TERADYNE, INC
Form 10-Q
November 13, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 4, 2015

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	**04-2272148**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
600 Riverpark Drive, North Reading,	
Massachusetts	**01864**
(Address of Principal Executive Offices)	**(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 x No ¨

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

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

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

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

The number of shares outstanding of the registrant s only class of Common Stock as of November 6, 2015 was 205,517,339 shares.

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PART I

Item 1: Financial Statements

TERADYNE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	October 4, 2015	December 31, 2014
	(in thousands, except per share amount)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 294,217	$ 294,256
Marketable securities	525,381	533,787
Accounts receivable, less allowance for doubtful accounts of $2,418 and $2,491 at October 4, 2015 and December 31, 2014, respectively	245,233	151,034
Inventories, net:		
Parts	85,713	70,821
Assemblies in process	15,885	10,347
Finished goods	26,834	23,961
	128,432	105,129
Deferred tax assets	58,480	57,239
Prepayments	80,779	95,819
Other current assets	4,135	6,582
Total current assets	1,336,657	1,243,846
Property, plant and equipment, net	275,089	329,038
Marketable securities	257,560	470,789
Deferred tax assets	6,909	7,494
Other assets	13,096	10,419
Retirement plans assets	13,933	12,896
Intangible assets, net	260,294	190,600
Goodwill	498,346	273,438
Total assets	$ 2,661,884	$ 2,538,520
LIABILITIES		
Current liabilities:		

Accounts payable	$ 81,642	$ 47,763
Accrued employees compensation and withholdings	98,252	100,994
Deferred revenue and customer advances	74,318	71,603
Other accrued liabilities	83,823	50,247
Contingent consideration	14,447	895
Accrued income taxes	43,259	20,049
Total current liabilities	395,741	291,551
Long-term deferred revenue and customer advances	29,490	19,929
Retirement plans liabilities	107,102	108,460
Deferred tax liabilities	35,494	23,315
Long-term other accrued liabilities	28,304	13,830
Long-term contingent consideration	20,148	2,455
Total liabilities	616,279	459,540
Commitments and contingencies (See Note P)		
SHAREHOLDERS EQUITY		
Common stock, $0.125 par value, 1,000,000 shares authorized; 207,240 shares and 216,613 shares issued and outstanding at October 4, 2015 and December 31, 2014, respectively	25,904	27,077
Additional paid-in capital	1,471,641	1,437,135
Accumulated other comprehensive income	67	4,689
Retained earnings	547,993	610,079
Total shareholders equity	2,045,605	2,078,980
Total liabilities and shareholders equity	$ 2,661,884	$ 2,538,520

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, 2014, are an integral part of the condensed consolidated financial statements.

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TERADYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands, except per share amount)			
Revenues:				
Products	$ 386,488	$ 402,987	$ 1,096,056	$ 1,110,861
Services	79,506	75,023	225,077	213,726
Total revenues	465,994	478,010	1,321,133	1,324,587
Cost of revenues:				
Cost of products	170,963	182,591	471,450	509,450
Cost of services	36,405	34,298	100,067	96,556
Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)	207,368	216,889	571,517	606,006
Gross profit	258,626	261,121	749,616	718,581
Operating expenses:				
Engineering and development	74,027	71,953	221,309	212,452
Selling and administrative	77,481	73,064	226,595	228,556
Acquired intangible assets amortization	20,053	18,271	49,119	54,813
Restructuring and other	261	(405)	(124)	167
Total operating expenses	171,822	162,883	496,899	495,988
Income from operations	86,804	98,238	252,717	222,593
Non-operating (income) expense:				
Interest income	(1,708)	(1,922)	(5,198)	(4,224)
Interest expense	508	144	1,114	6,720
Other (income) expense, net	596	(654)	(5,180)	(92)
Income before income taxes	87,408	100,670	261,981	220,189
Income tax provision	15,955	17,721	54,863	35,106
Net income	$ 71,453	$ 82,949	$ 207,118	$ 185,083
Net income per common share:				
Basic	$ 0.34	$ 0.40	$ 0.97	$ 0.93

Diluted	$ 0.34	$ 0.38	$ 0.96	$ 0.83
Weighted average common shares basic	210,032	207,381	213,688	198,367
Weighted average common shares diluted	211,736	218,333	215,348	223,795
Cash dividend declared per common share	$ 0.06	$ 0.06	$ 0.18	$ 0.12

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, 2014, are an integral part of the condensed consolidated financial statements.

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TERADYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Net income	$ 71,453	$ 82,949	$ 207,118	$ 185,083
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax of $0	3,267		(3,000)	
Available-for-sale marketable securities:				
Unrealized gains (losses) on marketable securities arising during period, net of tax of $48, $(139), $(896), $1,103	283	(138)	(593)	2,166
Less: Reclassification adjustment for gains included in net income, net of tax of $(126), $(348), $(335), $(591)	(247)	(638)	(808)	(1,086)
	36	(776)	(1,401)	1,080
Defined benefit pension and post-retirement plans:				
Amortization of net prior service benefit included in net periodic pension expense and post-retirement benefit income, net of tax of $(42), $(42), $(127), $(127)	(74)	(74)	(221)	(221)
Other comprehensive income (loss)	3,229	(850)	(4,622)	859
Comprehensive income	$ 74,682	$ 82,099	$ 202,496	$ 185,942

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TERADYNE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended	
	October 4, 2015	September 28, 2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 207,118	$ 185,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	52,531	52,832
Amortization	52,159	62,122
Stock-based compensation	23,080	31,873
Provision for excess and obsolete inventory	18,939	21,505
Non-cash charge for the sale of inventories revalued at the date of acquisition	1,567	
Tax benefit related to employee stock compensation awards	(3,213)	(1,726)
Contingent consideration adjustment	(2,600)	(630)
Gain from the sale of an equity investment	(5,406)	
Deferred taxes	(13,973)	(8,747)
Other	2,523	2,110
Changes in operating assets and liabilities, net of business acquired:		
Accounts receivable	(91,117)	(163,670)
Inventories	33,376	38,267
Prepayments and other assets	15,529	47,784
Accounts payable and other accrued expenses	52,663	29,109
Deferred revenue and customer advances	6,751	14,266
Retirement plans contributions	(2,998)	(3,281)
Accrued income taxes	25,677	10,208
Net cash provided by operating activities	372,606	317,105
Cash flows from investing activities:		
Purchases of property, plant and equipment	(66,727)	(146,352)
Acquisition of business, net of cash acquired	(282,741)	
Purchases of available-for-sale marketable securities	(957,606)	(844,056)
Proceeds from sales of available-for-sale marketable securities	843,734	236,060
Proceeds from maturities of available-for-sale marketable securities	330,363	495,565
Proceeds from the sale of an equity investment	5,406	
Proceeds from life insurance	1,098	4,391
Net cash used for investing activities	(126,473)	(254,392)
Cash flows from financing activities:		
Issuance of common stock under employee stock purchase and stock option plans	18,145	21,030

Tax benefit related to employee stock compensation awards	3,213	1,726
Repurchase of common stock	(226,843)	
Dividend payments	(38,434)	(24,428)
Payment of revolving credit facility costs	(2,253)	
Payments of long-term debt		(190,975)
Net cash used for financing activities	(246,172)	(192,647)
Decrease in cash and cash equivalents	(39)	(129,934)
Cash and cash equivalents at beginning of period	294,256	341,638
Cash and cash equivalents at end of period	$ 294,217	$ 211,704

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, 2014, 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. (Teradyne) is a leading global supplier of automation equipment for test and industrial applications. Teradyne s automatic test equipment and industrial automation products and services include:

- semiconductor test (Semiconductor Test) systems;
- wireless test (Wireless Test) systems;
- defense/aerospace (Defense/Aerospace) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Production Board Test) systems (collectively these products represent System Test); and
- industrial automation (Industrial Automation) products include collaborative robots used by global manufacturing and light industrial customers to improve quality and increase manufacturing efficiency.

On June 11, 2015, Teradyne acquired Universal Robots A/S (Universal Robots) for approximately $284 million of cash plus up to an additional $65 million of cash if certain performance targets are met extending through 2018. Universal Robots is the leading supplier of collaborative robots which are low-cost, easy-to-deploy and simple-to-program robots that work side by side with production workers to improve quality and increase manufacturing efficiency.

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 amounts were reclassified to conform to the current year presentation. The December 31, 2014 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 27, 2015, for the year ended December 31, 2014.

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.

Revenue Recognition

Teradyne recognizes revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to Teradyne s

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customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, Teradyne defers revenue recognition until such events occur except when title transfer is tied to cash payment outside the United States. Outside the United States, Teradyne recognizes revenue upon shipment or at delivery destination point, even if Teradyne retains a form of title to products delivered to customers, provided the sole purpose is to enable Teradyne to recover the products in the event of customer payment default and the arrangement does not prohibit the customer s use or resale of the product in the ordinary course of business.

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

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

Teradyne s post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not affect the customers ability to use the product. Teradyne defers revenue for the selling price of installation and training. Extended warranties constitute warranty obligations beyond one year and Teradyne defers revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-20, *Separately Priced Extended Warranty and Product Maintenance Contracts* and ASC 605-25, *Revenue Recognition Multiple-Element Arrangements.* Service revenue is recognized over the contractual period or as services are performed.

Teradyne s products are generally subject to warranty and related costs of the warranty are provided for in cost of revenue when product revenue is recognized. Teradyne classifies shipping and handling costs in cost of revenue. Teradyne generally does not provide its customers with contractual rights of return for any of its products.

Translation of Non-U.S. Currencies

The functional currency for all non-U.S. subsidiaries is the U.S. dollar, except for the Industrial Automation segment for which the local currency is its functional currency. All foreign currency denominated monetary assets and liabilities are remeasured on a monthly basis into the functional currency using exchange rates in effect at the end of the period. All foreign currency denominated non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates. Net foreign exchange gains and losses resulting from remeasurement are included in other (income) expense, net. For Industrial Automation, assets and liabilities are translated into U.S. dollars using exchange rates in effect at the end of the period. Revenue and expense amounts are translated using an average of exchange rates in effect during the period. Translation adjustments are recorded within accumulated other comprehensive income (loss).

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C. Recently Issued Accounting Pronouncements

In September 2015, the FASB issued Accounting Standard Update (ASU) 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are identified, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for reporting periods beginning after December 15, 2015 and is applied prospectively. Early adoption is permitted. Teradyne early adopted this ASU in the three months ended October 4, 2015. Adoption of this ASU did not have a material impact on Teradyne s financial position and results of operations.

On April 7, 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation for debt discount. ASU 2015-03 does not specifically address requirements for the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. On August 8, 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30)* clarifying that debt issuance costs related to line-of-credit arrangements could be presented as an asset and amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For Teradyne, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. This ASU is expected to have no 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 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 to in exchange for those goods or services. In August 2015 FASB issued ASU 2015-14, which deferred the effective date of the new revenue standard by 1 year. For Teradyne, the standard will be effective in the first quarter of 2018. Early adoption is permitted but not before the original effective date (that is, annual periods beginning after December 15, 2016). 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. Acquisitions

Universal Robots

On June 11, 2015, Teradyne acquired all of the outstanding equity of Universal Robots located in Odense, Denmark. Universal Robots is the leading supplier of collaborative robots which are low-cost, easy-to-deploy and simple-to-program robots that work side by side with production workers to improve quality and increase manufacturing efficiency. Universal Robots is a separate operating and reportable segment, Industrial Automation.

The total purchase price of $317.7 million consisted of $283.9 million of cash paid and $33.8 million of contingent consideration, measured at fair value. The contingent consideration is payable upon the achievement of certain thresholds and targets for earnings before income taxes, depreciation and amortization (EBITDA) for calendar year

2015, revenue for the period from July 1, 2015 to December 31, 2017 and revenue for the period from July 1, 2015 to December 31, 2018. The maximum amount of contingent consideration that could be paid is $65 million.

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The valuation of the contingent consideration utilized the following assumptions: (1) probability of meeting each target; (2) expected timing of meeting each target; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each target were estimated based on a review of the historical and projected results. Discount rates of 6 percent, 8 percent and 10 percent, respectively, were based on corporate bond yields adjusted for the level of difficulty to achieve and the term of the earn out payment. A significant portion of the risk in achieving the contingent consideration was captured in the probabilities assigned to meeting each target.

The Universal Robots acquisition was accounted for as a business combination and, accordingly, the results have been included in Teradyne s consolidated results of operations from the date of acquisition. The allocation of the total purchase price to Universal Robots net tangible liabilities and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The excess of the purchase price over the identifiable intangible assets and net tangible liabilities in the amount of $227.0 million was allocated to goodwill, which is not deductible for tax purposes. The purchase price allocation is preliminary pending the final determination of the fair value of contingent consideration, acquired assets and assumed liabilities. Teradyne expects to finalize the purchase price calculation in the fourth quarter of 2015.

The following table represents the preliminary allocation of the purchase price:

	Purchase Price Allocation (in thousands)
Goodwill	$ 227,021
Intangible assets	119,950
Tangible assets acquired and liabilities assumed:	
Current assets	10,853
Non-current assets	3,415
Accounts payable and current liabilities	(11,973)
Long-term deferred tax liabilities	(25,736)
Long-term other liabilities	(5,844)
Total purchase price	$317,686

Teradyne estimated the fair value of intangible assets using the income and cost approaches. Acquired intangible assets are amortized on a straight-line basis over their estimated useful lives. Components of these intangible assets and their estimated useful lives at the acquisition date are as follows:

	Fair Value (in thousands)	Estimated Useful Life (in years)
Developed technology	$ 88,890	4.9
Trademarks and tradenames	21,680	10.0
Customer relationships	9,380	2.0
Total intangible assets	$ 119,950	5.6

For the three months ended October 4, 2015, Universal Robots contributed $16.1 million of revenues and had a $(4.8) million loss from operations before income taxes.

For the period from June 12, 2015 to October 4, 2015, Universal Robots contributed $19.8 million of revenues and had a $(6.5) million loss from operations before income taxes.

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The following unaudited pro forma information gives effect to the acquisition of Universal Robots as if the acquisition occurred on January 1, 2014. The unaudited pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the periods presented:

	For the Three Months Ended	For the Nine Months Ended	
	September 28, 2014	October 4, 2015	September 28, 2014
Revenue	$ 485,842	$ 1,339,181	$ 1,347,616
Net income	76,112	197,745	162,474
Net income per common share:			
Basic	$ 0.37	$ 0.93	$ 0.82
Diluted	$ 0.35	$ 0.92	$ 0.73

Pro forma results for the nine months ended October 4, 2015 were adjusted to exclude $1.6 million of non-recurring expense related to the fair value adjustment to acquisition-date inventory and $1.0 million of acquisition related costs incurred in 2015.

Pro forma results for the nine month ended September 28, 2014, were adjusted to include $1.6 million of non-recurring expense related to the fair value adjustment to acquisition-date inventory and $1.0 million of acquisition related costs.

Avionics Interface Technologies, LLC.

On October 31, 2014, Teradyne acquired substantially all of the assets and liabilities of Avionics Interface Technologies, LLC (AIT) located in Omaha, Nebraska. AIT is a supplier of equipment for testing state-of-the-art data communication buses. The acquisition of AIT complements Teradyne s Defense/Aerospace line of bus test instrumentation for commercial and defense avionics systems. AIT is included in Teradyne s System Test segment.

The total purchase price of $21.2 million consisted of $19.4 million of cash paid and $1.8 million of contingent consideration, measured at fair value. The contingent consideration is payable upon achievement of certain revenue and gross margin targets in 2015 and 2016. The maximum amount of contingent consideration that could be paid is $2.1 million.

The valuation of the contingent consideration utilized the following assumptions: (1) probability of meeting each target; (2) expected timing of meeting each target; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each target were estimated based on a review of the historical and projected results. A discount rate of 4.7 percent was selected based on the estimated cost of debt for the business. A significant portion of the risk in achieving the contingent consideration was captured in the probabilities assigned to meeting each target.

In the three and nine months ended October 4, 2015, the fair value of contingent consideration for the earn-out in connection with the acquisition of AIT was reduced by $1.0 million due to a decrease in the revenue probabilities in the periods of 2015 and 2016.

The AIT acquisition was accounted for as a business combination and, accordingly, the results have been included in Teradyne s consolidated results of operations from the date of acquisition. The allocation of the total purchase price to AIT s net tangible and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of $10.5 million was allocated to goodwill, which is deductible for tax purposes.

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The following table represents the final allocation of the purchase price:

	Purchase Price Allocation (in thousands)
Goodwill	$ 10,516
Intangible assets	9,080
Tangible assets acquired and liabilities assumed:	
Current assets	2,452
Non-current assets	359
Accounts payable and current liabilities	(1,164)
Total purchase price	$ 21,243

Teradyne estimated the fair value of intangible assets using the income approach. Acquired intangible assets are amortized on a straight-line basis over their estimated useful lives. Components of these intangible assets and their estimated useful lives at the acquisition date are as follows:

	Fair Value (in thousands)	Estimated Useful Life (in years)
Customer relationships	$ 5,630	5.0
Developed technology	2,580	4.8
Trademarks and tradenames	380	5.0
Non-compete agreement	320	4.0
Customer order backlog	170	0.3
Total intangible assets	$ 9,080	4.8

E. 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.

Marketable Securities

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of Accounting Standards Codification (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 October 4, 2015, 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.

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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 nine months ended October 4, 2015. 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. Matrix pricing is a mathematical technique used to value securities by relying on the securities relationship to other benchmark quoted prices, and is considered a Level 2 input.

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

Teradyne s available-for-sale fixed income securities are classified as Level 2. Contingent consideration is classified as Level 3. The vast majority of Level 2 securities are priced by third party 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.

Realized losses recorded in the nine months ended October 4, 2015 were $0.2 million. There were no realized losses recorded in the three and nine months ended September 28, 2014. Realized gains recorded in the three and nine months ended October 4, 2015 were $0.4 million and $1.4 million, respectively. Realized gains recorded in the three and nine months ended September 28, 2014 were $1.0 million and $1.7 million, respectively. Realized gains are included in interest income and realized losses are included in interest expense. Unrealized gains and losses are included in accumulated other comprehensive income (loss). The cost of securities sold is based on the specific identification method.

During the nine months ended October 4, 2015 and September 28, 2014, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

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The following table sets forth by fair value hierarchy Teradyne s financial assets and liabilities that were measured at fair value on a recurring basis as of October 4, 2015 and December 31, 2014.

	October 4, 2015			
	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	$ 159,858	$	$	$ 159,858
Cash equivalents	125,879	8,480		134,359
Available-for-sale securities:				
U.S. Treasury securities		349,653		349,653
U.S. government agency securities		213,491		213,491
Corporate debt securities		114,807		114,807
Certificates of deposit and time deposits		45,677		45,677
Commercial paper		45,510		45,510
Equity and debt mutual funds	13,377			13,377
Non-U.S. government securities		426		426
Total	$ 299,114	$ 778,044	$	$ 1,077,158
Derivative assets		109		109
Total	$ 299,114	$ 778,153	$	$ 1,077,267
Liabilities				
Contingent consideration	$	$	$ 34,595	$ 34,595
Derivative liabilities		97		97
Total	$	$ 97	$ 34,595	$ 34,692

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
		(in thousands)		
Assets				
Cash and cash equivalents	$ 285,737	$ 8,480	$	$ 294,217
Marketable securities		525,381		525,381
Long-term marketable securities	13,377	244,183		257,560

Prepayments		109		109
	$ 299,114	$ 778,153	$	$ 1,077,267
Liabilities				
Other current liabilities	$	$ 97	$	$ 97
Contingent consideration			14,447	14,447
Long-term contingent consideration			20,148	20,148
	$	$ 97	$ 34,595	$ 34,692

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	December 31, 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	$ 111,471	$	$	$ 111,471
Cash equivalents	160,218	22,567		182,785
Available-for-sale securities:				
U.S. Treasury securities		402,154		402,154
U.S. government agency securities		258,502		258,502
Corporate debt securities		141,467		141,467
Commercial paper		140,638		140,638
Certificates of deposit and time deposits		49,036		49,036
Equity and debt mutual funds	12,333			12,333
Non-U.S. government securities		446		446
Total	$ 284,022	$ 1,014,810	$	$ 1,298,832
Derivative assets		220		220
Total	$ 284,022	$ 1,015,030	$	$ 1,299,052
Liabilities				
Contingent consideration	$	$	$ 3,350	$ 3,350
Derivative liabilities		369		369
Total	$	$ 369	$ 3,350	$ 3,719

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
		(in thousands)		
Assets				
Cash and cash equivalents	$ 271,689	$ 22,567	$	$ 294,256
Marketable securities		533,787		533,787
Long-term marketable securities	12,333	458,456		470,789
Prepayments		220		220
	$ 284,022	$ 1,015,030	$	$ 1,299,052
Liabilities				

Other current liabilities	$	$ 369	$	369
Contingent consideration			895	895
Long-term contingent consideration			2,455	2,455
	$	$ 369	$ 3,350	$ 3,719

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Changes in the fair value of Level 3 contingent consideration for the three and nine months ended October 4, 2015 and September 28, 2014 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Balance at beginning of period	$ 35,595	$ 2,230	$ 3,350	$ 2,230
Acquisition of Universal Robots			33,845	
Fair value adjustment(a)(b)	(1,000)	(630)	(2,600)	(630)
Balance at end of period	$ 34,595	$ 1,600	$ 34,595	$ 1,600

(a) In the three and nine months ended October 4, 2015, the fair value of contingent consideration for the earn-out in connection with the acquisition of AIT was reduced by $1.0 million due to a decrease in the revenue probabilities in the periods of 2015 and 2016.

(b) In the nine months ended October 4, 2015, the fair value measurement of the contingent consideration for the earn-out in connection with the acquisition of ZTEC Instruments, Inc. was reduced by $1.6 million, to $0, because Teradyne and the Securityholder Representative, on behalf of the ZTEC securityholders, agreed to terminate the earn-out prior to the end of the December 31, 2015 earn-out period, with no payout in connection with the resolution of indemnity claims asserted by both Teradyne and the Securityholder Representative.

The following table provides quantitative information associated with the fair value measurement of Teradyne s Level 3 financial instruments:

Liability	October 4, 2015 Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Weighted Average
Contingent consideration (Universal Robots)	$33,845	Income approach-discounted cash flow	EBITDA earn-out for calendar year 2015 probability	99%
			Discount rate	6.0%
			Revenue earn-out for period July 1, 2015 December 31, 2017 probability	72%
			Discount rate	8.0%
			Revenue earn-out for period July 1, 2015 December 31, 2018 probability	29%
			Discount rate	10.0%
Contingent consideration	$750	Income approach-discounted cash flow	Revenue earn-out for calendar years 2015 and 2016 probability	36%
			Discount rate	4.7%

(AIT)

The significant unobservable inputs used in the Universal Robots fair value measurement of contingent consideration are the probabilities of successful achievement of revenue thresholds and targets in the periods July 1, 2015 – December 31, 2017 and July 1, 2015 – December 31, 2018 and EBITDA threshold and target for calendar year 2015, and respective discount rates. Increases or decreases in the revenue and EBITDA probabilities and the period in which results will be achieved would result in a higher or lower fair value measurement. The maximum amount of contingent consideration in connection with the acquisition of Universal Robots that could be paid is $65 million. The earn-out periods in connection with the Universal Robots acquisition end on December 31, 2015, December 31, 2017 and December 31, 2018.

The significant unobservable inputs used in the AIT fair value measurement of contingent consideration are the probabilities of successful achievement of calendar year 2015 and 2016 revenue thresholds and targets, and a discount rate. Increases or decreases in the revenue probabilities and the period in which results will be achieved

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would result in a higher or lower fair value measurement. The maximum amount of contingent consideration in connection with the acquisition of AIT that could be paid is $2.1 million. The earn-out periods in connection with the AIT acquisition end on December 31, 2015 and December 31, 2016.

In the three and nine months ended October 4, 2015, the fair value of contingent consideration for the earn-out in connection with the acquisition of AIT was reduced by $1.0 million due to a decrease in the revenue probabilities in the periods of 2015 and 2016.

The carrying amounts and fair values of Teradyne s financial instruments at October 4, 2015 and December 31, 2014 were as follows:

	October 4, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Assets				
Cash and cash equivalents	$ 294,217	$ 294,217	$ 294,256	$ 294,256
Marketable securities	782,941	782,941	1,004,576	1,004,576
Derivative assets	109	109	220	220
Liabilities				
Contingent consideration	34,595	34,595	3,350	3,350
Derivative liabilities	97	97	369	369

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

The following tables summarize the composition of available-for-sale marketable securities at October 4, 2015 and December 31, 2014:

	October 4, 2015				
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
U.S. Treasury securities	$ 349,464	$ 385	$ (196)	$ 349,653	$ 19,260
U.S. government agency securities	213,149	342		213,491	
Corporate debt securities	115,130	1,305	(1,628)	114,807	48,369
Certificates of deposit and time deposits	45,652	25		45,677	3,505
Commercial paper	45,498	12		45,510	
Equity and debt mutual funds	12,291	1,183	(97)	13,377	1,900
Non-U.S. government securities	426			426	
	$ 781,610	$ 3,252	$ (1,921)	$ 782,941	$ 73,034

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
			(in thousands)		
Marketable securities	$ 525,052	$ 335	$ (6)	$ 525,381	$ 27,172
Long-term marketable securities	256,558	2,917	(1,915)	257,560	45,862
	$ 781,610	$ 3,252	$ (1,921)	$ 782,941	$ 73,034

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	December 31, 2014				
	Available-for-Sale				
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
U.S. Treasury securities	$ 402,197	$ 362	$ (405)	$ 402,154	$ 317,771
U.S. government agency securities	258,452	135	(85)	258,502	104,642
Corporate debt securities	139,374	2,414	(321)	141,467	96,998
Commercial paper	140,616	26	(4)	140,638	41,747
Certificates of deposit and time deposits	49,048	11	(23)	49,036	20,684
Equity and debt mutual funds	10,492	1,870	(29)	12,333	1,234
Non-U.S. government securities	446			446	
	$ 1,000,625	$ 4,818	$ (867)	$ 1,004,576	$ 583,076

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	(in thousands)				
Marketable securities	$ 533,833	$ 99	$ (145)	$ 533,787	$ 240,234
Long-term marketable securities	466,792	4,719	(722)	470,789	342,842
	$ 1,000,625	$ 4,818	$ (867)	$ 1,004,576	$ 583,076

As of October 4, 2015, unrealized losses on marketable securities were $1.9 million and the fair market value of investments with unrealized losses was $73.0 million. Of this value, $0.3 million had unrealized losses greater than one year and $72.7 million had unrealized losses less than one year. As of December 31, 2014, unrealized losses on marketable securities were $0.9 million and the fair market value of investments with unrealized losses was $583.1 million. Of this value, $2.3 million had unrealized losses greater than one year and $580.8 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 October 4, 2015 and December 31, 2014, were temporary.

The contractual maturities of investments held at October 4, 2015 were as follows:

	October 4, 2015	
	Cost	Fair Market Value
	(in thousands)	
Due within one year	$ 525,052	$ 525,381
Due after 1 year through 5 years	199,957	200,305
Due after 5 years through 10 years	6,075	6,191
Due after 10 years	38,235	37,687
Total	$ 769,319	$ 769,564

Contractual maturities of investments held at October 4, 2015 exclude equity and debt mutual funds as they do not have contractual maturity dates.

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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.

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 monetary assets and liabilities denominated in foreign currencies.

The notional amount of foreign currency forward contracts was $91.5 million and $73.0 million at October 4, 2015 and December 31, 2014, respectively. The fair value of the outstanding contracts was $0.0 million and a loss of $0.1 million at October 4, 2015 and December 31, 2014, respectively.

In the three and nine months ended October 4, 2015, Teradyne recorded a net realized loss of $0.8 million and $2.7 million, respectively, related to foreign currency forward contracts hedging net monetary positions.

In the three months ended September 28, 2014, Teradyne recorded a net realized gain of $0.2 million related to foreign currency forward contracts hedging net monetary positions. In the nine months ended September 28, 2014, Teradyne recorded a net realized loss of $1.6 million related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in other (income) expense, net.

The following table summarizes the fair value of derivative instruments at October 4, 2015 and December 31, 2014:

	Balance Sheet Location	October 4, 2015	December 31, 2014
		(in thousands)	
Derivatives not designated as hedging instruments:			
Foreign exchange contracts assets	Prepayments	$ 109	$ 220
Foreign exchange contracts liabilities	Other current liabilities	(97)	(369)
Total derivatives		$ 12	$ (149)

Teradyne s foreign exchange contracts are subject to master netting agreements.

The following table summarizes the effect of derivative instruments recognized in the statement of operations during the three and nine months ended October 4, 2015 and September 28, 2014. The table does not reflect the corresponding gains and losses from the remeasurement of monetary assets and liabilities denominated in foreign currencies. For the three and nine months ended October 4, 2015, net gains from the remeasurement of monetary assets and liabilities denominated in foreign currencies were $0.1 million and $2.3 million, respectively. For the three months ended September 28, 2014, net losses from the remeasurement of monetary

assets and liabilities denominated in foreign currencies were $0.4 million. For the nine months ended September 28, 2014, net gains from the remeasurement of monetary assets and liabilities denominated in foreign currencies were $0.9 million.

	Location of (Gains) Losses Recognized in Statement of Operations	For the Three Months Ended		For the Nine Months Ended	
		October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
				(in thousands)	
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Other (income) expense, net	$ 677	$ 237	$ 2,555	$ (1,632)
Total Derivatives		$ 677	$ 237	$ 2,555	$ (1,632)

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

F. Debt

Revolving Credit Facility

On April 27, 2015, Teradyne entered into a Credit Agreement (the Credit Agreement) with Barclays Bank PLC, as administrative agent and collateral agent, and the lenders party thereto. The Credit Agreement provides for a five-year, senior secured revolving credit facility of $350 million (the Credit Facility). The Credit Agreement further provides that, subject to customary conditions, Teradyne may seek to obtain from existing or new lenders incremental commitments under the Credit Facility in an aggregate principal amount not to exceed $150.0 million.

Proceeds from the Credit Facility may be used for general corporate purposes and working capital. Teradyne incurred $2.3 million in costs related to the revolving credit facility. These costs are being amortized over the five year term of the revolving credit facility and are included in interest expense in the statement of operations. As of November 13, 2015, Teradyne has not borrowed any funds under the Credit Facility.

The interest rates applicable to loans under the Credit Facility are, at Teradyne s option, equal to either a base rate plus a margin ranging from 0.00% to 1.00% per annum or LIBOR plus a margin ranging from 1.00% to 2.00% per annum, based on the Consolidated Leverage Ratio of Teradyne and its Restricted Subsidiaries. In addition, Teradyne will pay a commitment fee on the unused portion of the commitments under the Credit Facility ranging from 0.125% to 0.350% per annum, based on the then applicable Consolidated Leverage Ratio.

Teradyne is not required to repay any loans under the Credit Facility prior to maturity, subject to certain customary exceptions. Teradyne is permitted to prepay all or any portion of the loans under the Credit Facility prior to maturity without premium or penalty, other than customary LIBOR breakage costs.

The Credit Agreement contains customary events of default, representations, warranties and affirmative and negative covenants that, among other things, limit Teradyne s and its Restricted Subsidiaries ability to sell assets, grant liens on assets, incur other secured indebtedness and make certain investments and restricted payments, all subject to exceptions set forth in the Credit Agreement. The Credit Agreement also requires Teradyne to satisfy two financial ratios measured as of the end of each fiscal quarter: a consolidated leverage ratio and an interest coverage ratio. As of October 4, 2015, Teradyne was in compliance with all covenants.

The Credit Facility is guaranteed by certain of Teradyne s domestic subsidiaries and collateralized by assets of Teradyne and such subsidiaries, including a pledge of 65% of the capital stock of certain foreign subsidiaries.

Convertible Senior Notes

On March 31, 2009, Teradyne entered into an underwriting agreement regarding a public offering of $175.0 million aggregate principal amount of 4.50% convertible senior notes due March 15, 2014 (the Notes). On April 1, 2009, the underwriters exercised their option to purchase an additional $15.0 million aggregate principal amount of the Notes for a total aggregate principal amount of $190.0 million. The Notes bore interest at a rate of 4.50% per annum, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2009. 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, being the fixed number specified in the Notes purchase agreement, less 50.7 shares). The 50.7 shares were determined, as specified in

the Notes purchase agreement, 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.

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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 Teradyne retired.

From June 17, 2014 to September 17, 2014, the hedge counterparty exercised its warrant agreement entered into with Teradyne at the time of issuance of the Notes. The warrants were net share settled. In 2014, Teradyne issued 21.2 million shares of its common stock for warrants exercised at a weighted average strike price of $7.6348 per share.

The interest expense on Teradyne s convertible senior notes for the nine months ended October 4, 2015 and September 28, 2014 was as follows:

	For the Nine Months Ended	
	October 4, 2015	September 28, 2014
	(in thousands)	
Contractual interest expense on the coupon	$	$ 1,757
Amortization of the discount component and debt issuance fees recognized as interest expense		4,493
Total interest expense on the convertible debt	$	$ 6,250

G. Prepayments

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

	October 4, 2015	December 31, 2014
	(in thousands)	
Contract manufacturer prepayments	$ 55,624	$ 65,972
Prepaid maintenance and other services	6,642	7,343
Prepaid taxes	6,585	11,462
Other prepayments	11,928	11,042
Total prepayments	$ 80,779	$ 95,819

H. 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:

	October 4, 2015	December 31, 2014
	(in thousands)	
Extended warranty	$ 47,489	$ 43,300
Product maintenance and training	37,976	30,500
Customer advances	6,133	8,875
Undelivered elements and other	12,210	8,857
Total deferred revenue and customer advances	$ 103,808	$ 91,532

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I. Product Warranty

Teradyne generally provides a one-year warranty on its products, commencing upon installation, acceptance 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.

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Balance at beginning of period	$ 8,228	$ 9,073	$ 8,942	$ 6,660
Acquisition			372	
Accruals for warranties issued during the period	3,261	4,419	9,548	12,675
Adjustments related to pre-existing warranties	(1,211)	(559)	(3,039)	(1,000)
Settlements made during the period	(2,370)	(2,982)	(7,915)	(8,384)
Balance at end of period	$ 7,908	$ 9,951	$ 7,908	$ 9,951

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.

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Balance at beginning of period	$ 43,299	$ 40,052	$ 43,300	$ 34,909
Acquisition			699	
Deferral of new extended warranty revenue	10,442	9,896	22,818	24,218
Recognition of extended warranty deferred revenue	(6,252)	(6,451)	(19,328)	(15,630)
Balance at end of period	$ 47,489	$ 43,497	$ 47,489	$ 43,497

J. Stock-Based Compensation

Teradyne grants 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. The TSR PRSUs will vest upon the three-year

anniversary of the grant date. Beginning with PRSUs granted in January 2014, if the recipient s employment ends prior to the determination of the performance percentage due to (1) permanent disability or death or (2) retirement or termination other than for cause, after attaining both at least age sixty and at least ten years of service, then all or a portion of the recipient s PRSUs (based on the actual performance percentage achieved on the determination date) will vest on the date the performance percentage is determined. Except as set forth in the preceding sentence, 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

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market condition, provided the executive officer remains an employee at the end of the three-year period. Compensation expense is reversed if at any time during the three-year service period the executive officer is no longer an employee, subject to the retirement and termination eligibility provisions noted above.

During the nine months ended October 4, 2015 and September 28, 2014, Teradyne granted 0.2 million and 0.1 million, TSR PRSUs, respectively, with a grant date fair value of $18.21 and $22.06, respectively. The fair value was estimated using the Monte Carlo simulation model with the following assumptions:

	For the Nine Months Ended	
	October 4, 2015	September 28, 2014
Risk-free interest rate	0.77%	0.75%
Teradyne volatility-historical	28.2%	36.1%
Philadelphia Semiconductor Index volatility-historical	19.7%	24.6%
Dividend yield	1.33%	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 stock price on the grant date of $18.10 for 2015 grants and $19.16 for 2014 grants.

During the nine months ended October 4, 2015, Teradyne granted 1.5 million of service-based restricted stock unit awards to employees at a weighted average grant date fair value of $17.27 and 0.1 million of service-based stock options to executive officers at a weighted average grant date fair value of $4.43.

During the nine months ended September 28, 2014, Teradyne granted 1.7 million of service-based restricted stock unit awards to employees at a weighted average grant date fair value of $19.09 and 0.1 million of service-based stock options to executive officers at a weighted average grant date fair value of $5.49.

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.

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

	For the Nine Months Ended	
	October 4, 2015	September 28, 2014
Expected life (years)	4.0	4.0
Risk-free interest rate	1.1%	1.2%
Volatility-historical	33.4%	38.8%
Dividend yield	1.33%	1.25%

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 stock price on the grant date, of $18.10 for 2015 grants and $19.16 for 2014 grants.

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Effective January 31, 2014, Michael Bradley retired as Chief Executive Officer of Teradyne. 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. Mr. Bradley continues to serve on Teradyne s Board of Directors. In the three months ended March 30, 2014, Teradyne recorded a one-time charge to stock-based compensation expense of $6.6 million related to the Retirement Agreement.

K. Accumulated Other Comprehensive Income

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

	For the Nine Months Ended October 4, 2015			
	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Retirement Plans Prior Service Credit	Total
		(in thousands)		
Balance at December 31, 2014, net of tax of $1,598, $(453)	$	$ 2,365	$ 2,324	$ 4,689
Other comprehensive loss before reclassifications, net of tax of $0, $(896)	(3,000)	(593)		(3,593)
Amounts reclassified from accumulated other comprehensive income, net of tax of $(335), $(127)		(808)	(221)	(1,029)
Net current period other comprehensive loss, net of tax of $0, $(1,231), $(127)	(3,000)	(1,401)	(221)	(4,622)
Balance at October 4, 2015, net of tax of $0, $367, $(580)	$ (3,000)	$ 964	$ 2,103	$ 67

	For the Nine Months Ended September 28, 2014		
	Unrealized Gains on Marketable Securities	Retirement Plans Prior Service Credit	Total
		(in thousands)	
Balance at December 31, 2013, net of tax of $794, $(284)	$ 1,381	$ 2,619	$ 4,000
	2,166		2,166

Other comprehensive income before reclassifications, net of tax of $1,103, $0			
Amounts reclassified from accumulated other comprehensive income, net of tax of $(591), $(127)	(1,086)	(221)	(1,307)
Net current period other comprehensive income (loss), net of tax of $512, $(127)	1,080	(221)	859
Balance at September 28, 2014, net of tax of $1,306, $(411)	$ 2,461	$ 2,398	$ 4,859

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Reclassifications out of accumulated other comprehensive income to the statement of operations for the three and nine months ended October 4, 2015 and September 28, 2014, were as follows:

Details about Accumulated Other Comprehensive Income Components	For the Three Months Ended		For the Nine Months Ended		Affected Line Item in the Statements of Operations
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014	
	(in thousands)				
Available-for-sale marketable securities:					
Unrealized gains, net of tax of $126, $348, $335, $591	$ 247	$ 638	$ 808	$ 1,086	Interest income
Amortization of defined benefit pension and postretirement plans:					
Prior service benefit, net of tax of $42, $42, $127, $127	74	74	221	221	(a)
Total reclassifications, net of tax of $168, $390, $462, $718	$ 321	$ 712	$ 1,029	$ 1,307	Net income

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

L. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by reportable segments for the nine months ended October 4, 2015, were as follows:

	Wireless Test	Industrial Automation	System Test	Semiconductor Test	Total
	(in thousands)				
Balance at December 31, 2014:					
Goodwill	$ 361,819	$	$ 158,699	$ 260,540	$ 781,058
Accumulated impairment losses	(98,897)		(148,183)	(260,540)	(507,620)
	262,922		10,516		273,438
Universal Robots acquisition		226,501			226,501
Universal Robots adjustment		520			520
Foreign currency translation adjustment		(2,113)			(2,113)
Balance at October 4, 2015:					
Goodwill	361,819	224,908	158,699	260,540	1,005,966
	(98,897)		(148,183)	(260,540)	(507,620)

Accumulated impairment losses					
	$ 262,922	$ 224,908	$ 10,516	$	$ 498,346

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

	October 4, 2015			
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Useful Life**
	(in thousands)			
Developed technology	$ 381,071	$ 206,256	$ 174,815	6.0 years
Customer relationships	110,464	59,395	51,069	7.9 years
Tradenames and trademarks	51,588	17,418	34,170	9.5 years
Non-compete agreement	320	80	240	4.0 years
Customer order backlog	170	170		0.3 years
Total intangible assets	$ 543,613	$ 283,319	$ 260,294	6.7 years

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	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
	(in thousands)			
Developed technology	$ 345,513	$ 224,059	$ 121,454	6.2 years
Customer relationships	146,635	93,998	52,637	7.7 years
Tradenames and trademarks	30,414	14,205	16,209	9.0 years
Non-compete agreement	320	20	300	4.0 years
Customer order backlog	170	170		0.3 years
Total intangible assets	$ 523,052	$ 332,452	$ 190,600	6.8 years

During the nine months ended October 4, 2015, Teradyne wrote off $98.2 million of fully amortized intangible assets.

Aggregate intangible asset amortization expense was $20.1 million and $49.1 million, respectively, for the three and nine months ended October 4, 2015 and $18.3 million and $54.8 million, respectively, for the three and nine months ended September 28, 2014. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2015 (remainder)	$ 20,029
2016	80,117
2017	71,498
2018	44,647
2019	23,785
Thereafter	20,218

M. Net Income per Common Share

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

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands, except per share amounts)			
Net income for basic and diluted net income per share	$ 71,453	$ 82,949	$ 207,118	$ 185,083
Weighted average common shares-basic	210,032	207,381	213,688	198,367
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible notes (1)				6,684

Convertible note hedge warrant shares (2)		8,885		16,744
Restricted stock units	1,103	1,167	994	975
Stock options	578	879	626	997
Employee stock purchase plan	23	21	40	28
Dilutive potential common shares	1,704	10,952	1,660	25,428
Weighted average common shares-diluted	211,736	218,333	215,348	223,795
Net income per common share-basic	$ 0.34	$ 0.40	$ 0.97	$ 0.93
Net income per common share-diluted	$ 0.34	$ 0.38	$ 0.96	$ 0.83

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(1) Incremental shares from the assumed conversion of the convertible notes were calculated using the difference between the average Teradyne stock price for the period and the conversion price of $5.48, 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.

(2) Convertible note hedge warrant shares were calculated using the difference between the average Teradyne stock price for the period and the warrant price of $7.6650, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the warrant, was divided by the average Teradyne stock price for the period. Teradyne s call option on its common stock (convertible note hedge transaction) was excluded from the calculation of diluted shares because the effect was anti-dilutive. See Note F: Debt regarding the convertible note hedge transaction.

The computation of diluted net income per common share for the three and nine months ended October 4, 2015 excludes the effect of the potential exercise of stock options to purchase approximately 0.2 million shares because the effect would have been anti-dilutive.

The computation of diluted net income per common share for the three and nine months ended September 28, 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.

N. Restructuring and Other

Other

During the three months ended October 4, 2015, Teradyne recorded a $1.0 million gain from the decrease in the fair value of the AIT contingent consideration liability, partially offset by $0.1 million of acquisition costs related to Universal Robots.

During the nine months ended October 4, 2015, Teradyne recorded a $2.6 million gain from the decrease in the fair value of contingent consideration liability, of which $1.6 million was related to the ZTEC acquisition and $1.0 million was related to the AIT acquisition, partially offset by $1.1 million of acquisition costs related to Universal Robots.

During the three and nine months ended September 28, 2014, Teradyne recorded a $0.6 million fair value adjustment to decrease the ZTEC acquisition contingent consideration.

Restructuring

During the three and nine months ended October 4, 2015, Teradyne recorded $1.1 million and $1.4 million, respectively, of severance charges related to headcount reductions of 18 and 22 people, respectively, primarily in System Test. During the nine months ended September 28, 2014, Teradyne recorded $0.8 million of severance charges related to headcount reductions of 30 people, primarily in Wireless Test.

O. 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. The pension asset or liability represents a difference between the fair value of the pension plan s assets and the projected benefit obligation.

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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 nine months ended October 4, 2015, Teradyne contributed $1.9 million to the U.S. supplemental executive defined benefit pension plan and $0.6 million to certain qualified plans for non-U.S. subsidiaries.

For the three and nine months ended October 4, 2015 and September 28, 2014, Teradyne s net periodic pension cost was comprised of the following:

	For the Three Months Ended			
	October 4, 2015		September 28, 2014	
	United States	Foreign	United States	Foreign
	(in thousands)			
Service cost	$ 616	$ 259	$ 555	$ 206
Interest cost	3,285	357	3,219	431
Expected return on plan assets	(3,629)	(185)	(3,126)	(209)
Amortization of prior service cost	34		34	
Total net periodic pension cost	$ 306	$ 431	$ 682	$ 428

	For the Nine Months Ended			
	October 4, 2015		September 28, 2014	
	United States	Foreign	United States	Foreign
	(in thousands)			
Service cost	$ 1,847	$ 768	$ 1,663	$ 705
Interest cost	9,856	1,101	9,656	1,446
Expected return on plan assets	(10,888)	(595)	(9,375)	(685)
Amortization of prior service cost	101		101	
Actuarial (gain) loss	(3)		362	
Total net periodic pension cost	$ 913	$ 1,274	$ 2,407	$ 1,466

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, 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.

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For the three and nine months ended October 4, 2015 and September 28, 2014, Teradyne s net periodic postretirement benefit income was comprised of the following:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Service cost	$ 12	$ 15	$ 36	$ 44
Interest cost	59	84	177	252
Amortization of prior service benefit	(150)	(150)	(449)	(449)
Actuarial gain			(19)	(247)
Total net periodic post-retirement benefit	$ (79)	$ (51)	$ (255)	$ (400)

P. Commitments and Contingencies

Purchase Commitments

As of October 4, 2015, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately $219.6 million, of which $214.2 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.

Q. Income Taxes

The effective tax rate for the three months ended October 4, 2015 and September 28, 2014 was 18.3% and 17.6%, respectively. The effective tax rates for these periods were lower than the expected federal statutory rate of 35% primarily because of the favorable effect of statutory rates applicable to income earned outside the United States. The tax rate for the three months ended October 4, 2015 was increased by additions to the uncertain tax positions for transfer pricing included in the projected annual effective tax rate, partially offset by $3.3 million of discrete tax benefits composed of $1.8 million of benefit attributable to a United States Tax Court opinion regarding intercompany cost sharing arrangements, $0.6 million of reductions in uncertain tax positions resulting from the expiration of statutes and $0.9 million from other discrete tax benefits.

The tax rate for the three months ended September 28, 2014 was increased by $5.6 million of discrete tax expense composed of $7.2 million of additions to the uncertain tax positions for transfer pricing net of $0.9 million of discrete tax benefits resulting from increases in credit carry forwards and $0.7 million from other discrete tax benefits.

The effective tax rate for the nine months ended October 4, 2015 and September 28, 2014 was 20.9% and 15.9%, respectively. The effective tax rates for these periods were lower than the expected federal statutory rate of 35% primarily because of the favorable effect of statutory rates applicable to income earned outside the United States. The tax rate for the nine months ended October 4, 2015 was increased by additions to the uncertain tax positions for transfer pricing included in the projected annual effective tax rate, partially offset by $5.0 million of discrete tax benefits composed of $1.8 million of benefit attributable to a United States Tax Court opinion regarding intercompany cost sharing arrangements, $1.3 million of reductions in uncertain tax positions resulting from the expiration of statutes and the settlement of an audit, $0.9 million from disqualifying dispositions of incentive stock options and employee stock purchase plan shares and $1.0 million from other discrete tax benefits.

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The tax rate for the nine months ended September 28, 2014 was increased by $2.6 million of discrete tax expense composed of $7.2 million of additions to the uncertain tax positions for transfer pricing net of $1.7 million of discrete tax benefits from disqualifying dispositions of incentive stock options and employee stock purchase plan shares, $0.9 million of discrete tax benefits resulting from increases in credit carry forwards and $2.0 million from other discrete tax benefits.

On a quarterly basis, Teradyne evaluates the realizability of the deferred tax assets by jurisdiction and assesses the need for a valuation allowance. As of October 4, 2015, Teradyne believes that it will ultimately realize the deferred tax assets recorded on the condensed consolidated balance sheet. However, should Teradyne believe that it is more likely than not that the deferred tax assets would not be realized, the tax provision would increase in the period in which Teradyne determined that the realizability was not likely. Teradyne considers the probability of future taxable income and historical profitability, among other factors, in assessing the realizability of the deferred tax assets.

As of October 4, 2015 and December 31, 2014, Teradyne had $33.3 million and $30.4 million, respectively, of reserves for uncertain tax positions. The $2.9 million net increase in reserves for uncertain tax positions relates primarily to transfer pricing exposures.

As of October 4, 2015, Teradyne anticipated the liability for uncertain tax positions could decrease by approximately $0.1 million over the next twelve months, primarily as a result of the expiration of statutes of limitations. The potential decrease is related to transfer pricing exposures.

Teradyne recognizes interest and penalties related to income tax matters in income tax expense. As of October 4, 2015 and December 31, 2014, $0.3 million and $0.6 million, respectively, of interest and penalties were included in the reserve for uncertain tax positions.

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 nine months ended October 4, 2015 was $9.9 million, or $0.05 per diluted share. The tax savings due to the tax holiday for the nine months ended September 28, 2014 was $12.3 million, or $0.05 per diluted share. The tax holiday is currently expected to expire on December 31, 2015. Teradyne is in discussion with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015.

R. Segment Information

Teradyne has four operating segments (Semiconductor Test, Wireless Test, System Test and Industrial Automation), 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 the design, manufacturing and marketing of wireless test products and services. The System Test segment includes operations related to the design, manufacturing and marketing of products and services for defense/aerospace instrumentation test, storage test and circuit-board test. The Industrial Automation segment includes operations related to the design, manufacturing and marketing of collaborative robots. 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.

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 in effect are described in Note B:

Accounting Policies in Teradyne s Annual Report on Form 10-K for the year ended December 31, 2014, unless updated in this form 10-Q, where applicable.

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Segment information for the three and nine months ended October 4, 2015 and September 28, 2014 is as follows:

	Semiconductor Test	Wireless Test	System Test	Industrial Automation	Corporate and Eliminations	Consolidated
			(in thousands)			
Three months ended October 4, 2015:						
Revenues	$ 325,516	$ 55,359	$ 69,062	$ 16,057	$	$ 465,994
Income (loss) before income taxes (1)(2)	73,957	2,997	13,751	(4,847)	1,550	87,408
Total assets (3)	591,445	447,461	109,078	360,068	1,153,832	2,661,884
Three months ended September 28, 2014:						
Revenues	$ 380,083	$ 54,838	$ 43,089	$	$	$ 478,010
Income before income taxes (1)(2)	91,900	2,379	5,779		612	100,670
Total assets (3)	748,499	614,911	83,769		1,247,828	2,695,007
Nine months ended October 4, 2015:						
Revenues	$ 996,748	$ 152,285	$ 152,320	$ 19,780	$	$ 1,321,133
Income (loss) before income taxes (1)(2)	246,627	(603)	10,423	(6,547)	12,081	261,981
Total assets (3)	591,445	447,461	109,078	360,068	1,153,832	2,661,884
Nine months ended September 28, 2014:						
Revenues	$ 1,063,254	$ 144,747	$ 116,586	$	$	$ 1,324,587
Income (loss) before income taxes (1)(2)	233,770	(8,477)	5,512		(10,616)	220,189
Total assets (3)	748,499	614,911	83,769		1,247,828	2,695,007

(1) Interest income, interest expense, and other (income) expense, net are included in Corporate and Eliminations.
(2) Included in the income (loss) before income taxes for each of the segments are charges related to inventory and other.
(3) Total business assets are directly attributable to each business. Corporate assets consist of cash and cash equivalents, marketable securities and certain other assets.

Included in the Semiconductor Test segment are charges in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
		(in thousands)		
Cost of revenues inventory charge	$ 1,697	$ 4,404	$ 8,637	$ 14,322

Restructuring and other	194		499	
Total	$ 1,891	$ 4,404	$ 9,136	$ 14,322

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Included in the Wireless Test segment are charges in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Cost of revenues inventory charge	$ 901	$ 1,267	$ 2,077	$ 5,239
Restructuring and other				426
Total	$ 901	$ 1,267	$ 2,077	$ 5,665

Included in the System Test segment are charges in the following line items in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Cost of revenues inventory charge	$ 460	$ 763	$ 8,225	$ 1,944
Restructuring and other	923	225	923	371
Total	$ 1,383	$ 988	$ 9,148	$ 2,315

Included in the Industrial Automation segment are charges in the following line item in the statements of operations:

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
	(in thousands)			
Cost of revenues inventory step-up (1)	$ 972	$	$ 1,567	$
Total	$ 972	$	$ 1,567	$

Included in Corporate and Eliminations are charges and credits in the following line items in the statements of operations:

	For the Three Months Ended	For the Nine Months Ended

		October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
				(in thousands)	
Restructuring and other	AIT contingent consideration adjustment	$ (1,000)	$	$ (1,000)	$
Restructuring and other	Universal Robots acquisition costs	144		1,104	
Restructuring and other	ZTEC contingent consideration adjustment		(630)	(1,600)	(630)
Other (income) expense, net	gain from the sale of an equity investment			(5,406)	
Selling and administrative	stock based compensation expense (2)				6,598
Total		$ (856)	$ (630)	$ (6,902)	$ 5,968

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(1) Included in the cost of revenues for the three and nine months ended October 4, 2015 is the cost for purchase accounting inventory step-up.
(2) Expense related to the January 2014 retirement of Teradyne s former chief executive officer; see Note J: Stock-Based Compensation.

S. Shareholders Equity

Stock Repurchase Program

In January 2015, the Board of Directors authorized Teradyne to repurchase up to $500 million of common stock, $300 million of which Teradyne intends to repurchase in 2015. The cumulative repurchases as of October 4, 2015 totaled 11.9 million shares of common stock for a total purchase price of $226.8 million at an average price per share of $19.09. The total price includes commissions and is recorded as a reduction to retained earnings.

Dividend

Holders of Teradyne s common stock are entitled to receive dividends when they are declared by Teradyne s Board of Directors.

In January 2015, May 2015, and August 2015, Teradyne s Board of Directors declared a quarterly cash dividend of $0.06 per share. Dividend payments for the three and nine months ended October 4, 2015 were $12.6 million and $38.4 million, respectively.

In January 2014 and August 2014, Teradyne s Board of Directors declared a quarterly cash dividend of $0.06 per share. Dividend payments for the three and nine months ended September 28, 2014 were $12.8 million and $24.4 million, respectively.

While Teradyne declared a quarterly cash dividend and authorized a share repurchase program, it may reduce or eliminate the cash dividend or share repurchase program in the future. Future cash dividends and stock repurchases are subject to the discretion of Teradyne s Board of Directors which will consider, among other things, 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, 2014. 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 automation equipment for test and industrial applications. 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 and industrial automation products and services include:

- semiconductor test (Semiconductor Test) systems;
- wireless test (Wireless Test) systems;
- defense/aerospace (Defense/Aerospace) test instrumentation and systems, storage test (Storage Test) systems, and circuit-board test and inspection (Production Board Test) systems (collectively these products represent System Test); and
- industrial automation (Industrial Automation) products include collaborative robots used by global manufacturing and light industrial customers to improve quality and increase manufacturing efficiency.

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, and distributors that sell collaborative robots.

On June 11, 2015, we acquired Universal Robots A/S (Universal Robots) for approximately $284 million of cash plus up to an additional $65 million of cash if certain performance targets are met extending through 2018. Universal Robots is the leading supplier of collaborative robots which are low-cost, easy-to-deploy and simple-to-program robots that work side by side with production workers to improve quality and increase manufacturing efficiency. Universal Robots is a separate operating and reportable segment, Industrial Automation. The acquisition of Universal Robots provides a growth engine to our business and complements our existing System Test and Wireless Test segments.

In October 2014, we acquired Avionics Interface Technologies, LLC (AIT), a supplier of equipment for testing state-of-the-art data communication buses. The acquisition of AIT complements our Defense/Aerospace line of bus test instrumentation for commercial and defense avionics systems. AIT is included in our System Test segment.

We believe our recent acquisitions have enhanced our opportunities for growth. We intend to continue to invest in our business, grow market share in our markets and expand further our addressable markets while tightly managing our costs.

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The sales of our products and services are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. These cyclical periods have had, and will continue to have, a significant effect on our business since our customers often delay or accelerate purchases in reaction to changes in their businesses and to demand fluctuations in the semiconductor 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.

In the fourth quarter of 2014, we performed our annual goodwill impairment test and recorded a goodwill impairment charge of $98.9 million in our Wireless Test segment as a result of decreased projected demand attributable to an estimated smaller future wireless test market due to reuse of wireless test equipment, price competition and different testing techniques. Further reductions in the size of the wireless test market may occur, which may result in additional goodwill impairment charges, increased risk of excess and obsolete inventories, asset write-offs and restructuring charges.

Critical Accounting Policies and Estimates

We have identified the policies which are critical to understanding our business and our results of operations. Except for below, there have been no significant changes during the nine months ended October 4, 2015 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, 2014.

Revenue Recognition

We recognize revenues when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, we defer revenue recognition until such events occur except when title transfer is tied to cash payment outside the United States. Outside the United States, we recognize revenue upon shipment or at delivery destination point, even if we retain a form of title to products delivered to customers, provided the sole purpose is to enable us to recover the products in the event of customer payment default and the arrangement does not prohibit the customer s use or resale of the product in the ordinary course of business.

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

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

be considered probable and substantially in our control.

Our post-shipment obligations include installation, training services, one-year standard warranties, and extended warranties. Installation does not alter the product capabilities, does not require specialized skills or

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tools and can be performed by the customers or other vendors. Installation is typically provided within five days of product shipment and is completed within one to two days thereafter. Training services are optional and do not affect the customers ability to use the product. We defer revenue for the selling price of installation and training. Extended warranties constitute warranty obligations beyond one year and we defer revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-20, *Separately Priced Extended Warranty and Product Maintenance Contracts* and ASC 605-25, *Revenue Recognition Multiple-Element Arrangements.* Service revenue is recognized over the contractual period or as services are performed.

Our products are generally subject to warranty and the related costs of the warranty are provided for in cost of revenues when product revenue is recognized. We classify shipping and handling costs in cost of revenues.

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

Translation of Non-U.S. Currencies

The functional currency for all non-U.S. subsidiaries is the U.S. dollar, except for the Industrial Automation segment for which the local currency is its functional currency. All foreign currency denominated monetary assets and liabilities are re-measured on a monthly basis into the functional currency using exchange rates in effect at the end of the period. All foreign currency denominated non-monetary assets and liabilities are re-measured into the functional currency using historical exchange rates. Net foreign exchange gains and losses resulting from re-measurement are included in other (income) expense, net. For Industrial Automation, assets and liabilities are translated into U.S. dollars using exchange rates in effect at the end of the period. Revenue and expense amounts are translated using an average of exchange rates in effect during the period. Translation adjustments are recorded within accumulated other comprehensive income (loss).

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SELECTED RELATIONSHIPS WITHIN THE CONDENSED CONSOLIDATED

STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Nine Months Ended	
	October 4, 2015	September 28, 2014	October 4, 2015	September 28, 2014
Percentage of revenues:				
Revenues:				
Products	83%	84%	83%	84%
Services	17	16	17	16
Total revenues	100	100	100	100
Cost of revenues:				
Cost of products	37	38	36	38
Cost of services	8	7	8	7
Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)	45	45	43	46
Gross profit	55	55	57	54
Operating expenses:				
Engineering and development	16	15	17	16
Selling and administrative	17	15	17	17
Acquired intangible assets amortization	4	4	4	4
Restructuring and other				
Total operating expenses	37	34	38	37
Income from operations	19	21	19	17
Non-operating (income) expenses				
Interest income				
Interest expense				1
Other (income) expense, net				
Income before income taxes	19	21	20	17
Income tax provision	3	4	4	3
Net income	15%	17%	16%	14%

Results of Operations

Third Quarter 2015 Compared to Third Quarter 2014

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:

	For the Three Months Ended	
	October 4, 2015	**September 28, 2014**
Semiconductor Test	0.6	0.5
Wireless Test	0.7	0.8
System Test	0.7	0.6
Industrial Automation	1.0	
Total Company	0.7	0.6

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Revenues

Revenues by our four reportable segments were as follows:

	For the Three Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Semiconductor Test	$ 325.5	$ 380.1	$ (54.6)
System Test	69.1	43.1	26.0
Wireless Test	55.4	54.8	0.6
Industrial Automation	16.1		16.1
	$ 466.0	$ 478.0	$ (12.0)

The decrease in Semiconductor Test revenues of $54.6 million, or 14.4%, was primarily due to lower system-on-a-chip (SOC) product volume, driven by the application processor and microcontroller markets. The increase in System Test revenue of $26.0 million, or 60%, was primarily due to higher sales in Storage Test of 3.5 hard disk drive testers for cloud storage. The increase in Wireless Test revenue of $0.6 million, or 1.1%, was primarily driven by higher cellular test system sales. The acquisition of Universal Robots, which is our Industrial Automation segment, completed in June of 2015, added $16.1 million of revenue in the three months ended October 4, 2015.

Revenues by country as a percentage of total revenues were as follows (1):

	For the Three Months Ended	
	October 4, 2015	September 28, 2014
Taiwan	31%	31%
China	15	18
United States	12	12
Philippines	8	5
Europe	7	7
Korea	6	10
Singapore	6	5
Japan	6	4
Thailand	5	2
Malaysia	3	5
Rest of World	1	1
	100%	100%

(1) Revenues attributable to a country are based on location of customer site.

Gross Profit

Our gross profit was as follows:

	For the Three Months Ended		
	October 4, 2015	September 28, 2014	Dollar/Point Change
	(in millions)		
Gross Profit	$ 258.6	$ 261.1	$ (2.5)
Percent of Total Revenues	55.5%	54.6%	0.9

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Gross profit as a percent of revenue increased by 0.9 points primarily as a result of an increase of 1.2 points related to lower variable compensation and other spending, partially offset by a decrease of 0.3 points related to lower sales in Semiconductor Test.

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 October 4, 2015, we recorded an inventory provision of $3.1 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels. Of the $3.1 million of total excess and obsolete provisions, $1.7 million was related to Semiconductor Test, $0.9 million was related to Wireless Test, and $0.5 million was related to System Test.

During the three months ended September 28, 2014, we recorded an inventory provision of $6.4 million included in cost of revenues primarily due to downward revisions to previously forecasted demand levels. Of the $6.4 million of total excess and obsolete provisions, $4.4 million was related to Semiconductor Test, $1.3 million was related to Wireless Test, and $0.7 million was related to System Test.

During the three months ended October 4, 2015 and September 28, 2014, we scrapped $3.6 million and $11.1 million of inventory, respectively. During the three months ended October 4, 2015 and September 28, 2014, we sold $2.0 million and $6.2 million of previously written-down or written-off inventory, respectively. As of October 4, 2015, we had inventory related reserves for inventory which had been written-down or written-off totaling $121.1 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Three Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Engineering and Development	$ 74.0	$ 72.0	$ 2.0
Percent of Total Revenues	15.9%	15.1%	

The increase of $2.0 million in engineering and development expenses was due primarily to increased spending in System Test and from the acquisition of Universal Robots.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Three Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Selling and Administrative	$ 77.5	$ 73.1	$ 4.4
Percent of Total Revenues	16.6%	15.3%	

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The increase of $4.4 million in selling and administrative expenses was due primarily to additional costs as a result of the acquisition of Universal Robots in June 2015.

Restructuring and Other

Restructuring

During the three months ended October 4, 2015, we recorded $1.1 million of severance charges related to headcount reductions of 18 people, primarily in System Test. During the three months ended September 28, 2014, we recorded $0.2 million of severance charges related to headcount reductions of 2 people in System Test.

Other

During the three months ended October 4, 2015, we recorded a $1.0 million gain from the decrease in the fair value of the AIT contingent consideration liability, partially offset by $0.1 million of acquisition costs related to Universal Robots.

During the three months ended September 28, 2014, we recorded a $0.6 million fair value adjustment to decrease the ZTEC acquisition contingent consideration.

Income Taxes

The effective tax rate for the three months ended October 4, 2015 and September 28, 2014 was 18.3% and 17.6%, respectively. The increase in the effective tax rate is primarily attributable to a projected increase in income subject to tax in the United States as compared to lower rate foreign jurisdictions net of $7.2 million decrease in discrete tax expense related to uncertain tax positions for transfer pricing and $1.8 million of discrete tax benefit attributable to a United States Tax Court opinion regarding intercompany cost sharing arrangements. We are in discussion with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015.

Nine Months of 2015 Compared to Nine Months of 2014

Revenues

Revenues by our four reportable segments were as follows:

	For the Nine Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Semiconductor Test	$ 996.7	$ 1,063.3	$ (66.6)
Wireless Test	152.3	144.7	7.6
System Test	152.3	116.6	35.7
Industrial Automation	19.8		19.8

	$ 1,321.1	$ 1,324.6	$ (3.5)

The decrease in Semiconductor Test revenues of $66.6 million, or 6%, was primarily due to lower SOC product volume, driven by the application processor and microcontroller markets. The increase in Wireless Test revenue of $7.6 million, or 5%, was primarily due to higher cellular test system sales. The increase in System Test revenue of $35.7 million, or 31%, was primarily due to higher sales in Storage Test of 3.5 hard disk drive testers for cloud storage.

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

	For the Nine Months Ended	
	October 4, 2015	September 28, 2014
Taiwan	29%	30%
China	16	18
United States	12	12
Korea	8	10
Singapore	7	7
Japan	7	4
Europe	6	6
Philippines	6	4
Malaysia	4	5
Thailand	4	3
Rest of World	1	1
	100%	100%

Gross Profit

Our gross profit was as follows:

	For the Nine Months Ended		
	October 4, 2014	September 28, 2014	Dollar/Point Change
		(in millions)	
Gross Profit	$ 749.6	$ 718.6	$ 31.0
Percent of Total Revenue	56.7%	54.2%	2.5

Gross profit as a percent of revenue increased by 2.5 points due to product mix and sales of previously leased testers in Semiconductor Test.

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 nine months ended October 4, 2015, we recorded an inventory provision of $18.9 million included in cost of revenues primarily due to $7.7 million related to downward revisions to previously forecasted demand levels for our 2.5 hard disk drive testers in Storage Test, $6.0 million related to product transition in Semiconductor Test, and

$2.1 million related to downward revision to previously forecasted demand levels in Wireless Test. Of the $18.9 million of total excess and obsolete provisions, $8.6 million was related to Semiconductor Test, $8.2 million was related to System Test, and $2.1 million was related to Wireless Test.

During the nine months ended September 28, 2014, we recorded an inventory provision of $21.5 million included in cost of revenues with $15.3 million due to downward revisions to previously forecasted demand levels and $6.2 million related to product transition in Semiconductor Test. Of the $21.5 million of total excess and obsolete provisions, $14.3 million was related to Semiconductor Test, $5.2 million was related to Wireless Test, and $2.0 million was related to System Test.

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During the nine months ended October 4, 2015 and September 28, 2014, we scrapped $5.0 million and $14.3 million of inventory, respectively. During the nine months ended October 4, 2015 and September 28, 2014, we sold $6.4 million and $9.8 million of previously written-down or written-off inventory, respectively. As of October 4, 2015, we had inventory related reserves for inventory which had been written-down or written-off totaling $121.1 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	For the Nine Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Engineering and Development	$ 221.3	$ 212.5	$ 8.8
Percent of Total Revenue	16.8%	16.0%	

The increase of $8.8 million in engineering and development expenses was due primarily to increased spending in Semiconductor Test and higher variable compensation.

Selling and Administrative

Selling and administrative expenses were as follows:

	For the Nine Months Ended		
	October 4, 2015	September 28, 2014	Dollar Change
	(in millions)		
Selling and Administrative	$ 226.6	$ 228.6	$ (2.0)
Percent of Total Revenue	17.2%	17.3%	

The decrease of $2.0 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 in the nine months ended September 28, 2014, partially offset by higher variable compensation.

Restructuring and Other

Other

During the nine months ended October 4, 2015, we recorded a $2.6 million gain from the decrease in the fair value of contingent consideration liability, of which $1.6 million was related to the ZTEC acquisition and $1.0 million was related to the AIT acquisition, partially offset by $1.1 million of acquisition costs related to Universal Robots.

During the nine months ended September 28, 2014, we recorded a $0.6 million gain from the fair value adjustment to decrease the ZTEC acquisition contingent consideration.

Restructuring

During the nine months ended October 4, 2015, we recorded $1.4 million of severance charges related to headcount reductions of 22 people, primarily in System Test.

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During the nine months ended September 28, 2014, we recorded $0.8 million of severance charges related to headcount reductions of 30 people, primarily in Wireless Test.

Income Taxes

The effective tax rate for the nine months ended October 4, 2015 and September 28, 2014 was 20.9% and 15.9%, respectively. The increase in the effective tax rate is primarily attributable to a projected increase in income subject to tax in the United States as compared to lower rate foreign jurisdictions net of $7.2 million decrease in discrete tax expense related to uncertain tax positions for transfer pricing and $1.8 million of discrete tax benefit attributable to a United States Tax Court opinion regarding intercompany cost sharing arrangements. We are in discussion with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015.

Contractual Obligations

The following table reflects our contractual obligations as of October 4, 2015:

		Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
			(in thousands)			
Purchase obligations	$ 219,633	$ 214,196	$ 5,437	$	$	$
Retirement plans contributions	111,206	4,079	8,364	9,263	89,500	
Operating lease obligations	59,361	15,262	18,492	12,099	13,508	
Fair value of contingent consideration	34,595	14,447	15,055	5,093		
Other long-term liabilities reflected on the balance sheet under GAAP (1)	93,288		29,490			63,798
Total	$ 518,083	$ 247,984	$ 76,838	$ 26,455	$ 103,008	$ 63,798

(1) Included in Other Long-Term 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.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balances decreased by $221.7 million in the nine months ended October 4, 2015, to $1,077 million.

In the nine months ended October 4, 2015, changes in operating assets and liabilities provided cash of $39.9 million. This was due to a $42.2 million increase in operating assets and an $82.1 million increase in operating liabilities.

The increase in operating assets was due to a $91.1 million increase in accounts receivable due to higher sales, partially offset by a $33.4 million decrease in inventories and a $15.5 million decrease in prepayments and other

assets. The increase in operating liabilities was due to a $41.8 million increase in other accrued liabilities, a $25.9 million increase in accounts payable due to higher sales, a $25.7 million increase in accrued income taxes, and a $6.8 million increase in customer advance payments and deferred revenue partially offset by a $15.1 million decrease in accrued employee compensation due primarily to variable compensation and employee stock compensation awards payroll tax payments, and $3.0 million of retirement plans contributions.

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Investing activities during the nine months ended October 4, 2015 used cash of $126.5 million, due to $957.7 million used for purchases of marketable securities, $282.7 million used for the acquisition of Universal Robots, and $66.7 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities of $330.4 million and $843.7 million, respectively, proceeds from the sale of an equity investment of $5.4 million, and proceeds from life insurance of $1.1 million related to the cash surrender value from the cancellation of Teradyne owned life insurance policies. The decrease in purchases of property, plant and equipment of $79.6 million was primarily due to higher purchases of testers for customer leasing in the nine months ended September 28, 2014.

Financing activities during the nine months ended October 4, 2015 used cash of $246.2 million, due to $226.8 million used for the repurchase of 11.9 million shares of common stock at an average price of $19.09 per share, $38.4 million used for dividend payments, and $2.3 million used for debt issuance costs related to our April 2015 revolving credit facility, partially offset by $18.1 million from the issuance of common stock under employee stock purchase and stock option plans and $3.2 million from the tax benefit related to employee stock compensation awards.

In the nine months ended September 28, 2014, changes in operating assets and liabilities used cash of $27.3 million. This was due to a $77.6 million increase in operating assets and a $50.3 million increase in operating liabilities.

The increase in operating assets was due to a $163.7 million increase in accounts receivable due to higher sales and increase in days sales outstanding (DSO). DSO for the three months ended September 28, 2014 was 61 days as compared to December 31, 2013 DSO of 50 days. The increase in accounts receivable was partially offset by a $47.8 million decrease in prepayments and other assets and a $38.3 million decrease in inventories due to higher sales. The increase in operating liabilities was due to a $52.2 million increase in other accrued liabilities, a $14.3 million increase in customer advance payments and deferred revenue and a $10.2 million increase in accrued income taxes, partially offset by a $16.2 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, $3.3 million of retirement plan contributions and a $2.6 million decrease in accounts payable.

Investing activities during the nine months ended September 28, 2014 used cash of $254.4 million, due to $844.1 million used for purchases of marketable securities and $146.4 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities that provided cash of $495.6 million and $236.1 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.

Financing activities during the nine months ended September 28, 2014 used cash of $192.6 million. $191.0 million of cash was used for payments on long-term debt related to the convertible note and the Japan loan and $24.4 million was used for dividend payments, partially offset by $21.0 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 January 2014 and August 2014, our Board of Directors declared a quarterly cash dividend of $0.06 per share. In the nine months ended September 28, 2014, dividend payments were $24.4 million.

In January 2015, May 2015, and August 2015, our Board of Directors declared a quarterly cash dividend of $0.06 per share. In the nine months ended October 4, 2015, dividend payments were $38.4 million.

In January 2015, our Board of Directors authorized the repurchase of up to $500 million of common stock, $300 million of which we intend to repurchase in 2015. As of October 4, 2015 we repurchased 11.9 million shares of

common stock at an average price of $19.09, for a total cost of $226.8 million.

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While we declared a quarterly cash dividend and authorized a share repurchase program, we may reduce or eliminate the cash dividend or share repurchase program in the future. Future cash dividends and stock repurchases are subject to the discretion of our Board of Directors which will consider, among other things, our earnings, capital requirements and financial condition.

We believe our cash, cash equivalents and marketable securities balance will be sufficient to pay our quarterly dividend, execute our authorized share repurchase program and meet our 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 $550 million of cash, cash equivalents and marketable securities outside the U.S. that if repatriated would incur additional taxes. Determination of the additional taxes that would be incurred is not practicable due to uncertainty regarding the remittance structure, the mix of earnings and earnings and profit pools in the year of remittance, and overall complexity of the calculation. Inflation has not had a significant long-term impact on earnings.

Equity Compensation Plans

As discussed in Note N: Stock Based Compensation in our 2014 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

In September 2015, the FASB issued Accounting Standard Update (ASU) 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are identified, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for reporting periods beginning after December 15, 2015 and is applied prospectively. Early adoption is permitted. We early adopted this ASU in the three months ended October 4, 2015. Adoption of this ASU did not have a material impact on our financial position and results of operations.

On April 7, 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation for debt discount. ASU 2015-03 does not specifically address requirements for the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. On August 8, 2015, the FASB issued ASU 2015-15, *Interest Imputation of Interest (Subtopic 835-30)* which clarifies the debt issuance costs related to line-of-credit arrangements, stating that they could be presented as an asset and amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. For us, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. This ASU is expected to have no impact on our financial position and results of operations.

In May 2014, the FASB issued Accounting Standard Update (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

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consideration to which the company expects to be entitled to in exchange for those goods or services. On April 1, 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year, until January 1, 2018. This deferral was approved on July 22, 2015. The standard will be effective in our first quarter of 2018. Early adoption is permitted but not before the original effective date (that is, annual periods beginning after December 15, 2016). 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 Part 2 Item 7a, Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on February 27, 2015. 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, 2014.

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.

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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

In addition to other information set forth in this Form 10-Q, 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, 2014, 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.

We may incur indebtedness.

On April 27, 2015, we entered into a five-year, senior secured revolving credit facility of $350.0 million. Subject to customary conditions, we may seek to obtain from existing or new lenders incremental commitments under the credit facility in an aggregate principal amount not to exceed $150.0 million. We have not borrowed any funds under this credit facility. We could borrow funds under this credit facility at any time for general corporate purposes and working capital. Incurring indebtedness, among other things, could:

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

Restrictive covenants in the agreement governing our senior secured revolving credit facility may restrict our ability to pursue business strategies.

The agreement governing our senior secured revolving credit facility limits our ability, among other things, to: incur additional secured indebtedness; sell, transfer, license or dispose of assets; consolidate or merge; enter into transactions with our affiliates; and incur liens. In addition, our senior secured revolving credit facility contains financial and other restrictive covenants that limit our ability to engage in activities that may be in our long term best interest, such as, subject to permitted exceptions, making capital expenditures in excess of certain thresholds, making investments, loans and other advances, and prepaying any additional indebtedness while our indebtedness under our senior secured revolving credit facility is outstanding. Our failure to comply with financial and other restrictive covenants could result in an event of default, which if not cured or waived, could result in the lenders requiring immediate payment of all outstanding borrowings or foreclosing on collateral pledged to them to secure the indebtedness.

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

In June 2015, we acquired Universal Robots. We may not be able to realize the benefit of acquiring Universal Robots or successfully grow Universal Robots business. We may continue to acquire additional

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

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

In January 2015, our Board of Directors cancelled our 2010 stock repurchase program and authorized a new stock repurchase program for up to $500 million of common stock, $300 million of which we intend to repurchase in 2015. The cumulative repurchases as of October 4, 2015 totaled 11.9 million shares of common stock for $226.8 million at an average price per share of $19.09.

The following table includes information with respect to repurchases we made of our common stock during the three months ended October 4, 2015 (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
July 6, 2015	August 2, 2015	1,361		$ 19.10		1,359	$ 345,722
August 3, 2015	August 30, 2015	1,598		$ 18.35		1,598	$ 316,402
August 31, 2015	October 4, 2015	2,432		$ 17.82		2,427	$ 273,158
		5,391	(1)	$ 18.30	(1)	5,384	

(1) Includes approximately six thousand shares at an average price of $18.07 withheld from employees for the payment of taxes.

We satisfy U.S. federal and state minimum withholding tax obligations 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

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Item 6: Exhibits

Exhibit Number	Description
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)

November 13, 2015