

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2007-12-10** | Period of Report: **2007-10-31**  
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### FILER

#### LTX CORP

CIK: **357020** | IRS No.: **042594045** | State of Incorporation: **MA** | Fiscal Year End: **0731**  
Type: **10-Q** | Act: **34** | File No.: **000-10761** | Film No.: **071295745**  
SIC: **3825** Instruments for meas & testing of electricity & elec signals

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended **October 31, 2007**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-10761**

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**LTX CORPORATION**

(Exact name of registrant as specified in its charter)

**Massachusetts**

(State or other jurisdiction of  
incorporation or organization)

**04-2594045**

(I.R.S. Employer  
Identification No.)

**825 University Avenue,  
Norwood, Massachusetts**

(Address of principal executive offices)

**02062**

(Zip Code)

**(781) 461-1000**

(Registrant's telephone number, including area code)

**[None]**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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**Class**

**Outstanding at November 26, 2007**

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Common Stock, \$0.05 par value per share

62,491,360 shares

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**LTX CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands)**

	<u>October 31,</u> <u>2007</u>	<u>July 31,</u> <u>2007</u>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$32,156	\$63,302
Marketable securities	29,498	35,236
Accounts receivable—trade, net of allowances	27,113	22,479
Accounts receivable—other	1,507	1,475
Inventories	25,856	27,102
Prepaid expenses and other current assets	4,015	3,783
<b>Total current assets</b>	<b>120,145</b>	<b>153,377</b>
Property and equipment, net	32,721	32,483
Goodwill	14,762	14,762
Other assets	521	500
<b>Total assets</b>	<b><u>\$168,149</u></b>	<b><u>\$201,122</u></b>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt	\$3,001	\$29,322
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Accounts payable	14,641	15,334
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Deferred revenues and customer advances	1,779	1,838
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Other accrued expenses	<u>13,193</u>	<u>19,605</u>
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Total current liabilities	32,614	66,098
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Long-term debt, less current portion	17,000	17,900
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Other long-term liabilities	4,465	4,016
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Stockholders' equity:

Common stock	3,125	3,123
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Additional paid-in capital	569,906	568,966
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Accumulated other comprehensive loss	(596 )	(840 )
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Accumulated deficit	<u>(458,365)</u>	<u>(458,141)</u>
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Total stockholders' equity	<u>114,070</u>	<u>113,108</u>
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Total liabilities and stockholders' equity	<u>\$168,149</u>	<u>\$201,122</u>
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See accompanying Notes to Consolidated Financial Statements

**LTX CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<b>Three Months Ended</b>	
	<b>October 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Net product sales</b>	\$22,881	\$42,042
<b>Net service sales</b>	6,754	7,798
<b>Net sales</b>	29,635	49,840
<b>Cost of sales</b> (includes stock-based compensation expense of \$26 for Q1 FY08; \$22 for Q1 FY07)	15,179	24,704
<b>Gross profit</b>	14,456	25,136
<b>Engineering and product development expenses</b> (includes stock-based compensation expense of \$280 for Q1 FY08; \$228 for Q1 FY07)	11,636	12,933
<b>Selling, general and administrative expenses</b> (includes stock-based compensation expense of \$666 for Q1 FY08; \$691 for Q1 FY07)	6,511	7,065
<b>Income (loss) from operations</b>	(3,691 )	5,138
<b>Other income (expense):</b>		
Interest expense	(473 )	(1,932 )
Investment income	689	1,384
<b>Income (loss) before provision (benefit) for taxes</b>	(3,475 )	4,590

<b>(Benefit) for income taxes</b>	<u>(3,251)</u>	<u>—</u>
<b>Net income (loss)</b>	\$(224 )	\$4,590
<b>Net income (loss) per share:</b>		
Basic	\$0.00	\$0.07
Diluted	0.00	\$0.07
<b>Weighted-average common shares used in computing net income (loss) per share:</b>		
Basic	62,469	62,019
Diluted	62,469	62,445
<b>Comprehensive income (loss):</b>		
Net income (loss)	\$(224 )	\$4,590
Unrealized gain (loss) on marketable securities	234	557
Pension liability gain/(loss)	<u>10</u>	<u>(7 )</u>
<b>Comprehensive income (loss)</b>	<u>\$20</u>	<u>\$5,140</u>

See accompanying Notes to Consolidated Financial Statements



**LTX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	Three Months Ended	
	October 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(224 )	\$4,590
Add (deduct) non-cash items:		
Stock-based compensation	972	941
Depreciation and amortization	3,078	3,434
Benefit for income taxes	(3,251 )	-
Other	40	109
Changes in operating assets and liabilities:		
Accounts receivable	(4,639 )	7,868
Inventories	1,262	487
Prepaid expenses	(164 )	(109 )
Other assets	(23 )	(111 )
Accounts payable	(710 )	1,067

Accrued expenses	(2,753 )	(5,959 )
Deferred revenues and customer advances	(142 )	(1,390 )
Net cash provided by (used in) operating activities	(6,554 )	10,927
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	5,986	22,501
Purchases of property and equipment	(3,360 )	(3,334 )
Net cash provided by investing activities	2,626	19,167
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options and vesting of RSUs	(70 )	200
Payments of short-term notes payable, net	(27,221)	(63,467)
Net cash used in financing activities	(27,291)	(63,267)
Effect of exchange rate changes on cash	73	176
Net decrease in cash and cash equivalents	(31,146)	(32,997)
Cash and cash equivalents at beginning of period	63,302	106,445
Cash and cash equivalents at end of period	<u>\$32,156</u>	<u>\$73,448</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	<u>\$2,226</u>	<u>\$3,453</u>

See accompanying Notes to Consolidated Financial Statements



## LTX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 1. THE COMPANY

LTX Corporation (“LTX” or the “Company”) designs, manufactures, and markets automatic semiconductor test equipment. Semiconductor designers and manufacturers worldwide use semiconductor test equipment to test devices at different stages during the manufacturing process. These devices are incorporated in a wide range of products, including mobile internet equipment such as wireless access points and interfaces, broadband access products such as cable modems and DSL modems, personal communication products such as cell phones and personal digital assistants, consumer products such as televisions, videogame systems, digital cameras and automobile electronics, and for power management in portable and automotive electronics. The Company also sells hardware and systems support and maintenance services for its test systems. The Company is headquartered, and has development and manufacturing facilities, in Norwood, Massachusetts, a development facility in Milpitas, California, and worldwide sales and service facilities to support its customer base.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, accordingly, these footnotes condense or omit information and disclosures which substantially duplicate information provided in our latest audited financial statements. These financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended July 31, 2007. In the opinion of our management, these financial statements reflect all adjustments, including normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The operating results for the three months ended October 31, 2007 are not necessarily indicative of future trends or our results of operations for the entire year.

##### Revenue Recognition

The Company recognizes revenue based on guidance provided in SEC Staff Accounting Bulletin No. 104, (“SAB 104”), “Revenue Recognition” and EITF No. 00-21 “Revenue Arrangements with Multiple Deliverables”. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller’s price is fixed or determinable and collectibility is reasonably assured.

Revenue related to equipment sales is recognized when: (a) we have a written sales agreement; (b) delivery has occurred; (c) the price is fixed or determinable; (d) collectibility is reasonably assured; (e) the product delivered is standard product with historically demonstrated acceptance; and (f) there is no unique customer acceptance provision or payment tied to acceptance or an undelivered element significant to the functionality of the system. Generally, payment terms are time based after product shipment. Certain sales include payment terms tied to customer acceptance. If a portion of the payment is linked to product acceptance, which is 20% or less, the revenue is deferred on only the percentage holdback until payment is received or written evidence of acceptance is delivered to the Company. If the portion of the holdback is greater than 20%, the full value of the equipment is deferred until payment is received or written evidence of acceptance is delivered to the Company. When sales to a customer involve multiple elements, revenue is recognized on the delivered element provided that (1) the undelivered element is a proven technology, (2) there is a history of acceptance on the product with the customer, (3) the undelivered element is not essential to the customer’s application, (4) the delivered item(s) has value to the customer on a stand-alone basis, (5) objective and reliable evidence of the fair value of the undelivered item(s) exists, (6) if the arrangement included a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company, and (7) if objective and reliable evidence of fair value exists for all units of accounting in the arrangement, the arrangement consideration is allocated based on the relative fair values of each unit of accounting. If the fair value of a delivered item is unknown, but the fair value of undelivered items are known, the residual method is used for allocating arrangement consideration which requires discounts in the sales value of the entire arrangement to be recognized in connection with the sale of the delivered items only. Revenue related to spare parts is recognized on shipment. Revenue related to maintenance and service contracts is recognized ratably over the duration of the contracts.

## **Engineering and Product Development Costs**

The Company expenses all engineering, research and development costs as incurred. Expenses subject to capitalization in accordance with the Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software To Be Sold, Leased or Otherwise Marketed", relating to certain software development costs, were insignificant.

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### **Shipping and Handling Costs**

Shipping and handling costs are included in cost of sales in the consolidated statements of operations. These costs, when included in the sales price charged for products, are recognized in net sales. Shipping and handling costs were insignificant for the three months ended October 31, 2007 and 2006.

### **Income Taxes**

In July, 2006 the Financial Accounting Standards Board (“FASB”) issued Financial Accounting Standards Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with Statement of Accounting Standards No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted FIN 48 on August 1, 2007. The adoption of FIN48 did not impact the consolidated financial results of operations or cash flow.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Foreign and United States jurisdictions are subject to income tax examinations by tax authorities for all years dating back approximately two to six years from October 31, 2007.

There were no adjustments to the Company’s accumulated deficit as a result of the implementation of FIN 48. At August 1, 2007, the Company had unrecognized tax benefits of approximately \$4.3 million, which were included in other accrued liabilities. All of the Company’s deferred tax assets have a full valuation allowance recorded against them as their realization does not meet the “more likely than not” criteria under SFAS No. 109 based on the Company’s current financial status.

Subsequent to adopting FIN 48, the Company reduced its liability for uncertain tax positions by \$3.3 million, as the statute of limitation on a previously identified position expired during the first quarter. This event was reported as a discrete item in the first quarter, and the \$3.3 million benefit was recorded in the Company’s provision for income taxes. No other provision for income taxes was recorded in the first quarter. The Company also does not anticipate that any of the remaining uncertain tax positions will be significantly increased or decreased over the next 12 month period.

In addition, the Company recently conducted a study of the net operating loss (NOL) carry forwards and research and development (R&D) credit carry forwards to determine whether such amounts are limited under IRC Sec. 382. As of July 31, 2007, the Company has undergone no changes in ownership as described in IRC Sec. 382 in any of the NOL or R&D credit carry forward years. The Company will continue to monitor its ownership to determine if future IRC Sec. 382 limitation events occur.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of August 1, 2007, the Company had accrued \$786,000 of interest or penalties related to uncertain tax positions. Of this amount, \$486,000 of accrued interest and penalties was de-recognized in the first quarter, as the statute of limitation on the underlying uncertain tax position expired.

### **Accounting for Stock-Based Compensation**

The Company has five stock option plans: the 2004 Stock Plan (“2004 Plan”), the 2001 Stock Plan (“2001 Plan”), the 1999 Stock Plan (“1999 Plan”), the 1995 LTX (Europe) Ltd. Approved Stock Option Plan (“U.K. Plan”) and, in addition, the Company assumed the StepTech, Inc. Stock Option Plan (the “STI 2000 Plan”) as part of its acquisition of StepTech. The Company can only grant options from the 2004 Plan. Under the terms of the 2004 Plan, any unused shares of Common Stock as a result of termination, surrender, cancellation or forfeiture of options from the 2001 Plan and the 1999 Plan will be available for grant of equity awards under the 2004 Plan. The 2004 Plan provides for the granting of options to employees to purchase shares of common stock at not less than 100% of the fair market value at the date of grant. The 2004 Plan also provides for the granting of options to an employee, director or consultant of the Company or its subsidiaries to purchase shares of common stock at prices to be determined by the Board of Directors and also allows both restricted stock awards and stock awards. Options under this plan are exercisable over vesting periods, which typically have been three to four years from the date of grant. The general term of our stock options is ten years. The Company’s policy of issuing shares is to either buy



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shares in the open market or issue new shares. The Company's general practice has been to issue new shares. In fiscal 2005, the Company granted 533,750 options tied to certain performance milestones. As of October 31, 2007, 100% of these options have vested as they have met the performance milestones. During the quarter ended January 31, 2006, the Company granted 983,600 restricted stock units ("RSUs"). Of the 983,600 RSUs, vesting for 742,600 is tied to certain profit break-even milestones for executives. The first milestone was achieved May 16, 2006, resulting in 185,650 shares vesting on May 16, 2006. The remaining executive RSUs vest annually over three years on May 16 of each year starting on May 16, 2007. The remaining 241,000 RSUs are service vested for key employees over a four year period, including 60,250 shares that vested on May 16, 2006, when the Company achieved a profit break-even milestone. The remaining shares vest annually over three years on May 16 of each year starting on May 16, 2007. During the quarter ended October 31, 2006, the Company granted 973,000 RSUs. Of the 973,000 RSUs, vesting for 721,000 is tied to certain profit milestones for executives. As of October 31, 2007, none of the performance milestones have been met. The remaining 252,000 RSUs are service vested for key employees and are earned over a four year period. For the quarter ended January 31, 2007, 62,300 RSUs were granted to directors to vest over three years, and 5,000 RSUs were granted to employees to vest over four years. For the quarter ended April 30, 2007, 15,000 RSUs were granted to employees to vest over four years. During the quarter ended October 31, 2007, the Company granted 925,000 RSUs that will vest over a four year period beginning on September 19, 2008. Of the 925,000 RSUs granted during the quarter ended October 31, 2007, 645,000 were granted to executives.

Effective August 1, 2005, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). Under SFAS No. 123R, the Company is required to recognize, as expense, the estimated fair value of all share-based payments to employees. In accordance with this standard, the Company has elected to recognize the compensation cost of all service based awards on a straight-line basis over the vesting period of the award. Performance based awards are recognized ratably for each vesting tranche. For the three months ended October 31, 2007 and 2006, the Company recorded expense of approximately \$1.0 million and \$0.9 million, respectively, in connection with its share-based payment awards. As of October 31, 2007, there is approximately \$8.4 million of unrecognized compensation expense related to share-based payments to employees that will be recognized over the next 16 quarters.

The following is a summary of activities for the Company's Stock Option Plans for the three months ended October 31, 2007:

### Stock Option Activity

	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	8,205,197	\$ 10.11
Granted	-	-
Exercised	(10,586 )	1.03
Forfeited	(39,803 )	7.84
Options outstanding, end of period	<u>8,154,808</u>	10.13
Options exercisable	<u>7,845,902</u>	10.34



Options available for grant	<u>2,338,724</u>	-
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Weighted average fair value of options granted during period	<u>-</u>	\$ 0.0
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Options available for grant include both restricted stock awards and stock awards.

As of October 31, 2007, the status of the Company's outstanding and exercisable options is as follows:

Range of Exercise Price	Number Outstanding	Options Outstanding		Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.01 - 4.63	851,827	5.3	\$ 3.61	741,988	\$ 3.58
4.64 - 9.25	3,133,053	4.8	6.84	2,933,986	6.93
9.26 - 13.88	3,196,975	4.3	12.76	3,196,975	12.76
13.89 - 18.50	680,953	3.2	15.40	680,953	15.40
18.51 - 23.13	244,000	3.3	21.09	244,000	21.09
23.14 - 27.75	16,000	4.4	26.20	16,000	26.20
27.76 - 32.38	1,000	3.6	28.34	1,000	28.34
32.39 - 37.00	15,500	2.6	33.63	15,500	33.63
41.63 - 46.25	15,500	2.4	46.25	15,500	46.25
	<u>8,154,808</u>	4.3	\$ 10.13	<u>7,845,902</u>	\$ 10.34

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**RSU Activity**

	<b>Three Months Ended October 31, 2007</b>	
	<b>Number of Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
RSUs outstanding, beginning of period	1,527,335	\$ 4.77
Granted	925,000	3.90
Exercised	(58,750 )	4.84
Forfeited	(12,500 )	4.93
RSUs outstanding, end of period	<u>2,381,085</u>	\$ 4.43

**Product Warranty Costs**

The Company's products are sold with warranty provisions that require us to remedy deficiencies in quality or performance of our products over a specified period of time at no cost to our customers. The Company's policy is to establish warranty reserves at levels that represent our estimate of the costs that will be incurred to fulfill those warranty requirements at the time that revenue is recognized.

The following table shows the change in the product warranty liability, as required by FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", for the three months ended October 31, 2007 and 2006:

<b>Product Warranty Activity</b>	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
	(in thousands)	
Balance at beginning of period	\$1,819	\$3,543
Warranty expenditures for current period	(612 )	(853 )
Changes in liability related to pre-existing warranties	-	(47 )
Provision for warranty costs in the period	370	771

Balance at end of period

\$1,577      \$3,414

**Comprehensive Income (Loss)**

Comprehensive income (loss) is comprised of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on the Company's marketable securities and the effects of the pension liability gain or loss.

**Net Income (Loss) per Share**

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the maximum dilution that would have resulted from the assumed exercise and share repurchase related to dilutive stock options and is computed by dividing net income (loss) by the weighted average number of common shares and the dilutive effect of all securities outstanding.

Reconciliation between basic and diluted earnings per share is as follows:

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	Three Months Ended	
	October 31,	
	2007	2006
	(in thousands, except per share data)	
Net income (loss)	\$(224 )	\$4,590
Basic EPS		
Basic common shares	62,469	62,019
Basic EPS	\$0.00	\$0.07
Diluted EPS		
Basic common shares	62,469	62,019
Plus: impact of options and restricted stock units	—	426
Diluted common shares	62,469	62,445
Diluted EPS	\$0.00	\$0.07

At October 31, 2007 and 2006, options to purchase 7,864,507 shares and 7,138,162 shares of common stock, respectively, were not included in the calculation of diluted net income (loss) per share because their inclusion would have been anti-dilutive. These options could be dilutive in the future. The calculation of diluted net income (loss) per share also excludes 653,000 and 721,000 RSUs at October 31, 2007 and 2006, respectively, in accordance with the contingently issuable shares guidance of SFAS No. 128, "Earnings Per Share".

### **Cash and Cash Equivalents and Marketable Securities**

The Company considers all highly liquid investments that are readily convertible to cash and that have original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of repurchase agreements and commercial paper. Marketable securities consist primarily of debt securities that are classified as available-for-sale, in accordance with the SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Securities available for sale include corporate and governmental obligations with various contractual maturity dates some of which are greater than one year. The Company considers the securities to be liquid and convertible to cash within 30 days. The Company has the ability and intent, if necessary, to liquidate any security that the Company holds to fund operations over the next twelve months and as such has classified these securities as short-term. Governmental obligations include U.S. Government, State, Municipal and Federal Agency securities.

Gross unrealized gains and losses for the three months ended October 31, 2007 and October 31, 2006 were not significant. The realized profits, losses and interest are included in investment income in the Statements of Operations. Unrealized gains and losses are reflected as a separate component of comprehensive income (loss) and are included in Stockholders' Equity. The Company analyzes its securities portfolio for impairment on a quarterly basis or upon occurrence of a significant change in circumstances. There were no impairment losses recorded for the three months ended October 31, 2007 and October 31, 2006.

At October 31, 2007, there was no cash restricted from withdrawal.

## Inventories

Inventories are stated at the lower of cost or market, determined on the first-in, first-out method, and include materials, labor and manufacturing overhead. Inventories consisted of the following at:

	<u>October 31,</u> <u>2007</u>	<u>July 31,</u> <u>2007</u>
	(in thousands)	
Purchased components and parts	\$ 14,177	\$20,317
Units-in-progress	3,244	529
Finished units	<u>8,434</u>	<u>6,256</u>
	<u>\$25,855</u>	<u>\$27,102</u>

The Company establishes inventory reserves when conditions exist that indicate inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand for the Company's products or market conditions. The Company regularly evaluates the ability to realize the value of inventory based on a combination of factors including the following: forecasted sales or usage, estimated product end of life dates, estimated current and future market value and new product introductions. Purchasing and usage alternatives are also explored to mitigate inventory exposure.

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When recorded, reserves are intended to reduce the carrying value of inventory to its net realizable value. As of October 31, 2007 and July 31, 2007, inventory is stated net of inventory reserves of \$38.5 million and \$41.4 million, respectively. If actual demand for products deteriorates or market conditions are less favorable than projected, additional inventory reserves may be required. Such reserves are not reversed until the related inventory is sold or otherwise disposed of. The Company recognized sales of previously written off inventory of \$1.2 million for the three months ended October 31, 2007 and \$2.0 million for the three months ended October 31, 2006. The \$1.2 million and \$2.0 million recorded for the three months ended October 31, 2007 and 2006, respectively, represents the gross cash received from the customer. The net incremental gross margin and net income effect for these transactions of \$0.1 million and \$0.5 million for the three months ended October 31, 2007 and 2006, did not have a significant impact on normal operating margins and the results of operations.

### Property and Equipment

Property and equipment is recorded at cost. The Company provides for depreciation and amortization on the straight-line method. Charges are made to operating expenses in amounts that are sufficient to amortize the cost of the assets over their estimated useful lives. Machinery, equipment and internally manufactured systems include spare parts used for service and LTX test systems used for testing components, engineering and applications development. Internally manufactured equipment is recorded at cost and depreciated over 3 to 7 years. Repairs and maintenance costs that do not extend the lives of property and equipment are expensed as incurred. Property and equipment are summarized as follows:

	<u>October 31,</u> <u>2007</u>	<u>July 31,</u> <u>2007</u>	<u>Depreciable Life</u> <u>In Years</u>
	(in thousands)		
Machinery, equipment and internal manufactured systems	\$99,495	\$98,827	3-7
Office furniture and equipment	3,062	3,035	3-7
Leasehold improvements	<u>8,585</u>	<u>8,659</u>	10 or term of lease
	111,142	110,521	
Less Accumulated depreciation and amortization	<u>(78,421 )</u>	<u>(78,038 )</u>	
	<u>\$32,721</u>	<u>\$32,483</u>	

### Impairment of Long-Lived Assets Other Than Goodwill

On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets. In accordance with SFAS No.144, "Accounting for Impairment or Disposal of Long-Lived Assets", the Company reviews whether impairment losses exist on long-lived assets when indicators of impairment are present. During this review, the Company reevaluates the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances that have occurred since acquisition. The extent of the impairment amount recognized is based upon a determination of the impaired asset's fair value. There were no significant impairment losses for the three months ended October 31, 2007 and October 31, 2006.

### Goodwill and Other Intangibles

The Company follows the provisions of Statement No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with a definitive useful life are amortized over their estimated useful life. Assets recorded in these categories are tested for impairment at least annually or when a change in circumstances may result in future impairment. Intangible assets are recorded at historical cost. Intangible assets acquired in an acquisition, including purchased research and development, are recorded under the purchase method of accounting. Assets acquired in an acquisition are recorded at their estimated fair values at the date of acquisition. Management uses a discounted cash flow analysis to test goodwill, at least annually or when indicators of impairment exist, which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of the acquired business to assess the need for an impairment charge. If the carrying value of the Company's net asset is in excess of the present value of the expected future cash flows, the carrying value of goodwill is written down to fair value in the period identified.

Goodwill totaling \$14.8 million at October 31, 2007 and July 31, 2007, represents the excess of acquisition costs over the estimated fair value of the net assets acquired from StepTech, Inc. ("StepTech") on June 10, 2003. Since the Company operates as a single reporting unit under SFAS No. 142, goodwill is measured annually based on the Company's enterprise value, or more frequently if indicators of impairment develop.

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### 3. SEGMENT REPORTING

The Company operates predominantly in one industry segment: the design, manufacture and marketing of automatic test equipment for the semiconductor industry that is used to test system-on-a-chip, digital, analog and mixed signal integrated circuits.

The Company's net sales by geographic area for the three months ended October 31, 2007 and 2006, along with the long-lived assets at October 31, 2007 and July 31, 2007, are summarized as follows:

	Three Months Ended	
	October 31,	
	2007	2006
	(in thousands)	
Net Sales:		
United States	\$16,313	\$18,883
Taiwan	1,314	1,604
Japan	1,212	2,027
Singapore	2,287	8,251
Philippines	2,030	9,300
All other countries	6,479	9,775
Total Net Sales	<u>\$29,635</u>	<u>\$49,840</u>
	October 31,	July 31,
	2007	2007
	(in thousands)	
Long-lived Assets:		
United States	\$43,842	\$43,881
Taiwan	56	65



Japan	213	232
Singapore	1,814	1,845
All other countries	1,558	1,222
Total Long-lived Assets	<u>\$47,483</u>	<u>\$47,245</u>

Transfer prices on products sold to foreign subsidiaries are intended to produce profit margins that correspond to the subsidiary's sales and support efforts.

#### 4. REORGANIZATION CHARGES AND INVENTORY PROVISIONS

There were no significant reorganization charges recorded for the quarters ended October 31, 2007 and October 31, 2006 and for the prior year twelve months ended July 31, 2007.

The Company initiated and completed several reorganization actions and inventory provisions during the fiscal year ended July 31, 2006.

The following table sets forth the Company's reorganization accrual activity for fiscal 2007 and the three months ended October 31, 2007:

	<u>Severance Costs</u>	<u>Equipment leases</u>	<u>Facility leases</u>	<u>Asset impairment</u>	<u>Total</u>
	(in millions)				
<b>Balance July 31, 2006</b>	\$ 2.1	\$ 4.1	\$ 1.8	\$ -	\$8.0
Additions to expense	(0.4 )	-	-	-	(0.4)
Elimination of deferred gain	-	(1.6 )	-	-	(1.6)
Non-cash utilization	(0.4 )	-	0.2	-	(0.2)
Cash paid	<u>(0.7 )</u>	<u>(1.7 )</u>	<u>(1.0 )</u>	-	<u>(3.4)</u>
<b>Balance July 31, 2007</b>	0.6	0.8	1.0	-	2.4
Additions to expense	-	-	-	-	-
Elimination of deferred gain	-	-	-	-	-

Non-cash utilization	-	-	-	-	-
Cash paid	-	(0.8 )	(0.1 )	-	(0.9)
<b>Balance October 31, 2007</b>	<u>0.6</u>	<u>-</u>	<u>0.9</u>	<u>-</u>	<u>1.5</u>

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**5. CONTINGENCIES AND GUARANTEES**

In the ordinary course of business, we agree from time to time to indemnify certain customers against certain third party claims for property damage, bodily injury, personal injury or intellectual property infringement arising from the operation or use of the Company's products. Also, from time to time in agreements with suppliers, licensors and other business partners, we agree to indemnify these partners against certain liabilities arising out of the sale or use of the Company's products. The maximum potential amount of future payments we could be required to make under these indemnification obligations is theoretically unlimited; however, we have general and umbrella insurance policies that enable the Company to recover a portion of any amounts paid and many of our agreements contain a limit on the maximum amount, as well as limits on the types of damages recoverable. Based on our experience with such indemnification claims, we believe the estimated fair value of these obligations is minimal. Accordingly, we have no liabilities recorded for these agreements as of October 31, 2007 or July 31, 2007.

Subject to certain limitations, LTX indemnifies its current and former officers and directors for certain events or occurrences. Although the maximum potential amount of future payments LTX could be required to make under these agreements is theoretically unlimited, as there were no known or pending claims, we have not accrued a liability for these agreements as of October 31, 2007 or July 31, 2007.

The Company has operating lease commitments for certain facilities and equipment and capital lease commitments for certain equipment. Minimum lease payments under noncancelable leases at October 31, 2007, are as follows:

**Lease Commitments:**

Year ending July 31,	(in thousands)
	Amount
2008	\$ 1,926
2009 - 2010	3,799
2011 - 2012	2,748
Thereafter	3,782
Total minimum lease payments	<u>\$ 12,255</u>

Other accrued expenses consisted of the following at October 31, 2007 and July 31, 2007:

**Other Accrued Expenses:**

	(in thousands)	
	October 31, 2007	July 31, 2007
Accrued compensation	\$4,621	\$4,823

Accrued income and local taxes	2,318	5,596
Warranty reserve	1,577	1,819
Accrued restructuring	1,476	2,223
Accrued interest	527	2,280
Other accrued expenses	2,674	2,864
	<u>\$ 13,193</u>	<u>\$ 19,605</u>

## 6. LONG TERM DEBT

Long-term debt consists of the following:

	(in thousands)	
	October 31, 2007	July 31, 2007
Convertible subordinated notes	\$-	\$27,220
Bank term loan	\$ 20,000	20,000
Lease purchase obligations, net of deferred interest	\$ 1	2
	<u>\$ 20,001</u>	<u>47,222</u>
Less: current portion	<u>\$(3,001)</u>	<u>(29,322)</u>
	<u>\$ 17,000</u>	<u>\$ 17,900</u>

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On August 8, 2001, the Company received net proceeds of \$145.2 million from a private placement of \$150 million, 4.25% Convertible Subordinated Notes (“the Notes”) due 2006. The private placement was effected through a Rule 144A offering to qualified institutional buyers. Interest on the Notes is payable on February 15 and August 15 of each year, commencing February 15, 2002. The Notes are convertible into shares of the Company’s common stock at any time prior to the close of business on August 15, 2006, unless previously redeemed, at a conversion price of \$29.04 per share, subject to certain adjustments. Prior to August 19, 2004, the Company could have redeemed any of the Notes at a certain redemption price, plus accrued interest, if the closing price of the common stock exceeded 150% of the conversion price for at least 20 trading days in any consecutive 30-day trading period and certain other conditions are satisfied. On or after August 19, 2004, the Company could have redeemed any of the Notes at designated redemption prices, plus accrued interest. The Notes were unsecured and subordinated in right of payment in full to all existing and future senior indebtedness of the Company. Expenses associated with the offering of approximately \$4.8 million were being amortized using the straight-line method, which approximates the effective interest method, over the term of the Notes. The stated interest rate was 4.25% and the effective rate is 4.39% due to the amortization of capitalized costs associated with the offering. During the fourth fiscal quarter of 2005, the Company repurchased \$61.7 million of the outstanding principal balance. On November 14, 2005, the Company refinanced this debt by exchanging \$27.2 million in aggregate principal amount of existing notes plus all accrued and unpaid interest on the outstanding notes for an equal principal amount of new notes due August 2007 with an interest rate of 4.25%. The principal balance of these notes of \$27.2 million was paid in full on August 15, 2007.

On June 3, 2005, the Company closed a \$60.0 million term loan with a commercial lender (the “2005 Loan Agreement”). The loan had a five year term. Interest was at the lender’s variable prime rate and was payable monthly. The Company entered into a new Loan and Security Agreement (the “2006 Loan Agreement”), dated as of December 7, 2006, with Silicon Valley Bank (“SVB”) to modify the existing \$60.0 million term loan. Under the terms of the 2006 Loan Agreement, LTX borrowed \$20.0 million under a term loan at an interest rate of prime minus 1.25% with interest-only payable during the first 12 months. The loan is secured by all assets of the Company located in the United States. Principal of this term loan is repayable over four years as follows:

months 13 to 24: \$300,000.00 per month

months 25 to 36: \$600,000.00 per month

months 37 to 48: \$766,666.67 per month

The financing arrangement under the 2006 Loan Agreement also provides LTX with a \$30.0 million revolving credit facility. No amount was outstanding under the revolving credit facility as of July 31, 2007.

In connection with the 2006 Loan Agreement, LTX has terminated the 2005 Loan Agreement and has repaid all outstanding amounts under the 2005 Loan Agreement. The net effect of this transaction reduced existing cash on hand by approximately \$36.0 million in the quarter ended January 31, 2007.

The Company had a second credit facility with another lender for a revolving credit line of \$5.0 million. This facility was secured by cash and marketable securities. The line expired on October 31, 2007 and was not renewed.

## **7. RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the FASB issued FASB Interpretation No. 48 (“FIN No. 48”), “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109”, which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, “Accounting for Income Taxes”. FIN No. 48 clarifies the application of SFAS No. 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN No. 48 provides guidance on the measurement, de-recognition,



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classification and disclosure of tax positions along with the accounting for the related interest and penalties. The provisions of FIN No. 48 are effective for the fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company has adopted FIN No. 48 for the Company's fiscal year beginning August 1, 2007. The adoption of FIN No. 48 did not have an impact on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for more information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the information used to measure fair value, and (3) the effect that fair-value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company will adopt this requirement for the fiscal year beginning August 1, 2008. The Company is currently evaluating the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. The Company will adopt this requirement for the fiscal year beginning August 1, 2008. The Company is currently evaluating the potential impact that the adoption of SFAS No. 159 will have on its financial statements.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Industry Conditions and Outlook**

We sell capital equipment and services to companies that design, manufacture, assemble or test semiconductor devices. The semiconductor industry is highly cyclical, causing in turn a cyclical impact on the Company's financial results. As a capital equipment provider, revenue is driven by the capital expenditure budgets and spending patterns of our customers, who often delay or accelerate purchases in reaction to variations in their business. The level of capital expenditures by these semiconductor companies depends on the current and anticipated market demand for semiconductor devices and the products that incorporate them. Therefore, demand for our semiconductor test equipment is dependent on growth in the semiconductor industry. In particular, three primary characteristics of the semiconductor industry drive the demand for semiconductor test equipment:

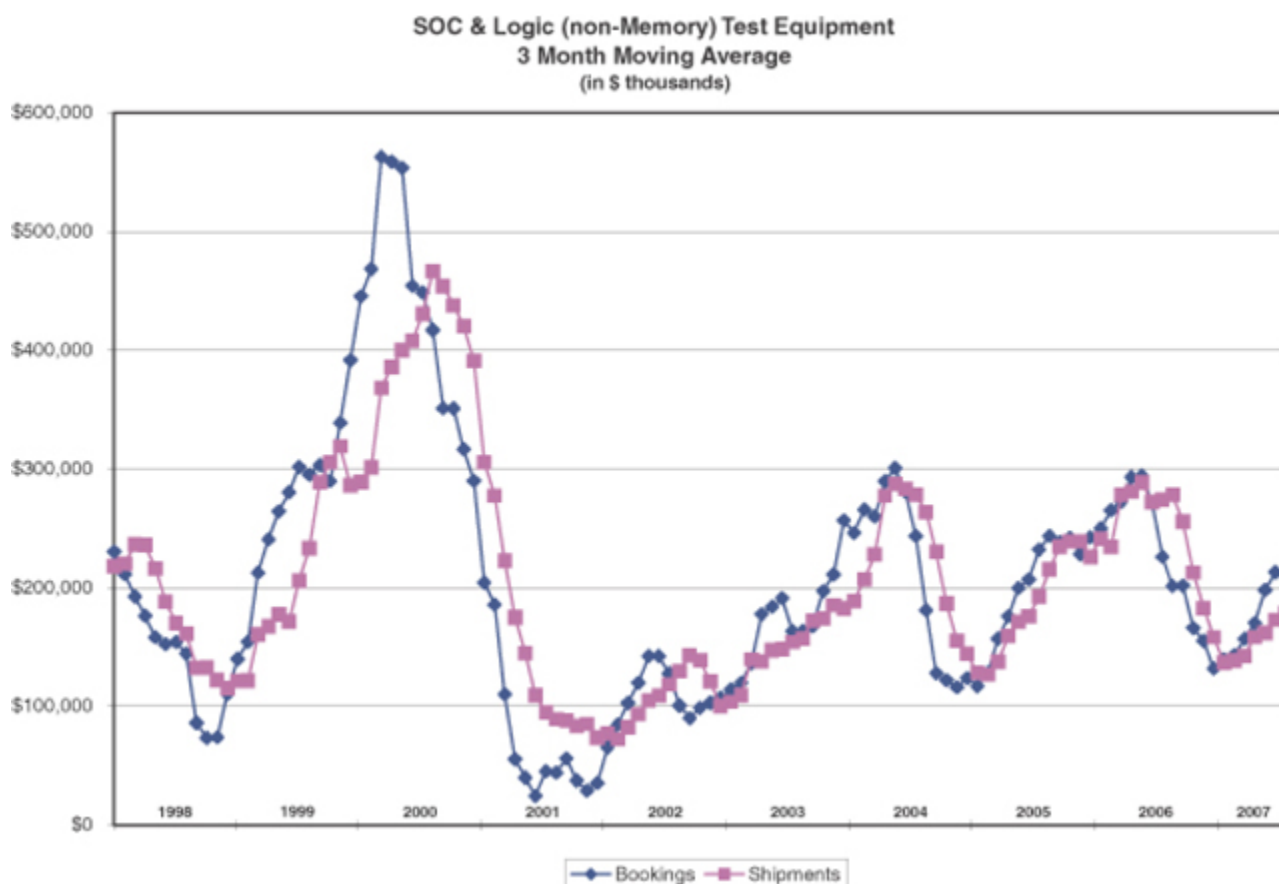
increases in unit production of semiconductor devices;

increases in the complexity of semiconductor devices used in electronic products; and

the emergence of next generation device technologies, such as system in package ("SIP").

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The following graph shows the cyclical nature in semiconductor test equipment orders and shipments from fiscal 1997 through fiscal 2007 (using the three month moving average), as calculated by SEMI, an industry trade organization:



Consistent with the Company's business strategy, we have continued to invest significant amounts in engineering and product development to develop and enhance our Fusion platform during industry slowdowns. For fiscal 2007, engineering and product development expense was \$50.0 million, or 33.9% of net sales, as compared to \$53.8 million, or 24.9% of net sales, in fiscal 2006. Engineering and development expense decreased sequentially on a quarterly basis during fiscal 2006 and 2007 and has remained at a targeted level of approximately \$12.0 million per quarter for the last four quarters. Engineering and development expense for the first quarter of fiscal 2008 was \$11.6 million as compared to \$12.0 million in the Company's fourth quarter of fiscal 2007. We believe that our competitive advantage in the semiconductor test industry is primarily driven by the ability of our Fusion platform to meet or exceed the technical specifications required for the testing of advanced semiconductor devices in a cost-efficient manner. Current investment in engineering and product development is focused on enhancements to and additions to the Company's product offerings with new options and instruments designed for specific market segments. We believe this will continue to differentiate the Fusion platform from the product offerings of our competitors.

In addition, over the past several years, the Company has increasingly transitioned the manufacture of certain components and subassemblies to contract manufacturers, thereby reducing fixed manufacturing costs associated with direct labor and overhead. In fiscal 2002, the Company completed the transition of our final assembly, system integration and testing operations for Fusion HF to Jabil Circuit. In fiscal 2004, we completed the transition of our Fusion HFi, CX and DX manufacturing to Jabil Circuit. In fiscal 2005, we added Fusion EX, in fiscal 2006, we added Fusion MX and in fiscal 2007, we added Fusion LX. This strategy has further reduced our fixed manufacturing costs. We believe that transforming product manufacturing costs into variable costs will in the future allow us to improve our performance during cyclical downturns while preserving our historic gross margins during cyclical upturns.

During fiscal years 2005 and 2006, we took several additional cost reduction measures to further mitigate the adverse effect of cyclical downturns on our profitability. Our total worldwide headcount was reduced from 635 employees and 55 temporary workers at the end of fiscal 2004 to 436 employees and 18 temporary workers at the end of fiscal 2007. In addition, we continued to maintain other cost reduction



measures, such as the strict oversight and reduction in discretionary travel and other variable overhead expenses. We believe that these reductions in operating costs have reduced our costs while preserving our ability to fund critical product research and development efforts and continue to provide our customers with the levels of responsiveness and service they require.

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We are also exposed to the risks associated with the volatility of the U.S. and global economies. The lack of visibility regarding whether or when there will be sustained growth periods for the sale of electronic goods and information technology equipment, and uncertainty regarding the amount of sales, underscores the need for caution in predicting growth in the semiconductor test equipment industry in general and in our revenues and profits specifically. Slow or negative growth in the domestic economy may continue to materially and adversely affect our business, financial condition and results of operations for the foreseeable future. The Company's results of operations would be further adversely affected if we were to experience lower than anticipated order levels, cancellations of orders in backlog, extended customer delivery requirements or pricing pressure as a result of a slowdown. At lower levels of revenue, there is a higher likelihood that these types of changes in our customers' requirements would adversely affect our results of operations because in any particular quarter a limited number of transactions accounts for an even greater portion of sales for the quarter.

### **Critical Accounting Policies and the Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical experience, and evaluate them on an on-going basis to ensure they remain reasonable under current conditions. Actual results could differ from those estimates. We discuss the development and selection of the critical accounting estimates with the audit committee of our board of directors on a quarterly basis, and the audit committee has reviewed the Company's critical accounting estimates as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2007. For the three months ended October 31, 2007, there have been no changes to these critical accounting policies except with respect to the adoption of FIN 48 as discussed below.

In July, 2006 the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Accounting Standards No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted FIN 48 on August 1, 2007. The adoption of FIN48 did not impact the consolidated financial results of operations or cash flow.

### **Results of Operations**

The following table sets forth for the periods indicated the principal items included in the Consolidated Statement of Operations as percentages of net sales.

	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
Net sales	100.0%	100.0%
Cost of sales	51.2	49.6
Gross profit	48.8	50.4

Engineering and product development expenses	39.3	25.9
Selling, general and administrative expenses	<u>22.0</u>	<u>14.2</u>
Income (loss) from operations	(12.5)	10.3
Other income (expense):		
Interest expense	(1.6 )	(3.9 )
Investment income	<u>2.3</u>	<u>2.8</u>
Net income (loss) before provision (benefit) for taxes	(11.8)	9.2
Provision (benefit) from taxes	<u>11.0</u>	<u>-</u>
Income (loss)	<u>(0.8 %)</u>	<u>9.2 %</u>

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The discussion below contains certain forward-looking statements relating to, among other things, estimates of economic and industry conditions, sales trends, expense levels and capital expenditures. Actual results may vary from those contained in such forward-looking statements. See “Business Risks” below.

### **Three Months Ended October 31, 2007 Compared to the Three Months Ended October 31, 2006.**

**Net sales.** Net sales consist of both semiconductor test equipment and related hardware and system support and maintenance services, net of returns and allowances. Net sales for the three months ended October 31, 2007 decreased 40.5% to \$29.6 million as compared to \$49.8 million in the same quarter of the prior year. Net sales decreased quarter over quarter, by 1.6% or \$.5 million from fourth quarter of fiscal year 2007 sales of \$30.1 million. The decrease in net sales from fourth quarter fiscal 2007 and the \$20.2 million or 40.5% decrease in net sales for the three months ended October 31, 2007 compared to the three months ended October 31, 2006, is due to an overall industry wide slowdown which began during the fourth quarter of fiscal year 2006, continuing throughout fiscal 2007 and into our first quarter of fiscal 2008.

Service revenue, included in net sales, accounted for \$6.8 million, or 22.8% of net sales, and \$7.8 million, or 15.6% of net sales, for the three months ended October 31, 2007 and 2006, respectively. The decrease in service revenue is primarily a result of the increased adoption of our newer X-Series products which carry a higher degree of reliability and lower service cost than the Company’s legacy products.

Geographically, sales to customers outside of the United States were 45.0% and 62.1% of net sales for the three months ended October 31, 2007 and October 31, 2006, respectively. The decrease in sales to customers outside the United States was a result of the overall industry wide slowdown impacting the majority of the Company’s customer base. A significant portion of the Company’s products are shipped to IDM’s whose test and assembly operations are performed in Asia and to Asian subcontractors. Both of these areas were negatively impacted by the overall industry wide economic conditions.

**Gross Profit Margin.** The gross profit margin was \$14.5 million or 48.8% of net sales in the three months ended October 31, 2007, as compared to \$25.1 million or 50.4% of net sales in the same quarter of the prior year. The decrease in the gross profit margin for the three months ended October 31, 2007 as compared to October 31, 2006 was primarily a result of the fixed cost component of our cost of sales not decreasing in the same proportion as the decrease in net sales.

The Company reviews excess and obsolete inventory when conditions exist that suggest our inventory may be in excess of anticipated demand or is obsolete based upon our assumptions about future demand for our products or market conditions. We also evaluate our excess and obsolete inventory on a quarterly basis identifying and addressing significant events that might have an impact on inventories and related reserves. The major variables impacting inventory usage are the demand for current products, overall industry conditions, key sales initiatives and the impact that our new product introductions have on current product demand. There were \$1.2 million and \$2.0 million in sales of previously written off inventory for the three months ended October 31, 2007 and 2006, respectively. The \$1.2 and the \$2.0 million recorded for the three months ended October 31, 2007 and October 31, 2006 respectively, represents the gross cash received from the customer. The net incremental gross margin and net income effect for these transactions of \$0.1 million and \$0.5 million for the three months ended October 31, 2007 and October 31, 2006 respectively, did not have a significant impact on normal operating margins and the results.

**Engineering and Product Development Expenses.** Engineering and product development expenses were \$11.6 million, or 39.1% of net sales, in the three months ended October 31, 2007, as compared to \$12.9 million, or 25.9% of net sales, in the same quarter of the prior year. The decrease in engineering and product development expenses for the three months ended October 31, 2007 as compared to the three months ended October 31, 2006 is principally a result of completion of second generation Fusion product development projects for Fusion HFi, CX and EX. Additionally, we have been able to leverage and re-use X-Series engineering development initiatives across a broader range of applications than in the past with our Fusion HF and HFi products. This has resulted in more efficient use of engineering resources and lower costs.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$6.5 million, or 22.0% of net sales, in the three months ended October 31, 2007, as compared to \$7.1 million, or 14.2% of net sales, in the same quarter of the prior year. The decrease is primarily driven by lower variable expenses related to profitability.

**Interest Expense.** Interest expense was \$0.5 million for the three months ended October 31, 2007 as compared to \$1.9 million for the three months ended October 31, 2006. Interest expense for the three months ended October 31, 2007 relates to \$20.0 million bank debt which bears an interest rate of prime rate minus 1.25%. The decrease in interest expense is primarily a result of the decrease in our convertible subordinated notes balance of \$27.2 million which were paid in full on August 15, 2007.

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**Investment Income.** Investment income was \$0.7 million for the three months ended October 31, 2007, as compared to \$1.4 million for the three months ended October 31, 2006. The decrease was due to lower cash balances resulting from the cash utilized to payoff the Company's subordinated convertible debt and the paydown of the Company's outstanding bank debt.

**Income Tax.** The Company recorded a one time tax benefit of \$3.3 million for the three months ended October 31, 2007 related to the de-recognition of a liability related to an uncertain tax position. The uncertain tax position related to potential dual taxation of a gain recorded in fiscal 2002 as part of the settlement with Ando Electric Co. The statute of limitations expired on the potential tax exposure on September 14, 2007, triggering the reversal of the reserve and non-cash benefit recorded in the current period.

For the three months ended October 31, 2007 and 2006, the Company recorded no income tax provision due to the uncertainty related to utilization of net operating loss carryforwards. As a result of a review undertaken at October 31, 2007 and 2006 and our cumulative loss position at those dates, management concluded that it was appropriate to maintain a full valuation allowance for its operating loss carryforwards and its other net deferred tax assets.

**Net Income (Loss).** Net loss was (\$0.2) million, or (\$0.00) per diluted share, in the three months ended October 31, 2007, as compared to net income of \$4.6 million, or \$0.07 per diluted share, in the same quarter of the prior year. The \$4.8 million decrease in net income (loss) was principally due to the \$20.2 million decrease net sales which was partially offset by the one time \$3.3 million income tax benefit.

### **Liquidity and Capital Resources**

As of October 31, 2007, the Company had \$61.7 million in cash and cash equivalents and marketable securities and net working capital of \$87.5 million, as compared to \$98.5 million of cash and cash equivalents and marketable securities and \$87.3 million of net working capital at July 31, 2007. The decrease in the cash and cash equivalents and marketable securities was due primarily to the \$29.3 million principal and interest payment related to the 4.25% Convertible Subordinated Notes due in August 2007, and an approximate \$4.6 million increase in accounts receivable.

Accounts receivable from trade customers, net of allowances, was \$27.1 million at October 31, 2007, as compared to \$22.5 million at July 31, 2007. The principal reason for the \$4.6 million increase in accounts receivable is a result of \$4.0 million of delays in certain customer payments that were expected to be collected in October that were collected in early November. The allowance for sales returns and doubtful accounts was \$1.3 million, or 6.9% of gross trade accounts receivable, at October 31, 2007 and \$1.3 million, or 5.3% of gross trade accounts receivable at July 31, 2007.

Accounts receivable from other sources, principally amounts due from vendors, was unchanged from the July 31, 2007 balance of \$1.5 million at \$1.5 million at October 31, 2007.

Net inventories decreased by \$1.2 million to \$25.9 million at October 31, 2007 as compared to \$27.1 million at July 31, 2007 as the Company continues to consume or provide for slow moving but active inventory.

Prepaid expense and other current assets increased by \$0.2 million to \$4.0 million at October 31, 2007 as compared to \$3.8 million at July 31, 2007.

Capital expenditures totaled \$3.4 million for the three months ended October 31, 2007, as compared to \$3.3 million for the three months ended October 31, 2006. Expenditures for the quarter ended October 31, 2007 included \$1.7 million of leasehold improvements related to the move to a new facility in Milpitas, California. The Company expects approximately \$1.0 million in annual cash savings from this move effective November 1, 2007.

On June 3, 2005, the Company closed a \$60.0 million term loan with a commercial lender (the "2005 Loan Agreement"). The loan had a five year term. Interest was at the lender's variable prime rate and was payable monthly. The Company entered into a new Loan and Security Agreement (the "2006 Loan Agreement"), dated as of December 7, 2006, with Silicon Valley Bank ("SVB") to modify the existing \$60.0 million term loan. Under the terms of the 2006 Loan Agreement, LTX borrowed \$20.0 million under a term loan at an interest rate of prime minus 1.25% with interest-only payable during the first 12 months. The loan is secured by all assets of the Company located in the United States. Principal of this term loan is repayable over four years as follows:

months 13 to 24: \$300,000.00 per month (first payment due January 1, 2008)

months 25 to 36: \$600,000.00 per month

months 37 to 48: \$766,666.67 per month

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The financing arrangement under the 2006 Loan Agreement also provides LTX with a \$30.0 million revolving credit facility. No amount was outstanding under the revolving credit facility as of October 31 and July 31, 2007.

In connection with the 2006 Loan Agreement, LTX has terminated the 2005 Loan Agreement and has repaid all outstanding amounts under the 2005 Loan Agreement. The net effect of this transaction reduced existing cash on hand by approximately \$36.0 million in the quarter ended January 31, 2007.

The Company had a second credit facility with another lender for a revolving credit line of \$5.0 million. This facility was secured by cash and marketable securities. This line of credit was used to secure obligations of operating leases and existing stand-by letters of credit. The facility expired and was not renewed on October 31, 2007.

In August 2001, we received net proceeds of \$145.2 million from a private placement of 4.25% Convertible Subordinated Notes due August, 2006. Interest on the 4.25% Convertible Subordinated Notes were payable on February 15 and August 15 of each year, commencing February 15, 2002. The notes were convertible into shares of our common stock at any time prior to the close of business on August 15, 2006, unless previously redeemed, at a conversion price of \$29.04 per share, subject to certain adjustments. The notes are unsecured and subordinated in right of payment in full to all existing and future senior indebtedness of the Company. Expenses associated with the offering of approximately \$4.8 million were being amortized using the straight-line method, which approximates the effective interest method, over the term of the notes. During the fourth fiscal quarter of 2005, the Company repurchased \$61.7 million of the outstanding principal balance of the notes for a purchase price of \$60.0 million. On November 14, 2005, the Company exchanged \$27.2 million in aggregate principal amount of the notes plus all accrued and unpaid interest thereon for an equal principal amount of newly issued 4.25% Convertible Senior Notes (the "New Notes") due August 2007. On August 8, 2006, the Company utilized existing cash on hand to pay the remaining outstanding balance of the \$61.1 million of 4.25% Convertible Subordinated Notes. The Company paid the remaining \$27.2 million outstanding principal of New Notes, together with accrued interest of \$2.1 million, on August 15, 2007 with existing cash balances. As of August 15, 2007, there are no outstanding notes.

The Company has a non-qualified deferred compensation arrangement for a select group of management or highly compensated employees. The Company has two plans that have been discontinued with respect to new deferrals: (i) the LTX Corporation Deferred Compensation Plan that was adopted effective December 1, 2001, (referred to herein as the "Frozen Plan") and (ii) a newer plan that complies with the requirements of Code Section 409A and related Treasury guidance and that governs all amounts deferred on or after January 1, 2005 (referred to herein as the "New Plan"). The Frozen Plan's accumulated balances were distributed in a lump sum payment of approximately \$2.3 million in January 2007, with the proceeds from the cash surrender value of the insurance policy used to fund this plan, and the New Plan's accumulated balances of approximately \$1.0 million will be paid out in a lump sum in January 2008 with proceeds from the cash surrender value of the insurance policy used to fund this plan. The proceeds and related liability associated with these plans are reported as other assets, and other accrued expenses, respectively.

The Company has a defined benefit pension plan for its operation in the United Kingdom. The plan was constituted in October 1981 to provide defined benefit pension and lump sum benefits, payable on retirement, for employees of LTX(Europe) Limited, ("UK"). The plan has 71 participants of which 2 remain as active employee members and 69 are non-active former employees but for whom benefits are preserved. The plan has been closed to all new members since December 31, 2000. Annually, the Company obtains an actuarial valuation of the pension plan. The plan was under-funded as of July 31, 2007 by \$3.9 million. The Company has recorded this liability as other long-term liabilities of \$3.6 million and other accrued expenses of \$0.3 million on the consolidated balance sheet as of July 31, 2007. Cash payments are projected to be approximately \$0.3 million in fiscal 2008 and actual cash payments were \$0.4 million in fiscal 2007.

The Company operates in a highly cyclical industry and we may experience, with relatively short notice, significant fluctuations in demand for our products. This could result in a material effect on our liquidity position. To mitigate the risk, we have completed a substantial and lengthy process of converting our manufacturing process to an outsource model. In addition, we continue to maintain other cost reduction measures, such as the strict oversight of discretionary travel and other variable overhead expenses. We believe that these reductions in operating costs have reduced our costs while preserving our ability to fund critical product research and development efforts and continue to provide our customers with the levels of responsiveness and service they require. As such, we believe we can react to a downturn or a significant upturn much faster than in the past. We believe that our balances of cash and cash equivalents and marketable securities, cash



flows expected to be generated by future operating activities, our access to capital markets for competitively priced instruments and funds available under our credit facilities will be sufficient to meet our cash requirements over the next twelve to twenty-four months, which includes the payment of the outstanding principal installments of the 2006 Loan Agreement discussed above.

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### Commitments and Contingencies

Our major outstanding contractual obligations are related to our bank term loan, facilities, leases, inventory purchase commitments and other operating leases.

The aggregate outstanding amount of the contractual obligations is \$50.4 million as of October 31, 2007. These obligations and commitments represent maximum payments based on current operating forecasts. Certain of the commitments could be reduced if changes to our operating forecasts occur in the future.

The following summarizes LTX' s contractual obligations, net of sub-lease revenue, at October 31, 2007 and the effect such obligations are expected to have on our liquidity and cash flow in the future periods:

Financial Obligations	Payments Due by Period (in thousands)				
	Total	Remainder of 2008	2009-2010	2011-2012	Thereafter
Term loan (including interest)	\$22,714	\$3,055	\$15,762	\$3,897	\$-
Inventory commitments	11,219	11,219	-	-	-
Operating leases	12,255	1,926	3,799	2,748	3,782
Long-term liabilities, pensions and severance	4,206	647	682	682	2,195
Total contractual obligations	<u>\$50,394</u>	<u>\$16,847</u>	<u>\$20,243</u>	<u>\$7,327</u>	<u>\$5,977</u>

In addition to the financial obligations above, the Company has recorded \$1.0 million liability for uncertain tax positions as of October 31, 2007.

### BUSINESS RISKS

This report includes or incorporates forward-looking statements that involve substantial risks and uncertainties and fall within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by our use of the words “believes,” “anticipates,” “plans,” “expects,” “may,” “will,” “would,” “intends,” “estimates,” and similar expressions, whether in the negative or affirmative. We cannot guarantee that we actually will achieve these plans, intentions or expectations. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements, particularly under the heading “Business Risks,” that we believe could cause our actual results to differ materially from the forward-looking statements that we make. We do not assume any obligation to update any forward-looking statement we make.

#### ***Our sole market is the highly cyclical semiconductor industry, which causes a cyclical impact on our financial results.***

We sell capital equipment to companies that design, manufacture, assemble, and test semiconductor devices. The semiconductor industry is highly cyclical, causing in turn a cyclical impact on our financial results. In fiscal 2006, the industry entered a growth period that was reflected in our improving operating results during fiscal 2006. However, our incoming product orders in the fourth quarter decreased from the third quarter' s levels and continued to decrease in the first two quarters of fiscal 2007. The timing and level of industry recovery is

uncertain at this time as we begin our fiscal 2008. Any failure to expand in cycle upturns to meet customer demand and delivery requirements or contract in cycle downturns at a pace consistent with cycles in the industry could have an adverse effect on our business.

Any significant downturn in the markets for our customers' semiconductor devices or in general economic conditions would likely result in a reduction in demand for our products and would hurt our business. From the fourth quarter of fiscal 2006 through the end of fiscal 2007 and into our first fiscal quarter of 2008, our revenue and operating results were negatively impacted by a downturn in the semiconductor industry. Downturns in the semiconductor test equipment industry have been characterized by diminished product demand, excess production capacity, accelerated erosion of selling prices and excessive inventory levels. We believe the markets for newer generations of devices, including system in package ("SIP"), will also experience similar characteristics. Our market is also characterized by rapid technological change and changes in customer demand. In the past, we have experienced delays in commitments, delays in collecting accounts receivable and significant declines in demand for our products during these downturns, and we cannot be certain that we will be able to maintain or exceed our current level of sales.

Additionally, as a capital equipment provider, our revenue is driven by the capital expenditure budgets and spending patterns of our customers who often delay or accelerate purchases in reaction to variations in their businesses. Because a high portion of our costs are fixed, we are limited in our ability to reduce expenses and inventory purchases quickly in response to decreases in orders and revenues. In a contraction, we may not be able to reduce our significant fixed costs, such as continued investment in research and development and capital equipment requirements and materials purchases from our suppliers.

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### ***The market for semiconductor test equipment is highly concentrated, and we have limited opportunities to sell our products.***

The semiconductor industry is highly concentrated, and a small number of semiconductor device manufacturers and contract assemblers account for a substantial portion of the purchases of semiconductor test equipment generally, including our test equipment. Sales to Texas Instruments accounted for 38% of our net sales in fiscal 2007 and 56% of our net sales in fiscal 2006. Sales to our ten largest customers accounted for 84.6% in the three months ended October 31, 2007 and 87.0 % in the three months ended October 31, 2006. Our customers may cancel orders with few or no penalties. If a major customer reduces orders for any reason, our revenues, operating results, and financial condition will be affected.

Our ability to increase our sales will depend in part upon our ability to obtain orders from new customers. Semiconductor manufacturers select a particular vendor's test system for testing the manufacturer's new generations of devices and make substantial investments to develop related test program software and interfaces. Once a manufacturer has selected one test system vendor for a generation of devices, that manufacturer is more likely to purchase test systems from that vendor for that generation of devices, and, possibly, subsequent generations of devices as well. Therefore, the opportunities to obtain orders from new customers may be limited.

### ***Our sales and operating results have fluctuated significantly from period to period, including from one quarter to another, and they may continue to do so.***

Our quarterly and annual operating results are affected by a wide variety of factors that could adversely affect sales or profitability or lead to significant variability in our operating results or our stock price. This may be caused by a combination of factors, including the following:

sales of a limited number of test systems account for a substantial portion of our net sales in any particular fiscal quarter, and a small number of transactions could therefore have a significant impact;

order cancellations by customers;

lower gross margins in any particular period due to changes in:

our product mix,

the configurations of test systems sold,

the customers to whom we sell these systems, or

volume.

a long sales cycle, due to the high selling price of our test systems, the significant investment made by our customers, and the time required to incorporate our systems into our customers' design or manufacturing process; and

changes in the timing of product orders due to:

unexpected delays in the introduction of products by our customers,

shorter than expected lifecycles of our customers' semiconductor devices,

uncertain market acceptance of products developed by our customers, or

our own research and development.

We cannot predict the impact of these and other factors on our sales and operating results in any future period. Results of operations in any period, therefore, should not be considered indicative of the results to be expected for any future period. Because of this difficulty in predicting future performance, our operating results may fall below expectations of securities analysts or investors in some future quarter or quarters. Our failure to meet these expectations would likely adversely affect the market price of our common stock.

A substantial amount of the shipments of our test systems for a particular quarter occur late in the quarter. Our shipment pattern exposes us to significant risks in the event of problems during the complex process of final integration, test and acceptance prior to shipment. If we were to experience problems of this type late in our quarter, shipments could be delayed and our operating results could fall below expectations.

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### ***We depend on Jabil Circuit to produce and test our family of Fusion products, and any failures or other problems at or with Jabil could cause us to lose customers and revenues.***

We have selected Jabil Circuit, Inc. to manufacture our Fusion test systems. If for any reason Jabil cannot provide us with these products and services in a timely fashion, or at all, whether due to labor shortage, slow down or stoppage, deteriorating financial or business conditions or any other reason, we would not be able to sell or ship our Fusion family of products to our customers. All of the products Jabil tests and assembles for us are assembled in one facility in Massachusetts. If this facility were to become unable to meet our production requirements, transitioning assembly to an alternative Jabil facility could result in production delays of several weeks or more. We have recently announced plans to transition manufacturing of all X-Series products from the facility in Massachusetts to Jabil's Penang, Malaysia facility. If the transition to Jabil's Malaysia facility is not successfully completed, or if Jabil Malaysia is unable to meet our production requirements, there would be production delays and we would not be able to ship products to our customers. We have no written supply agreement with Jabil. We also may be unable to engage alternative production and testing services on a timely basis or upon terms favorable to us, if at all.

We also may be unable to engage alternative production and testing services on a timely basis or upon terms favorable to us, if at all. If we are required for any reason to seek a new manufacturer of our test systems, an alternate manufacturer may not be available and, in any event, transitioning to a new manufacturer would require a significant lead time of six months or more and would involve substantial expense and disruption of our business. Our test systems are highly sophisticated and complex capital equipment, with many custom components, and require specific technical know-how and expertise. These factors could make it more difficult for us to find a new manufacturer of our test systems if our relationship with Jabil is terminated for any reason, which would cause us to lose revenues and customers.

### ***Our dependence on subcontractors and sole source suppliers may prevent us from delivering an acceptable product on a timely basis.***

We rely on subcontractors to manufacture Fusion and many of the components and subassemblies for our products, and we rely on sole source suppliers for certain components. We may be required to qualify new or additional subcontractors and suppliers due to capacity constraints, competitive or quality concerns or other risks that may arise, including a result of a change in control of, or deterioration in the financial condition of, a supplier or subcontractor. The process of qualifying subcontractors and suppliers is a lengthy process. Our reliance on subcontractors gives us less control over the manufacturing process and exposes us to significant risks, especially inadequate capacity, late delivery, substandard quality, and high costs. In addition, the manufacture of certain of these components and subassemblies is an extremely complex process. If a supplier became unable to provide parts in the volumes needed or at an acceptable price, we would have to identify and qualify acceptable replacements from alternative sources of supply, or manufacture such components internally. The failure to qualify acceptable replacements quickly would delay the manufacturing & delivery of our products, which could cause us to lose revenues and customers.

We are dependent on a semiconductor device manufacturer, Maxtek Components as a sole source supplier of components manufactured in accordance with our proprietary design and specifications. We have no written supply agreement with this sole source supplier and purchase our custom components through individual purchase orders.

### ***Compliance with current and future environmental regulations may be costly and disruptive to our operations.***

We may be subject to environmental and other regulations due to our production and marketing of products in certain states and countries. We are in the process of planning for and evaluating the impact of a directive to reduce the amount of hazardous materials in certain electronic components such as printed circuit boards. The directive is known as Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment. "RoHS" is short for restriction of hazardous substances. The RoHS Directive banned the placing on the EU market of new electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE), except where exemptions apply, from 1 July 2006. Manufacturers are required to ensure that their products, including their constituent materials and components, do not contain more than the minimum levels of the six restricted materials in order to be allowed to export goods into the Single Market (i.e. of the European Community's 25 Member States). We are uncertain as to the impact of compliance on future costs and supply of materials used to manufacture our equipment. Any interruption in supply due to the unavailability of lead free products could have a significant impact on the manufacturing and delivery of our products. If a supplier became

unable to provide parts in the volumes needed or at an acceptable price, we would have to identify and qualify acceptable replacements from alternative sources of supply or manufacture such components internally. The failure to qualify acceptable replacements quickly would delay the manufacturing and delivery of our products, which could cause us to lose revenues and customers.

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### ***Future acquisitions may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.***

We have in the past, and may in the future, seek to acquire or invest in additional complementary businesses, products, technologies or engineers. For example, in June 2003, we completed our acquisition of StepTech, Inc. We may have to issue debt or equity securities to pay for future acquisitions, which could be dilutive to then current stockholders. We have also incurred and may continue to incur certain liabilities or other expenses in connection with acquisitions, which could continue to materially adversely affect our business, financial condition and results of operations.

Mergers and acquisitions of high-technology companies are inherently risky, and no assurance can be given that future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. Our past and future acquisitions may involve many risks, including:

difficulties in managing our growth following acquisitions;

difficulties in the integration of the acquired personnel, operations, technologies, products and systems of the acquired companies;

uncertainties concerning the intellectual property rights we purport to acquire;

unanticipated costs or liabilities associated with the acquisitions;

diversion of managements' attention from other business concerns;

adverse effects on our existing business relationships with our or our acquired companies' customers;

potential difficulties in completing projects associated with purchased in process research and development; and

inability to retain employees of acquired companies.

Any of the events described in the foregoing paragraphs could have an adverse effect on our business, financial condition and results of operations and could cause the price of our common stock to decline.

### ***We may not be able to deliver custom hardware options and system applications to satisfy specific customer needs in a timely manner.***

We must develop and deliver customized hardware and system applications to meet our customers' specific test requirements. Our test equipment may fail to meet our customers' technical or cost requirements and may be replaced by competitive equipment or an alternative technology solution. Our inability to provide a test system that meets requested performance criteria when required by a device manufacturer would severely damage our reputation with that customer. This loss of reputation may make it substantially more difficult for us to sell test systems to that manufacturer for a number of years. We have, in the past, experienced delays in introducing some of our products and enhancements.



***Our dependence on international sales and non-U.S. suppliers involves significant risk.***

International sales have constituted a significant portion of our revenues in recent years, and we expect that this composition will continue. International sales accounted for 45% of our revenues for the three months ended October 31, 2007 and 62% of our revenues for the three months ended October 31, 2006. In addition, we rely on non-U.S. suppliers for several components of the equipment we sell. As a result, a major part of our revenues and the ability to manufacture our products are subject to the risks associated with international commerce. A reduction in revenues or a disruption or increase in the cost of our manufacturing materials could hurt our operating results. These international relationships make us particularly sensitive to changes in the countries from which we derive sales and obtain supplies. Our recently announced plans to transition our outsource manufacturing to Penang, Malaysia increases our exposure to these types of international risks. International sales and our relationships with suppliers may be hurt by many factors, including:

changes in law or policy resulting in burdensome government controls, tariffs, restrictions, embargoes or export license requirements;

political and economic instability in our target international markets;

longer payment cycles common in foreign markets;

difficulties of staffing and managing our international operations;

less favorable foreign intellectual property laws making it harder to protect our technology from appropriation by competitors; and

difficulties collecting our accounts receivable because of the distance and different legal rules.

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In the past, we have incurred expenses to meet new regulatory requirements in Europe, experienced periodic difficulties in obtaining timely payment from non-U.S. customers, and been affected by economic conditions in several Asian countries. Our foreign sales are typically invoiced and collected in U.S. dollars. A strengthening in the dollar relative to the currencies of those countries where we do business would increase the prices of our products as stated in those currencies and could hurt our sales in those countries. Significant fluctuations in the exchange rates between the U.S. dollar and foreign currencies could cause us to lower our prices and thus reduce our profitability. These fluctuations could also cause prospective customers to push out or delay orders because of the increased relative cost of our products. In the past, there have been significant fluctuations in the exchange rates between the dollar and the currencies of countries in which we do business. While we have not entered into significant foreign currency hedging arrangements, we may do so in the future. If we do enter into foreign currency hedging arrangements, they may not be effective.

***Our market is highly competitive, and we have limited resources to compete.***

The test equipment industry is highly competitive in all areas of the world. Many other domestic and foreign companies participate in the markets for each of our products, and the industry is highly competitive. Our competitors in the market for semiconductor test equipment include Advantest, Credence Systems, Eagle Test Systems, Teradyne and Verigy. Certain of these major competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing, and customer support capabilities.

We expect our competitors to enhance their current products and to introduce new products with comparable or better price and performance. The introduction of competing products could hurt sales of our current and future products. In addition, new competitors, including semiconductor manufacturers themselves, may offer new testing technologies, which may in turn reduce the value of our product lines. Increased competition could lead to intensified price-based competition, which would hurt our business and results of operations. Unless we are able to invest significant financial resources in developing products and maintaining customer support centers worldwide, we may not be able to compete effectively.

***Development of our products requires significant lead-time, and we may fail to correctly anticipate the technical needs of our customers.***

Our customers make decisions regarding purchases of our test equipment while their devices are still in development. Our test systems are used by our customers to develop, test and manufacture their new devices. We therefore must anticipate industry trends and develop products in advance of the commercialization of our customers' devices, requiring us to make significant capital investments to develop new test equipment for our customers well before their devices are introduced. If our customers fail to introduce their devices in a timely manner or the market does not accept their devices, we may not recover our capital investment through sales in significant volume. In addition, even if we are able to successfully develop enhancements or new generations of our products, these enhancements or new generations of products may not generate revenue in excess of the costs of development, and they may be quickly rendered obsolete by changing customer preferences or the introduction of products embodying new technologies or features by our competitors. Furthermore, if we were to make announcements of product delays, or if our competitors were to make announcements of new test systems, these announcements could cause our customers to defer or forego purchases of our existing test systems, which would also hurt our business.

***Our success depends on attracting and retaining key personnel.***

Our success will depend substantially upon the continued service of our executive officers and key personnel, none of whom are bound by an employment or non-competition agreement. Our success will depend on our ability to attract and retain highly qualified managers and technical, engineering, marketing, sales and support personnel. Competition for such specialized personnel is intense, and it may become more difficult for us to hire or retain them. Our volatile business cycles only aggravate this problem. Layoffs in any industry downturn could make it more difficult for us to hire or retain qualified personnel. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current positions, or by our inability to attract and retain skilled employees.

***We may not be able to protect our intellectual property rights.***

Our success depends in part on our ability to obtain intellectual property rights and licenses and to preserve other intellectual property rights covering our products and development and testing tools. To that end, we have obtained certain domestic patents and may continue to seek patents on our inventions when appropriate. We have also obtained certain trademark registrations. To date, we have not sought patent protection in any countries other than the United States, which may impair our ability to protect our intellectual property in foreign jurisdictions. The process of seeking intellectual property protection can be time consuming and expensive. We cannot ensure that:

patents will issue from currently pending or future applications;

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our existing patents or any new patents will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us;

foreign intellectual property laws will protect our intellectual property rights; or

others will not independently develop similar products, duplicate our products or design around our technology.

If we do not successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. We also rely on trade secrets, proprietary know-how and confidentiality provisions in agreements with employees and consultants to protect our intellectual property. Other parties may not comply with the terms of their agreements with us, and we may not be able to adequately enforce our rights against these people.

***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.***

Intellectual property rights are uncertain and involve complex legal and factual questions. We may be unknowingly infringing on the intellectual property rights of others and may be liable for that infringement, which could result in significant liability for us. If we do infringe the intellectual property rights of others, we could be forced to either seek a license to intellectual property rights of others or alter our 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.

We are responsible for any patent litigation costs. If we were to become involved in a dispute regarding intellectual property, whether ours or that of another company, we may have to participate in legal proceedings. These types of proceedings may be costly and time consuming for us, even if we eventually prevail. If we do not prevail, we might be forced to pay significant damages, obtain licenses, modify our products or processes, stop making products or stop using processes.

***Our stock price is volatile.***

In the twelve-month period ending on October 31, 2007, our stock price ranged from a low of \$3.26 to a high of \$6.72. The price of our common stock has been and likely will continue to be subject to wide fluctuations in response to a number of events and factors, such as:

quarterly variations in operating results;

variances of our quarterly results of operations from securities analyst estimates;

changes in financial estimates and recommendations by securities analysts;

announcements of technological innovations, new products, or strategic alliances; and

news reports relating to trends in our markets.

In addition, the stock market in general, and the market prices for semiconductor-related companies in particular, have experienced significant price and volume fluctuations that often have been unrelated to the operating performance of the companies affected by these fluctuations. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance.

***We have substantial indebtedness.***

We had \$27.2 million principal amount of 4.25% Convertible Subordinated Notes (the “Notes”) due August 15, 2007 (which was paid in full on August 15, 2007), as well as \$20.0 million in principal outstanding under a commercial loan. We may incur substantial additional indebtedness in the future. The level of indebtedness, among other things, could

make it difficult for us to make payments on our debt and other obligations;

make it difficult for us 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;

limit our flexibility in planning for, or reacting to changes in, our business and the industries in which we compete;

place us at a possible competitive disadvantage with respect to less leveraged competitors and competitors that have better access to capital resources; and

make us more vulnerable in the event of a further downturn in our business.

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There can be no assurance that we will be able to meet our debt service obligations.

### ***We may not be able to pay our debt and other obligations.***

If our cash flow is inadequate to meet our obligations, we could face substantial liquidity problems. The \$27.2 million principal amount of 4.25% Convertible Subordinated Notes due August 2007 was paid on August 15, 2007, reducing our cash and cash equivalents. In addition, we have monthly principal and interest payments through May 2010 related to our \$20.0 million term loan. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payment on the term loan, or certain of our other obligations, we would be in default under the terms thereof, which could permit the holders of those obligations to accelerate their maturity and also could cause default under future indebtedness we may incur. Any such default could have material adverse effect on our business, prospects, financial position and operating results. In addition, we may not be able to repay amounts due in respect of our obligations, if payment of those obligations were to be accelerated following the occurrence of any other event of default as defined in the instruments creating those obligations.

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

We expect that our existing cash and marketable securities, and borrowings from available bank financings, will be sufficient to meet our cash requirements to fund operations and expected capital expenditures for the foreseeable future. In the event we need to raise additional funds, we cannot be certain that we will be able to obtain such additional financing on favorable terms, if at all. Further, if we issue additional equity securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. Future financings may place restrictions on how we operate our business. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products and services, take advantage of future opportunities, grow our business or respond to competitive pressures, which could seriously harm our business.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in the Company's Market Risk exposure since the filing of the 2007 Annual Report on Form 10-K.

## **Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures.*** Based on the evaluation by management, with the participation of the Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (1) were designed to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, including information regarding its consolidated subsidiaries, is recorded, processed, summarized and reported within the time periods specified by the SEC.

***Changes in Internal Controls.*** No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended October 31, 2007 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Limitations on the Effectiveness of Controls**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or the Company's internal controls can prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The inherent limitations in all control systems include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons

or by collusion of two or more people. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II—OTHER INFORMATION**

### **Item 5. Other Information**

(a) On December 5, 2007, the Board of Directors of the Company approved amendments to Sections 5.1 and 5.2 of Article V of the Company's bylaws. The amendments to Article V provide for the issuance and transfer of either certificated or uncertificated shares, allowing the Company to comply with rules promulgated by The NASDAQ Stock Market LLC requiring NASDAQ-listed issuers to be eligible for a direct registration program, such as the one administered by The Depository Trust Company, by January 1, 2008. The amendment to the bylaws is filed as Exhibit 3.2 hereto and is incorporated herein by reference.

(b) On December 5, 2007 the Board of Directors approved an amendment to the vesting schedule of performance-based restricted stock units awards ("RSUs") granted to the executive officers on September 13, 2006 and disclosed in a Form 8-K filed on September 14, 2006. These RSUs will only vest if the Company achieves positive operating income for two consecutive fiscal quarters above 3% of net sales for both quarters and if operating income averages at least 5% of net sales for the two quarters (the "Profitability Metric"). The amendment to the RSUs approved on December 5, 2007 provides that the award vests as to 40% of the RSUs upon announcement that the Profitability Metric has been achieved. The award vests as to an additional 20% for each subsequent two quarter period in which the Profitability Metric is achieved. Thus far, no portion of these RSUs has vested.

### **Item 6. Exhibits and Reports on Form 8-K**

(a)

- (i) Exhibit 3.2 By-laws, as amended.
- (ii) Exhibit 31.1 and 31.2 Rule 13a-14(a)/15d-14(a) Certifications
- (iii) Exhibit 32 Section 1350 Certifications

(b)

- (i) On August 30, 2007, the Company furnished a current report on Form 8-K under Item 2.02 (Results of Operations and Financial Condition) describing and furnishing the press release announcing its earnings for the fiscal quarter and year ended July 31, 2007, which press release included its consolidated financial statements for the period.
- (ii) On September 19, 2007, the Company furnished a current report on Form 8-K under Item 5.02 (Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers) to disclose the award of restricted stock units to executive officers.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LTX Corporation

Date: December 10, 2007

By: \_\_\_\_\_ /s/ MARK J. GALLENBERGER

**Mark J. Gallenberger**  
**Chief Financial Officer and Treasurer**  
**(Principal Financial Officer)**

**LTX CORPORATION**  
**BY-LAWS**

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**LTX CORPORATION**  
**BY-LAWS**

**Article I - General**

Section 1.1. Offices. The principal office of the corporation shall be in Westwood, Massachusetts. The corporation may also have offices at such other place or places within or without Massachusetts as the Board of Directors may from time to time determine or the business of the corporation may require.

Section 1.2. Seal. The seal of the corporation shall be in the form of a circle inscribed with the name of the corporation, the year of its incorporation and the word "Massachusetts". When authorized by the Board of Directors and to the extent not prohibited by law, a facsimile of the corporate seal may be affixed or reproduced.

Section 1.3. Fiscal Year. The fiscal year of the corporation shall be the twelve months ending July 31 of each year.

**Article II - Stockholders**

Section 2.1. Place of Meeting. Meetings of stockholders shall be held at the principal office of the corporation or, to the extent permitted by the Articles of Organization, at such other place within the United States as the Board of Directors may from time to time designate.

Section 2.2. Annual Meetings. The annual meeting of stockholders shall be held within six months after the end of the corporation's fiscal year specified by these By-laws. The date and hour of the annual meeting shall be fixed by the Board of Directors. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization or these By-laws, may be specified by the Board of Directors or the President. In the event that no date for the annual meeting is established or if no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu thereof, and any action taken at such meeting shall have the same effect as if taken at the annual meeting.

Section 2.3. Special Meetings. Special meetings of stockholders may be called by the President or by the Board of Directors, and shall be called by the Clerk or, in case of death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application of one or more stockholders who hold at least forty percent in interest of the capital stock entitled to vote at the meeting. At any special meeting only business to which a reference shall have been contained in the notice of such meeting be transacted.

Section 2.4. Notice of Meetings. Written or printed notice of each meeting of stockholders, stating the place, date and hour and the purposes of the meeting shall be given by the Clerk or other officer calling the meeting at least seven days, but not more than sixty days, before the meeting to each stockholder entitled to vote at the meeting or

entitled to such notice by leaving such notice with him at his residence or usual place of business or by mailing it, postage prepaid, and addressed to the stockholder at his address as it appears in the records of the corporation. No notice need be given to any stockholder if he, or his authorized attorney, waives such notice by a writing executed before or after the meeting and filed with the records of the meeting or by his presence, in person or by proxy, at the meeting. Any person authorized to give notice on any such meeting may make affidavit of such notice, which, as to the facts therein stated, shall be conclusive. It shall be the duty of every stockholder to furnish the Clerk of the corporation or to the transfer agent, if any, of the class of stock owned by him, his current post office address.

Section 2.5. Quorum. At all meetings of stockholders the holders of a majority in interest of all capital stock entitled to vote at such meeting or, if two or more classes of stock are issued, outstanding and entitled to vote as separate classes, a majority in interest of each class, present in person or represented by proxy, shall constitute a quorum. The announcement of a quorum by the officer presiding at the meeting shall constitute a conclusive determination that a quorum is present. The absence of such an announcement shall have no significance. Shares of its own stock held by the corporation or held for its use and benefit shall not be counted in determining the total number of shares outstanding at any particular time. If a quorum is not present or represented, the stockholders present or represented and entitled to vote at such meeting, by a majority vote, may adjourn the meeting from time to time, without notice other than announcement at the meeting until a quorum is present or represented. At any adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted if the meeting had been held as originally called. The stockholders present at a duly organized meeting may continue to transact business until adjournment notwithstanding the withdrawal of one or more stockholder so as to leave less than a quorum.

Section 2.6. Voting. Except as otherwise provided by law or the Articles of Organization, at all meetings of stockholders each stockholder shall have one vote for each share of stock entitled to vote and registered in his name and a proportionate vote for a fractional share. Any stockholder may vote in person or by proxy dated not more than six months prior to the meeting and filed with the Clerk of the meeting. Every proxy shall be in writing, subscribed by a stockholder or his authorized attorney-in-fact, and dated. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by any one of them unless at or prior to exercise of the proxy the corporation receives a specific written notice to the contrary from any one of them. No proxy shall be valid after the final adjournment of the meeting. Voting on all matters, including the election of directors, shall be by voice vote unless voting by ballot is requested by any stockholder. Except as otherwise provided by law, the Articles of Organization, or these By-laws, at all meetings of stockholders all questions shall be determined by a vote of a majority of the shares voting, or, if two or more classes of stock are entitled to vote as separate classes, a vote of a majority of the shares voting of each class voting, present in person or represented by proxy. The corporation shall not, directly or indirectly, vote shares of its own stock.

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Section 2.7. Inspectors of Election. Two inspectors may be appointed by the Board of Directors before or at each meeting of stockholders, or, if no such appointment shall have been made, the presiding officer may make such appointment at the meeting. At the meeting for which they are appointed, such inspectors shall open and close the polls, receive and take charge of the proxies and ballots, and decide all questions touching on the qualifications of voters, the validity of proxies and the acceptance and rejection of votes. If any inspector previously appointed shall fail to attend or refuse or be unable to serve, the presiding officer shall appoint an inspector in his place.

Section 2.8. Action Without Meeting. Any actions which may be take by stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

Section 2.9. Application for Special Meeting. (a) In order that the corporation may determine the stockholders entitled to apply for a special meeting pursuant to Section 2.3, the Board of Directors shall fix a record date, in accordance with the procedures set forth below, to determine the stockholders entitled to make such application (the "Application Record Date"). Any stockholder of record seeking to have stockholders apply for a special meeting shall, by sending a written request to the Clerk of the corporation by hand or by certified or registered mail, return receipt requested, request the Board of Directors to fix an Application Record Date. The Board of Directors shall promptly, but in all events within 5 Business Days (as defined herein) after the date on which a valid request to fix an Application Record Date is so delivered, affirmatively vote and fix the Application Record Date. The Application Record Date shall not precede the date of the vote fixing the Application Record Date and shall not be more than 10 days after the date of the vote of the Board of Directors fixing the Application Record Date. If no Application Record Date has been fixed by the Board of Directors within 5 Business Days after the date on which such valid request is delivered to the Clerk, the Application Record Date shall be the first date on which a signed valid request that the Board of Directors fix an Application Record Date is delivered to the corporation as set forth above. To be valid, such written request shall be signed by one or more stockholders of record (or their duly authorized proxies or other representatives), shall bear the date of signature of each such stockholder (or proxy or other representative) and shall set forth (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholders and the beneficial owners, if any, on whose behalf the request is made; and (ii) as to the stockholders making the request and the beneficial owners, if any, on whose behalf the request is made (x) the name and address of such stockholders as they appear on the corporation's books, and of such beneficial owners, and (y) the class and number of shares of the corporation which are owned beneficially and of record by such stockholders and such beneficial owners.

(b) In order for a stockholder or stockholders to request a special meeting, a written application for a special meeting signed by the holders of record, as of the close

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of business on the Application Record Date, of shares representing at least forty percent in interest of the capital stock of the corporation entitled to vote at such special meeting must be delivered to the Clerk of the corporation at the principal executive offices of the corporation by hand or by certified or registered mail, return receipt request, and must be so received by the corporation within 60 days after the Application Record Date. To be valid, the written application shall set forth (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholders and of the beneficial owners, if any, on whose behalf the application is made; and (ii) as to the stockholders making the application and the beneficial owners, if any, on whose behalf the application is made (x) the name and address of such stockholders as they appear on the corporation's books, and of such beneficial owners, and (y) the class and number of shares of the corporation which are owned beneficially and of record by such stockholders and such beneficial owners.

(c) As provided in Section 2.7, there shall be appointed an independent inspector of elections to act as an agent of the corporation for the purpose of promptly performing a ministerial review of the validity of any purported written application for a special meeting received by the Clerk. For the purpose of permitting the inspectors to perform such review, no purported application shall be deemed to have been delivered to the corporation until such date as the independent inspectors certify to the corporation that the application has been validly submitted by the holders of record, as of the close of business on the Application Record Date, of at least forty percent in interest of the capital stock of the corporation entitled to vote at such special meeting. Nothing contained in this paragraph (c) shall in any way be construed to suggest or imply that the Board of Directors or any stockholder shall not be entitled to contest the validity of any request, whether before or after such certification by the independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(d) Within 5 Business Days following the date that a valid application for a special meeting is deemed pursuant to paragraph (c) hereof to have been delivered to the corporation (the "Delivery Date"), the Board of Directors shall set the record date (the "Special Meeting Record Date") for the special meeting to be held pursuant to such application (the "Application Special Meeting"), and the hour and day of the Application Special Meeting. The Special Meeting Record Date shall not precede the date of the vote of the Board of Directors setting the Special Meeting Record Date and shall not be later than 15 Business Days following the date of such vote. The date of the Application Special Meeting shall be not less than 10 nor more than 50 days after the Special Meeting Record Date. In the event that the directors then in office fail, within 5 Business Days after the Delivery Date, to designate an hour and date for an Application Special Meeting and the Special Meeting Record Date, then the Application Special Meeting shall be held at 12:00 p.m. local time on the 60<sup>th</sup> day after the Delivery Date or, if such 60<sup>th</sup> day is not a Business Day, on the first preceding Business Day, and the Special Meeting Record Date shall be the close of business on the 30<sup>th</sup> day before such meeting date (or if such day is not a Business Day, on the close of business on the next Business Day).

(e) For purposes of these By-laws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the Commonwealth of Massachusetts are authorized or obligated by law or executive order to close.

### **Article III - Directors**

Section 3.1. Powers. Except as otherwise provided by law, the Articles of Organization or these By-laws, the business of the corporation shall be managed by a Board of Directors who may exercise all the powers of the corporation.

Section 3.2. Number, Election and Term of Office. The number of directors shall be not less than three, except that whenever there shall be only two stockholders, the number of directors shall be not less than two and whenever there shall be only one stockholder, the number of directors shall not be less than one.

No stockholder shall nominate any person to serve as a director of the corporation (other than a nominee of the Board of Directors) unless such stockholder has provided at least sixty days' advance written notice thereof to the Clerk of the corporation, together with such information concerning the identity, background and experience of the nominee as the Board of Directors may require and any other information which would be required in a proxy statement soliciting proxies for the election of such nominee as a director of the corporation (whether or not proxies are solicited).

The Board of Directors shall be divided into three classes, such classes to be as nearly equal in number as possible. One of such classes of directors shall be elected annually by the stockholders. Subject to the foregoing requirements and applicable law, the Board of Directors may, from time to time, fix the number of directors and their respective classifications, provided that any such action does not operate to remove a director elected by the stockholders other than in the manner specified in the Articles of Organization or the By-laws. Except as otherwise provided in accordance with these By-laws, the members of each class shall be elected for a term of three years and shall serve until their successors are elected and qualified. Any successor to a director whose seat becomes vacant shall serve for the remainder of the term of his predecessor and until his successor is elected and qualified. Except as otherwise provided by law, by the Articles of Organization or by these By-laws, a director shall hold office until the annual meeting of stockholders held in the third year following the year of his election and thereafter until his successors is chosen and qualified.

Section 3.3. Place of Meetings. Meetings of the Board of Directors may be held at any place within or without the Commonwealth of Massachusetts.

Section 3.4. Annual Meetings. A meeting of the Board of Directors for the election of officers and the transaction of general business shall be held each year beginning in 1977, at the place of and immediately after the final adjournment of the annual meeting of stockholders or the special meeting in lieu of the annual meeting. No notice of such annual meeting need be given.



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**Section 3.5. Regular Meetings.** Regular meetings of the Board of Directors may be held, without notice, at such time and place as the Board of Directors may determine. Any director not present at the time of the determination shall be advised, in writing, of any such determination.

**Section 3.6. Special Meetings.** Special meetings of the Board of Directors, including meetings in lieu of the annual or regular meetings, may be held upon notice at any time upon the call of the President and shall be called by the President or the Clerk or, in case of the death, absence, incapacity or refusal of the Clerk, by any other officer, upon written application, signed by any two directors, stating the purpose of the meeting.

**Section 3.7. Notice of Meetings.** Wherever notice of any meetings of the Board of Directors is required by these By-laws or by vote of the Board of Directors, such notice shall state the place, date and hour of the meeting and shall be given to each director by the President, Clerk or other officer calling the meeting at least two days prior to such meeting if given in person by telephone or by telegram or at least four days prior to such meeting if given by mail. Notice shall be deemed to have been duly given, if by mail, by depositing the notice in the post office as a first class letter, postage prepaid, or, if by telegram, by completing and filing the notice on a telegraph blank and paying the requisite fee at any telegraph office, the letter or telegram being addressed to the director at his last known mailing address as it appears on the books of the corporation. No notice need be given to any director who waives such notice by a writing executed before or after the meeting and filed with the records of the meeting or by his attendance at the meeting without protesting at or before the commencement of the meeting the lack of notice to him. No notice of adjourned meetings of the Board of Directors need be given.

**Section 3.8. Quorum.** At all meetings of the Board of Directors, a majority of the directors then in office, but in no event less than two directors, shall constitute a quorum. If a quorum is not present, those present may adjourn the meeting from time to time until a quorum is obtained. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted if the meeting had been held as originally called.

**Section 3.9. Voting.** At any meeting of the Board of Directors the vote of a majority of those present shall decide any matter except as otherwise provided by law, the Articles of Organization or these By-laws.

**Section 3.10. Action Without Meeting.** Any action which may be taken at any meeting of the Board of Directors may be taken without a meeting if all the directors consent to the action in writing and the written consents are filed with the records of the meetings of the Board of Directors. Such consents shall be treated for all purposes as a vote at a meeting.

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Section 3.11. Meetings by Telephone Conference Calls. Directors or members of any committee designated by the Board of Directors may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

Section 3.12. Resignations. Any director may resign by giving written notice to the President or Clerk. Such resignation shall take effect at the time or upon the event specified therein, or, if none is specified, upon receipt. Unless otherwise specified in the resignation, its acceptance shall not be necessary to make it effective.

Section 3.13. Removal. A director whose term is classified in accordance with these By-laws may be removed from office only for cause by vote of either (a) the holders of a majority of the shares outstanding and entitled to vote in the election of directors (b) a majority of the directors then in office. "Cause" shall mean, in the case of the removal of a director whose term is classified in accordance with these By-laws, only (i) conviction of a felony (ii) declaration of unsound mind by order of court, (iii) gross dereliction of duty, (iv) commission of an action involving moral turpitude, or (v) commission of an action that constitutes intentional misconduct or a knowing violation of law if such action in either event results both in an improper substantial personal benefit and a material injury to the corporation. A director may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him.

Section 3.14. Enlargement of the Board of Directors; Vacancies. The number of directors whose terms are classified in accordance with the provisions of these By-laws may be increased by the directors by affirmative vote of a majority of the directors then in office. Any vacancy at any time existing in the Board of Directors among those directors whose terms are classified in accordance with these By-laws, whether resulting from an increase in the size of the Board of Directors, from the death, resignation, disqualification or removal of a director or otherwise, shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors.

Section 3.15. Compensation of Directors. Directors may be paid such compensation for their services and such reimbursements for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 3.16. Committees. The Board of Directors may, by vote of a majority of the directors then in office, appoint from their number one or more committees and delegate to such committees some or all of their powers to the extent permitted by law, the Articles of Organization or these By-laws. Except as the Board of Directors may otherwise determine, any such committee shall be governed in the conduct of its business by the rules governing the conduct of the business of the Board of Directors contained in

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these By-laws and may, by majority vote of the entire committee, make other rules for the conduct of its business. The Board of Directors shall have power at any time to fill vacancies in any such committees, to change its membership or to discharge the committee.

Section 3.17. Issuance of Stock. The Board of Directors shall have power to issue and sell or otherwise dispose of such shares of the corporation' s authorized but unissued capital stock to such persons and at such times and for such consideration, cash, property, services, expenses, or otherwise, and upon such terms as it shall determine from time to time.

#### **Article IV - Officers**

Section 4.1. Officers. The officers of the corporation shall consist of a President, a Treasurer, a Clerk, and such other officers with such other titles as the Board of Directors may determine including but not limited to a Chairman of the Board of Directors, a Secretary, one or more Vice Presidents, Assistant Treasurers and Assistant Clerks, and Assistant Secretaries. Any two offices may be held by the same person except that the Clerk shall not also serve as President or Treasurer. Any officer may be required to give a bond for the faithful performance of his duties in such form and with such sureties as the Board of Directors may determine.

Section 4.2. Election and Term of Office. Except for the initial officers and except as provided in Section 4.11, the President, Treasurer and Clerk shall be elected by the Board of Directors at its annual meeting or at the special meeting held in lieu of the annual meeting and shall hold office until the following annual meeting of the Board of Directors or the special meeting in lieu of said annual meeting and until their successors are chosen and qualified. Other officers may be chosen by the Board of Directors at the annual meeting or any other meeting and shall hold office for such period as the Board of Directors may prescribe.

Section 4.3. Chairman of the Board. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and directors and shall have such other duties as may be assigned to him from time to time by the Board of Directors.

Section 4.4. President. Unless the Board of Directors otherwise determines, the President shall be the chief executive officer of the corporation. He shall have the general control and management of the corporation' s business and affairs. He need not be a director. Unless there is a Chairman of the Board, the President shall preside at all meetings of the Board of Directors and of the stockholders.

Section 4.5. Vice Presidents. The Vice President, or if there be more than one, the Vice Presidents, shall perform such of the duties of the President on behalf of the corporation as may be respectively assigned to him or them from time to time by the Board of Directors or the President. The Board of Directors may designate a Vice President as the Executive Vice President, and in the absence or inability of the President

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to act, such Executive Vice President shall have and possess all of the powers of and discharge all of the duties of the President, subject to the control of the Board of Directors.

Section 4.6. Treasurer and Assistant Treasurer. The Treasurer shall be the principal financial officer of the corporation. He shall have custody and control over all funds and securities of the corporation, maintain full and adequate accounts of all moneys received and paid by him on account of the corporation and, subject to the control of the Board of Directors, discharge all duties incident to the office of Treasurer. Any Assistant Treasurer shall perform such of the duties of the Treasurer and such other duties as the Board of Directors, the President or the Treasurer may designate. The Treasurer shall have authority, in connection with the normal business of the corporation, to sign contracts, bids, bonds, powers of attorney and other documents when required.

Section 4.7. Clerk and Assistant Clerk. The Clerk shall be the principal recording officer of the corporation. He shall record all proceedings of the stockholders and discharge all duties incident to the office of Clerk. Unless a Secretary is appointed by the Board of Directors to perform such duties, the Clerk shall record all proceedings of the Board of Directors and of any committees appointed by the Board of Directors. Any Assistant Clerk shall perform such of the duties of the Clerk and such other duties as the Board of Directors, the President or the Clerk may designate. In the absence of the Clerk or any Assistant Clerk from any meeting of stockholders, the Board of Directors or any committee appointed by the Board of Directors, a Temporary Clerk designated by the person presiding at the meeting shall perform the duties of the Clerk. The Clerk shall be a resident of the Commonwealth of Massachusetts unless a resident agent has been appointed by the corporation pursuant to law to accept service of process.

Section 4.8. Secretary and Assistant Secretary. If appointed by the Board of Directors, the Secretary shall record all proceedings of the Board of Directors and discharge all duties incident to the office of Secretary. Any Assistant Secretary shall perform such of the duties of the Secretary and such other duties as the Board of Directors, President or Secretary may designate. The Board of Directors and any committee appointed by the Board of Directors may appoint a Secretary and one or more Assistant Secretaries to perform the functions of the Secretary and Assistant Secretary for such committee.

Section 4.9. Resignation. Any officer may resign by giving written notice to the President or Clerk. Such resignation shall take effect at the time or upon the event specified therein, or, if none is specified, upon receipt. Unless otherwise specified in the resignation, its acceptance shall not be necessary to make it effective.

Section 4.10. Removal. An officer may be removed from office with cause, after reasonable notice and opportunity to be heard, or without cause, in either case, by vote of a majority of the directors then in office.

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Section 4.11. Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Clerk.

Section 4.12. Subordinate Officers. The Board of Directors may, from time to time, authorize any officer to appoint and remove subordinate officers and to prescribe their powers and duties. The term "subordinate officers" shall in no event include the President, Treasurer and Clerk.

Section 4.13. Compensation. The Board of Directors may fix the compensation of all officers of the corporation and may authorize any officer upon whom the power of appointing subordinate officers may have been conferred to fix the compensation of such subordinate officers.

## **Article V - Stock**

Section 5.1. Stock Certificates. Each stockholder shall be entitled to a certificate or certificates of stock of the corporation in such form as the Board of Directors may from time to time prescribe. Each certificate shall be duly numbered and entered in the books of the corporation as it is issued, shall state the holder's name and the number and the class and the designation of the series, if any, of his shares, shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer and may, but need not, be sealed with the seal of the corporation. If any stock certificate is signed by a transfer agent, or by a registrar, other than a director, officer or employee of the corporation, the signatures thereon of the officers may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed on any certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the corporation and delivered with the same effect as if he were such officer at the time of its issue. Every certificate of stock which is subject to any restriction on transfer pursuant to the Articles of Organization, the By-laws or any agreement to which the corporation is a party, shall have the restrictions noted conspicuously on the certificate and shall also set forth on the face or back of the certificate either (i) the full text of the restriction, or (ii) a statement of the existence of such restriction and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every certificate issued at a time when the corporation is authorized to issue more than one class or series of stock shall set forth upon the face or back of the certificate either (i) the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series, if any, authorized to be issued, as set forth in the Articles of Organization or (ii) a statement of the existence of such preferences, powers, qualifications and rights, and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

Section 5.2. Transfer of Stock. Subject to any transfer restrictions then in force, the shares of stock of the corporation shall be transferable only upon its books by the holders thereof in person or by their duly authorized attorneys or legal representatives.

Such transfer shall be effected by delivery of the old certificate, together with a duly executed assignment and power to transfer endorsed thereon or attached thereto and with such proof of the authenticity of the signature and such power of authority to make the transfer as the corporation or its agents may reasonably require, to the person in charge of the stock and transfer books and ledgers or to such other person as the Board of Directors may designate, who shall thereupon cancel the old certificate and issue a new certificate. The corporation may treat the holder of record of any share or shares of stock as the owner of such stock, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have notice thereof, express or otherwise.

Section 5.3. Fixing Date for Determination of Stockholders' Rights. The Board of Directors may fix in advance a time, not exceeding sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend or the making of any distribution to stockholders, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or the last date on which the consent or dissent of stockholders maybe be effectively expressed for any purpose, as the record date for determining the stockholders entitled notice of, and to vote at, such meeting and any adjournment thereof, to receive such dividend or distribution, to receive such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to express such consent or dissent. In such case only stockholders of record on the date so fixed shall have such right, notwithstanding any transfer of stock on the books of the corporation after the record date. In lieu of fixing such record date, the Board of Directors may close the stock transfer books for all or any part of such period. In any case in which the Board of Directors does not fix a record date or provide for the closing of the transfer books, the record date shall be the thirtieth day next preceding the date of such meeting, the dividend payment or distribution date, the date for allotment of rights, the date for exercising of rights in respect of any such change, conversion or exchange of capital stock, or the date for expressing such consent or dissent, as the case may be.

Section 5.4. Lost, Mutilated or Destroyed Certificates. No certificates for shares of stock of the corporation shall be issued in place of any certificate alleged to have been lost, mutilated or destroyed, except upon production of such evidence of the loss, mutilation or destruction and upon indemnification of the corporation and its agents to such extent and in such manner as the Board of Directors may prescribe and as required by law.

## **Article VI - Miscellaneous Management Provisions**

Section 6.1. Execution of Instruments. Except as otherwise provided in these By-laws or as the Board of Directors may generally or in particular cases authorize the execution thereof in some other manner, all instruments, documents, deeds, leases, transfers, contracts, bonds, notes, checks, drafts and other obligations made, accepted or endorsed by the corporation shall be signed by the President or a Vice President, or by the Treasurer or an Assistant Treasurer, or by the Clerk. Facsimile signatures may be used in the manner and to the extent authorized generally or in particular cases by the Board of Directors.

**Section 6.2. Corporate Records.** The original, or attested copies, of the Articles of Organization, By-laws, and records of all meetings of incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in the Commonwealth of Massachusetts at the principal office of the corporation, or at an office of its Clerk, its resident agent or its transfer agent. The copies and records need not all be kept in the same office. They shall be available at all reasonable times for inspection by any stockholder for any proper purpose. They shall not be available for inspection to secure a list of stockholders or other information for the purpose of selling such list or information or of using the same for a purpose other than in the interest of the applicant, as a stockholder, relative to the affairs of the corporation.

**Section 6.3. Voting of Securities Owned by this Corporation.** Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation and owned or controlled by this corporation may be voted in person at any meeting of security holders of such other corporation by the President of this corporation if he is present at such meeting, or in his absence by the Treasurer of this corporation if he is present at such meeting, and (b) whenever, in the judgment of the President, it is desirable for this corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by this corporation, such proxy or consent shall be executed in the name of this corporation by the President, without the necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer, provided that if the President is unable to execute such proxy or consent by reason of sickness, absence from the United States or other similar cause, the Treasurer may execute such proxy or consent. Any person or persons designated in the manner above stated as the proxy or proxies of this corporation shall have full right, power and authority to vote the shares or other securities issued by such other corporation and owned by this corporation the same as such shares or other securities might be voted by this corporation.

**Section 6.4. Conflict of Interest.** No contract or other transaction of the corporation shall, in the absence of fraud, be affected or invalidated by the fact that any stockholder, director or officer of the corporation or any corporation, firm or association of which he may be a director, officer, stockholder or member may be a party to or may have an interest, pecuniary or otherwise, in, any such contract or other transaction, provided that the nature and extent of his interest was disclosed to, or known by, the entire Board of Directors before acting on such contract or other transaction. Except in the case of any contract or other transaction between the corporation and any other corporation controlling, controlled by or under common control with the corporation, any director of the corporation who is also a director, officer, stockholder or member of any corporation, firm or association with which the corporation proposes to contract or transact any business, or who has an interest, pecuniary or otherwise, in any such contract or other transaction, may not be counted in determining the existence of a quorum at any

meeting of the Board of Directors which shall authorize any such contract or such transaction, and such director shall not participate in the vote to authorize any such contract or such transaction, and such director shall not participate in the vote to authorize any such contract or transaction. Any such contract or transaction may be authorized or approved by a majority of the directors then in office and not disqualified by this Section 6.4 to vote on such matters, even though the disinterested directors do not constitute a quorum.

**Section 6.5. Indemnification.** (a) The corporation shall indemnify each director and officer against all judgments, fines, settlement payments and expenses, including reasonable attorneys' fees, paid or incurred in connection with any claim, action, suit or proceeding, civil or criminal, to which he may be made a party or with which he may be threatened by reason of his being or having been a director or officer of the corporation, or, at its request, a director, officer, stockholder or member of any other corporation, firm, association or other organization or by reason of his serving or having served, at its request, in any capacity with respect to any employee benefit plan, or by reason of any action or omission by him in such capacity, whether or not he continues to be a director or officer at the time of incurring such expense or at the time the indemnification is made. No indemnification shall be made hereunder (i) with respect to payments and expenses incurred in relation to matters as to which he shall be finally adjudged in such action, suit or proceeding not to have acted in good faith and in the reasonable belief that his action was in the best interest of the corporation (or, to the extent that such matter relates to service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan), or (ii) otherwise prohibited by law. The foregoing right of indemnification shall not be exclusive of other rights to which any director or officer may otherwise be entitled and shall inure to the benefit of the executor or administrator of such director or officer. The corporation may pay the expenses incurred by any such proceeding in advance of the final disposition of such action, suit or proceeding, upon receipt of an undertaking by such person to repay such payment if it is determined that such person is not entitled to indemnification hereunder.

(b) The Board of Directors may, without stockholder approval, authorize the corporation to enter into agreements, including any amendments or modification thereto, with any of its directors, officers or other persons described in paragraph (a) above providing for indemnification of such persons to the maximum extent permitted under applicable law and the corporation's Articles of Organization and By-laws.

(c) No amendment to or repeal of this section shall have any adverse effect on (i) the right of any director or officer under any agreement entered into prior thereto, or (ii) the rights of any director or officer hereunder relating to his service, for which he would otherwise be entitled to indemnity hereunder, during any period prior to such amendment or repeal.

**Section 6.6. Transactions with Related Persons.** The affirmative vote of the holders of not less than seventy-five percent of all outstanding shares of capital stock of the corporation entitled to vote thereon and the affirmative vote of holders not less than



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two-thirds of all such outstanding shares not held by any Related Person (as hereinafter defined) shall be required for the approval or authorization of any Related Person Transaction (as hereinafter defined), whether or not any stockholder approval or authorization of such Related Person Transaction would otherwise be required; *provided*, however, that the seventy-five percent and two-thirds voting requirements shall not be applicable if:

(1) The “Continuing Directors” of the corporation (as hereinafter defined) by a two-thirds vote of the Continuing Directors then in office have approved the Related Person Transaction; or

(2) The Related Person Transaction is solely between the corporation and another corporation, one hundred percent of the shares of outstanding capital stock entitled to vote generally in the election of directors of which is owned directly or indirectly by the corporation.

For the purposes of the preceding and succeeding paragraphs:

(i) The term “Continuing Director” shall mean a director who was a member of the Board of Directors of the corporation immediately prior to the time that any Related Person involved in a Related Person Transaction became a Related Person.

(ii) The term “Related Person” shall mean and include any individual, corporation, partnership or other person or entity which, together with its Affiliates and Associates (as such terms are defined in Rule 12b-2, or any successor rule, promulgated under the Securities Exchange Act of 1934), beneficially owns (as defined in Rule 13d-3, or any successor rule, promulgated under the Securities Exchange Act of 1934) in the aggregate ten percent or more of all outstanding shares of capital stock of the corporation, entitled to vote generally for directors and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity. Without limiting the foregoing, any shares of stock of the corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

(iii) The term “Related Person Transaction” shall mean generally any business, financial, employment or other agreement or arrangement with any Related Person, or any action, consent or other arrangement which affects the rights or obligations of the corporation with respect to a Related Person, and shall include, but shall not be limited to, the following:

(a) any merger, consolidation or share exchange of the corporation or any of its subsidiaries with or into (i) any Related Person, or (ii) any other corporation (whether or not itself a Related Person) which is, or after such merger, consolidation or share exchange would be, an Affiliate of a Related Person; in each case irrespective of which corporation or company is surviving entity;

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(b) any merger or consolidation of a Related Person with or into the corporation or a subsidiary of the corporation;

(c) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any tangible or intangible assets of the corporation or of a subsidiary of the corporation to a Related Person;

(d) any sale, lease, exchange, transfer, loan or other disposition of all or any tangible or intangible assets of a Related Person to the corporation or a subsidiary of the corporation;

(e) the issuance of any securities or the loan of any asset of the corporation or a subsidiary of the corporation to a Related Person;

(f) any recapitalization that would have the effect of increasing the voting power of a Related Person with respect to the corporation;

(g) any loan or other extension of credit by the corporation to a Related Person or by a Related Person of the corporation;

(h) any employment or consulting agreement or arrangement between the corporation and a Related Person;

(i) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Related Person Transaction.

Anything in these By-laws to the contrary notwithstanding, this Section 6.6 shall not be repealed, modified or amended in any respect, unless such action is approved by the affirmative vote of the holders of not less than seventy-five percent of all outstanding shares of capital stock of the corporation entitled to vote thereon and by the affirmative vote of holders of not less than two-thirds of all such outstanding shares held by any Related Person; provided however, that any amendment, declared advisable by the affirmative vote of two-thirds of the Continuing Directors then in office may be approved by the affirmative vote of the holders of not less than two-thirds of all outstanding shares of capital stock of the corporation entitled to vote thereon.

## **Article VII - Amendments**

Section 7.1. General. These By-laws may be amended, added to or repealed, in whole or in part, (a) by a vote of the stockholders at a meeting, where the substance of the proposed amendment is stated in the notice of the meeting, or (b) by vote of a majority of the directors then in office, except that no amendment may be made by the Board of Directors on matters reserved to the stockholders by law or the Articles of Organization or which changes the provisions of these By-laws relating to meetings of Stockholders, to the removal of directors or to the requirements for amendment of these By-laws. Notice

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of any amendment, addition or repeal of any By-law by the Board of Directors stating the substance of such action shall be given to all stockholders not later than the time when notice is given of the meeting of stockholders next following such action by the Board of Directors. Any By-law adopted by the Board of Directors may be amended or repealed by the stockholders.

Section 7.2. Date of Annual Meeting of Stockholders. No amendment of these By-laws changing the date of the annual meeting of stockholders may be made within sixty days before the date fixed in these By-laws for such meeting. Notice of such changes shall be given to all stockholders at least twenty days before the new dated fixed for the meeting.

### **Article VIII**

Section 8.1. Control Share Acquisitions. Massachusetts General Law ch 110D shall not apply to Control Share acquisitions.

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**Amendments to Article V  
of By-laws approved by the Board of Directors  
at a meeting on December 5, 2007**

**Article V - Stock**

Section 5.1. Stock Certificates; Uncertificated Shares. If shares are represented by certificates, the recordholder of such shares shall be entitled to a certificate or certificates of stock of the corporation in such form as the Board of Directors may from time to time prescribe. Each certificate shall be duly numbered and entered in the books of the corporation as it is issued, shall state on its face the name of the corporation and that it is organized under the laws of The Commonwealth of Massachusetts, shall state the holder's name and the number and the class and the designation of the series, if any, of his shares that are registered in certificate form, shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary and may, but need not, be sealed with the seal of the corporation. If any stock certificate is signed by a transfer agent, or by a registrar, other than a director, officer or employee of the corporation, the signatures thereon of the officers may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed on any certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the corporation and delivered with the same effect as if he were such officer at the time of its issue. Every certificate of stock which is subject to any restriction on transfer pursuant to the Articles of Organization, the By-laws or any agreement to which the corporation is a party, shall have the restrictions noted conspicuously on the certificate and shall also set forth on the face or back of the certificate either (i) the full text of the restriction, or (ii) a statement of the existence of such restriction and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every certificate issued at a time when the corporation is authorized to issue more than one class or series of stock shall set forth upon the face or back of the certificate either (i) the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series, if any, authorized to be issued, as set forth in the Articles of Organization or (ii) a statement of the existence of such preferences, powers, qualifications and rights, and a statement that the corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

The Board of Directors may authorize the issue of some or all of the shares of any or all of the corporation's classes or series without certificates. The authorization shall not affect shares already represented by certificates until they are surrendered to the corporation. Within a reasonable time after the issue or transfer of shares without certificates, the corporation shall send the shareholder a written statement of the information required by the MBCA to be on certificates.

Section 5.2. Transfer of Stock. Subject to any transfer restrictions then in force, the shares of stock of the corporation shall be transferable only upon its books by the holders thereof in person or by their duly authorized attorneys or legal representatives. In

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the case of shares represented by certificates, such transfer shall be effected by delivery of the old certificate, together with a duly executed assignment and power to transfer endorsed thereon or attached thereto and with such proof of the authenticity of the signature and such power of authority to make the transfer as the corporation or its agents may reasonably require, to the person in charge of the stock and transfer books and ledgers or to such other person as the Board of Directors may designate, who shall thereupon cancel the old certificate and issue a new certificate. In the case of shares issued without certificates, such transfer shall be effected in accordance with such procedures as the Board of Directors may from time to time establish. The corporation may treat the holder of record of any share or shares of stock as the owner of such stock, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have notice thereof, express or otherwise.

**Rule 13a-14(a) CERTIFICATION**

I, David G. Tacelli, certify that:

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

/s/ DAVID G. TACELLI

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**David G. Tacelli**  
**Chief Executive Officer and President**

Dated: December 10, 2007

**Rule 13a-14(a) CERTIFICATION**

I, Mark J. Gallenberger, certify that:

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

/s/ MARK J. GALLENGERGER

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**Mark J. Gallenberger**  
**Vice President and Chief Financial Officer and**  
**Treasurer**

Dated: December 10, 2007

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350**

Pursuant to 18 U.S.C. §1350, each of the undersigned certifies that this quarterly report on Form 10-Q for the period ended October 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of LTX Corporation and its wholly owned subsidiaries.

/s/ DAVID G. TACELLI

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**David G. Tacelli**  
**Chief Executive Officer and President**

Dated: December 10, 2007

/s/ MARK J. GALLENBERGER

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**Mark J. Gallenberger**  
**Vice President and Chief Financial Officer and**  
**Treasurer**

Dated: December 10, 2007