(1,083)
Balance at December 31, 2010		2,842	2,842
Change in estimate		(231)	(231)
Cash payments		(749)	(749)
Balance at December 31, 2011	$	$ 1,862	$ 1,862
2010 Activities			
Q1 2010 Activity:			
Provision	$ 405	$	$ 405
Cash payments	(405)		(405)
Balance at December 31, 2010	$	$	$
Q2 2010 Activities:			
Provision	$ 890	$	$ 890
Cash payments	(402)		(402)
Balance at December 31, 2010	488		488
Change in estimate	202		202
Cash payments	(690)		(690)
Balance at December 31, 2011	$	$	$

Q3 2010 Activity:			
Provision	$ 382	$	$ 382
Cash payments	(72)		(72)
Other	(184)		(184)
Balance at December 31, 2010	126		126
Change in estimate	(47)		(47)
Cash payments	(79)		(79)
Balance at December 31, 2011	$	$	$
Q4 2010 Activity:			
Provision	$ 98	$	$ 98
Balance at December 31, 2010	98		98
Provision	117		117
Cash payments	(215)		(215)
Balance at December 31, 2011	$	$	$

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	Severance and Benefits	Facility Exit Costs (in thousands)	Total
2011 Activities			
Q1 2011 Activity:			
Provision	$ 572	$	$ 572
Cash payments	(476)		(476)
Balance at December 31, 2011	$ 96	$	$ 96
Q2 2011 Activities:			
Provision	$ 344	$	$ 344
Cash payments	(115)		(115)
Balance at December 31, 2011	$ 229	$	$ 229
Balance at December 31, 2011	$ 325	$ 1,862	$ 2,187

During the year ended December 31, 2011, Teradyne recorded the following restructuring activities:

Q1 2011 Actions:

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

Q2 2011 Actions:

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

Q2 2010 Actions:

- $0.2 million related to a change in the estimated severance benefits related to headcount reductions in Semiconductor Test.

Q4 2010 Actions:

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

Pre-2009 Actions:

- $(0.5) million credit related to changes in the estimated exit costs related to the Westford, MA and Poway, CA facilities in System Test Group, and the North Reading, MA facility in Semiconductor Test and System Test Group.

During the year ended December 31, 2010, Teradyne recorded the following restructuring activities:

Q1 2010 Actions:

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

Q2 2010 Actions:

$0.9 million of severance charges related to headcount reductions of approximately 6 people in Systems Test Group.

Q3 2010 Actions:

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

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Q4 2010 Actions:

- $0.1 million of severance charges related to the headcount reduction of 1 person in Systems Test Group.

Q2 2009 Actions:

- $0.3 million related to a change in the estimated severance benefits related to headcount reduction activities in Semiconductor Test and System Test Group.

Pre-2009 Actions:

- $(2.7) million credit related to the early exit of previously impaired leased facilities in Westford, Massachusetts.

During the year ended December 31, 2009, Teradyne recorded the following restructuring activities:

Q1 2009 Activity:

- $17.2 million of severance charges related to headcount reductions of approximately 515 people, of which $14.9 million and 460 people were in Semiconductor Test, $1.5 million and 39 people were in Systems Test Group, and $0.8 million and 16 people were in Corporate.

Q2 2009 Activity:

- $15.4 million of severance charges related to headcount reductions of approximately 304 people, of which $11.4 million and 267 people were in Semiconductor Test, $3.0 million and 25 people were in Corporate, and $1.0 million and 12 people were in Systems Test Group.

Q3 2009 Activity:

- $4.1 million of charges in Corporate related to the early exit of a leased facility in North Reading.

Pre-2009 Activity:

- $(0.4) million credit in Semiconductor Test for a revision in estimated sublease income at an exited leased facility in Ontario, Canada.

Other

During the year ended December 31, 2011, Teradyne recorded $7.3 million of other charges related to the following:

- $4.6 million related to acquisition costs; and

$2.7 million related to a non-U.S pension settlement.

During the year ended December 31, 2009, Teradyne recorded $(1.0) million of other net credits related to the following:

$1.1 million of long-lived asset impairment charges across both segments primarily related to the disposal of fixed assets as a result of the consolidation of facilities in North Reading, Massachusetts;

$(2.0) million of credits related to finalization of certain Eagle Test purchase accounting items; and

$(0.1) million related to other miscellaneous.

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M. RETIREMENT PLANS

ASC 715, *Compensation Retirement Benefits* requires an employer with defined benefit plans or other postretirement benefit plans to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plans as defined by ASC 715. The pension asset or liability represents a difference between the fair value of the pension plan s assets and the projected benefit obligation at December 31.

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 these plans consist primarily of fixed income and equity securities. In addition, Teradyne has an unfunded supplemental executive defined benefit plan in the United States to provide retirement benefits in excess of levels allowed by the Employment Retirement Income Security Act (ERISA) and the Internal Revenue Code (the IRC), as well as unfunded foreign plans.

Teradyne uses a December 31 measurement date for all of its plans. The December 31 balances of these defined benefit pension plans assets and obligations are shown below:

	2011	2010
Assets and Obligations	**(in thousands)**	
Change in benefit obligation:		
Projected benefit obligation:		
Beginning of year	$ 337,796	$ 333,663
Service cost	2,735	3,655
Interest cost	17,466	17,716
Actuarial loss	54,248	7,937
Benefits paid	(13,260)	(13,129)
Curtailment	210	(3,113)
Settlement	(7,637)	(8,580)
Transfers	(564)	
Non-U.S. currency movement	(716)	(353)
End of year	390,278	337,796
Change in plan assets:		
Fair value of plan assets:		
Beginning of year	294,988	239,797
Company contributions	10,169	50,526
Plan participants contributions	51	23
Actual return on plan assets	55,345	25,608
Benefits paid	(13,260)	(13,129)
Settlement	(7,637)	(8,580)
Non-U.S. currency movement	(76)	743
End of year	339,580	294,988
Funded status	$ (50,698)	$ (42,808)

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The following table provides amounts recorded within the account line items of the statement of financial position as of December 31:

	2011	2010
	(in thousands)	
Retirement plans assets	$ 8,840	$ 13,981
Accrued employees compensation and withholdings	(2,524)	(2,658)
Retirement plans liabilities	(57,014)	(54,131)
Funded status	$ (50,698)	$ (42,808)

The following table provides amounts recognized in accumulated other comprehensive loss as of December 31:

	2011	2010
	(in thousands)	
Net actuarial loss	$ 132,990	$ 128,004
Prior service cost	888	1,509
Total recognized in other comprehensive loss, before tax	133,878	129,513
Deferred tax asset	(2,137)	(811)
Total recognized in other comprehensive loss, net of tax	$ 131,741	$ 128,702

The estimated portion of net actuarial loss and prior service cost remaining in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic pension cost in 2012 is $13.8 million, and $0.2 million, respectively.

The accumulated benefit obligation for all defined benefit pension plans was $370.1 million and $324.0 million at December 31, 2011 and 2010, respectively.

Information for pension plans with an accumulated benefit obligation and projected benefit obligation in excess of plan assets as of December 31, 2011:

	2011	2010
	(in millions)	
Projected benefit obligation	$ 60.2	$ 58.2
Accumulated benefit obligation	52.2	50.1
Fair value of plan assets	0.7	1.4

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Expense

For the years ended December 31, 2011, 2010 and 2009, Teradyne s net periodic pension costs were comprised of the following:

	2011	2010 (in thousands)	2009
Components of Net Periodic Pension Cost:			
Service cost	$ 2,735	$ 3,655	$ 3,993
Interest cost	17,466	17,716	18,442
Expected return on plan assets	(16,705)	(20,189)	(19,300)
Amortization of:			
Prior service cost	621	726	799
Net actuarial loss	8,766	5,425	4,000
Settlement loss	2,099	452	1,616
Curtailment gain			(550)
Total net periodic pension cost	$ 14,982	$ 7,785	$ 9,000
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:			
Net actuarial loss (gain) arising during period	13,753	(1,001)	(3,156)
Reversal of amortization items:			
Prior service cost	(621)	(726)	(799)
Net actuarial loss	(8,766)	(5,425)	(4,000)
Total recognized in other comprehensive income	4,366	(7,152)	(7,955)
Total recognized in net periodic pension cost and other comprehensive income	$ 19,348	$ 633	$ 1,045

Weighted Average Assumptions to Determine Net Periodic Pension Cost at January 1

	United States Plans			Foreign Plans		
	2011	2010	2009	2011	2010	2009
Discount rate	5.2%	5.8%	6.2%	4.5%	5.4%	4.9%
Expected return on plan assets	5.5	7.5	7.75	3.2	2.8	3.7
Salary progression rate	4.0	4.0	4.0	3.1	3.4	3.4

Weighted Average Assumptions to Determine Pension Obligations at December 31

	United States Plans		Foreign Plans	
	2011	2010	2011	2010
Discount rate	4.1%	5.2%	4.4%	4.8%
Salary progression rate	3.0	4.0	2.9	3.4

In developing the expected return on plan assets assumption, Teradyne evaluated input from its investment manager and pension consultants, including their review of asset class return expectations. Based on this review, Teradyne believes that 5.5% was an appropriate rate to use for fiscal 2011 for the U.S. Qualified Pension Plan (U.S. Plan).

Teradyne bases its determination of pension expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a

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five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return on assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future value of assets will be impacted as previously deferred gains or losses are recognized. As of December 31, 2011, under the U.S. Plan, Teradyne had cumulative gains of approximately $23.3 million, which remain to be recognized in the calculation of the market-related value of assets. The discount rate utilized to determine future pension obligations for the U.S. Plan is based on Citigroup Pension Index adjusted for the plan s expected cash flows and was 4.2% at December 31, 2011, down from 5.3% at December 31, 2010.

Plan Assets

As of December 31, 2011, the fair value of Teradyne s pension plans assets totaled $339.6 million of which $319.1 million was related to the U.S. Plan, $19.8 million was related to the U.K. Defined Benefit Pension Plan, and $0.7 million was related to other foreign defined benefit pension plans. Teradyne s pension plans assets consisted primarily of investments in fixed-income and equity securities. Included in other pension plan assets for the U.S. Plan at December 31, 2010 is a real assets common trust fund with underlying investments in REITs (real estate investment trusts), TIPS (U.S. Treasury Inflation-Protected Securities), equity securities of natural resource companies, and commodities. Substantially all our pension plan assets are held in individual trusts, which were established for the investment of assets of Teradyne s sponsored retirement plans.

Teradyne s weighted average pension asset allocation at December 31, 2011 and 2010, by asset category is as follows:

	United States Plan		Foreign Plans	
	2011	2010	2011	2010
Fixed Income Securities	86.7%	56.8%	49.7%	46.1%
Equity Securities	12.3	37.0	48.3	45.3
Other	1.0	6.2	2.0	8.6
	100.0%	100.0%	100.0%	100.0%

The assets of the U.S. Plan are overseen by the Teradyne Fiduciary Committee which is comprised of members of senior management drawn from appropriate diversified levels of the management team. The Fiduciary Committee is responsible for setting the policy that provides the framework for management of the U.S. Plan assets. In accordance with its responsibilities, the Fiduciary Committee meets on a regular basis to review the performance of the U.S. Plan assets and compliance with the investment policy. The policy sets forth an investment structure for managing U.S. Plan assets, including setting the asset allocation ranges, which are expected to provide an appropriate level of overall diversification required to maximize the long-term return on plan assets for a prudent and reasonable level of risk given prevailing market conditions, total investment return over the long term, and preservation of capital, while maintaining sufficient liquidity to pay the benefits of the U.S. Plan. The investment portfolio will not, at any time, have a direct investment in Teradyne stock. It may have indirect investment in Teradyne stock, if one of the funds selected by the investment manager invests in Teradyne stock. In developing the asset allocation ranges, third party asset allocation studies are periodically performed that consider the current and expected positions of the plan assets and funded status. Based on this study and other appropriate information, the Fiduciary Committee establishes asset allocation ranges taking into account acceptable risk targets and associated returns. The investment return objectives are to avoid excessive volatility and produce a rate of return that at least matches the Policy Index identified below. The manager s investment performance is reviewed at least annually. Results for the total portfolio and for each major category of assets are evaluated in comparison with appropriate market indices, the Policy Index, other similarly managed portfolios and the Consumer Price Index.

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The target asset allocation and the index for each asset category for the U.S. Plan, per the investment policy, is as follows:

Asset Category:	Policy Index:	Target Allocation
Passive and Active Fixed Income	Barclays Capital Long Government Credit Index	85%
Equity (Large cap)	S&P 500 Stock Index	10
International Equity	MSCI EAFE Index (Net Dividends)	5

The assets of Teradyne s foreign pension plans are invested in funds which seek to combine long-term growth potential offered through equity exposure with the relative security provided by bonds and cash, and are governed locally by local management in accordance with specific jurisdictional requirements. Investments in the non-U.S. plans consist primarily of fixed-income and equity securities. These investments are valued using significant observable inputs (Level 2). The fair market value of assets for the international pension plans was $20.5 million as of December 31, 2011. There were no investments with significant unobservable inputs (Level 3) in the non-U.S. pension plans.

Teradyne s U.S. Plan invests primarily in common trust funds. Units held in the common trust funds are valued at the unit price as reported by the investment managers based on the asset value of the underlying investments; underlying investments in equity securities are valued at the last reported sales price, and underlying investments in fixed-income securities are generally valued using methods based upon market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. These investments are valued using significant observable inputs (Level 2). The fair market value of assets for the U.S. Plan was $319.1 million as of December 31, 2011. There were no investments with significant unobservable inputs (Level 3) in the U.S. Plan as of December 31, 2011.

The fair value of pension plan assets by asset category and by level at December 31, 2011 and December 31, 2010 were as follows:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Fixed income securities:				
Corporate debt securities	$	$ 172,401	$	$ 172,401
U.S. government securities		102,027		102,027
U.K. government securities		7,553		7,553
Asset backed securities		4,604		4,604
U.S. equity (large cap)		27,725		27,725
International equity		21,285		21,285
Guarantee annuity contract		2,863		2,863
Other		711		711
Cash and cash equivalents		412		412
Total	$	$ 339,581	$	$ 339,581

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	December 31, 2010			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Fixed income securities:				
Corporate debt securities	$	$ 98,922	$	$ 98,922
U.S. government securities		56,138		56,138
U.K. government securities		6,675		6,675
Asset backed securities		3,636		3,636
U.S. equity (large cap)		63,718		63,718
International equity		37,453		37,453
Real assets		13,790		13,790
U.S. equity (small cap)		9,721		9,721
Guarantee annuity contract		2,843		2,843
Other		1,419		1,419
Cash and cash equivalents		673		673
Total	$	$ 294,988	$	$ 294,988

Changes in the fair value of Level 3 pension plan assets for the year ended December 31, 2011 and December 31, 2010 were as follows:

	Level 3 Pension Plans Assets (in thousands)			
	Fixed income corporate bonds	U.S. equity (small cap)	International equity	Total
Balance at December 31, 2009	$ 40,195	$ 15,905	$ 19,415	$ 75,515
Realized gains	10,912	1,721	4,129	16,762
Change in unrealized losses	(5,749)	(1,417)	(5,054)	(12,220)
Sales and purchases, net	(45,358)	(16,209)	(18,490)	(80,057)
Balance at December 31, 2010 and 2011	$	$	$	$

Contributions

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. During 2011, Teradyne contributed $1.7 million to the U.S. Supplemental Executive Defined Benefit Pension Plan and $8.5 million to certain qualified plans for non-U.S. subsidiaries. During 2010, Teradyne contributed $50.5 million, which included a $45.0 million discretionary contribution to the U.S. Plan. During 2009, Teradyne contributed $12.4 million, which included a $7.5 million discretionary contribution to the U.S. Plan. 2012 contributions to certain Qualified Plans for non-U.S. subsidiaries are based on local statutory requirements and will be approximately $1.7 million. 2012 contributions to the U.S. Supplemental Executive Defined Benefit Pension Plan will be approximately $1.8 million. Teradyne does not expect to make any contributions to the U.S. Plan in 2012.

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Expected Future Pension Benefits Payments

The following benefit payments, which reflect future service, as appropriate, are expected to be paid as follows:

	United States	Foreign
	(in thousands)	
2012	$ 13,793	$ 1,685
2013	14,840	905
2014	15,846	1,401
2015	16,858	1,368
2016	18,094	2,016
2017-2021	103,454	12,215

Postretirement Benefit Plans

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

Teradyne uses a December 31 measurement date for its plan. The December 31 balances of the postretirement assets and obligations are shown below:

	2011	2010
	(in thousands)	
Assets and Obligations		
Change in benefit obligation:		
Projected benefit obligation:		
Beginning of year	$ 12,896	$ 18,699
Service cost	59	57
Interest cost	539	668
Actuarial loss (gain)	981	(882)
Benefits paid	(1,682)	(2,367)
Plan amendment		(3,279)
End of year	12,793	12,896
Change in plan assets:		
Fair value of plan assets:		
Beginning of year		
Company contributions	1,682	2,367
Benefits paid	(1,682)	(2,367)
End of year		
Funded status	$ (12,793)	$ (12,896)

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The following table provides amounts recorded within the account line items of financial position as of December 31:

	2011	2010
	(in thousands)	
Accrued employees compensation and withholdings	$ (1,484)	$ (1,720)
Retirement plans liability	(11,309)	(11,176)
Funded status	$ (12,793)	$ (12,896)

The following table provides amounts recognized in accumulated other comprehensive loss (income) as of December 31:

	2011	2010
	(in thousands)	
Net actuarial loss	$ 4,293	$ 3,492
Prior service credit	(4,025)	(4,623)
Total recognized in other comprehensive loss (income) before tax	268	(1,131)
Deferred tax asset	(516)	
Total recognized in other comprehensive loss (income), net of tax	$ (248)	$ (1,131)

The estimated portion of net actuarial loss and prior service credit remaining in accumulated other comprehensive income that is expected to be recognized as a component of net periodic postretirement benefit cost in 2012 is $0.3 million and $(0.6) million, respectively.

Expense

For the years ended December 31, 2011, 2010 and 2009, Teradyne s net periodic postretirement benefit costs were comprised of the following:

	2011	2010	2009
		(in thousands)	
Components of Net Periodic Postretirement Benefit Cost:			
Service cost	$ 59	$ 57	$ 109
Interest cost	539	668	1,092
Amortization of:			
Prior service credit	(598)	(416)	(234)
Net actuarial loss	179	86	228
Total net periodic postretirement benefit cost	179	395	1,195
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:			
Net actuarial loss (gain) arising during period	981	(882)	731
Net prior service credit arising during period		(3,279)	
Reversal of amortization items:			
Prior service credit	598	416	234
Net actuarial loss	(179)	(86)	(228)

Total recognized in other comprehensive income	1,400	(3,831)	737
Total recognized in net periodic postretirement benefit cost and other comprehensive income	$ 1,579	$ (3,436)	$ 1,932

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Weighted Average Assumptions to Determine Net Periodic Postretirement Benefit Cost as of January 1

	2011	2010	2009
Discount rate	4.5%	5.1%	6.1%
Initial Health Care Cost Trend Rate	8.5	8.5	8.9
Ultimate Health Care Cost Trend Rate	5.0	5.0	5.0
Year in which Ultimate Health Care Cost Trend Rate is reached	2018	2018	2018

Weighted Average Assumptions to Determine Postretirement Benefit Obligation as of December 31

	2011	2010	2009
Discount rate	3.7%	4.5%	5.1%
Initial Medical Trend	9.0	8.5	8.5
Ultimate Health Care Trend	5.0	5.0	5.0
Medical cost trend rate decrease to ultimate rate in year	2018	2018	2018

Assumed health care trend rates could have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rates for the year ended December 31, 2011, would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(in thousands)	
Effect on total service and interest cost components	$ 20	$ (19)
Effect on postretirement benefit obligations	349	(326)

Expected Future Benefits Payments

The following benefit payments, which reflect future service, as appropriate, are expected to be paid:

	Benefits Payments (in thousands)
2012	$