Fellow Shareholders,

We had another solid showing in 2012, capping off the best three year stretch in the Company’s history from a cash flow, productivity, and profit rate perspective. Our sustained performance might have been unthinkable a few years back, given the volatility of the markets we serve. But innovations in our core business, careful vigilance over our finances, and aggressive bets on growth have all served us well these last few years.

Revenues in 2012 grew 16% as explosive growth in smart phones and tablets drove strong showings in both our Semiconductor Test and LitePoint units. LitePoint led the way, more than doubling revenues over 2011 as new test standards combined with sharp unit growth in portable electronics. System-on-a-Chip (SOC) Test followed suit with record shipments of UltraFLEX systems through the year. Both of these product lines were essential to the launch of new consumer mobile devices. Teradyne now touches these products from their birth in silicon foundries all the way to their final test check-out before being placed in the hands of connected consumers, both young and old, around the globe.

But our growth this year did not come easy. Our mix of end markets from defense and consumer electronics to PC-based storage to automotive sensors and controls all operate on different cycles. And 2012 saw some of the sharpest swings on record. Complex SOC and Storage Test surged in the first half, but saw seasonal declines in the second half of the year. Microcontroller, automotive, and memory IC test along with Commercial Board test all remained at below-normal buy rates through the year. Our Defense Electronics Test business bucked those cycles and remained a strong and steady performer throughout the year. All told it was a year of dramatic swings with over two-thirds of our customer order placements in the first six months. Nevertheless, our flexible manufacturing model allowed us to navigate these steep ramps, meet our customer delivery requirements, and stay in the black through the cycle.

We have a lot on our plate this coming year and in the years ahead. 2013 will see an array of new products hitting the market. In Semi Test we’ll launch new systems in Analog, Consumer Digital, and Memory Test. Our Storage Test served market will double as we bring a 3.5 inch platform to the Hard Disk Drive landscape to position us for growth in cloud storage.
A number of new offerings from LitePoint will give us added traction in cellular as well as in WiFi and other connectivity testing. We plan to expand our R&D by about 15% this year while holding all other spending tight as we fuel these new product launches and strengthen our long-term offensives.

On the acquisition front we'll be disciplined but ambitious, adding to our arsenal where we can strengthen our core businesses or expand into close adjacencies.....using the same playbook we've employed these last few years. The return on that approach, most recently with LitePoint in wireless test in 2012, is ample evidence that we should continue on this course.

Much lies ahead as we close out a very good year and a very solid three year run. To continue this trajectory, our Board of Directors has appointed Mark Jagiela as Teradyne’s President effective this past January. Mark is a thirty year veteran of Teradyne and, for the last ten years, has been the head of our Semiconductor Test Division. He brings a unique combination of technological and commercial insights as he now oversees all of our business units and works closely with me on new business development.

For those of you who have backed us over the years, we hope you have seen our transformation from a company that survived the cycles to one that stands out in product innovations, in growth, and in steady over-the-cycle performance. The credit for that goes to the 3,600 people who log-in every day as employees of Teradyne to serve our customers around the globe. We are pleased to have you with us as co-investors in our future.