

TERADYNE, INC  
Form 10-Q  
November 07, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 28, 2014**

**OR**

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

**For the transition period from                      to**

**Commission File No. 001-06462**

**TERADYNE, INC.**

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

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

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

**Incorporation or Organization)**

**Identification No.)**

**600 Riverpark Drive, North Reading,**

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

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

**978-370-2700**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's only class of Common Stock as of October 31, 2014 was 216,494,252 shares.

**Table of Contents**

**TERADYNE, INC.**

**INDEX**

	<b>Page No.</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (Unaudited):	
<u>Condensed Consolidated Balance Sheets as of September 28, 2014 and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 28, 2014 and September 29, 2013</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 28, 2014 and September 29, 2013</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 28, 2014 and September 29, 2013</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 4. <u>Mine Safety Disclosures</u>	38
Item 6. <u>Exhibits</u>	39

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

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands, except per share information)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 211,704	\$ 341,638
Marketable securities	594,801	586,882
Accounts receivable, less allowance for doubtful accounts of \$2,438 and \$2,912 at September 28, 2014 and December 31, 2013, respectively	321,312	157,642
Inventories:		
Parts	64,588	84,232
Assemblies in process	11,147	15,539
Finished goods	32,642	38,168
	108,377	137,939
Deferred tax assets	68,791	72,478
Prepayments	88,732	136,374
Other current assets	7,304	7,324
Total current assets	1,401,021	1,440,277
Net property, plant and equipment	335,805	275,236
Marketable securities	374,808	271,078
Deferred tax assets	5,353	5,217
Other assets	9,853	14,591
Retirement plans assets	8,871	9,342
Intangible assets, net	197,477	252,291
Goodwill	361,819	361,792
Total assets	\$ 2,695,007	\$ 2,629,824
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 60,309	\$ 62,874
Accrued employees compensation and withholdings	91,053	95,619

Edgar Filing: TERADYNE, INC - Form 10-Q

Deferred revenue and customer advances	60,178	55,404
Other accrued liabilities	98,424	63,712
Accrued income taxes	19,840	11,360
Current debt		186,663
<b>Total current liabilities</b>	<b>329,804</b>	<b>475,632</b>
Long-term deferred revenue and customer advances	23,248	13,756
Retirement plans liabilities	88,670	91,517
Deferred tax liabilities	35,911	40,686
Long-term other accrued liabilities	27,466	23,139
<b>Total liabilities</b>	<b>505,099</b>	<b>644,730</b>

Commitments and contingencies (Note O)

**SHAREHOLDERS EQUITY**

Common stock, \$0.125 par value, 1,000,000 shares authorized, 216,482 shares and 191,731 shares issued and outstanding at September 28, 2014 and December 31, 2013, respectively	27,060	23,966
Additional paid-in capital	1,431,100	1,390,896
Accumulated other comprehensive income	4,859	4,000
Retained earnings	726,889	566,232
<b>Total shareholders equity</b>	<b>2,189,908</b>	<b>1,985,094</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,695,007</b>	<b>\$ 2,629,824</b>

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

Table of Contents

## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands, except per share amount)			
Net revenues:				
Products	\$ 402,987	\$ 365,825	\$ 1,110,861	\$ 943,212
Services	75,023	67,551	213,726	199,420
Total net revenues	478,010	433,376	1,324,587	1,142,632
Cost of revenues:				
Cost of products	182,591	150,365	509,450	405,569
Cost of services	34,298	28,717	96,556	88,119
Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)	216,889	179,082	606,006	493,688
Gross profit	261,121	254,294	718,581	648,944
Operating expenses:				
Engineering and development	71,953	68,918	212,452	199,442
Selling and administrative	73,064	72,917	228,556	210,037
Acquired intangible assets amortization	18,271	18,064	54,813	54,163
Restructuring and other	(405)	889	167	1,480
Total operating expenses	162,883	160,788	495,988	465,122
Income from operations	98,238	93,506	222,593	183,822
Interest income	1,922	948	4,224	2,923
Interest expense and other (income) expense	(510)	6,902	6,628	20,262
Income before income taxes	100,670	87,552	220,189	166,483
Income tax provision	17,721	18,093	35,106	23,879
Net income	\$ 82,949	\$ 69,459	\$ 185,083	\$ 142,604
Net income per common share:				
Basic	\$ 0.40	\$ 0.36	\$ 0.93	\$ 0.75
Diluted	\$ 0.38	\$ 0.29	\$ 0.83	\$ 0.61

Edgar Filing: TERADYNE, INC - Form 10-Q

Weighted average common shares basic	207,381	191,307	198,367	190,521
Weighted average common shares diluted	218,333	235,828	223,795	235,165
Cash dividend declared per common share	\$ 0.06	\$	\$ 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, 2013, are an integral part of the condensed consolidated financial statements.

Table of Contents

## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Net income	\$ 82,949	\$ 69,459	\$ 185,083	\$ 142,604
Other comprehensive income (loss):				
Available-for-sale marketable securities:				
Net unrealized gains (losses) on marketable securities arising during period, net of tax (benefit) expense of \$(139), \$358, \$1,103, \$(367)	(138)	623	2,166	(640)
Less: Reclassification adjustment for net gains included in net income, net of tax (benefit) of \$(348), \$(109), \$(591), \$(231)	(638)	(189)	(1,086)	(401)
	(776)	434	1,080	(1,041)
Defined benefit pension and post-retirement plans:				
Amortization of net prior service benefit included in net periodic pension expense and post-retirement income, net of tax (benefit) of \$(42), \$(40), \$(127), \$(119)	(74)	(69)	(221)	(207)
Other comprehensive income (loss)	(850)	365	859	(1,248)
Comprehensive income	\$ 82,099	\$ 69,824	\$ 185,942	\$ 141,356

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

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

consolidated financial statements.





Table of Contents

## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended	
	September 28, 2014	September 29, 2013
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 185,083	\$ 142,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	52,832	41,873
Amortization	62,122	69,495
Stock-based compensation	31,873	27,227
Provision for excess and obsolete inventory	21,505	9,616
Deferred taxes	(8,747)	(19,211)
Contingent consideration fair value adjustment	(630)	
Tax benefit related to stock options and restricted stock units	(1,726)	(807)
Retirement plans actuarial gains		(1,359)
Impairment loss on property, plant and equipment		1,074
Other	2,110	1,088
Changes in operating assets and liabilities:		
Accounts receivable	(163,670)	(55,963)
Inventories	38,267	34,194
Prepayments and other assets	47,784	(26,312)
Accounts payable and other accrued expenses	29,109	(17)
Deferred revenue and customer advances	14,266	(9,249)
Retirement plans contributions	(3,281)	(3,569)
Accrued income taxes	10,208	13,750
Net cash provided by operating activities	317,105	224,434
Cash flows from investing activities:		
Purchases of property, plant and equipment	(146,352)	(82,925)
Purchases of marketable securities	(844,056)	(658,564)
Proceeds from maturities of marketable securities	495,565	401,901
Proceeds from sales of marketable securities	236,060	332,968
Proceeds from life insurance	4,391	
Net cash used for investing activities	(254,392)	(6,620)
Cash flows from financing activities:		
Issuance of common stock under employee stock purchase and stock options plans	21,030	16,778

Edgar Filing: TERADYNE, INC - Form 10-Q

Tax benefit related to stock options and restricted stock units	1,726	807
Payments of dividend	(24,428)	
Payments of long-term debt	(190,975)	(1,063)
Payments of contingent consideration		(388)
Net cash (used for) provided by financing activities	(192,647)	16,134
(Decrease) increase in cash and cash equivalents	(129,934)	233,948
Cash and cash equivalents at beginning of period	341,638	338,920
Cash and cash equivalents at end of period	\$ 211,704	\$ 572,868

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

---

**Table of Contents**

**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**A. The Company**

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

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

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

**B. Accounting Policies**

*Basis of Presentation*

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

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

*Preparation of Financial Statements and Use of Estimates*

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

**C. Recently Issued Accounting Pronouncements**

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

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

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

## **Table of Contents**

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

## **D. Financial Instruments and Derivatives**

### **Cash Equivalents**

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

### **Financial Instruments**

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities*. ASC 320-10 requires that certain debt and equity securities be classified into one of three categories; trading, available-for-sale or held-to-maturity securities. As of September 28, 2014, Teradyne's investments in debt and equity securities were classified as available-for-sale and recorded at their fair market value.

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

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

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

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

Teradyne uses the market and income approach techniques to value its financial instruments and there were no changes in valuation techniques during the three and nine months ended September 28, 2014 and September 29, 2013. As defined in ASC 820-10 *Fair Value Measurements and Disclosures*, fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

## Edgar Filing: TERADYNE, INC - Form 10-Q

Level 2: Inputs other than Level 1, that are observable either directly or indirectly as of the reporting date. For example, a common approach for valuing fixed income securities is the use of matrix pricing, a technique used to value securities by relying on the securities' relationship to other benchmark quoted prices, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

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

**Table of Contents**

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

During the nine months ended September 28, 2014 and September 29, 2013, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

Realized gains and (losses) for the three and nine months ended September 28, 2014 and September 29, 2013 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Realized gains	\$ 986	\$ 235	\$ 1,677	\$ 569
Realized (losses)				

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 September 28, 2014 and December 31, 2013.

	September 28, 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)			
<b>Assets</b>				
Cash	\$ 100,633	\$	\$	\$ 100,633
Cash equivalents	99,979	11,092		111,071
Available-for-sale securities:				
U.S. Treasury securities		459,240		459,240
U.S. government agency securities		285,617		285,617
Commercial paper		99,774		99,774
Corporate debt securities		94,357		94,357
Certificates of deposit and time deposits		18,522		18,522
Equity and debt mutual funds	12,099			12,099
<b>Total</b>	<b>\$ 212,711</b>	<b>\$ 968,602</b>	<b>\$</b>	<b>\$ 1,181,313</b>
<b>Liabilities</b>				
Contingent consideration	\$	\$	\$ 1,600	\$ 1,600



Derivatives			546			546
Total	\$	\$	546	\$	1,600	\$ 2,146

**Table of Contents**

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
<b>Assets</b>				
Cash and cash equivalents	\$ 200,612	\$ 11,092	\$	\$ 211,704
Marketable securities		594,801		594,801
Long-term marketable securities	12,099	362,709		374,808
	\$ 212,711	\$ 968,602	\$	\$ 1,181,313
<b>Liabilities</b>				
Other accrued liabilities	\$	\$ 546	\$	\$ 546
Long-term other accrued liabilities			1,600	1,600
	\$	\$ 546	\$ 1,600	\$ 2,146

	December 31, 2013			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
<b>Assets</b>				
Cash	\$ 117,242	\$	\$	\$ 117,242
Cash equivalents	165,865	58,531		224,396
Available-for-sale securities:				
U.S. Treasury securities		467,895		467,895
U.S. government agency securities		202,588		202,588
Commercial paper		105,598		105,598
Corporate debt securities		65,387		65,387
Equity and debt mutual funds	13,156			13,156
Certificates of deposit and time deposits		3,258		3,258
Non-U.S. government securities		78		78
Total	296,263	903,335		1,199,598
Derivatives		153		153
Total	\$ 296,263	\$ 903,488	\$	\$ 1,199,751
<b>Liabilities</b>				
Contingent consideration	\$	\$	\$ 2,230	\$ 2,230

Total	\$	\$	\$ 2,230	\$ 2,230
-------	----	----	----------	----------

**Table of Contents**

Reported as follows:

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

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

The acquisition date valuation of the customer order component of the contingent consideration utilized the following assumptions: (1) probability of meeting each benchmark; (2) expected timing of meeting each benchmark; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each benchmark were estimated based on a review of the historical and projected results. A discount rate of 5.2 percent was selected based on the cost of debt for the business, as a significant portion of the risk in achieving the customer order contingent consideration was captured in the probabilities assigned to meeting each benchmark. Teradyne assesses these assumptions and estimates on a quarterly basis as additional data impacting the assumptions is obtained. During the three and nine months ended September 28, 2014, the fair value of the customer order component of the contingent consideration was reduced by \$0.6 million based on updated assumptions and estimates. The fair value reduction was recorded as a gain in restructuring and other in the statement of operations.

Changes in the fair value of Level 3 contingent consideration for the three and nine months ended September 28, 2014 and September 29, 2013 were as follows:

	For the Three and Nine Months Ended September 28, 2014 (in thousands)
Contingent consideration related to Teradyne's acquisition of ZTEC in October 2013	

Edgar Filing: TERADYNE, INC - Form 10-Q

Balance at December 31, 2013	\$ 2,230
Contingent consideration payments	
Balance at March 30, 2014	2,230
Contingent consideration payments	
Balance at June 29, 2014	2,230
Fair value adjustment	(630)
Balance at September 28, 2014	\$ 1,600

**Table of Contents**

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

The carrying amounts and fair values of Teradyne's financial instruments at September 28, 2014 and December 31, 2013 were as follows:

	<b>September 28, 2014</b>		<b>December 31, 2013</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
Cash and cash equivalents	\$ 211,704	\$ 211,704	\$ 341,638	\$ 341,638
Marketable securities	969,609	969,609	857,960	857,960
Convertible debt(1)			185,708	611,433
Japan loan			955	955

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

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

The following tables summarize the composition of available-for-sale marketable securities at September 28, 2014 and December 31, 2013:

	<b>September 28, 2014</b>			<b>Fair Market Value of Investments with Unrealized Losses</b>
	<b>Available-for-Sale</b>			
<b>Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss)</b>	<b>Fair Market Value</b>	
	<b>(in thousands)</b>			

Edgar Filing: TERADYNE, INC - Form 10-Q

U.S. Treasury securities	\$ 458,958	\$ 373	\$ (91)	\$ 459,240	\$ 64,267
U.S. government agency securities	285,528	195	(106)	285,617	66,700
Commercial paper	99,767	11	(4)	99,774	23,722
Corporate debt securities	92,883	1,734	(260)	94,357	56,393
Certificates of deposit and time deposits	18,508	14		18,522	
Equity and debt mutual funds	10,199	1,933	(33)	12,099	1,074
	\$ 965,843	\$ 4,260	\$ (494)	\$ 969,609	\$ 212,156

**Table of Contents**

Reported as follows:

	<b>Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss) (in thousands)</b>	<b>Fair Market Value</b>	<b>Fair Market Value of Investments with Unrealized Losses</b>
Marketable securities	\$ 594,500	\$ 319	\$ (18)	\$ 594,801	\$ 66,188
Long-term marketable securities	371,343	3,941	(476)	374,808	145,968
	\$ 965,843	\$ 4,260	\$ (494)	\$ 969,609	\$ 212,156

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

Reported as follows:

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



\$ 855,786	\$ 3,689	\$ (1,515)	\$ 857,960	\$ 241,760
------------	----------	------------	------------	------------

As of September 28, 2014, the fair market value of investments with unrealized losses was \$212.2 million. Of this value, \$5.0 million had unrealized losses greater than one year and \$207.2 million had unrealized losses less than one year. As of December 31, 2013, the fair market value of investments with unrealized losses was \$241.8 million. Of this value, \$0.9 million had unrealized losses greater than one year and \$240.9 million had unrealized losses less than one year. Teradyne reviews its investments to identify and evaluate investments that have an indication of possible impairment. Based on this review, Teradyne determined that the unrealized losses related to these investments, at September 28, 2014 and December 31, 2013, were temporary.

**Table of Contents**

The contractual maturities of investments held at September 28, 2014 were as follows:

	<b>September 28, 2014</b>	
	<b>Cost</b>	<b>Fair Market Value</b>
	<b>(in thousands)</b>	
Due within one year	\$ 594,500	\$ 594,801
Due after 1 year through 5 years	330,340	330,412
Due after 5 years through 10 years	5,772	5,859
Due after 10 years	25,032	26,438
<b>Total</b>	<b>\$ 955,644</b>	<b>\$ 957,510</b>

Contractual maturities of investments held at September 28, 2014 exclude equity and debt mutual funds as they do not have a contractual maturity date.

**Derivatives**

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

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

The notional amount of foreign currency forward contracts was \$67.9 million and \$74.8 million at September 28, 2014 and December 31, 2013, respectively.

The fair value of the outstanding contracts was a loss of \$0.6 million and a gain of \$0.2 million at September 28, 2014 and December 31, 2013, respectively. The following table summarizes the fair value of derivative instruments at September 28, 2014 and December 31, 2013:

	<b>Balance Sheet Location</b>	<b>September 28, December 31,</b>	
		<b>2014</b>	<b>2013</b>
		<b>(in thousands)</b>	
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency forward contracts	Other current assets	\$	\$ 153
	Other accrued liabilities	546	
		\$ 546	\$ 153

Teradyne had no offsetting foreign exchange contracts at September 28, 2014 and December 31, 2013.

In the three and nine months ended September 28, 2014, Teradyne recorded net realized gains (losses) of \$0.2 million and \$(1.6) million, respectively, related to foreign currency forward contracts hedging net monetary positions. In the three and nine months ended September 29, 2013, Teradyne recorded net realized gains of \$0.0 million and \$4.1 million, respectively, related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in interest expense and other.

**Table of Contents**

The following table summarizes the effect of derivative instruments recognized in the statement of operations during the three and nine months ended September 28, 2014 and September 29, 2013. The table does not reflect the corresponding gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies. For the three and nine months ended September 28, 2014, (losses) gains from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$(0.4) million and \$0.9 million, respectively. For the three and nine months ended September 29, 2013, losses from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$(0.4) million and \$(5.0) million, respectively.

	Location of Gains (Losses) Recognized in Statement of Operations	For the Three Months Ended		For the Nine Months Ended	
		September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
(in thousands)					
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Interest expense and other	\$ 237	\$	\$(1,632)	\$ 4,068
		\$ 237	\$	\$(1,632)	\$ 4,068

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

**E. Debt****Loan Agreement**

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

**Convertible Senior Notes**

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

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

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 the three and nine months ended September 28, 2014, Teradyne issued 19.3 million and 21.2 million shares of its common stock, respectively, for warrants exercised at a weighted average strike price of \$7.6348 and \$7.6351, respectively.

**Table of Contents**

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

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Debt principal	\$	\$ 189,998
Unamortized debt discount		4,290
<b>Net carrying amount of the convertible debt</b>	<b>\$</b>	<b>\$ 185,708</b>

The interest expense on Teradyne's convertible senior notes for the three and nine months ended September 28, 2014 and September 29, 2013 was as follows:

	<b>For the Three Months Ended September 28, 2014</b>		<b>For the Nine Months Ended September 29, 2013</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>			
Contractual interest expense	\$	\$ 2,114	\$ 1,757	\$ 6,388
Amortization of the discount component and debt issue fees		4,221	4,493	12,266
<b>Total interest expense on the convertible debt</b>	<b>\$</b>	<b>\$ 6,335</b>	<b>\$ 6,250</b>	<b>\$ 18,654</b>

**F. Prepayments**

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

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Contract manufacturer prepayments	\$ 68,126	\$ 115,388
Prepaid maintenance and other services	6,794	6,538
Prepaid taxes	3,413	3,281
Other prepayments	10,399	11,167
<b>Total prepayments</b>	<b>\$ 88,732</b>	<b>\$ 136,374</b>

**G. Deferred Revenue and Customer Advances**

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

	<b>September 28, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
Extended warranty	\$ 43,497	\$ 34,909
Equipment maintenance and training	27,703	22,455
Customer advances	5,041	4,825
Undelivered elements	7,185	6,971
<b>Total deferred revenue and customer advances</b>	<b>\$ 83,426</b>	<b>\$ 69,160</b>

**Table of Contents****H. Product Warranty**

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

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Balance at beginning of period	\$ 9,073	\$ 7,351	\$ 6,660	\$ 9,786
Accruals for warranties issued during the period	4,419	3,674	12,675	8,781
Adjustments related to pre-existing warranties	(559)	(524)	(1,000)	(2,323)
Settlements made during the period	(2,982)	(2,470)	(8,384)	(8,213)
Balance at end of period	\$ 9,951	\$ 8,031	\$ 9,951	\$ 8,031

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	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Balance at beginning of period	\$ 40,052	\$ 34,854	\$ 34,909	\$ 26,987
Deferral of new extended warranty revenue	9,896	5,586	24,218	17,791
Recognition of extended warranty deferred revenue	(6,451)	(4,120)	(15,630)	(8,458)
Balance at end of period	\$ 43,497	\$ 36,320	\$ 43,497	\$ 36,320

**I. Stock-Based Compensation**

In January 2014, Teradyne granted 0.1 million of performance-based restricted stock units ( PRSUs ) to its executive officers with a performance metric based on relative total shareholder return ( TSR ). Teradyne s three-year TSR performance will be measured against the Philadelphia Semiconductor Index, which consists of thirty companies in the semiconductor device and capital equipment industries. The final number of TSR PRSUs that vest will vary based upon the level of performance achieved from 200% of the target shares to 0% of the target shares. All TSR PRSUs will vest upon the three-year anniversary of the January 24, 2014 grant date. No TSR PRSUs will vest if the executive officer is no longer an employee at the end of the three-year period. The TSR PRSUs are valued using a Monte Carlo



simulation model. The number of units expected to be earned, based upon the achievement of the TSR market condition, is factored into the grant date Monte Carlo valuation. Compensation expense is recognized on a straight-line basis over the three-year service period. Compensation expense is recognized regardless of the eventual number of units that are earned based upon the market condition, provided the executive officer remains an employee at the end of the three-year period. Compensation expense is reversed if the executive officer is not an employee at the end of the three-year service period. During

**Table of Contents**

the nine months ended September 28, 2014, Teradyne granted 0.1 million TSR performance-based restricted stock unit awards with an estimated grant date fair value of \$22.06 per award. The fair value was estimated using the Monte Carlo simulation model with the following assumptions:

	<b>For the Nine Months Ended September 28, 2014</b>
Risk-free interest rate	0.75%
Teradyne volatility-historical	36.1%
Philadelphia Semiconductor Index volatility-historical	24.6%
Dividend yield	1.25%

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

During the 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.

During the nine months ended September 29, 2013, Teradyne granted 1.9 million of service-based restricted stock unit awards to employees at a weighted average grant date fair value of \$16.60 and 0.2 million of service-based stock options to executive officers at a weighted average grant date fair value of \$6.09.

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

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

	<b>For the Nine Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>
Expected life (years)	4.0	4.0
Risk-free interest rate	1.2%	0.6%
Volatility-historical	38.8%	46.8%
Dividend yield	1.25%	0.0%

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

divided by Teradyne's January 24, 2014 stock price of \$19.16.

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

**Table of Contents****J. Accumulated Other Comprehensive Income**

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

	<b>Unrealized Gains on Marketable Securities</b>	<b>Retirement Plans Prior Service Credit</b>	<b>Total</b>
	<b>(in thousands)</b>		
Balance at December 31, 2013, net of tax of \$794, \$(284)	\$ 1,381	\$ 2,619	\$ 4,000
Other comprehensive income before reclassifications, net of tax of \$1,103, \$0	2,166		2,166
Amounts reclassified from accumulated other comprehensive income, net of tax of \$(591), \$(127)	(1,086)	(221)	(1,307)
Net current period other comprehensive income	1,080	(221)	859
Balance at September 28, 2014, net of tax of \$1,306, \$(411)	\$ 2,461	\$ 2,398	\$ 4,859

Reclassifications out of accumulated other comprehensive income to the statement of operations for the three and nine months ended September 28, 2014 and September 29, 2013 were as follows:

<b>Details about Accumulated Other Comprehensive Income Components</b>	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>		<b>Affected Line Item in the Statements of Operations</b>
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>September 28, 2014</b>	<b>September 29, 2013</b>	
	<b>(in thousands)</b>				
Available-for-sale marketable securities:					
Unrealized gains, net of tax of \$348, \$109, \$591, \$231	\$ 638	\$ 189	\$ 1,086	\$ 401	Interest income
Amortization of defined benefit pension and postretirement plans:					
Prior service benefit, net of tax of \$42, \$40, \$127, \$119	74	69	221	207	(a)
<b>Total reclassifications</b>	<b>\$ 712</b>	<b>\$ 258</b>	<b>\$ 1,307</b>	<b>\$ 608</b>	<b>Net income</b>

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

**K. Intangible Assets**

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

		<b>September 28, 2014</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Weighted Average Useful Life</b>
	<b>(in thousands)</b>			
Developed technology	\$ 342,933	\$ 212,949	\$ 129,984	6.2 years
Customer relationships	141,005	90,244	50,761	8.0 years
Trade names and trademarks	30,034	13,302	16,732	9.1 years
Total intangible assets	\$ 513,972	\$ 316,495	\$ 197,477	6.9 years

**Table of Contents**

	Gross Carrying Amount	December 31, 2013		Weighted Average Useful Life
		Accumulated Amortization	Net Carrying Amount	
		(in thousands)		
Developed technology	\$ 342,933	\$ 174,563	\$ 168,370	6.2 years
Customer relationships	141,497	76,963	64,534	8.0 years
Trade names and trademarks	30,034	10,647	19,387	9.1 years
Customer backlog	1,000	1,000		0.4 years
<b>Total intangible assets</b>	<b>\$ 515,464</b>	<b>\$ 263,173</b>	<b>\$ 252,291</b>	<b>6.9 years</b>

Aggregate intangible asset amortization expense was \$18.3 million and \$54.8 million, respectively, for the three and nine months ended September 28, 2014 and \$18.1 million and \$54.2 million, respectively, for the three and nine months ended September 29, 2013. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amortization Expense (in thousands)
2014 (remainder)	\$ 15,327
2015	53,391
2016	53,391
2017	47,232
2018	22,691
Thereafter	5,445

**L. 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	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands, except per share amounts)			
Net income for basic and diluted net income per share	\$ 82,949	\$ 69,459	\$ 185,083	\$ 142,604
Weighted average common shares-basic	207,381	191,307	198,367	190,521
Effect of dilutive potential common shares:				
Incremental shares from assumed conversion of convertible notes (1)		23,257	6,684	23,303
Convertible note hedge warrant shares (2)	8,885	18,678	16,744	18,742
Restricted stock units	1,167	1,102	975	1,000
Stock options	879	1,465	997	1,564

Edgar Filing: TERADYNE, INC - Form 10-Q

Employee stock purchase rights	21	19	28	35
Dilutive potential common shares	10,952	44,521	25,428	44,644
Weighted average common shares-diluted	218,333	235,828	223,795	235,165
Net income per common share-basic	\$ 0.40	\$ 0.36	\$ 0.93	\$ 0.75
Net income per common share-diluted	\$ 0.38	\$ 0.29	\$ 0.83	\$ 0.61

- (1) Incremental shares from conversion of the convertible notes for the nine months ended September 28, 2014 were calculated using the difference between the average Teradyne stock price from January 1, 2014 through March 12, 2014 and the conversion price of \$5.4750, multiplied by 34.7 million shares. The result

**Table of Contents**

of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period from January 1, 2014 to March 12, 2014 and adjusted for the number of days the convertible notes were outstanding. Incremental shares from assumed conversion of the convertible notes for the three and nine months ended September 29, 2013 were calculated using the difference between the average Teradyne stock price for the period the convertible notes were outstanding and the conversion price of \$5.48, multiplied by the 34.7 million shares to be issued upon conversion. The result of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period.

- (2) Convertible note hedge warrant shares for the three and nine months ended September 28, 2014 are calculated using the difference between the average Teradyne stock price for the period the warrants were outstanding and the warrant price of \$7.63 and \$7.64, respectively, multiplied by the weighted average warrant shares outstanding. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period the warrants were outstanding. Convertible note hedge warrant shares for the three and nine months ended September 29, 2013 are calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by the 34.7 million shares that would be issued upon conversion. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period.

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.

The computation of diluted net income per common share for the three and nine months ended September 29, 2013 excludes the effect of the potential exercise of stock options to purchase approximately 0.4 million shares because the effect would have been anti-dilutive.



**Table of Contents****M. Restructuring and Other*****Restructuring***

During the nine months ended September 28, 2014, Teradyne recorded \$0.8 million of severance charges related to headcount reductions of approximately 30 people, primarily in Wireless Test. During the nine months ended September 29, 2013, Teradyne recorded \$1.5 million of severance charges related to headcount reductions of approximately 40 people, of which \$1.4 million was in System Test and \$0.4 million was in Semiconductor Test, and a \$(0.4) million credit in Corporate for a change in the estimated exit costs related to a leased facility.

	<b>Severance and Benefits</b>	<b>Facility Exit Costs</b>	<b>Total</b>
	(in thousands)		
<b><i>Pre-2013 Activities</i></b>			
Balance at December 31, 2012	\$ 243	\$ 1,084	\$ 1,327
Change in estimate		(553)	(553)
Cash payments	(243)	(531)	(774)
Balance at December 31, 2013	\$	\$	\$
<b><i>2013 Activities</i></b>			
<i>Q3 2013 Activity:</i>			
Provision	\$ 1,337	\$	\$ 1,337
Cash payments	(966)		(966)
Balance at December 31, 2013	371		371
Cash payments	(161)		(161)
Balance at March 30, 2014	210		210
Cash payments			
Balance at June 29, 2014	210		210
Cash payments			
Balance at September 28, 2014	\$ 210	\$	\$ 210
<i>Q4 2013 Activity:</i>			
Provision	\$ 600	\$	\$ 600
Cash payments	(486)		(486)
Balance at December 31, 2013	114		114
Cash payments	(114)		(114)
Balance at March 30, 2014	\$	\$	\$



**Table of Contents**

	<b>Severance and Benefits</b>	<b>Facility Exit Costs (in thousands)</b>	<b>Total</b>
<b>2014 Activities</b>			
<i>Q2 2014 Activity:</i>			
Provision	\$ 572	\$	\$ 572
Cash payments	(530)		(530)
Balance at June 29, 2014	42		42
Cash payments	(42)		(42)
Balance at September 28, 2014	\$	\$	\$
<i>Q3 2014 Activity:</i>			
Provision	\$ 225	\$	\$ 225
Cash payments	(225)		(225)
Balance at September 28, 2014	\$	\$	\$
Balance at September 28, 2014	\$ 210	\$	\$ 210

The accrual balance for severance and benefits of \$0.2 million is reflected in the accrued employees' compensation and withholdings on the balance sheet and is expected to be paid by December 2014.

**Other**

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.

**N. Retirement Plans**

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

On October 27, 2014, the U.S. Society of Actuaries released new mortality tables. Teradyne will use the new mortality tables along with other updated pension valuation assumptions (discount rate, asset rate of return, etc.) as part of its annual fourth quarter pension obligation remeasurement. The estimated actuarial loss as a result of the new mortality tables and current discount rates is approximately \$50 million.

**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 September 28, 2014, Teradyne contributed \$1.3 million to the U.S. supplemental executive defined benefit pension plan and \$1.2 million to certain qualified plans for non-U.S. subsidiaries.

**Table of Contents**

For the three and nine months ended September 28, 2014 and September 29, 2013, Teradyne's net periodic pension cost was comprised of the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Service cost	\$ 761	\$ 871	\$ 2,368	\$ 2,557
Interest cost	3,650	3,350	11,102	10,001
Expected return on plan assets	(3,335)	(3,664)	(10,060)	(10,925)
Amortization of unrecognized prior service cost	34	41	101	123
Actuarial loss (gain)			362	(1,123)
Total net periodic pension cost	\$ 1,110	\$ 598	\$ 3,873	\$ 633

**Postretirement Benefit Plan**

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

For the three and nine months ended September 28, 2014 and September 29, 2013, Teradyne's net periodic postretirement benefit was comprised of the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
	(in thousands)			
Service cost	\$ 15	\$ 19	\$ 44	\$ 56
Interest cost	84	86	252	257
Amortization of unrecognized prior service benefit	(150)	(150)	(449)	(449)
Actuarial gain			(247)	(236)
Total net periodic post-retirement benefit	\$ (51)	\$ (45)	\$ (400)	\$ (372)

**O. Commitments and Contingencies****Purchase Commitments**

As of September 28, 2014, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately \$155.2 million, of which \$147.4 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.

## **Table of Contents**

### **P. Income Taxes**

The effective tax rate for the three months ended September 28, 2014 and September 29, 2013 was 18% and 21%, respectively. The decrease in the tax rate was primarily due to a more favorable geographic mix of income partially offset by an increase in reserves for uncertain tax positions.

The effective tax rate for the nine months ended September 28, 2014 and September 29, 2013 was 16% and 14%, respectively. The increase in the tax rate was primarily due to income tax expense for the nine months ended September 29, 2013 being reduced for a discrete tax benefit from the January 2013 reinstatement of the U.S. research and development credit for fiscal year 2012 and an increase in reserves for uncertain tax positions in fiscal year 2014, partially offset by a more favorable geographic mix of income in fiscal year 2014.

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

As of September 28, 2014, Teradyne had \$31.6 million of reserves for uncertain tax positions. As of December 31, 2013, Teradyne had \$21.2 million of reserves for uncertain tax positions. The \$10.4 million net increase in reserves for uncertain tax positions primarily relates to the allocation of income among jurisdictions. As of September 28, 2014, Teradyne anticipates the liability for uncertain tax positions could decrease by approximately \$2.8 million over the next twelve months, primarily as a result of the expiration of statutes of limitations and clarification of tax laws. The potential decrease is primarily related to equity compensation.

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 September 28, 2014 were \$12.3 million or \$0.05 per diluted share. The tax holiday is currently expected to expire on December 31, 2015.

### **Q. Segment Information**

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

**Table of Contents**

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

	Semiconductor Test	Wireless Test	System Test	Corporate and Eliminations	Consolidated
	(in thousands)				
<b>Three months ended September 28, 2014:</b>					
Net revenues	\$ 380,083	\$ 54,838	\$ 43,089	\$	\$ 478,010
Income before income taxes(1)(2)	91,900	2,379	5,779	612	100,670
<b>Three months ended September 29, 2013:</b>					
Net revenues	\$ 304,131	\$ 93,132	\$ 36,113	\$	\$ 433,376
Income (loss) before income taxes(1)(2)	68,932	27,575	(2,462)	(6,493)	87,552
<b>Nine months ended September 28, 2014:</b>					
Net 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
<b>Nine months ended September 29, 2013:</b>					
Net revenues	\$ 808,068	\$ 226,116	\$ 108,448	\$	\$ 1,142,632
Income (loss) before income taxes(1)(2)	141,304	41,491	(153)	(16,159)	166,483

- (1) Pension and postretirement actuarial gains and losses, interest income, and interest expense and other are included in Corporate and Eliminations.
- (2) Included in the income (loss) before income taxes for each of the segments are charges and credits for the three and nine months ended September 28, 2014 and September 29, 2013 that include restructuring and other, and provision for excess and obsolete inventory, as follows:

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

	For the Three Months Ended September 28, 2014		For the Nine Months Ended September 29, 2013	
	2014	2013	2014	2013
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 4,404	\$ 1,378	\$ 14,322	\$ 1,878
Restructuring and other		282		416
<b>Total</b>	<b>\$ 4,404</b>	<b>\$ 1,660</b>	<b>\$ 14,322</b>	<b>\$ 2,294</b>

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



**For the Three Months For the Nine Months  
Ended Ended  
September 30, September 30, September 30, September 29,  
2014 2013 2014 2013  
(in thousands)**

Cost of revenues provision for excess and obsolete inventory	\$ 1,267	\$ 2,059	\$ 5,239	\$ 6,125
Restructuring and other			426	82
<b>Total</b>	<b>\$ 1,267</b>	<b>\$ 2,059</b>	<b>\$ 5,665</b>	<b>\$ 6,207</b>

**Table of Contents**

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

	For the Three Months Ended September 28, 2014		For the Nine Months Ended September 29, 2013	
	(in thousands)			
Cost of revenues provision for excess and obsolete inventory	\$ 763	\$ 404	\$ 1,944	\$ 1,613
Restructuring and other	225	1,055	371	1,430
<b>Total</b>	<b>\$ 988</b>	<b>\$ 1,459</b>	<b>\$ 2,315</b>	<b>\$ 3,043</b>

Included in Corporate and Eliminations are credits for the following:

	For the Three Months Ended September 28, 2014		For the Nine Months Ended September 29, 2013	
	(in thousands)			
Restructuring and other	\$ (630)	\$ (448)	\$ (630)	\$ (448)
<b>Total</b>	<b>\$ (630)</b>	<b>\$ (448)</b>	<b>\$ (630)</b>	<b>\$ (448)</b>

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

In November 2010, Teradyne's Board of Directors authorized a stock repurchase program for up to \$200 million. In the three and nine months ended September 28, 2014 and September 29, 2013, Teradyne did not repurchase any shares. The cumulative repurchases under the new program as of September 28, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

***Dividend***

Holders of Teradyne's common stock are entitled to receive dividends when they are declared by Teradyne's Board of Directors. In January 2014, Teradyne's Board of Directors declared an initial quarterly cash dividend of \$0.06 per share that was paid on June 2, 2014 to stockholders of record as of May 9, 2014. In August 2014, Teradyne's Board of Directors declared a quarterly cash dividend of \$0.06 per share that was paid on September 26, 2014 to stockholders of record as of September 5, 2014. Dividend payments for the three and nine months ended September 28, 2014 were \$12.8 million and \$24.4 million, respectively. Payment of future cash dividends will rest within the discretion of Teradyne's Board of Directors and will depend, among other things, upon Teradyne's earnings, capital requirements and financial condition.

**S. Subsequent Events**

On October 31, 2014, Teradyne completed the acquisition of substantially all the assets of Avionics Interface Technologies, LLC ( AIT ) located in Omaha, Nebraska, for approximately \$18.9 million and up to \$2.1 million payable upon achievement of certain revenue and gross margin targets through December 31, 2016. The fair value of assets and liabilities acquired has not been disclosed because Teradyne has not completed the valuation. AIT is a leading provider of equipment for testing state-of-the-art data buses. The acquisition complements Teradyne s Mil/Aero line of bus test instrumentation for commercial and defense avionics systems. AIT will be included in Teradyne s System Test segment.

---

**Table of Contents**

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

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

**Overview**

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

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

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

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

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

In October 2014, we acquired substantially all the assets of Avionics Interface Technologies, LLC, a leading provider of equipment for testing state-of-the-art data buses. The acquisition complements our Mil/Aero business unit's line of bus test instrumentation so that we can provide complete test solutions for today's commercial and defense avionics systems.

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

The sales of our products and services are dependent, to a large degree, on customers who are subject to cyclical trends in the demand for their products. These cyclical periods have had, and will continue to have, a significant effect

on our business because our customers often delay or accelerate purchases in reaction to changes in their businesses and to demand fluctuations in the semiconductor and electronics industries. Historically, these demand fluctuations have resulted in significant variations in our results of operations. The sharp swings in the semiconductor and electronics industries in recent years have generally affected the semiconductor and electronics test equipment and services industries more significantly than the overall capital equipment sector.

**Table of Contents**

**Critical Accounting Policies and Estimates**

We have identified the policies which are critical to understanding our business and our results of operations. There have been no significant changes during the nine months ended September 28, 2014 to the items disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Table of Contents**

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>September 28, 2014</b>	<b>September 29, 2013</b>
<b>Percentage of total net revenues:</b>				
Net revenues:				
Products	84%	84%	84%	83%
Services	16	16	16	17
<b>Total net revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Cost of revenues:				
Cost of products	38	35	38	35
Cost of services	7	7	7	8
<b>Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)</b>	<b>45</b>	<b>41</b>	<b>46</b>	<b>43</b>
Gross profit	55	59	54	57
Operating expenses:				
Engineering and development	15	16	16	17
Selling and administrative	15	17	17	18
Acquired intangible assets amortization	4	4	4	5
Restructuring and other				
<b>Total operating expenses</b>	<b>34</b>	<b>37</b>	<b>37</b>	<b>41</b>
<b>Income from operations</b>	<b>21</b>	<b>22</b>	<b>17</b>	<b>16</b>
Interest income				
Interest expense and other (income) expense		2	1	2
<b>Income before income taxes</b>	<b>21</b>	<b>20</b>	<b>17</b>	<b>15</b>
Income tax provision	4	4	3	2
<b>Net income</b>	<b>17%</b>	<b>16%</b>	<b>14%</b>	<b>12%</b>

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

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

	<b>For the Three Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>
Semiconductor Test	0.5	0.7
Wireless Test	0.8	0.4
System Test	0.6	0.7
Total Company	0.6	0.6



**Table of Contents***Revenues*

Net revenues by reportable segment were as follows:

	<b>For the Three Months Ended</b>		<b>Dollar Change</b>
	<b>September 28, 2014</b>	<b>September 29, 2013 (in millions)</b>	
Semiconductor Test	\$ 380.1	\$ 304.2	\$ 75.9
Wireless Test	54.8	93.1	(38.3)
System Test	43.1	36.1	7.0
	\$ 478.0	\$ 433.4	\$ 44.6

The increase in Semiconductor Test revenues of \$75.9 million or 25% was primarily due to higher system-on-a-chip ( SOC ) product volume driven by application processors and an increase in service revenue. The decrease in Wireless Test revenue of \$38.3 million or 41% was primarily due to lower connectivity and cellular product volume. The increase in System Test revenue of \$7.0 million or 19% was primarily due to higher product volume in Production Board Test and Storage Test systems.

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

	<b>For the Three Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>
Taiwan	27%	25%
United States	18	11
China	18	27
Korea	8	9
Europe	7	4
Singapore	5	7
Malaysia	5	6
Philippines	5	4
Japan	4	4
Thailand	2	2
Rest of World	1	1
	100%	100%

*Gross Profit*

Our gross profit was as follows:

	<b>For the Three Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar/Point Change</b>
	<b>(in millions)</b>		
Gross profit	\$ 261.1	\$ 254.3	\$ 6.8
Percent of total revenue	54.6%	58.7%	(4.1)

Gross profit as a percent of revenue decreased by 4.1 percentage points, due primarily to product mix in SOC Semiconductor Test and lower Wireless Test sales.

**Table of Contents**

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 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 September 29, 2013, we recorded an inventory provision of \$3.8 million included in cost of revenues, due to the following factors:

A \$2.0 million inventory write-down as a result of product transition in Wireless Test.

The remainder of the charge of \$1.8 million primarily reflects downward revisions to previously forecasted demand levels, of which \$1.4 million was related to Semiconductor Test and \$0.4 million was related to System Test.

During the three months ended September 28, 2014 and September 29, 2013, we scrapped \$11.1 million and \$13.9 million of inventory, respectively. During the three months ended September 28, 2014 and September 29, 2013, we sold \$6.2 million and \$4.1 million, respectively, of previously written-down inventory. As of September 28, 2014, we had inventory related reserves for inventory which had been written-down totaling \$116.1 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

	<b>For the Three Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Engineering and development	\$ 72.0	\$ 68.9	\$ 3.1
Percent of total revenue	15.1%	15.9%	

The increase of \$3.1 million in engineering and development expenses was due primarily to increased spending in Semiconductor Test.

*Selling and Administrative*

Selling and administrative expenses were as follows:

	<b>For the Three Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Selling and administrative	\$ 73.1	\$ 72.9	\$ 0.2
Percent of total revenue	15.3%	16.8%	

The increase of \$0.2 million in selling and administrative expenses was due primarily to increased sales and marketing spending in Semiconductor Test.

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

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.

During the three months ended September 29, 2013, we recorded \$1.3 million of severance charges related to headcount reductions of approximately 40 people, of which \$1.0 million was in System Test and \$0.3 million was in Semiconductor Test, and a \$(0.4) million credit related to a change in the estimated exit costs related to a leased facility, in Corporate.

*Other*

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 September 28, 2014 and September 29, 2013 was 18% and 21%, respectively. The decrease in the tax rate was primarily due to a more favorable geographic mix of income partially offset by an increase in reserves for uncertain tax positions.

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

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

Net revenues by reportable segment were as follows:

	<b>For the Nine Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Semiconductor Test	\$ 1,063.3	\$ 808.1	\$ 255.2
Wireless Test	144.7	226.1	(81.4)
System Test	116.6	108.4	8.2
	\$ 1,324.6	\$ 1,142.6	\$ 182.0

The increase in Semiconductor Test revenues of \$255.2 million or 32% was primarily due to higher SOC product volume, driven by application processors and microcontrollers. The decrease in Wireless Test revenue of

\$81.4 million or 36% was primarily due to lower cellular and connectivity product volume. The increase in System Test revenue of \$8.2 million or 8% was primarily due to higher product volume in Production Board Test and Storage Test systems, partially offset by lower Mil/Aero product sales.

**Table of Contents**

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

	<b>For the Nine Months Ended</b>	
	<b>September 28, 2014</b>	<b>September 29, 2013</b>
Taiwan	28%	21%
China	18	25
United States	14	13
Korea	10	9
Singapore	7	9
Europe	6	6
Malaysia	5	6
Japan	4	5
Philippines	4	3
Thailand	3	2
Rest of World	1	1
	100%	100%

*Gross Profit*

Our gross profit was as follows:

	<b>For the Nine Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar/Point Change</b>
	<b>(in millions)</b>		
Gross profit	\$ 718.6	\$ 648.9	\$ 69.7
Percent of total revenues	54.2%	56.8%	(2.6)

Gross profit as a percent of revenue decreased by 2.6 percentage points due primarily to a decrease of 2.4 points related to product mix in SOC Semiconductor Test and lower Wireless Test sales, a decrease of 0.7 point due to higher excess and obsolete inventory provisions, partially offset by higher sales volume.

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

During the nine months ended September 28, 2014, we recorded an inventory provision of \$21.5 million included in cost of revenues with \$6.2 million related to product transition in Semiconductor Test and \$15.3 million due to

downward revisions to previously forecasted demand levels. 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.

During the nine months ended September 29, 2013, we recorded an inventory provision of \$9.6 million included in cost of revenues, due to the following factors:

A \$4.1 million inventory write-down as a result of product transition in Wireless Test.

The remainder of the charge of \$5.5 million primarily reflects downward revisions to previously forecasted demand levels, of which \$2.0 million was related to Wireless Test, \$1.9 million was related to Semiconductor Test and \$1.6 million was related to System Test.



**Table of Contents**

During the nine months ended September 28, 2014 and September 29, 2013, we scrapped \$14.3 million and \$16.8 million of inventory, respectively. During the nine months ended September 28, 2014 and September 29, 2013, we sold \$9.8 million and \$8.9 million of previously written-down or written-off inventory. As of September 28, 2014, we had inventory related reserves for inventory which had been written-down or written-off totaling \$116.1 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

	<b>For the Nine Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Engineering and development	\$ 212.5	\$ 199.4	\$ 13.1
Percent of total revenues	16.0%	17.5%	

The increase of \$13.1 million in engineering and development expenses was due primarily to increased spending in Semiconductor Test and Wireless Test and higher variable compensation.

*Selling and Administrative*

Selling and administrative expenses were as follows:

	<b>For the Nine Months Ended</b>		
	<b>September 28, 2014</b>	<b>September 29, 2013</b>	<b>Dollar Change</b>
	<b>(in millions)</b>		
Selling and administrative	\$ 228.6	\$ 210.0	\$ 18.6
Percent of total revenue	17.3%	18.4%	

The increase of \$18.6 million in selling and administrative expenses was due primarily to a one-time \$6.6 million stock-based compensation charge related to Michael Bradley's (retired Chief Executive Officer) Retirement Agreement, increased sales and marketing spending in Semiconductor Test and Wireless Test, and higher variable compensation.

*Restructuring and Other**Restructuring*

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

Edgar Filing: TERADYNE, INC - Form 10-Q

During the nine months ended September 29, 2013, Teradyne recorded \$1.5 million of severance charges related to headcount reductions of approximately 40 people, of which \$1.4 million was in System Test and \$0.4 million was in Semiconductor Test, and a \$(0.4) million credit in Corporate for a change in the estimated exit costs related to a leased facility.

*Other*

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

**Table of Contents***Income Taxes*

The effective tax rate for the nine months ended September 28, 2014 and September 29, 2013 was 16% and 14%, respectively. The increase in the tax rate was primarily due to income tax expense for the nine months ended September 29, 2013 being reduced for a discrete tax benefit from the January 2013 reinstatement of the U.S. research and development credit for fiscal year 2012 and an increase in reserves for uncertain tax positions in fiscal year 2014, partially offset by a more favorable geographic mix of income in fiscal year 2014.

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

**Contractual Obligations**

The following table reflects our contractual obligations at September 28, 2014:

	Total	Payments Due by Period				Other	
		Less than 1 year	1-3 years	3-5 years	More than 5 years		
			(in thousands)				
Purchase obligations	\$ 155,210	\$ 147,373	\$ 7,837	\$	\$	\$	
Retirement plan contributions	92,557	4,640	7,781	9,993	70,143		
Operating lease obligations	53,514	12,806	18,523	8,175	14,010		
Long-term other liabilities reflected on the Balance Sheet under GAAP(1)	86,625		23,248			63,377	
<b>Total</b>	<b>\$ 387,906</b>	<b>\$ 164,819</b>	<b>\$ 57,389</b>	<b>\$ 18,168</b>	<b>\$ 84,153</b>	<b>\$ 63,377</b>	

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

**Liquidity and Capital Resources**

Our cash, cash equivalents and marketable securities balances decreased by \$18.3 million in the nine months ended September 28, 2014, to \$1,181 million. Cash activity for the nine months ended September 28, 2014 and September 29, 2013 was as follows:

<b>For the Nine Months Ended</b>	
<b>September 28, 2014</b>	<b>September 29, 2013</b>

	(in millions)	
Cash provided by operating activities:		
Net income, adjusted for non-cash items	\$ 344.4	\$ 271.6
Change in operating assets and liabilities	(27.3)	(47.2)
Net cash provided by operating activities	317.1	224.4
Net cash used for investing activities	(254.4)	(6.6)
Net cash (used for) provided by financing activities	(192.6)	16.1
(Decrease) increase in cash and cash equivalents	\$ (129.9)	\$ 233.9

---

**Table of Contents**

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. Based on the new mortality tables released on October 27, 2014 and current discount rates, we estimate the funded status of our U.S. Qualified Pension Plan (the Plan ) to be approximately 91%. During the fourth quarter of 2014, we plan to contribute approximately \$30.0 million to the Plan to bring the Plan back to being fully funded.

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. The increase in purchases of property, plant and equipment of \$63.4 million compared to the nine months ended September 29, 2013 is primarily due to testers used for customer leases.

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 the nine months ended September 29, 2013, changes in operating assets and liabilities used cash of \$47.2 million. This was due to a \$48.1 million increase in operating assets and a \$0.9 million increase in operating liabilities.

The increase in operating assets was due to a \$56.0 million increase in accounts receivable and a \$26.3 million increase in other assets primarily due to an increase in prepayments, partially offset by a \$34.2 million decrease in inventories. The increase in operating liabilities was due to an \$9.4 million increase in accounts payable, a \$13.8 million increase in accrued income taxes and a \$9.9 million increase in other accrued liabilities, partially offset by a \$19.2 million decrease in accrued employee compensation due primarily to variable compensation and employee stock award payroll tax payments, a \$9.2 million decrease in customer advance payments and deferred revenue, and \$3.6 million of retirement plan contributions.

Investing activities during the nine months ended September 29, 2013 used cash of \$6.6 million, due to \$658.6 million used for purchases of marketable securities and \$82.9 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$401.9 million and \$333.0 million, respectively.

Financing activities during the nine months ended September 29, 2013 provided cash of \$16.1 million, of which \$16.8 million was from the issuance of common stock under employee stock purchase and stock option plans and \$0.8

million from the tax benefit related to stock options and restricted stock units, partially offset by \$1.1 million of cash used for the payments on long-term debt related to the Japan loan and \$0.4 million of cash used for payments related to LitePoint acquisition contingent consideration.

---

## **Table of Contents**

Holders of our common stock are entitled to receive dividends if and when they are declared by our Board of Directors. In January 2014, our Board of Directors declared an initial quarterly cash dividend of \$0.06 per share that was paid on June 2, 2014 to stockholders of record as of May 9, 2014. In August 2014, our Board of Directors declared a quarterly cash dividend of \$0.06 per share that was paid on September 26, 2014 to stockholders of record as of September 5, 2014. Total dividend payments in the nine months ended September 28, 2014 were \$24.4 million. Payment of future cash dividends will rest within the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

In 2014, we deployed approximately \$75 million of capital into testers for customer leases bringing our total forecasted 2014 capital additions to \$169 million.

We believe our cash, cash equivalents and marketable securities balance will be sufficient to meet working capital and expenditure needs for at least the next twelve months. The amount of cash, cash equivalents and marketable securities in the U.S. and our operations in the U.S. provide sufficient liquidity to fund our business activities in the U.S. We have approximately \$460 million of cash, cash equivalents and marketable securities outside the U.S. that if repatriated would incur additional taxes. Inflation has not had a significant long-term impact on earnings.

## **Equity Compensation Plans**

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

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

## **Recently Issued Accounting Pronouncements**

On July 18, 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. Under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by unrecognized tax benefits. The provisions of this ASU are effective for interim and annual periods beginning on or after December 15, 2013. Our implementation of this ASU did not have a material impact on our financial position and results of operations.

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

this ASU on our financial position and results of operations.



**Table of Contents**

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

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

**Item 4: Controls and Procedures**

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

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

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

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

**Item 1A: Risk Factors**

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

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

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

In November 2010, Teradyne's Board of Directors authorized a stock repurchase program for up to \$200 million. The cumulative repurchases under the new program as of September 28, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

The following table includes information with respect to repurchases we made of our common stock during the three months ended September 28, 2014 (in thousands except per share price):

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
June 30, 2014 - July 27, 2014		\$		\$ 168,825
July 28, 2014 - August 24, 2014		\$		\$ 168,825
August 25, 2014 - September 28, 2014		\$		\$ 168,825
		\$		\$ 168,825

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

**Item 4: Mine Safety Disclosures**

Not Applicable

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

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
10.1	Executive Officer Change in Control Agreement dated September 1, 2014 between Teradyne, Inc. and Bradford Robbins (filed herewith)
10.2	Employment Agreement dated September 1, 2014 between Teradyne, Inc. and Bradford Robbins (filed herewith)
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

Table of Contents

**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 7, 2014**