

TERADYNE, INC  
Form 10-Q  
August 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 29, 2014**

**OR**

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

**For the transition period from                      to**

**Commission File No. 001-06462**

**TERADYNE, INC.**

**(Exact name of registrant as specified in its charter)**

**Massachusetts**  
**(State or Other Jurisdiction of**

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

**Incorporation or Organization)**

**Identification No.)**

**600 Riverpark Drive, North Reading,**

**Massachusetts**  
**(Address of Principal Executive Offices)**

**01864**  
**(Zip Code)**

**978-370-2700**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The number of shares outstanding of the registrant's only class of Common Stock as of August 1, 2014 was 204,676,850 shares.

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

	June 29, 2014	December 31, 2013
	(in thousands,	
	except per share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 254,625	\$ 341,638
Marketable securities	488,439	586,882
Accounts receivable, less allowance for doubtful accounts of \$2,461 and \$2,912 at June 29, 2014 and December 31, 2013, respectively	300,767	157,642
Inventories:		
Parts	70,444	84,232
Assemblies in process	15,191	15,539
Finished goods	41,239	38,168
	126,874	137,939
Deferred tax assets	68,460	72,478
Prepayments	110,473	136,374
Other current assets	4,989	7,324
Total current assets	1,354,627	1,440,277
Net property, plant and equipment	308,521	275,236
Marketable securities	364,077	271,078
Deferred tax assets	5,810	5,217
Other assets	10,927	14,591
Retirement plans assets	9,134	9,342
Intangible assets, net	215,748	252,291
Goodwill	361,819	361,792
Total assets	\$ 2,630,663	\$ 2,629,824
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 102,214	\$ 62,874

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Accrued employees' compensation and withholdings	86,765	95,619
Deferred revenue and customer advances	63,968	55,404
Other accrued liabilities	93,103	63,712
Accrued income taxes	15,182	11,360
Current debt		186,663
Total current liabilities	361,232	475,632
Long-term deferred revenue and customer advances	18,992	13,756
Retirement plans liabilities	92,485	91,517
Deferred tax liabilities	39,616	40,686
Long-term other accrued liabilities	16,865	23,139
Total liabilities	529,190	644,730

Commitments and contingencies (Note O)

**SHAREHOLDERS' EQUITY**

Common stock, \$0.125 par value, 1,000,000 shares authorized, 196,321 shares and 191,731 shares issued and outstanding at June 29, 2014 and December 31, 2013, respectively	24,540	23,966
Additional paid-in capital	1,414,513	1,390,896
Accumulated other comprehensive income	5,709	4,000
Retained earnings	656,711	566,232
Total shareholders' equity	2,101,473	1,985,094
Total liabilities and shareholders' equity	\$ 2,630,663	\$ 2,629,824

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's

Annual Report on Form 10-K for the year ended December 31, 2013, are an integral part of the condensed consolidated financial statements.

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands, except per share amount)</b>			
Net revenues:				
Products	\$ 452,488	\$ 363,087	\$ 707,874	\$ 577,387
Services	73,079	65,802	138,703	131,869
Total net revenues	525,567	428,889	846,577	709,256
Cost of revenues:				
Cost of products	202,411	158,411	326,859	255,204
Cost of services	32,743	29,245	62,258	59,402
Total cost of revenues	235,154	187,656	389,117	314,606
Gross profit	290,413	241,233	457,460	394,650
Operating expenses:				
Engineering and development	73,414	67,773	140,499	130,524
Selling and administrative	77,489	69,230	155,492	137,120
Acquired intangible assets amortization	18,271	18,063	36,542	36,099
Restructuring and other	572	259	572	591
Total operating expenses	169,746	155,325	333,105	304,334
Income from operations	120,667	85,908	124,355	90,316
Interest income	1,266	903	2,302	1,975
Interest expense and other	541	6,454	7,138	13,360
Income before income taxes	121,392	80,357	119,519	78,931
Income tax provision	20,187	13,801	17,385	5,786
Net income	\$ 101,205	\$ 66,556	\$ 102,134	\$ 73,145
Net income per common share:				
Basic	\$ 0.52	\$ 0.35	\$ 0.53	\$ 0.38
Diluted	\$ 0.47	\$ 0.28	\$ 0.45	\$ 0.31
Weighted average common shares basic	194,408	190,569	193,860	190,128

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Weighted average common shares diluted	216,568	234,909	226,526	234,833
Cash dividend declared per common share	\$	\$	\$ 0.06	\$

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2013, are an integral part of the condensed consolidated financial statements.

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			
Net income	\$ 101,205	\$ 66,556	\$ 102,134	\$ 73,145
Other comprehensive income (loss):				
Available-for-sale marketable securities:				
Net unrealized gains (losses) on marketable securities arising during period, net of tax of \$558, \$(841), \$1,242, \$(726)	1,165	(1,463)	2,304	(1,263)
Less: Reclassification adjustment for net gains included in net income, net of tax of \$(141), \$(39), \$(243), \$(122)	(272)	(68)	(448)	(212)
	893	(1,531)	1,856	(1,475)
Defined benefit pension and post-retirement plans:				
Amortization of net prior service benefit included in net periodic pension expense and post-retirement income, net of tax of \$(42), \$(40), \$(85), \$(79)	(74)	(69)	(147)	(138)
Other comprehensive income (loss)	819	(1,600)	1,709	(1,613)
Comprehensive income	\$ 102,024	\$ 64,956	\$ 103,843	\$ 71,532

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's

Annual Report on Form 10-K for the year ended December 31, 2013, are an integral part of the condensed consolidated financial statements.



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

	<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>	
Cash flows from operating activities:		
Net income	\$ 102,134	\$ 73,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	33,785	27,552
Amortization	42,990	46,052
Stock-based compensation	23,530	18,077
Provision for excess and obsolete inventory	15,071	5,775
Deferred taxes	(5,697)	(15,230)
Tax benefit related to stock options and restricted stock units	(1,671)	(1,584)
Retirement plans actuarial gains		(1,359)
Other	1,165	24
Changes in operating assets and liabilities:		
Accounts receivable	(143,125)	(74,785)
Inventories	18,469	26,373
Prepayments and other assets	27,000	(17,277)
Accounts payable and other accrued expenses	52,796	(15,428)
Deferred revenue and customer advances	13,800	(2,811)
Retirement plans contributions	(2,388)	(2,511)
Accrued income taxes	5,495	2,964
Net cash provided by operating activities	183,354	68,977
Cash flows from investing activities:		
Purchases of property, plant and equipment	(91,389)	(50,798)
Purchases of marketable securities	(523,306)	(458,070)
Proceeds from maturities of marketable securities	377,436	268,546
Proceeds from sales of marketable securities	152,818	50,255
Proceeds from life insurance	4,391	
Net cash used for investing activities	(80,050)	(190,067)
Cash flows from financing activities:		
Issuance of common stock under employee stock purchase and stock options plans	10,643	9,638
Tax benefit related to stock options and restricted stock units	1,671	1,584
Payments of dividend	(11,656)	
Payments of long-term debt	(190,975)	(1,063)
Payments of contingent consideration		(388)

Net cash (used for) provided by financing activities	(190,317)	9,771
Decrease in cash and cash equivalents	(87,013)	(111,319)
Cash and cash equivalents at beginning of period	341,638	338,920
Cash and cash equivalents at end of period	\$ 254,625	\$ 227,601

The accompanying notes, together with the Notes to Consolidated Financial Statements included in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2013, are an integral part of the condensed consolidated financial statements.

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**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**A. The Company**

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

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

military/aerospace ( Mil/Aero ) test instrumentation and systems, storage test ( Storage Test ) systems, and circuit-board test ( Production Board Test ) systems (collectively these products represent System Test ).

**B. Accounting Policies**

*Basis of Presentation*

The consolidated interim financial statements include the accounts of Teradyne and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of such interim financial statements. Certain prior year's amounts were reclassified to conform to the current year presentation. The December 31, 2013 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying financial information should be read in conjunction with the consolidated financial statements and notes thereto contained in Teradyne's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission ( SEC ) on February 28, 2014, for the year ended December 31, 2013.

*Preparation of Financial Statements and Use of Estimates*

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

**C. Recently Issued Accounting Pronouncements**

On July 18, 2013, Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than

only against carryforwards that are created by unrecognized tax benefits. The provisions of this ASU are effective for interim and annual periods beginning on or after December 15, 2013. Teradyne's implementation of this ASU did not have a material impact on Teradyne's financial position and results of operations.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The

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core principle of the new standard is that a company should recognize revenue to show the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. For Teradyne, the standard will be effective in the first quarter of 2017. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. Teradyne has not yet selected a transition method. Teradyne is currently evaluating the impact of this ASU on its financial position and results of operations.

**D. Financial Instruments and Derivatives**

**Cash Equivalents**

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

**Financial Instruments**

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities*. ASC 320-10 requires that certain debt and equity securities be classified into one of three categories; trading, available-for-sale or held-to-maturity securities. As of June 29, 2014, Teradyne's investments in debt and equity securities were classified as available-for-sale and recorded at their fair market value.

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

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

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

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

Teradyne uses the market and income approach techniques to value its financial instruments and there were no changes in valuation techniques during the three and six months ended June 29, 2014 and June 30, 2013. As defined in ASC 820-10 *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

value securities by relying on the securities' relationship to other benchmark quoted prices, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Substantially all of Teradyne's fixed income securities are classified as Level 2, with the exception of investments in equity and debt mutual funds, which are classified as Level 1, and contingent consideration, which

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is classified as Level 3. The majority of Teradyne's Level 2 securities are priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available, use other observable inputs like market transactions involving identical or comparable securities.

During the six months ended June 29, 2014 and June 30, 2013, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

There were no realized losses recorded in the three and six months ended June 29, 2014 and June 30, 2013. Realized gains recorded in the three and six months ended June 29, 2014 were \$0.4 million and \$0.7 million, respectively. Realized gains recorded in the three and six months ended June 30, 2013 were \$0.1 million and \$0.3 million, respectively. Realized gains are included in interest income.

The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of June 29, 2014 and December 31, 2013.

	June 29, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets				
Cash	\$ 136,730	\$	\$	\$ 136,730
Cash equivalents	112,152	5,743		117,895
Available-for-sale securities:				
U.S. Treasury securities		404,942		404,942
U.S. government agency securities		228,075		228,075
Commercial paper		108,459		108,459
Corporate debt securities		82,490		82,490
Equity and debt mutual funds	14,441			14,441
Certificates of deposit and time deposits		14,030		14,030
Non-U.S. government securities		79		79
Total	\$ 263,323	\$ 843,818	\$	\$ 1,107,141
Liabilities				
Contingent consideration	\$	\$	\$ 2,230	\$ 2,230
Derivatives		306		306
Total	\$	\$ 306	\$ 2,230	\$ 2,536





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Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 248,882	\$ 5,743	\$	\$ 254,625
Marketable securities		488,439		488,439
Long-term marketable securities	14,441	349,636		364,077
	\$ 263,323	\$ 843,818	\$	\$ 1,107,141
Liabilities				
Other accrued liabilities	\$	\$ 306	\$	\$ 306
Long-term other accrued liabilities			2,230	2,230
	\$	\$ 306	\$ 2,230	\$ 2,536

	December 31, 2013			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets				
Cash	\$ 117,242	\$	\$	\$ 117,242
Cash equivalents	165,865	58,531		224,396
Available-for-sale securities:				
U.S. Treasury securities		467,895		467,895
U.S. government agency securities		202,588		202,588
Commercial paper		105,598		105,598
Corporate debt securities		65,387		65,387
Equity and debt mutual funds	13,156			13,156
Certificates of deposit and time deposits		3,258		3,258
Non-U.S. government securities		78		78
Total	296,263	903,335		1,199,598
Derivatives		153		153
Total	\$ 296,263	\$ 903,488	\$	\$ 1,199,751
Liabilities				

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Contingent consideration	\$	\$	\$	2,230	\$	2,230
Total	\$	\$	\$	2,230	\$	2,230

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Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$ 283,107	\$ 58,531	\$	\$ 341,638
Marketable securities		586,882		586,882
Long-term marketable securities	13,156	257,922		271,078
Other current assets		153		153
	\$ 296,263	\$ 903,488	\$	\$ 1,199,751
Liabilities				
Long-term other accrued liabilities	\$	\$	\$ 2,230	\$ 2,230
	\$	\$	\$ 2,230	\$ 2,230

Contingent consideration relates to Teradyne's acquisition of ZTEC on October 25, 2013. The total purchase price included \$2.2 million in fair value of contingent consideration payable upon achievement of certain customer order and revenue targets through 2015. The maximum amount of contingent consideration that could be paid is \$5.0 million. Based on the projected results for the acquisition, no value was assigned to the revenue component of the contingent consideration.

The valuation of the customer order component of the contingent consideration utilized the following assumptions: (1) probability of meeting each benchmark; (2) expected timing of meeting each benchmark; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each benchmark were estimated based on a review of the historical and projected results. A discount rate of 5.2 percent was selected based on the cost of debt for the business, as a significant portion of the risk in achieving the customer order contingent consideration was captured in the probabilities assigned to meeting each benchmark. There were no changes to the fair value of the contingent consideration during the six months ended June 29, 2014.

Changes in the fair value of Level 3 contingent consideration for the three and six months ended June 29, 2014 and June 30, 2013 were as follows:

	For the Three and Six Months
Contingent consideration related to Teradyne's acquisition of ZTEC Ended	
in October 2013	June 29, 2014
	(in thousands)
Balance at December 31, 2013	\$ 2,230
Contingent consideration payments	
Balance at March 30, 2014	2,230
Contingent consideration payments	

Balance at June 29, 2014	\$ 2,230
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<b>Contingent consideration related to Teradyne's acquisition of LitePoint in October 2011</b>	<b>For the Three and Six Months Ended  June 30, 2013 (in thousands)</b>
Balance at December 31, 2012	\$ 388
Contingent consideration payments	(313)
Balance at March 31, 2013	75
Contingent consideration payments	(75)
Balance at June 30, 2013	\$

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The carrying amounts and fair values of Teradyne's financial instruments at June 29, 2014 and December 31, 2013 were as follows:

	<b>June 29, 2014</b>		<b>December 31, 2013</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
Cash and cash equivalents	\$ 254,625	\$ 254,625	\$ 341,638	\$ 341,638
Marketable securities	852,516	852,516	857,960	857,960
Convertible debt(1)			185,708	611,433
Japan loan			955	955

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

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

The following tables summarize the composition of available-for-sale marketable securities at June 29, 2014 and December 31, 2013:

	June 29, 2014				Fair Market Value of Investments with Unrealized Losses
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	
U.S. Treasury securities	\$ 404,707	\$ 308	\$ (73)	\$ 404,942	\$ 36,402
U.S. government agency securities	227,889	202	(16)	228,075	41,122
Commercial paper	108,446	13		108,459	
Corporate debt securities	80,771	1,903	(184)	82,490	25,959
Equity and debt mutual funds	11,567	2,898	(24)	14,441	839
Certificates of deposit and time deposits	14,027	3		14,030	
Non-U.S. government securities	79			79	
	\$ 847,486	\$ 5,327	\$ (297)	\$ 852,516	\$ 104,322

Reported as follows:

<b>Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss)</b>	<b>Fair Market Value</b>	<b>Fair Market Value of</b>
-------------	------------------------	--------------------------	--------------------------	-----------------------------

						<b>Investments with Unrealized Losses</b>
	<b>(in thousands)</b>					
Marketable securities	\$ 488,257	\$ 186	\$ (4)	\$ 488,439	\$	26,407
Long-term marketable securities	359,229	5,141	(293)	364,077		77,915
	\$ 847,486	\$ 5,327	\$ (297)	\$ 852,516	\$	104,322

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<b>December 31, 2013</b>					
	<b>Available-for-Sale</b>			<b>Fair Market Value of Investments with Unrealized Losses</b>	
	<b>Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss)</b>	<b>Fair Market Value</b>	
	<b>(in thousands)</b>				
U.S. Treasury securities	\$ 468,084	\$ 94	\$ (283)	\$ 467,895	\$ 108,212
U.S. government agency securities	202,573	75	(60)	202,588	84,498
Commercial paper	105,583	16	(1)	105,598	7,993
Corporate debt securities	65,747	762	(1,122)	65,387	40,355
Equity and debt mutual funds	10,463	2,742	(49)	13,156	702
Certificates of deposit and time deposits	3,258			3,258	
Non-U.S. government securities	78			78	
	\$ 855,786	\$ 3,689	\$ (1,515)	\$ 857,960	\$ 241,760

Reported as follows:

	<b>Fair Market Value of Investments with Unrealized Losses</b>			<b>Fair Market Value of Investments with Unrealized Losses</b>	
	<b>Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss)</b>	<b>Fair Market Value</b>	
	<b>(in thousands)</b>				
Marketable securities	\$ 586,818	\$ 85	\$ (21)	\$ 586,882	\$ 137,670
Long-term marketable securities	268,968	3,604	(1,494)	271,078	104,090
	\$ 855,786	\$ 3,689	\$ (1,515)	\$ 857,960	\$ 241,760

As of June 29, 2014, the fair market value of investments with unrealized losses was \$104.3 million. Of this value, \$6.9 million had unrealized losses greater than one year and \$97.4 million had unrealized losses less than one year. As of December 31, 2013, the fair market value of investments with unrealized losses was \$241.8 million. Of this value, \$0.9 million had unrealized losses greater than one year and \$240.9 million had unrealized losses less than one year. Teradyne reviews its investments to identify and evaluate investments that have an indication of possible impairment. Based on this review, Teradyne determined that the unrealized losses related to these investments, at June 29, 2014 and December 31, 2013, were temporary.

The contractual maturities of investments held at June 29, 2014 were as follows:

<b>June 29, 2014</b>	
<b>Cost</b>	<b>Fair Market Value</b>

	<b>(in thousands)</b>	
Due within one year	\$ 488,257	\$ 488,439
Due after 1 year through 5 years	317,047	317,321
Due after 5 years through 10 years	6,289	6,467
Due after 10 years	24,326	25,848
<b>Total</b>	<b>\$ 835,919</b>	<b>\$ 838,075</b>

Contractual maturities of investments held at June 29, 2014 exclude equity and debt mutual funds as they do not have a contractual maturity date.

### **Derivatives**

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



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

The notional amount of foreign currency forward contracts was \$69.4 million and \$74.8 million at June 29, 2014 and December 31, 2013, respectively.

The fair value of the outstanding contracts was a loss of \$0.3 million and a gain of \$0.2 million at June 29, 2014 and December 31, 2013, respectively. The following table summarizes the fair value of derivative instruments at June 29, 2014 and December 31, 2013:

	<b>Balance Sheet Location</b>	<b>June 29, 2014</b>	<b>December 31, 2013</b>
<b>(in thousands)</b>			
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency forward contracts	Other current assets	\$	\$ 153
	Other accrued liabilities	306	
		\$ 306	\$ 153

Teradyne had no offsetting foreign exchange contracts at June 29, 2014 and December 31, 2013.

In the three and six months ended June 29, 2014, Teradyne recorded net realized losses of \$1.1 million and \$1.9 million, respectively, related to foreign currency forward contracts hedging net monetary positions. In the three and six months ended June 30, 2013, Teradyne recorded net realized gains of \$1.8 million and \$4.1 million, respectively, related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in interest expense and other.

The following table summarizes the effect of derivative instruments recognized in the statement of operations during the three and six months ended June 29, 2014 and June 30, 2013. The table does not reflect the corresponding gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies. For the three and six months ended June 29, 2014, gains from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$0.7 million and \$1.3 million, respectively. For the three and six months ended June 30, 2013, (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$(1.8) million and \$(4.6) million, respectively.

<b>Location of Gains (Losses) Recognized in Statement of Operations</b>	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			

Derivatives not designated as hedging  
instruments:

Foreign exchange contracts	Interest expense and other	\$ (1,122)	\$ 1,818	\$ (1,869)	\$ 4,067
		\$ (1,122)	\$ 1,818	\$ (1,869)	\$ 4,067

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

**Table of Contents****E. Debt****Loan Agreement**

On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million (the loan was denominated in Japanese Yen). The loan had a term of 5 years and a fixed interest rate of 0.8%. Approximately \$6.0 million of the loan was collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million was unsecured. Teradyne, Inc. guaranteed payment of the loan obligation. The loan was amortized over the term of the loan with semiannual principal payments of approximately \$1.0 million on September 30 and March 30 each year. The final principal and interest payments were made in March 2014.

**Convertible Senior Notes**

In April 2009, Teradyne issued 4.50% convertible senior notes (the "Notes") at an aggregate principal amount of \$190 million and a conversion price of \$5.4750 or 182.65 shares of Teradyne's common stock per \$1,000 principal amount of Notes. The Notes had a maturity date of March 15, 2014. Substantially all of the Notes were converted prior to March 15, 2014 and were net share settled, meaning that the holders received, for each \$1,000 in principal amount of Notes, \$1,000 in cash and approximately 131.95 shares of Teradyne common stock (calculated by taking 182.65 shares less 50.7 shares). The 50.7 shares were determined by dividing the \$1,000 principal amount by the \$19.74 average trading price of Teradyne's common stock over the 25 day trading period from February 5, 2014 to March 12, 2014.

Teradyne satisfied the Notes' net share settlement by paying the aggregate principal amount of \$190 million in cash and issuing 25.1 million shares of common stock. On March 13, 2014, Teradyne exercised its call option agreement entered into with Goldman, Sachs & Co. (the "hedge counterparty") at the time of issuance of the Notes and received 25.1 million shares of Teradyne's common stock, which were retired.

Subsequently, the hedge counterparty can exercise warrants with a strike price of \$7.6389. The warrants are net share settled. Approximately 536,000 warrants expire on a daily basis over a 65-day trading period from June 17, 2014 to September 17, 2014. In the three months ended June 29, 2014, approximately 1.9 million shares were issued for warrants exercised.

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

	<b>June 29, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Debt principal	\$	\$ 189,998
Unamortized debt discount		4,290
<b>Net carrying amount of the convertible debt</b>	<b>\$</b>	<b>\$ 185,708</b>

The interest expense on Teradyne's convertible senior notes for the three and six months ended June 29, 2014 and June 30, 2013 was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(in thousands)			
Contractual interest expense	\$	\$ 2,137	\$ 1,757	\$ 4,274
Amortization of the discount component and debt issue fees		4,087	4,493	8,044
Total interest expense on the convertible debt	\$	\$ 6,224	\$ 6,250	\$ 12,318

**Table of Contents****F. Prepayments**

Prepayments consist of the following and are included in prepayments on the balance sheet:

	<b>June 29, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Contract manufacturer prepayments	\$ 92,196	\$ 115,388
Prepaid maintenance and other services	6,838	6,538
Prepaid taxes	1,960	3,281
Other prepayments	9,479	11,167
<b>Total prepayments</b>	<b>\$ 110,473</b>	<b>\$ 136,374</b>

**G. Deferred Revenue and Customer Advances**

Deferred revenue and customer advances consist of the following and are included in short and long-term deferred revenue and customer advances on the balance sheet:

	<b>June 29, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Extended warranty	\$ 40,052	\$ 34,909
Equipment maintenance and training	26,535	22,455
Customer advances	8,926	4,825
Undelivered elements	5,831	6,971
Customer acceptance	1,616	
<b>Total deferred revenue and customer advances</b>	<b>\$ 82,960</b>	<b>\$ 69,160</b>

**H. Product Warranty**

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

<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
<b>(in thousands)</b>			

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Balance at beginning of period	\$ 6,615	\$ 7,075	\$ 6,660	\$ 9,786
Accruals for warranties issued during the period	5,399	3,684	8,257	5,107
Adjustments related to pre-existing warranties	(302)	(869)	(442)	(1,798)
Settlements made during the period	(2,639)	(2,539)	(5,402)	(5,744)
Balance at end of period	\$ 9,073	\$ 7,351	\$ 9,073	\$ 7,351

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

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	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			
Balance at beginning of period	\$ 33,949	\$ 28,599	\$ 34,909	\$ 26,987
Deferral of new extended warranty revenue	11,960	8,734	14,321	12,205
Recognition of extended warranty deferred revenue	(5,857)	(2,479)	(9,178)	(4,338)
Balance at end of period	\$ 40,052	\$ 34,854	\$ 40,052	\$ 34,854

**I. Stock-Based Compensation**

In January 2014, Teradyne granted performance-based restricted stock units ( PRSUs ) to its executive officers with a performance metric based on relative total shareholder return ( TSR ). Teradyne's three-year TSR performance will be measured against the Philadelphia Semiconductor Index, which consists of thirty companies in the semiconductor device and capital equipment industries. The final number of TSR PRSUs that vest will vary based upon the level of performance achieved from 200% of the target shares to 0% of the target shares. All TSR PRSUs will vest upon the three-year anniversary of the January 24, 2014 grant date. No TSR PRSUs will vest if the executive officer is no longer an employee at the end of the three-year period. The TSR PRSUs are valued using a Monte Carlo simulation model. The number of units expected to be earned, based upon the achievement of the TSR market condition, is factored into the grant date Monte Carlo valuation. Compensation expense is recognized on a straight-line basis over the three-year service period. Compensation expense is recognized regardless of the eventual number of units that are earned based upon the market condition, provided the executive officer remains an employee at the end of the three-year period. Compensation expense is reversed if the executive officer is not an employee at the end of the three-year service period. During the six months ended June 29, 2014, Teradyne granted 0.1 million TSR performance-based restricted stock unit awards with a grant date fair value of \$22.06. The fair value was estimated using the Monte Carlo simulation model with the following assumptions:

	<b>For the Six Months Ended June 29, 2014</b>
Risk-free interest rate	0.75%
Teradyne volatility-historical	36.1%
Philadelphia Semiconductor Index volatility-historical	24.6%
Dividend yield	1.25%

Expected volatility was based on the historical volatility of Teradyne's stock and the Philadelphia Semiconductor Index over the most recent three year period. The risk-free interest rate was determined using the U.S. Treasury yield curve in effect at the time of grant. Dividend yield was based upon an estimated annual dividend amount of \$0.24 per share divided by Teradyne's January 24, 2014 stock price of \$19.16.

During the six months ended June 29, 2014, Teradyne granted 1.6 million of service-based restricted stock unit awards to employees at a weighted average grant date fair value of \$19.08 and 0.1 million of service-based stock options to executive officers at a weighted average grant date fair value of \$5.49.

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During the six months ended June 30, 2013, Teradyne granted 1.9 million of service-based restricted stock unit awards to employees at a weighted average grant date fair value of \$16.60 and 0.2 million of service-based stock options to executive officers at a weighted average grant date fair value of \$6.09.

Restricted stock unit awards granted to employees vest in equal annual installments over four years. Stock options vest in equal annual installments over four years, and have a term of seven years from the date of grant.



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The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following assumptions:

	<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Expected life (years)	4.0	4.0
Risk-free interest rate	1.2%	0.6%
Volatility-historical	38.8%	46.8%
Dividend yield	1.25%	0.0%

Teradyne determined the stock options' expected life based upon historical exercise data for executive officers, the age of the executive officers and the terms of the stock option grant. Volatility was determined using historical volatility for a period equal to the expected life. The risk-free interest rate was determined using the U.S. Treasury yield curve in effect at the time of grant. Dividend yield was based upon an estimated annual dividend amount of \$0.24 per share divided by Teradyne's January 24, 2014 stock price of \$19.16.

Effective January 31, 2014, Michael Bradley retired as Chief Executive Officer of Teradyne. Mr. Bradley will continue to serve on Teradyne's Board of Directors. On January 22, 2014, Teradyne entered into an agreement (the Retirement Agreement) with Mr. Bradley. Under the Retirement Agreement, Mr. Bradley's unvested restricted stock units and stock options granted prior to his retirement date will continue to vest in accordance with their terms through January 31, 2017; and any vested options or options that vest during that period may be exercised for the remainder of the applicable option term. In the Retirement Agreement, Mr. Bradley agreed to be bound by non-competition and non-solicitation restrictions through January 31, 2017. In January 2014, Teradyne recorded a one-time charge to stock-based compensation expense of \$6.6 million related to the Retirement Agreement.

**J. Accumulated Other Comprehensive Income**

Changes in accumulated other comprehensive income, which is presented net of tax, consist of the following:

	<b>Unrealized Gains on Marketable Securities</b>	<b>Retirement Plans Prior Service Credit (in thousands)</b>	<b>Total</b>
Balance at December 31, 2013, net of tax of \$794, \$(284)	\$ 1,381	\$ 2,619	\$ 4,000
Other comprehensive income before reclassifications, net of tax of \$1,242, \$0	2,304		2,304
Amounts reclassified from accumulated other comprehensive income, net of tax of \$(243), \$(85)	(448)	(147)	(595)
Net current period other comprehensive income	1,856	(147)	1,709
Balance at June 29, 2014, net of tax of \$1,793, \$(369)	\$ 3,237	\$ 2,472	\$ 5,709



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Reclassifications out of accumulated other comprehensive income to the statement of operations for the three and six months ended June 29, 2014 and June 30, 2013, were as follows:

Details about Accumulated Other Comprehensive Income Components	For the Three Months Ended		For the Six Months Ended		Affected Line Item in the Statements of Operations
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013	
	(in thousands)				
Available-for-sale marketable securities:					
Unrealized gains, net of tax of \$141, \$39, \$243, \$122	\$ 272	\$ 68	\$ 448	\$ 212	Interest income
Amortization of defined benefit pension and postretirement plans:					
Prior service benefit, net of tax of \$42, \$40, \$85, \$79	74	69	147	138	(a)
Total reclassifications	\$ 346	\$ 137	\$ 595	\$ 350	Net income

(a) The amortization of prior service benefit is included in the computation of net periodic pension cost and postretirement benefit; see Note N: Retirement Plans.

**K. Intangible Assets**

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

	Gross Carrying Amount	June 29, 2014		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 342,933	\$ 200,154	\$ 142,779	6.2 years
Customer relationships	141,497	86,145	55,352	8.0 years
Trade names and trademarks	30,034	12,417	17,617	9.1 years
Customer backlog	1,000	1,000		0.4 years
Total intangible assets	\$ 515,464	\$ 299,716	\$ 215,748	6.9 years

	Gross Carrying Amount	December 31, 2013		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		

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Developed technology	\$ 342,933	\$ 174,563	\$ 168,370	6.2 years
Customer relationships	141,497	76,963	64,534	8.0 years
Trade names and trademarks	30,034	10,647	19,387	9.1 years
Customer backlog	1,000	1,000		0.4 years
Total intangible assets	\$ 515,464	\$ 263,173	\$ 252,291	6.9 years

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Aggregate intangible asset amortization expense was \$18.3 million and \$36.5 million, respectively, for the three and six months ended June 29, 2014 and \$18.1 million and \$36.1 million, respectively, for the three and six months ended June 30, 2013. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

<b>Year</b>	<b>Amortization Expense (in thousands)</b>
2014 (remainder)	\$ 33,598
2015	53,391
2016	53,391
2017	47,232
2018	22,691

**L. Net Income per Common Share**

The following table sets forth the computation of basic and diluted net income per common share:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands, except per share amounts)</b>			
Net income for basic and diluted net income per share	\$ 101,205	\$ 66,556	\$ 102,134	\$ 73,145
Weighted average common shares-basic	194,408	190,569	193,860	190,128
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible notes (1)		23,266	10,026	23,326
Convertible note hedge warrant shares (2)	20,406	18,689	20,674	18,774
Restricted stock units	705	772	878	947
Stock options	1,006	1,554	1,056	1,615
Employee stock purchase rights	43	59	32	43
Dilutive potential common shares	22,160	44,340	32,666	44,705
Weighted average common shares-diluted	216,568	234,909	226,526	234,833
Net income per common share-basic	\$ 0.52	\$ 0.35	\$ 0.53	\$ 0.38
Net income per common share-diluted	\$ 0.47	\$ 0.28	\$ 0.45	\$ 0.31

(1) Incremental shares from conversion of the convertible notes for the six months ended June 29, 2014 were calculated using the difference between the average Teradyne stock price from January 1, 2014 through

March 12, 2014 and the conversion price of \$5.4750, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period from January 1, 2014 to March 12, 2014 and adjusted for the number of days the convertible notes were outstanding during the six months ended June 29, 2014. Incremental shares from assumed conversion of the convertible notes for the three and six months ended June 30, 2013 were calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.4750, multiplied by the 34.7 million shares to be issued upon conversion. The result of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period.

- (2) Convertible note hedge warrant shares for the three and six months ended June 29, 2014 and June 30, 2013 are calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.6389, multiplied by the weighted average warrant shares outstanding. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period.

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The computation of diluted net income per common share for the three and six months ended June 29, 2014 excludes the effect of the potential exercise of stock options to purchase approximately 0.3 million shares because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and six months ended June 30, 2013 excludes the effect of the potential exercise of stock options to purchase approximately 0.5 million shares because the effect would have been anti-dilutive.

**M. Restructuring and Other*****Restructuring***

During the six months ended June 29, 2014, Teradyne recorded \$0.6 million of severance charges related to headcount reductions of 28 people, primarily in Wireless Test. During the six months ended June 30, 2013, Teradyne recorded \$0.6 million of severance charges related to headcount reductions in System Test and Semiconductor Test.

	Severance and Benefits	Facility Exit Costs	Total
	(in thousands)		
<i>Pre-2013 Activities</i>			
Balance at December 31, 2012	\$ 243	\$ 1,084	\$ 1,327
Change in estimate		(553)	(553)
Cash payments	(243)	(531)	(774)
Balance at December 31, 2013	\$	\$	\$
<i>2013 Activities</i>			
<i>Q3 2013 Activity:</i>			
Provision	\$ 1,337	\$	\$ 1,337
Cash payments	(966)		(966)
Balance at December 31, 2013	371		371
Cash payments	(161)		(161)
Balance at March 30, 2014	210		210
Cash payments			
Balance at June 29, 2014	\$ 210	\$	\$ 210
<i>Q4 2013 Activity:</i>			
Provision	\$ 600	\$	\$ 600
Cash payments	(486)		(486)
Balance at December 31, 2013	114		114
Cash payments	(114)		(114)

Balance at March 30, 2014	\$	\$	\$
<b>2014 Activities</b>			
<i>Q2 2014 Activity:</i>			
Provision	\$ 572	\$	\$ 572
Cash payments	(530)		(530)
Balance at June 29, 2014	\$ 42	\$	\$ 42
Balance at June 29, 2014	\$ 252	\$	\$ 252

The accrual balance for severance and benefits of \$0.3 million is reflected in the accrued employees compensation and withholdings on the balance sheet and is expected to be paid by September 2014.



**Table of Contents****N. Retirement Plans**

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

***Defined Benefit Pension Plans***

Teradyne has defined benefit pension plans covering a portion of domestic employees and employees of certain non-U.S. subsidiaries. Benefits under these plans are based on employees' years of service and compensation. Teradyne's funding policy is to make contributions to these plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of these plans consist primarily of fixed income and equity securities. In addition, Teradyne has an unfunded supplemental executive defined benefit plan in the United States to provide retirement benefits in excess of levels allowed by the Employment Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC), as well as unfunded foreign plans. In the six months ended June 29, 2014, Teradyne contributed \$0.9 million to the U.S. supplemental executive defined benefit pension plan and \$1.0 million to certain qualified plans for non-U.S. subsidiaries.

For the three and six months ended June 29, 2014 and June 30, 2013, Teradyne's net periodic pension cost was comprised of the following:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			
Service cost	\$ 811	\$ 852	\$ 1,607	\$ 1,686
Interest cost	3,732	3,281	7,452	6,651
Expected return on plan assets	(3,384)	(3,631)	(6,725)	(7,261)
Amortization of unrecognized prior service cost	34	41	67	82
Actuarial loss (gain)	362	(1,123)	362	(1,123)
Total net periodic pension cost (benefit)	\$ 1,555	\$ (580)	\$ 2,763	\$ 35

***Postretirement Benefit Plan***

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

For the three and six months ended June 29, 2014 and June 30, 2013, Teradyne's net periodic postretirement benefit was comprised of the following:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			
Service cost	\$ 17	\$ 21	\$ 29	\$ 37
Interest cost	82	84	168	171
Amortization of unrecognized prior service benefit	(150)	(150)	(299)	(299)
Actuarial gain	(247)	(236)	(247)	(236)
Total net periodic post-retirement benefit	\$ (298)	\$ (281)	\$ (349)	\$ (327)

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**O. Commitments and Contingencies**

***Purchase Commitments***

As of June 29, 2014, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately \$222.5 million, of which \$211.5 million is for less than one year.

***Legal Claims***

Teradyne is subject to various legal proceedings and claims which have arisen in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Teradyne's results of operations, financial condition or cash flows.

**P. Income Taxes**

The effective tax rate for the three months ended June 29, 2014 and June 30, 2013 was 17%. The effective tax rate for the six months ended June 29, 2014 and June 30, 2013 was 15% and 7%, respectively. The increase in the tax rate for the six months ended June 29, 2014 compared to the six months ended June 30, 2013 was primarily because income tax expense for the six months ended June 30, 2013 was reduced for a discrete tax benefit from the January 2013 reinstatement of the U.S. research and development credit for fiscal year 2012.

The effective tax rate for each of these periods is lower than the 35% U.S. statutory federal tax rate primarily due to the geographic mix of income and profits earned by Teradyne's international subsidiaries being taxed at rates lower than the U.S. statutory rate.

Teradyne qualifies for a tax holiday in Singapore by fulfilling the requirements of an agreement with the Singapore Economic Development Board under which certain headcount and spending requirements must be met. The tax savings due to the tax holiday for the six months ended June 29, 2014 were \$6.1 million or \$0.03 per diluted share. The tax holiday is currently expected to expire on December 31, 2015.

**Q. Segment Information**

Teradyne has three operating segments (Semiconductor Test, Wireless Test and System Test), which are its reportable segments. The Semiconductor Test segment includes operations related to the design, manufacturing and marketing of semiconductor test products and services. The Wireless Test segment includes operations related to design, manufacturing and marketing of wireless test products and services. The System Test segment includes operations related to design, manufacturing and marketing of products and services for military/aerospace instrumentation test, storage test and circuit-board test. Each operating segment has a segment manager who is directly accountable to and maintains regular contact with Teradyne's chief operating decision maker (Teradyne's chief executive officer) to discuss operating activities, financial results, forecasts, and plans for the segment.

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Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income before income taxes. The accounting policies of the business segments are the same as those described in Note B: Accounting Policies in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2013. Segment information is as follows:

	Semiconductor Test	Wireless Test	System Test	Corporate and Eliminations	Consolidated
	(in thousands)				
<b>Three months ended June 29, 2014:</b>					
Net revenues	\$ 421,434	\$ 68,699	\$ 35,434	\$	\$ 525,567
Income (loss) before income taxes(1)(2)	107,270	14,229	(715)	608	121,392
<b>Three months ended June 30, 2013:</b>					
Net revenues	\$ 292,431	\$ 99,386	\$ 37,072	\$	\$ 428,889
Income (loss) before income taxes(1)(2)	58,606	23,913	779	(2,941)	80,357
<b>Six months ended June 29, 2014:</b>					
Net revenues	\$ 683,171	\$ 89,909	\$ 73,497	\$	\$ 846,577
Income (loss) before income taxes(1)(2)	141,870	(10,856)	(267)	(11,228)	119,519
<b>Six months ended June 30, 2013:</b>					
Net revenues	\$ 503,937	\$ 132,984	\$ 72,335	\$	\$ 709,256
Income (loss) before income taxes(1)(2)	72,372	13,916	2,309	(9,666)	78,931

- (1) Pension and postretirement actuarial gains and losses, interest income, and interest expense and other are included in Corporate and Eliminations.
- (2) Included in the income (loss) before income taxes for each of the segments are charges and credits for the three and six months ended June 29, 2014 and June 30, 2013 that include restructuring and other, and provision for excess and obsolete inventory, as follows:

Included in the Semiconductor Test segment are charges for the following:

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 3,713	\$ 287	\$ 9,918	\$ 500
Total	\$ 3,713	\$ 287	\$ 9,918	\$ 500

Included in the Wireless Test segment are charges for the following:

	For the Three Months Ended		For the Six Months Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 879	\$ 1,398	\$ 3,972	\$ 4,066
Restructuring and other	426		426	
Total	\$ 1,305	\$ 1,398	\$ 4,398	\$ 4,066

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Included in the System Test segment are charges for the following:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in thousands)</b>			
Cost of revenues provision for excess and obsolete inventory	\$ 440	\$ 290	\$ 1,181	\$ 1,209
Restructuring and other	146	131	146	375
<b>Total</b>	<b>\$ 586</b>	<b>\$ 421</b>	<b>\$ 1,327</b>	<b>\$ 1,584</b>

**R. Shareholders' Equity*****Stock Repurchase Program***

In November 2010, Teradyne's Board of Directors authorized a stock repurchase program for up to \$200 million. In the three and six months ended June 29, 2014 and June 30, 2013, Teradyne did not repurchase any shares. The cumulative repurchases under the new program as of June 29, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

***Dividend***

In January 2014, Teradyne's Board of Directors declared an initial quarterly cash dividend of \$0.06 per share that was paid on June 2, 2014 to stockholders of record as of May 9, 2014. The total dividend payment was \$11.7 million. Payment of future cash dividends will rest within the discretion of Teradyne's Board of Directors and will depend, among other things, upon Teradyne's earnings, capital requirements and financial condition.

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### **Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in our filings with the Securities and Exchange Commission. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

### **Overview**

We are a leading global supplier of automatic test equipment. We design, develop, manufacture and sell automatic test systems and solutions used to test semiconductors, wireless products, hard disk drives and circuit boards in the consumer electronics, wireless, automotive, industrial, computing, communications and aerospace and defense industries. Our automatic test equipment products and services include:

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

military/aerospace ( Mil/Aero ) test instrumentation and systems, storage test ( Storage Test ) systems, and circuit-board test ( Production Board Test ) systems (collectively these products represent System Test ).

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

In October 2013, we acquired ZTEC Instruments Inc. ( ZTEC ), a supplier of modular wireless test instruments. The acquisition of ZTEC expands our Wireless Test segment into the design verification test of wireless components and chipsets.

We will continue to invest in our business to further expand our addressable markets while tightly managing our costs.

The sales of our products and services are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. These cyclical periods have had, and will continue to have, a significant effect on our business because our customers often delay or accelerate purchases in reaction to changes in their businesses and to demand fluctuations in the semiconductor and electronics industries. Historically, these demand fluctuations have resulted in significant variations in our results of operations. The sharp swings in the semiconductor and electronics industries in recent years have generally affected the semiconductor and electronics test equipment and services industries more significantly than the overall capital equipment sector.

### **Critical Accounting Policies and Estimates**

We have identified the policies which are critical to understanding our business and our results of operations. There have been no significant changes during the six months ended June 29, 2014 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.



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**SELECTED RELATIONSHIPS WITHIN THE CONDENSED CONSOLIDATED  
STATEMENTS OF OPERATIONS**

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Percentage of total net revenues:				
Net revenues:				
Products	86%	85%	84%	81%
Services	14	15	16	19
Total net revenues	100	100	100	100
Cost of revenues:				
Cost of products	39	37	39	36
Cost of services	6	7	7	8
Total cost of revenues	45	44	46	44
Gross profit	55	56	54	56
Operating expenses:				
Engineering and development	14	16	17	18
Selling and administrative	15	16	18	19
Acquired intangible assets amortization	3	4	4	5
Restructuring and other				
Total operating expenses	32	36	39	43
Income from operations	23	20	15	13
Interest income				
Interest expense and other		2	1	2
Income before income taxes	23	19	14	11
Income tax provision	4	3	2	1
Net income	19%	16%	12%	10%

**Results of Operations*****Second Quarter 2014 Compared to Second Quarter 2013******Book to Bill Ratio***

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

	<b>For the Three Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Semiconductor Test	1.3	1.2
Wireless Test	0.8	0.9
System Test	1.1	0.7
Total Company	1.2	1.1

**Table of Contents***Revenues*

Net revenues by reportable segment were as follows:

	<b>For the Three Months Ended</b>		<b>Dollar Change</b>
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	
	<b>(in millions)</b>		
Semiconductor Test	\$ 421.5	\$ 292.4	\$ 129.1
Wireless Test	68.7	99.4	(30.7)
System Test	35.4	37.1	(1.7)
	\$ 525.6	\$ 428.9	\$ 96.7

The increase in Semiconductor Test revenues of \$129.1 million or 44% was primarily due to higher system-on-a-chip ( SOC ) product volume driven by application processors and microcontrollers, as well as higher Memory product volume driven by FLASH memory market. The decrease in Wireless Test revenue of \$30.7 million or 31% was primarily due to lower cellular product volume. The decrease in System Test revenue of \$1.7 million or 5% was primarily due to lower Mil/Aero product sales, partially offset by higher product volume in Production Board Test and Storage Test systems.

Our revenues by region as a percentage of total net revenue were as follows:

	<b>For the Three Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Taiwan	30%	19%
China	19	28
Korea	13	8
United States	11	12
Singapore	6	11
Europe	5	6
Malaysia	5	6
Philippines	4	2
Thailand	4	1
Japan	2	5
Rest of World	1	2
	100%	100%

*Gross Profit*

Our gross profit was as follows:

	<b>For the Three Months Ended</b>		<b>Dollar/Point Change</b>
	<b>June 29, 2014</b>	<b>June 30, 2013 (in millions)</b>	
Gross Profit	\$ 290.4	\$ 241.2	\$ 49.2
Percent of Total Revenue	55.3%	56.2%	(0.9)

Gross profit as a percent of revenue decreased by 0.9 percentage points, a decrease of 1.3 points related to product mix in SOC Semiconductor Test and lower Wireless Test sales, a decrease of 0.7 points due to higher excess and obsolete inventory provisions, partially offset by higher sales volume.

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

During the three months ended June 29, 2014, we recorded an inventory provision of \$5.0 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels. Of the \$5.0 million of total excess and obsolete provisions, \$3.7 million was related to Semiconductor Test, \$0.9 million was related to Wireless Test, and \$0.4 million was related to System Test.

During the three months ended June 30, 2013, we recorded an inventory provision of \$2.0 million included in cost of revenues, due to downward revisions to previously forecasted demand levels. Of the \$2.0 million of total excess and obsolete provisions, \$1.4 million was related to Wireless Test, \$0.3 million was related to System Test, and \$0.3 million was related to Semiconductor Test.

During the three months ended June 29, 2014 and June 30, 2013, we scrapped \$2.3 million and \$2.3 million of inventory, respectively. During the three months ended June 29, 2014 and June 30, 2013, we sold \$2.1 million and \$3.1 million, respectively, of previously written-down inventory. As of June 29, 2014, we had inventory related reserves for inventory which had been written-down totaling \$125.5 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

	<b>For the Three Months Ended</b>		<b>Dollar</b>
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>Change</b>
	<b>(in millions)</b>		
Engineering and Development	\$ 73.4	\$ 67.8	\$ 5.6
Percent of Total Revenue	14.0%	15.8%	

The increase of \$5.6 million in engineering and development expenses was due primarily to increased spending in Semiconductor Test and Wireless Test and higher variable compensation.

*Selling and Administrative*

Selling and administrative expenses were as follows:

<b>For the Three Months Ended</b>	<b>Dollar</b>
	<b>Change</b>

	<b>June 29, 2014</b>	<b>June 30, 2013</b>	
		<b>(in millions)</b>	
Selling and Administrative	\$ 77.5	\$ 69.2	\$ 8.3
Percent of Total Revenue	14.7%	16.1%	

The increase of \$8.3 million in selling and administrative expenses was due primarily to increased sales and marketing spending in Semiconductor Test and Wireless Test and higher variable compensation.

**Table of Contents***Restructuring and Other**Restructuring*

During the three months ended June 29, 2014, we recorded \$0.6 million of severance charges related to headcount reductions of 28 people, primarily in Wireless Test.

*Income Taxes*

The effective tax rate for the three months ended June 29, 2014 and June 30, 2013 was 17%. The effective tax rate for each of these periods is lower than the 35% U.S. statutory federal tax rate primarily due to the geographic mix of income and profits earned by Teradyne's international subsidiaries being taxed at rates lower than the U.S. statutory rate.

***Six Months of 2014 Compared to Six Months of 2013****Revenues*

Net revenues by reportable segment were as follows:

	<b>For the Six Months Ended</b>		<b>Dollar Change</b>
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	
	<b>(in millions)</b>		
Semiconductor Test	\$ 683.2	\$ 504.0	\$ 179.2
Wireless Test	89.9	133.0	(43.1)
System Test	73.5	72.3	1.2
	\$ 846.6	\$ 709.3	\$ 137.3

The increase in Semiconductor Test revenues of \$179.2 million or 36% was primarily due to higher SOC product volume, driven by application processors and microcontrollers. The decrease in Wireless Test revenue of \$43.1 million or 32% was primarily due to lower cellular product volume. The increase in System Test revenue of \$1.2 million or 2% was primarily due to higher product volume in Storage Test systems, partially offset by lower Mil/Aero product sales.

Our revenues by region as a percentage of total net revenue were as follows:

	<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
Taiwan	29%	18%

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China	17	24
United States	12	15
Korea	10	8
Singapore	8	10
Europe	6	7
Malaysia	5	6
Japan	4	5
Philippines	4	3
Thailand	4	2
Rest of World	1	2
	100%	100%



**Table of Contents***Gross Profit*

Our gross profit was as follows:

	<b>For the Six Months Ended</b>		<b>Dollar/Point Change</b>
	<b>June 29, 2014</b>	<b>June 30, 2013 (in millions)</b>	
<b>Gross Profit</b>	<b>\$ 457.5</b>	<b>\$ 394.7</b>	<b>\$ 62.8</b>
<b>Percent of Total Revenue</b>	<b>54.0%</b>	<b>55.6%</b>	<b>(1.6)</b>

Gross profit as a percent of revenue decreased by 1.6 percentage points due to a decrease of 1.8 points related to product mix in SOC Semiconductor Test, lower Wireless Test sales and higher Storage Test sales, a decrease of 1.0 point due to higher excess and obsolete inventory provisions, partially offset by higher sales volume.

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

During the six months ended June 29, 2014, we recorded an inventory provision of \$15.1 million included in cost of revenues with \$6.1 million related to product transitions in Semiconductor Test and \$9.0 million due to downward revisions to previously forecasted demand levels. Of the \$15.1 million of total excess and obsolete provisions, \$9.9 million was related to Semiconductor Test, \$4.0 million was related to Wireless Test, and \$1.2 million was related to System Test.

During the six months ended June 30, 2013, we recorded an inventory provision of \$5.8 million included in cost of revenues, due to downward revisions to previously forecasted demand levels. Of the \$5.8 million of total excess and obsolete provisions, \$4.1 million was related to Wireless Test, \$1.2 million was related to System Test, and \$0.5 million was related to Semiconductor Test.

During the six months ended June 29, 2014 and June 30, 2013, we scrapped \$3.3 million and \$2.9 million of inventory, respectively. During the six months ended June 29, 2014 and June 30, 2013, we sold \$3.6 million and \$4.8 million of previously written-down or written-off inventory. As of June 29, 2014, we had inventory related reserves for inventory which had been written-down or written-off totaling \$125.5 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

	<b>For the Six Months Ended</b>		<b>Dollar Change</b>
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	
	<b>(in millions)</b>		
Engineering and Development	\$ 140.5	\$ 130.5	\$ 10.0
Percent of Total Revenue	16.6%	18.4%	

The increase of \$10.0 million in engineering and development expenses was due primarily to increased spending in Semiconductor Test and Wireless Test and higher variable compensation.

**Table of Contents***Selling and Administrative*

Selling and administrative expenses were as follows:

	<b>For the Six Months Ended</b>		
	<b>June 29, 2014</b>	<b>June 30, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Selling and Administrative	\$ 155.5	\$ 137.1	\$ 18.4
Percent of Total Revenue	18.4%	19.3%	

The increase of \$18.4 million in selling and administrative expenses was due primarily to a one-time \$6.6 million stock-based compensation charge related to Michael Bradley's (retired Chief Executive Officer) Retirement Agreement, increased sales and marketing spending in Semiconductor Test and Wireless Test, and higher variable compensation.

*Restructuring and Other**Restructuring*

During the six months ended June 29, 2014, we recorded \$0.6 million of severance charges related to headcount reductions of 28 people, primarily in Wireless Test. During the six months ended June 30, 2013, we recorded \$0.6 million of severance charges related to headcount reductions in System Test and Semiconductor Test.

*Income Taxes*

The effective tax rate for the six months ended June 29, 2014 and June 30, 2013 was 15% and 7%, respectively. The increase in the tax rate for the six months ended June 29, 2014 compared to the six months ended June 30, 2013 was primarily because income tax expense for the six months ended June 30, 2013 was reduced for a discrete tax benefit from the January 2013 reinstatement of the U.S. research and development credit for fiscal year 2012.

The effective tax rate for each of these periods is lower than the 35% U.S. statutory federal tax rate primarily due to the geographic mix of income and profits earned by Teradyne's international subsidiaries being taxed at rates lower than the U.S. statutory rate.

**Contractual Obligations**

The following table reflects our contractual obligations at June 29, 2014:

	<b>Payments Due by Period</b>					
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>	<b>Other</b>
	<b>(in thousands)</b>					
Purchase Obligations	\$ 222,482	\$ 211,477	\$ 11,005	\$	\$	\$

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Retirement Plan Contributions	96,442	4,834	9,024	8,994	73,590	
Operating Lease Obligations	57,937	13,571	20,576	8,760	15,030	
Long-Term Other Liabilities Reflected on the Balance Sheet under GAAP(1)	75,473		18,992			56,481
Total	\$ 452,334	\$ 229,882	\$ 59,597	\$ 17,754	\$ 88,620	\$ 56,481

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

**Table of Contents****Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balances decreased by \$92.5 million in the six months ended June 29, 2014, to \$1,107 million. Cash activity for the six months ended June 29, 2014 and June 30, 2013 was as follows:

	<b>For the Six Months Ended</b>	
	<b>June 29, 2014</b>	<b>June 30, 2013</b>
	<b>(in millions)</b>	
Cash provided by operating activities:		
Net income, adjusted for non-cash items	\$ 211.3	\$ 152.5
Change in operating assets and liabilities	(27.9)	(83.5)
Net cash provided by operating activities	183.4	69.0
Net cash used for investing activities	(80.1)	(190.1)
Net cash (used for) provided by financing activities	(190.3)	9.8
Decrease in cash and cash equivalents	\$ (87.0)	\$ (111.3)

In the six months ended June 29, 2014, changes in operating assets and liabilities used cash of \$27.9 million. This was due to a \$97.7 million increase in operating assets and a \$69.7 million increase in operating liabilities.

The increase in operating assets was due to a \$143.1 million increase in accounts receivable due to higher sales, partially offset by a \$27.0 million decrease in prepayments and other assets and an \$18.5 million decrease in inventories due to higher sales. The increase in operating liabilities was due to a \$39.3 million increase in accounts payable due to higher sales, a \$37.9 million increase in other accrued liabilities, a \$13.8 million increase in customer advance payments and deferred revenue and a \$5.5 million increase in accrued income taxes, partially offset by a \$20.1 million decrease in accrued employee compensation due primarily to variable compensation and employee stock award payroll tax payments, a \$4.3 million convertible note interest payment, and \$2.4 million of retirement plan contributions.

Investing activities during the six months ended June 29, 2014 used cash of \$80.1 million, due to \$523.3 million used for purchases of marketable securities and \$91.4 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$377.4 million and \$152.8 million, respectively, and proceeds from life insurance of \$4.4 million related to the cash surrender value from the cancellation of Teradyne owned life insurance policies on its retired chief executive officer. The increase in purchases of property, plant and equipment of \$40.6 million compared to the six months ended June 30, 2013 is primarily due to testers used for customer leases.

Financing activities during the six months ended June 29, 2014 used cash of \$190.3 million. \$191.0 million of cash was used for payments on long-term debt related to the convertible note and the Japan loan and \$11.7 million was used for dividend payments, partially offset by \$10.6 million provided by the issuance of common stock under

employee stock purchase and stock option plans and \$1.7 million from the tax benefit related to stock options and restricted stock units.

In the six months ended June 30, 2013, changes in operating assets and liabilities used cash of \$83.5 million. This was due to a \$65.7 million increase in operating assets and a \$17.8 million decrease in operating liabilities.

The increase in operating assets was due to a \$74.8 million increase in accounts receivable resulting from higher sales volume, a \$17.3 million increase in other assets primarily due to an increase in prepayments, partially offset by a \$26.4 million decrease in inventories. The decrease in operating liabilities was due to a \$24.0 million decrease in accrued employee compensation due primarily to variable compensation and employee stock

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awards payroll taxes payments, a \$2.8 million decrease in customer advance payments and deferred revenue, and \$2.5 million of retirement plan contributions, partially offset by an \$8.5 million increase in accounts payable due to increased sales volume and a \$3.0 million increase in accrued income taxes.

Investing activities during the six months ended June 30, 2013 used cash of \$190.1 million, due to \$458.1 million used for purchases of marketable securities and \$50.8 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$268.5 million and \$50.3 million, respectively.

Financing activities during the six months ended June 30, 2013 provided cash of \$9.8 million, of which \$9.6 million was from the issuance of common stock under employee stock purchase and stock option plans and \$1.6 million from the tax benefit related to stock options and restricted stock units, partially offset by \$0.4 million of cash used for payments related to LitePoint acquisition contingent consideration and \$1.1 million of cash used for the payments on long-term debt related to the Japan loan.

In January 2014, our Board of Directors declared an initial quarterly cash dividend of \$0.06 per share that was paid on June 2, 2014 to stockholders of record as of May 9, 2014. The total dividend payment was \$11.7 million. Holders of our common stock are entitled to receive dividends if and when they are declared by our Board of Directors. Payment of future cash dividends will rest within the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

In 2014, we expect to deploy approximately \$75 million of capital into testers for customer leases bringing our total forecasted 2014 capital additions to \$162 million. As of June 29, 2014, we purchased approximately \$45 million of the forecasted \$75 million of testers for customer leases.

We believe our cash, cash equivalents and marketable securities balance will be sufficient to meet working capital and expenditure needs for at least the next twelve months. The amount of cash, cash equivalents and marketable securities in the U.S. and our operations in the U.S. provide sufficient liquidity to fund our business activities in the U.S. We have approximately \$430 million of cash, cash equivalents and marketable securities outside the U.S. that if repatriated would incur additional taxes. Inflation has not had a significant long-term impact on earnings.

## **Equity Compensation Plans**

As discussed in Note O: Stock Based Compensation in our 2013 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan ).

The purpose of the 1996 Employee Stock Purchase Plan is to encourage stock ownership by all eligible employees of Teradyne. The purpose of the 2006 Equity Plan is to provide equity ownership and compensation opportunities in Teradyne to our employees, officers, directors, consultants and/or advisors. Both plans were approved by our shareholders.

## **Recently Issued Accounting Pronouncements**

On July 18, 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by unrecognized tax benefits. The provisions of this ASU are effective for

interim and annual periods beginning on or after December 15, 2013. Our implementation of this ASU did not have a material impact on our financial position and results of operations.



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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to show the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. For Teradyne, the standard will be effective in the first quarter of 2017. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We have not yet selected a transition method. We are currently evaluating the impact of this ASU on our financial position and results of operations.

**Item 3: Quantitative and Qualitative Disclosures about Market Risk**

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a, Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on February 28, 2014. There were no material changes in our exposure to market risk from those set forth in our Annual Report for the fiscal year ended December 31, 2013.

**Item 4: Controls and Procedures**

As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**Table of Contents****PART II. OTHER INFORMATION****Item 1: Legal Proceedings**

We are subject to various legal proceedings and claims which have arisen in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our results of operations, financial condition or cash flows.

**Item 1A: Risk Factors**

You should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business.

The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

In November 2010, Teradyne's Board of Directors authorized a stock repurchase program for up to \$200 million. The cumulative repurchases under the new program as of June 29, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

The following table includes information with respect to repurchases we made of our common stock during the three months ended June 29, 2014 (in thousands except per share price):

Period		(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
March 31, 2014	April 27, 2014		\$		\$ 168,825
April 28, 2014	May 25, 2014		\$		\$ 168,825
May 26, 2014	June 29, 2014		\$		\$ 168,825
			\$		\$ 168,825

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

**Item 4: Mine Safety Disclosures**

Not Applicable

**Table of Contents****Item 6: Exhibits**

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) of Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

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

**TERADYNE, INC.**  
Registrant

/s/ GREGORY R. BEECHER  
**Gregory R. Beecher**

**Vice President,**  
**Chief Financial Officer and Treasurer**  
**(Duly Authorized Officer**  
**and Principal Financial Officer)**

**August 8, 2014**