

TERADYNE, INC  
Form 10-Q  
November 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 29, 2013

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 November 1, 2013 was 191,611,017 shares.

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

|  | <b>September 29,<br/>2013</b>        | <b>December 31,<br/>2012</b> |
|--|--------------------------------------|------------------------------|
|  | <b>(in thousands,</b>                |                              |
|  | <b>except per share information)</b> |                              |
| <b>ASSETS</b>  |                                      |                              |
| Current assets:  |                                      |                              |
| Cash and cash equivalents  | \$ 572,868                           | \$ 338,920                   |
| Marketable securities  | 384,334                              | 431,516                      |
| Accounts receivable, less allowance for doubtful accounts of \$3,562 and \$4,118 at September 29, 2013 and December 31, 2012, respectively | 209,386                              | 153,423                      |
| Inventories:   |                                      |                              |
| Parts  | 70,620                               | 89,598                       |
| Assemblies in process  | 25,923                               | 32,303                       |
| Finished goods   | 26,489                               | 17,509                       |
|  | 123,032                              | 139,410                      |
| Deferred tax assets  | 83,780                               | 77,305                       |
| Prepayments  | 109,107                              | 90,931                       |
| Other current assets   | 11,873                               | 4,556                        |
| Total current assets   | 1,494,380                            | 1,236,061                    |
| Net property, plant and equipment  | 275,421                              | 265,782                      |
| Long-term marketable securities  | 202,087                              | 235,872                      |
| Other assets   | 19,763                               | 20,209                       |
| Retirement plans assets  | 5,020                                | 3,282                        |
| Intangible assets, net   | 265,705                              | 318,867                      |
| Goodwill   | 349,272                              | 349,272                      |
| Total assets   | \$ 2,611,648                         | \$ 2,429,345                 |
| <b>LIABILITIES</b>   |                                      |                              |
| Current liabilities:   |                                      |                              |
| Accounts payable   | \$ 67,734                            | \$ 58,324                    |
| Accrued employees compensation and withholdings  | 78,616                               | 86,264                       |
| Deferred revenue and customer advances   | 70,367                               | 81,357                       |
| Other accrued liabilities  | 62,184                               | 57,249                       |
| Accrued income taxes   | 25,249                               | 12,306                       |
| Current debt   | 183,573                              | 2,328                        |
| Total current liabilities  | 487,723                              | 297,828                      |
| Long-term deferred revenue and customer advances   | 17,455                               | 16,227                       |
| Retirement plans liabilities   | 95,982                               | 94,373                       |
| Deferred tax liabilities   | 37,632                               | 50,201                       |
| Long-term other accrued liabilities  | 21,355                               | 21,302                       |
| Long-term debt   |                                      | 171,059                      |

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|                   |         |         |
|-------------------|---------|---------|
| Total liabilities | 660,147 | 650,990 |
|-------------------|---------|---------|

Commitments and contingencies (Note N)

**SHAREHOLDERS EQUITY**

|  |                  |                  |
|--|------------------|------------------|
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 191,399 shares and 187,908 shares issued and outstanding at September 29, 2013 and December 31, 2012, respectively | 23,925           | 23,488           |
| Additional paid-in capital   | 1,379,832        | 1,347,762        |
| Accumulated other comprehensive income   | 3,855            | 5,820            |
| Retained earnings  | 543,889          | 401,285          |
| <b>Total shareholders equity</b>   | <b>1,951,501</b> | <b>1,778,355</b> |
| Total liabilities and shareholders equity  | \$ 2,611,648     | \$ 2,429,345     |

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, 2012, 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<br>Ended           |                       | For the Nine Months<br>Ended |                       |
|---|---|-----------------------|------------------------------|-----------------------|
|   | September 29,<br>2013                   | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|   | (in thousands, except per share amount) |                       |                              |                       |
| Net revenues:                           |   |                       |                              |                       |
| Products                                | \$ 365,825                              | \$ 393,037            | \$ 943,212                   | \$ 1,204,506          |
| Services                                | 67,551                                  | 70,357                | 199,420                      | 203,840               |
| Total net revenues                      | 433,376                                 | 463,394               | 1,142,632                    | 1,408,346             |
| Cost of revenues:                       |   |                       |                              |                       |
| Cost of products                        | 150,365                                 | 169,782               | 405,569                      | 550,282               |
| Cost of services                        | 28,717                                  | 33,412                | 88,119                       | 97,432                |
| Total cost of revenues                  | 179,082                                 | 203,194               | 493,688                      | 647,714               |
| Gross profit                            | 254,294                                 | 260,200               | 648,944                      | 760,632               |
| Operating expenses:                     |   |                       |                              |                       |
| Engineering and development             | 68,918                                  | 63,946                | 199,442                      | 193,059               |
| Selling and administrative              | 72,917                                  | 69,030                | 210,037                      | 207,727               |
| Acquired intangible assets amortization | 18,064                                  | 18,429                | 54,163                       | 55,287                |
| Restructuring and other                 | 889                                     | 683                   | 1,480                        | (7,404)               |
| Total operating expenses                | 160,788                                 | 152,088               | 465,122                      | 448,669               |
| Income from operations                  | 93,506                                  | 108,112               | 183,822                      | 311,963               |
| Interest income                         | 948                                     | 1,067                 | 2,923                        | 2,834                 |
| Interest expense and other              | (6,902)                                 | (6,154)               | (20,262)                     | (18,536)              |
| Income before income taxes              | 87,552                                  | 103,025               | 166,483                      | 296,261               |
| Income tax provision                    | 18,093                                  | 14,384                | 23,879                       | 62,669                |
| Net income                              | \$ 69,459                               | \$ 88,641             | \$ 142,604                   | \$ 233,592            |
| Net income per common share:            |   |                       |                              |                       |
| Basic                                   | \$ 0.36                                 | \$ 0.47               | \$ 0.75                      | \$ 1.25               |
| Diluted                                 | \$ 0.29                                 | \$ 0.39               | \$ 0.61                      | \$ 1.02               |
| Weighted average common shares basic    | 191,307                                 | 187,364               | 190,521                      | 186,592               |
| Weighted average common shares diluted  | 235,828                                 | 229,210               | 235,165                      | 230,003               |

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, 2012, 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<br>Ended |                       | For the Nine Months<br>Ended |                       |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
|   | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|   | (in thousands)                |                       |                              |                       |
| Net income  | \$ 69,459                     | \$ 88,641             | \$ 142,604                   | \$ 233,592            |
| Other comprehensive income:   |                               |                       |                              |                       |
| Available-for-sale marketable securities:   |                               |                       |                              |                       |
| Net unrealized gains (losses) on marketable securities arising during period                                | 887                           | 1,259                 | (1,019)                      | 2,455                 |
| Less: Reclassification adjustment for net gains included in net income                                      | (202)                         | (93)                  | (621)                        | (583)                 |
| Net change  | 685                           | 1,166                 | (1,640)                      | 1,872                 |
| Defined benefit pension and post-retirement plans:  |                               |                       |                              |                       |
| Amortization of prior service net benefit included in net periodic pension cost and post-retirement benefit | (109)                         | (92)                  | (325)                        | (275)                 |
| Other comprehensive income (loss)   | 576                           | 1,074                 | (1,965)                      | 1,597                 |
| Comprehensive income  | \$ 70,035                     | \$ 89,715             | \$ 140,639                   | \$ 235,189            |

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, 2012, are an integral part of the condensed consolidated financial statements.



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

|  | <b>For the Nine Months<br/>Ended</b> |                               |
|--|--------------------------------------|-------------------------------|
|  | <b>September 29,<br/>2013</b>        | <b>September 30,<br/>2012</b> |
|  | <b>(in thousands)</b>                |                               |
| <b>Cash flows from operating activities:</b>   |                                      |                               |
| Net income   | \$ 142,604                           | \$ 233,592                    |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                      |                               |
| Depreciation   | 41,873                               | 39,812                        |
| Amortization   | 69,495                               | 67,366                        |
| Stock-based compensation   | 27,227                               | 30,634                        |
| Provision for excess and obsolete inventory  | 9,616                                | 16,408                        |
| Deferred taxes   | (19,211)                             | 7,076                         |
| Non cash charge for the sale of inventories revalued at the date of acquisition          |                                      | 6,089                         |
| Contingent consideration adjustment  |                                      | (8,373)                       |
| Tax benefit related to stock options and restricted stock units                          | (807)                                | (7,600)                       |
| Retirement plans actuarial (gains) losses  | (1,359)                              | 4,991                         |
| Impairment loss on property, plant and equipment   | 1,074                                |                               |
| Other  | 83                                   | (2,359)                       |
| <b>Changes in operating assets and liabilities:</b>                                      |                                      |                               |
| Accounts receivable  | (55,963)                             | (76,134)                      |
| Inventories  | 34,194                               | 25,070                        |
| Prepayments and other assets   | (26,312)                             | 7,278                         |
| Accounts payable and other accrued expenses  | 496                                  | (17,600)                      |
| Deferred revenue and customer advances   | (9,762)                              | (10,651)                      |
| Retirement plans contributions   | (3,569)                              | (3,679)                       |
| Accrued income taxes   | 13,750                               | 50,313                        |
| <b>Net cash provided by operating activities</b>   | <b>223,429</b>                       | <b>362,233</b>                |
| <b>Cash flows from investing activities:</b>   |                                      |                               |
| Purchases of property, plant and equipment   | (82,925)                             | (91,132)                      |
| Purchases of marketable securities   | (657,188)                            | (510,157)                     |
| Proceeds from maturities of marketable securities  | 401,901                              | 156,422                       |
| Proceeds from sales of marketable securities   | 332,597                              | 14,250                        |
| <b>Net cash used for investing activities</b>  | <b>(5,615)</b>                       | <b>(430,617)</b>              |
| <b>Cash flows from financing activities:</b>   |                                      |                               |
| Issuance of common stock under employee stock option and stock purchase plans            | 16,778                               | 17,959                        |
| Tax benefit related to stock options and restricted stock units                          | 807                                  | 7,600                         |
| Payments of long-term debt   | (1,063)                              | (1,246)                       |
| Payments of contingent consideration   | (388)                                | (43,973)                      |
| <b>Net cash provided by (used) for financing activities</b>                              | <b>16,134</b>                        | <b>(19,660)</b>               |
| <b>Increase (decrease) in cash and cash equivalents</b>                                  | <b>233,948</b>                       | <b>(88,044)</b>               |
| <b>Cash and cash equivalents at beginning of period</b>                                  | <b>338,920</b>                       | <b>573,736</b>                |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 572,868</b>                    | <b>\$ 485,692</b>             |

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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, 2012, are an integral part of the condensed consolidated financial statements.

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**TERADYNE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**A. The Company**

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

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

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

**B. Accounting Policies**

*Basis of Presentation*

The condensed consolidated interim financial statements include the accounts of Teradyne and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These interim financial statements are unaudited and reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of such interim financial statements. Certain prior year amounts were reclassified to conform to the current year presentation. The December 31, 2012 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. Security and Exchange Commission ( SEC ) on March 1, 2013, for the year ended December 31, 2012.

*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**

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. This ASU is intended to enhance the understanding of the effects of netting arrangements on an entity's financial statements, including financial instruments and derivative instruments that are either offset or subject to a master netting arrangement. The scope of this ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013. Teradyne adopted this ASU effective January 1, 2013. See Note D Financial Instruments and Derivatives.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* amending the disclosure requirements regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment



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does not change the current requirement for reporting net income or other comprehensive income, but requires additional disclosures about significant amounts reclassified out of accumulated other comprehensive income including the effect of the reclassification on the related statement of operations line items. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013. Teradyne adopted this amendment effective January 1, 2013. See Note I Accumulated Other Comprehensive Income.

On July 18, 2013, the FASB issued 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. Teradyne does not expect this ASU to have a material impact on its financial position or results of operations.

**D. Financial Instruments and Derivatives**

**Financial Instruments**

Teradyne uses the market and income approach to value its financial instruments and there was no change in valuation techniques used by Teradyne during the three and nine months ended September 29, 2013 and September 30, 2012. 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 are carried at fair value and are classified in one of the following three categories:

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

Level 2: Inputs other than Level 1, that are observable either directly or indirectly as of the reporting date. For example, a common approach for valuing fixed income securities is the use of matrix pricing. Matrix pricing is a mathematical technique used to value securities by relying on the securities' relationship to other benchmark quoted prices.

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.

Most of Teradyne's fixed income securities are classified as Level 2, with the exception of U.S. Treasury securities and investments in equity and debt mutual funds, which are classified as Level 1, and contingent consideration, which is classified as Level 3. The majority of Level 2 securities are priced by third party pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available, use other observable inputs like market transactions involving identical or comparable securities.

There were no realized losses recorded in the three and nine months ended September 29, 2013 and September 30, 2012. Realized gains recorded in the three and nine months ended September 29, 2013, were \$0.2 million and \$0.5 million, respectively. Realized gains recorded in the three and nine months ended September 30, 2012, were \$0.3 million and \$0.9 million, respectively. Realized gains are included in interest income.

During the nine months ended September 29, 2013 and September 30, 2012, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

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The following table sets forth by fair value hierarchy Teradyne's financial assets and liabilities that were measured at fair value on a recurring basis as of September 29, 2013 and December 31, 2012.

|   | September 29, 2013  |   |  | Total        |
|---|---|---|--|--------------|
|   | Quoted Prices<br>in Active<br>Markets<br>for<br>Identical<br>Instruments<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |              |
|   | (in thousands)  |   |  |              |
| Assets                                    |   |   |  |              |
| Cash                                      | \$ 147,819  | \$  | \$   | \$ 147,819   |
| Cash equivalents                          | 417,823   | 7,226   |  | 425,049      |
| Available-for-sale securities:            |   |   |  |              |
| U.S. government agency securities         |   | 229,129   |  | 229,129      |
| U.S. Treasury securities                  | 211,956   |   |  | 211,956      |
| Commercial paper                          |   | 88,891  |  | 88,891       |
| Corporate debt securities                 |   | 43,982  |  | 43,982       |
| Equity and debt mutual funds              | 12,122  |   |  | 12,122       |
| Certificates of deposit and time deposits |   | 261   |  | 261          |
| Non-U.S. government securities            |   | 80  |  | 80           |
| Total                                     | 789,720   | 369,569   |  | 1,159,289    |
| Derivatives                               |   | 276   |  | 276          |
| Total                                     | \$ 789,720  | \$ 369,845  | \$   | \$ 1,159,565 |

Reported as follows:

|                                 | (Level 1)      | (Level 2)  | (Level 3) | Total        |
|---------------------------------|----------------|------------|-----------|--------------|
|                                 | (in thousands) |            |           |              |
| Assets                          |                |            |           |              |
| Cash and cash equivalents       | \$ 565,642     | \$ 7,226   | \$        | \$ 572,868   |
| Marketable securities           | 185,085        | 199,249    |           | 384,334      |
| Long-term marketable securities | 38,993         | 163,094    |           | 202,087      |
| Other current assets            |                | 276        |           | 276          |
| Total                           | \$ 789,720     | \$ 369,845 | \$        | \$ 1,159,565 |

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|   | December 31, 2012   |   |  | Total        |
|---|---|---|--|--------------|
|   | Quoted Prices<br>in Active<br>Markets<br>for<br>Identical<br>Instruments<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |              |
| Assets                                    |   |   |  |              |
| Cash                                      | \$ 139,354  | \$  | \$   | \$ 139,354   |
| Cash equivalents                          | 183,039   | 16,527  |  | 199,566      |
| Available-for-sale securities:            |   |   |  |              |
| U.S. Treasury securities                  | 312,116   |   |  | 312,116      |
| U.S. government agency securities         |   | 217,655   |  | 217,655      |
| Commercial paper                          |   | 70,434  |  | 70,434       |
| Corporate debt securities                 |   | 55,755  |  | 55,755       |
| Equity and debt mutual funds              | 9,717   |   |  | 9,717        |
| Certificates of deposit and time deposits |   | 1,627   |  | 1,627        |
| Non-U.S. government securities            |   | 84  |  | 84           |
| Total                                     | 644,226   | 362,082   |  | 1,006,308    |
| Derivatives                               |   | 121   |  | 121          |
| Total                                     | \$ 644,226  | \$ 362,203  | \$   | \$ 1,006,429 |
| Liabilities                               |   |   |  |              |
| Contingent consideration                  | \$  | \$  | \$ 388   | \$ 388       |
| Total                                     | \$  | \$  | \$ 388   | \$ 388       |

Reported as follows:

|                                 | (Level 1)  | (Level 2)  | (Level 3) | Total        |
|---------------------------------|------------|------------|-----------|--------------|
| Assets                          |            |            |           |              |
| Cash and cash equivalents       | \$ 322,393 | \$ 16,527  | \$        | \$ 338,920   |
| Marketable securities           | 239,192    | 192,324    |           | 431,516      |
| Long-term marketable securities | 82,641     | 153,231    |           | 235,872      |
| Other current assets            |            | 121        |           | 121          |
| Total                           | \$ 644,226 | \$ 362,203 | \$        | \$ 1,006,429 |
| Liabilities                     |            |            |           |              |
| Other accrued liabilities       | \$         | \$         | \$ 388    | \$ 388       |
| Total                           | \$         | \$         | \$ 388    | \$ 388       |

During the nine months ended September 29, 2013, Teradyne made the final payment for Level 3 contingent consideration of \$0.4 million.

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The carrying amounts and fair values of financial instruments at September 29, 2013 and December 31, 2012 were as follows:

|                           | September 29, 2013 |            | December 31, 2012 |            |
|---------------------------|--------------------|------------|-------------------|------------|
|                           | Carrying Value     | Fair Value | Carrying Value    | Fair Value |
|                           | (in thousands)     |            |                   |            |
| Cash and cash equivalents | \$ 572,868         | \$ 572,868 | \$ 338,920        | \$ 338,920 |
| Marketable securities     | 586,421            | 586,421    | 667,388           | 667,388    |
| Convertible debt(1)       | 181,550            | 580,206    | 169,896           | 589,000    |
| Japan loan                | 2,023              | 2,023      | 3,491             | 3,491      |

(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 29, 2013 and December 31, 2012:

|   | September 29, 2013 |                 |                   |                   | Fair Market Value of Investments with Unrealized Losses |
|---|--------------------|-----------------|-------------------|-------------------|---|
|   | Cost               | Unrealized Gain | Unrealized (Loss) | Fair Market Value |   |
|   | Available-for-Sale |                 |                   |                   |   |
|   | (in thousands)     |                 |                   |                   |   |
| U.S. government agency securities         | \$ 229,133         | \$ 142          | \$ (146)          | \$ 229,129        | \$ 103,165  |
| U.S. Treasury securities                  | 211,966            | 140             | (150)             | 211,956           | 5,605   |
| Commercial paper                          | 88,884             | 12              | (5)               | 88,891            | 25,169  |
| Corporate debt securities                 | 44,132             | 905             | (1,055)           | 43,982            | 16,439  |
| Equity and debt mutual funds              | 9,843              | 2,315           | (36)              | 12,122            | 595   |
| Certificates of deposit and time deposits | 261                |                 |                   | 261               |   |
| Non-U.S. government securities            | 80                 |                 |                   | 80                |   |
|   | \$ 584,299         | \$ 3,514        | \$ (1,392)        | \$ 586,421        | \$ 150,973  |

Reported as follows:

|                                 | Cost           | Unrealized Gain | Unrealized (Loss) | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
|---------------------------------|----------------|-----------------|-------------------|-------------------|---|
|                                 | (in thousands) |                 |                   |                   |   |
| Marketable securities           | \$ 384,180     | \$ 168          | \$ (14)           | \$ 384,334        | \$ 37,823   |
| Long-term marketable securities | 200,119        | 3,346           | (1,378)           | 202,087           | 113,150   |
|                                 | \$ 584,299     | \$ 3,514        | \$ (1,392)        | \$ 586,421        | \$ 150,973  |





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|   | December 31, 2012  |                 |                                  |                   | Fair Market Value of Investments with Unrealized Losses |
|---|--------------------|-----------------|----------------------------------|-------------------|---|
|   | Available-for-Sale |                 |                                  |                   |   |
|   | Cost               | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value |   |
| U.S. Treasury securities                  | \$ 311,915         | \$ 216          | \$ (15)                          | \$ 312,116        | \$ 1,018  |
| U.S. government agency securities         | 217,396            | 262             | (3)                              | 217,655           | 9,018   |
| Commercial paper                          | 70,431             | 9               | (6)                              | 70,434            | 25,209  |
| Corporate debt securities                 | 53,405             | 2,414           | (64)                             | 55,755            | 23,255  |
| Equity and debt mutual funds              | 8,767              | 961             | (11)                             | 9,717             | 600   |
| Certificates of deposit and time deposits | 1,627              |                 |                                  | 1,627             |   |
| Non-U.S. government securities            | 84                 |                 |                                  | 84                |   |
|   | \$ 663,625         | \$ 3,862        | \$ (99)                          | \$ 667,388        | \$ 59,100   |

Reported as follows:

|                                 | Cost       | Unrealized Gain | Unrealized (Loss) (in thousands) | Fair Market Value | Fair Market Value of Investments with Unrealized Losses |
|---------------------------------|------------|-----------------|----------------------------------|-------------------|---|
|                                 |            |                 |                                  |                   |   |
| Marketable securities           | \$ 431,324 | \$ 203          | \$ (11)                          | \$ 431,516        | \$ 41,110   |
| Long-term marketable securities | 232,301    | 3,659           | (88)                             | 235,872           | 17,990  |
|                                 | \$ 663,625 | \$ 3,862        | \$ (99)                          | \$ 667,388        | \$ 59,100   |

As of September 29, 2013, the fair market value of marketable securities with unrealized losses totaled \$151.0 million. Of this value, \$0.5 million had unrealized losses greater than one year and \$150.5 million had unrealized losses less than one year. As of December 31, 2012, the fair market value of marketable securities with unrealized losses totaled \$59.1 million and none of the unrealized losses were greater than one year.

The contractual maturities of available-for-sale marketable securities at September 29, 2013 were as follows:

|                                    | September 29, 2013 |                   |
|------------------------------------|--------------------|-------------------|
|                                    | Cost               | Fair Market Value |
|                                    | (in thousands)     |                   |
| Due within one year                | \$ 384,180         | \$ 384,334        |
| Due after 1 year through 5 years   | 173,407            | 175,657           |
| Due after 5 years through 10 years | 3,131              | 3,188             |
| Due after 10 years                 | 23,581             | 23,242            |
| Total                              | \$ 584,299         | \$ 586,421        |

**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 net

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monetary assets. 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 fair value of the monetary assets and liabilities denominated in foreign currencies.

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The notional amount of foreign exchange contracts hedging monetary assets and liabilities denominated in foreign currencies was \$64.1 million and \$64.1 million at September 29, 2013 and December 31, 2012, respectively.

The following table summarizes the fair value of derivative instruments at September 29, 2013 and December 31, 2012:

|  | Balance Sheet Location | September 29,<br>2013 | December 31,<br>2012 |
|--|------------------------|-----------------------|----------------------|
| (in thousands)                                     |                        |                       |                      |
| Derivatives not designated as hedging instruments: |                        |                       |                      |
| Foreign exchange contracts                         | Other current assets   | \$ 276                | \$ 121               |
|  |                        | \$ 276                | \$ 121               |

Teradyne had no offsetting foreign exchange contracts at September 29, 2013 and December 31, 2012.

The following table summarizes the effect of derivative instruments recognized in the statement of operations during the three and nine months ended September 29, 2013 and September 30, 2012. The table does not reflect the corresponding (losses) gains from the remeasurement of the monetary assets and liabilities denominated in foreign currencies. 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. For the three and nine months ended September 30, 2012, gains from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$1.2 million and \$0.8 million, respectively.

|  | Location of Gains<br>(Losses)<br>Recognized in<br>Statement<br>of Operations | For the Three<br>Months Ended |                       | For the Nine<br>Months Ended |                       |
|--|--|-------------------------------|-----------------------|------------------------------|-----------------------|
|  |  | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
| (in thousands)                                     |  |                               |                       |                              |                       |
| Derivatives not designated as hedging instruments: |  |                               |                       |                              |                       |
| Foreign exchange contracts                         | Interest expense<br>and other  | \$ 1                          | \$ (1,197)            | \$ 4,068                     | \$ (677)              |
|  |  | \$ 1                          | \$ (1,197)            | \$ 4,068                     | \$ (677)              |

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 is denominated in Japanese Yen). The loan has a term of 5 years and a fixed interest rate of 0.8%. Approximately \$6.0 million of the loan is collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million is unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The loan is amortized over the term of the loan with semiannual principal payments of approximately \$1.0 million payable on September 30 and March 30 each year. At September 29, 2013, the outstanding loan principal of approximately \$2.0 million is included in current debt.

**Table of Contents****Convertible Senior Notes**

In April 2009, Teradyne issued 4.50% convertible senior notes (the "Notes") at an aggregate principal amount of \$190 million. The Notes will mature on March 15, 2014, unless earlier repurchased by Teradyne or converted. The Notes are senior unsecured obligations and rank equally with all of Teradyne's existing and future senior debt and senior to any of Teradyne's subordinated debt.

The Notes may be converted, at the option of the holder, under certain circumstances and during certain periods, at an initial conversion rate of approximately 182.65 shares of Teradyne's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$5.48, a 25% conversion premium based on the last reported sale price of \$4.38 per share of Teradyne's common stock on March 31, 2009. The conversion rate is subject to adjustment in certain circumstances including but not limited to Teradyne issuing a cash or stock dividend or effecting a stock split.

During the three months ended September 29, 2013, the following circumstance occurred that allows holders to convert their Notes at their option prior to December 15, 2013: the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter. As of November 8, 2013, one holder exercised the option to convert two thousand dollars worth of Notes which Teradyne settled in cash.

Concurrently with the offering of the Notes, Teradyne entered into a convertible note hedge transaction with a strike price equal to the initial conversion price of the Notes, or approximately \$5.48. The convertible note hedge allows Teradyne to receive shares of its common stock and/or cash related to the excess conversion value that it would pay to the holders of the Notes upon conversion. The convertible note hedges will cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of Teradyne's common stock. Teradyne paid approximately \$64.6 million for the convertible note hedges.

On March 31, 2009, Teradyne entered into a warrant transaction with a strike price of approximately \$7.67 per share, which was 75% higher than the closing price of Teradyne's common stock. Teradyne received approximately \$43.0 million for the warrants.

The convertible note hedge and warrant transaction will generally have the effect of increasing the conversion price of the Notes to approximately \$7.67 per share of Teradyne's common stock, representing a 75% conversion premium based upon the closing price of Teradyne's common stock on March 31, 2009.

The Notes are classified as current debt in the balance sheet at September 29, 2013. The tables below represent the components of Teradyne's convertible senior notes:

|   | September 29,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
|   | (in thousands)        |                      |
| Debt principal                              | \$ 189,998            | \$ 190,000           |
| Unamortized debt discount                   | 8,448                 | 20,104               |
| Net carrying amount of the convertible debt | \$ 181,550            | \$ 169,896           |

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The interest expense on Teradyne's convertible senior notes for the three and nine months ended September 29, 2013 and September 30, 2012 was as follows:

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|  | (in thousands)             |                    |                           |                    |
| Contractual interest expense                               | \$ 2,114                   | \$ 2,114           | \$ 6,388                  | \$ 6,413           |
| Amortization of the discount component and debt issue fees | 4,221                      | 3,710              | 12,266                    | 10,781             |
| <b>Total interest expense on the convertible debt</b>      | <b>\$ 6,335</b>            | <b>\$ 5,824</b>    | <b>\$ 18,654</b>          | <b>\$ 17,194</b>   |

As of September 29, 2013, the unamortized discount was \$8.4 million, which will be amortized over the next six months, and the carrying amount of the equity component was \$63.4 million. As of September 29, 2013, the conversion rate was equal to the initial conversion price of approximately \$5.48 per share and the if-converted value of the Notes was \$579.9 million.

**F. 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.

|   | September 29, 2013 | December 31, 2012 |
|---|--------------------|-------------------|
|   | (in thousands)     |                   |
| Maintenance, training and extended warranty         | \$ 56,481          | \$ 51,198         |
| Customer advances                                   | 22,287             | 39,613            |
| Undelivered elements                                | 9,054              | 6,773             |
| <b>Total deferred revenue and customer advances</b> | <b>\$ 87,822</b>   | <b>\$ 97,584</b>  |

**G. 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.

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|  | (in thousands)             |                    |                           |                    |
| Balance at beginning of period                   | \$ 7,351                   | \$ 11,047          | \$ 9,786                  | \$ 8,154           |
| Accruals for warranties issued during the period | 3,674                      | 4,118              | 8,781                     | 13,543             |
| Adjustments related to pre-existing warranties   | (524)                      | 1,226              | (2,323)                   | 1,369              |
| Settlements made during the period               | (2,470)                    | (3,813)            | (8,213)                   | (10,488)           |
| <b>Balance at end of period</b>                  | <b>\$ 8,031</b>            | <b>\$ 12,578</b>   | <b>\$ 8,031</b>           | <b>\$ 12,578</b>   |



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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.

|   | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
|   | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|   | (in thousands)                |                       |                              |                       |
| Balance at beginning of period                    | \$ 34,854                     | \$ 20,754             | \$ 26,987                    | \$ 12,742             |
| Deferral of new extended warranty revenue         | 5,586                         | 8,733                 | 17,791                       | 21,015                |
| Recognition of extended warranty deferred revenue | (4,120)                       | (2,007)               | (8,458)                      | (6,277)               |
| Balance at end of period                          | \$ 36,320                     | \$ 27,480             | \$ 36,320                    | \$ 27,480             |

**H. Stock-Based Compensation**

Restricted stock unit awards granted to employees vest in equal installments over four years. A portion of restricted stock unit awards granted to executive officers is subject to time-based vesting and a portion is subject to performance-based vesting. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting will be forfeited. Stock options vest in equal installments over four years, and have a term of seven years from the date of grant.

During the nine months ended September 29, 2013, Teradyne granted 1.9 million of 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.

During the nine months ended September 30, 2012, Teradyne granted 1.7 million of restricted stock unit awards to employees at a weighted average grant date fair value of \$16.73 and 0.2 million of service-based stock options to executive officers at a weighted average grant date fair value of \$6.85.

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

|                       | For the Nine Months<br>Ended |                       |
|-----------------------|------------------------------|-----------------------|
|                       | September 29,<br>2013        | September 30,<br>2012 |
| Expected life (years) | 4.0                          | 3.5                   |
| Interest rate         | 0.6%                         | 0.4%                  |
| Volatility-historical | 46.8%                        | 56.0%                 |
| Dividend yield        | 0.0%                         | 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 rate was determined using the U.S. Treasury yield curve in effect at the time of grant.

Effective January 1, 2013, the price paid by employees for Teradyne's common stock purchased through the employee stock purchase plan is equal to 85% of the stock price on the last business day of the purchase period.



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During 2012, the price paid by employees for Teradyne's common stock purchased through the employee stock purchase plan was equal to 85% of the lower of the stock price on the first or last business day of the purchase period.

The weighted-average fair value of employee stock purchase rights granted in the nine months ended September 30, 2012 was \$3.75. The fair value of the employees' purchase rights granted in the nine months ended September 30, 2012 was estimated using the Black-Scholes option-pricing model with the following assumptions:

|                       | <b>For the Nine Months Ended<br/>September 30,<br/>2012</b> |
|-----------------------|---|
| Expected life (years) | 0.5   |
| Interest rate         | 0.11%   |
| Volatility-historical | 42.7%   |
| Dividend yield        | 0.0%  |

**I. Accumulated Other Comprehensive Income**

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

|  | <b>Unrealized Gains on<br/>Marketable Securities</b> | <b>Retirement Plans<br/>Prior Service Credit<br/>(in thousands)</b> | <b>Total</b> |
|--|--|---|--------------|
| Balance at December 31, 2012 (a)                                 | \$ 2,925   | \$ 2,895  | \$ 5,820     |
| Other comprehensive income before reclassifications              | (1,019)  |   | (1,019)      |
| Amounts reclassified from accumulated other comprehensive income | (621)  | (325)   | (946)        |
| Net current period other comprehensive income                    | (1,640)  | (325)   | (1,965)      |
| Balance at September 29, 2013 (a)                                | \$ 1,285   | \$ 2,570  | \$ 3,855     |

(a) Net of tax of \$835 for unrealized gains on marketable securities and \$(125) for retirement plans prior service credit. Reclassifications out of accumulated other comprehensive income to the statement of operations for the three and nine months ended September 29, 2013 and September 30, 2012, were as follows:

**Details about Accumulated****Other Comprehensive Income**

| Components  | For the Three Months Ended |                       | For the Nine Months Ended |                       | Affected Line Item<br>in the Statements<br>of Operations |
|---|----------------------------|-----------------------|---------------------------|-----------------------|--|
|   | September 29,<br>2013      | September 30,<br>2012 | September 29,<br>2013     | September 30,<br>2012 |  |
| Available-for-sale marketable securities                            |                            |                       |                           |                       |  |
| Unrealized gains  | \$ 202                     | \$ 93                 | \$ 621                    | \$ 583                | Interest income  |
|   | \$ 202                     | \$ 93                 | \$ 621                    | \$ 583                |  |
| Amortization of defined benefit pension and<br>postretirement plans | \$ 109                     | \$ 92                 | \$ 325                    | \$ 275                | (a)  |

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|                         |        |        |        |        |            |
|-------------------------|--------|--------|--------|--------|------------|
| Prior service benefit   |        |        |        |        |            |
|                         | \$ 109 | \$ 92  | \$ 325 | \$ 275 |            |
| Total reclassifications | \$ 311 | \$ 185 | \$ 946 | \$ 858 | Net income |

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

**Table of Contents****J. Intangible Assets**

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

|   | Gross<br>Carrying<br>Amount | September 29, 2013                            |                           | Weighted<br>Average<br>Useful Life |
|---|-----------------------------|---|---------------------------|------------------------------------|
|   |                             | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>Amount |                                    |
| Developed technology  | \$ 358,555                  | \$ 180,960                                    | \$ 177,595                | 6.3 years                          |
| Customer relationships and service and software maintenance contracts | 144,971                     | 77,139  | 67,832                    | 8.0 years                          |
| Trade names and trademarks  | 33,840                      | 13,562  | 20,278                    | 9.0 years                          |
| Customer backlog  | 1,000                       | 1,000   |                           | 0.4 years                          |
| <b>Total intangible assets</b>  | <b>\$ 538,366</b>           | <b>\$ 272,661</b>                             | <b>\$ 265,705</b>         | <b>7.0 years</b>                   |

|   | Gross<br>Carrying<br>Amount | December 31, 2012                             |                           | Weighted<br>Average<br>Useful Life |
|---|-----------------------------|---|---------------------------|------------------------------------|
|   |                             | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>Amount |                                    |
| Developed technology  | \$ 357,555                  | \$ 143,126                                    | \$ 214,429                | 6.3 years                          |
| Customer relationships and service and software maintenance contracts | 144,971                     | 63,464  | 81,507                    | 8.0 years                          |
| Trade names and trademarks  | 33,840                      | 10,909  | 22,931                    | 9.0 years                          |
| Customer backlog  | 1,000                       | 1,000   |                           | 0.4 years                          |
| <b>Total intangible assets</b>  | <b>\$ 537,366</b>           | <b>\$ 218,499</b>                             | <b>\$ 318,867</b>         | <b>7.0 years</b>                   |

Aggregate intangible asset amortization expense was \$18.1 million and \$54.2 million, respectively, for the three and nine months ended September 29, 2013 and \$18.4 million and \$55.3 million, respectively, for the three and nine months ended September 30, 2012. Estimated intangible asset amortization expense for each of the five succeeding fiscal years is as follows:

| Year             | Amortization Expense<br>(in thousands) |
|------------------|--|
| 2013 (remainder) | \$ 18,052                              |
| 2014             | 69,213                                 |
| 2015             | 52,462                                 |
| 2016             | 52,462                                 |
| 2017             | 46,304                                 |

**Table of Contents****K. 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<br>Ended            |                       | For the Nine Months<br>Ended |                       |
|--|--|-----------------------|------------------------------|-----------------------|
|  | September 29,<br>2013                    | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|  | (in thousands, except per share amounts) |                       |                              |                       |
| Net income for basic and diluted net income per share              | \$ 69,459                                | \$ 88,641             | \$ 142,604                   | \$ 233,592            |
| Weighted average common shares-basic                               | 191,307                                  | 187,364               | 190,521                      | 186,592               |
| Effect of dilutive potential common shares:                        |  |                       |                              |                       |
| Incremental shares from assumed conversion of convertible notes(1) | 23,257                                   | 21,890                | 23,303                       | 22,397                |
| Convertible note hedge warrant shares(2)                           | 18,678                                   | 16,765                | 18,742                       | 17,474                |
| Restricted stock units   | 1,102                                    | 1,423                 | 1,000                        | 1,413                 |
| Stock options  | 1,465                                    | 1,735                 | 1,564                        | 2,075                 |
| Employee stock purchase rights                                     | 19                                       | 33                    | 35                           | 52                    |
| Dilutive potential common shares                                   | 44,521                                   | 41,846                | 44,644                       | 43,411                |
| Weighted average common shares-diluted                             | 235,828                                  | 229,210               | 235,165                      | 230,003               |
| Net income per common share-basic                                  | \$ 0.36                                  | \$ 0.47               | \$ 0.75                      | \$ 1.25               |
| Net income per common share-diluted                                | \$ 0.29                                  | \$ 0.39               | \$ 0.61                      | \$ 1.02               |

- (1) Incremental shares from assumed conversion of the convertible notes for the three and nine months ended September 29, 2013 and September 30, 2012 are calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, 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 convertible debt, is divided by the average Teradyne stock price for the period.
- (2) Convertible note hedge warrant shares for the three and nine months ended September 29, 2013 and September 30, 2012 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 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.

The computation of diluted net income per common share for the three and nine months ended September 30, 2012 excludes the effect of the potential exercise of stock options to purchase approximately 0.3 million shares, and the computation of the three and nine months ended September 30, 2012 excludes the effect of the potential exercise of restricted stock units of 0.1 million and 0.4 million, because the effect would have been anti-dilutive.

With respect to Teradyne's convertible debt, Teradyne intends to settle its conversion spread (i.e., the intrinsic value of the embedded option feature contained in the convertible debt) in shares. Teradyne accounts for its conversion spread using the treasury stock method.

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

During the nine months ended September 29, 2013, Teradyne recorded \$1.3 million of severance charges related to headcount reductions of 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 in Corporate for a change in the estimated exit costs related to a leased facility.

During the nine months ended September 30, 2012, Teradyne recorded \$0.7 million of severance charges related to headcount reductions of 9 people, of which \$0.5 million and 7 people were in System Test, \$0.2 million and 2 people were in Wireless Test.

|                               | Severance<br>and<br>Benefits | Facility<br>Exit<br>Costs<br>(in thousands) | Total    |
|-------------------------------|------------------------------|---|----------|
| <b>Pre-2012 Activities</b>    |                              |   |          |
| Balance at December 31, 2011  | \$ 325                       | \$ 1,862                                    | \$ 2,187 |
| Cash payments                 | (325)                        | (778)                                       | (1,103)  |
| Balance at December 31, 2012  |                              | 1,084                                       | 1,084    |
| Change in estimate            |                              | (105)                                       | (105)    |
| Cash payments                 |                              | (183)                                       | (183)    |
| Balance at March 31, 2013     |                              | 796   | 796      |
| Cash payments                 |                              | (199)                                       | (199)    |
| Balance at June 30, 2013      |                              | 597   | 597      |
| Change in estimate            |                              | (448)                                       | (448)    |
| Cash payments                 |                              | (149)                                       | (149)    |
| Balance at September 29, 2013 | \$                           | \$  | \$       |
| <b>2012 Activities</b>        |                              |   |          |
| <i>Q3 2012 Activity:</i>      |                              |   |          |
| Provision                     | \$ 687                       | \$  | \$ 687   |
| Cash payments                 | (444)                        |   | (444)    |
| Balance at December 31, 2012  | 243                          |   | 243      |
| Cash payments                 | (243)                        |   | (243)    |
| Balance at March 31, 2013     | \$                           | \$  | \$       |
| <b>2013 Activities</b>        |                              |   |          |
| <i>Q3 2013 Activity:</i>      |                              |   |          |
| Provision                     | \$ 1,337                     | \$  | \$ 1,337 |
| Cash payments                 | (884)                        |   | (884)    |
| Balance at September 29, 2013 | \$ 453                       | \$  | \$ 453   |
| Balance at September 29, 2013 | \$ 453                       | \$  | \$ 453   |

The remaining accrual for severance and benefits of \$0.5 million is reflected in the accrued employees compensation and withholdings on the balance sheet and is expected to be paid by June 2014.

*Other*

During the nine months ended September 30, 2012, due to a decrease in specified new product revenue through December 31, 2012 earn-out period end date, Teradyne recorded an \$8.4 million fair value adjustment to decrease the LitePoint acquisition contingent consideration.

**Table of Contents****M. Retirement Plans****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.

Net periodic pension cost was comprised of the following:

|   | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|   | (in thousands)             |                    |                           |                    |
| Service cost                                    | \$ 871                     | \$ 685             | \$ 2,557                  | \$ 2,054           |
| Interest cost                                   | 3,350                      | 4,111              | 10,001                    | 12,333             |
| Expected return on plan assets                  | (3,664)                    | (4,090)            | (10,925)                  | (12,269)           |
| Amortization of unrecognized prior service cost | 41                         | 58                 | 123                       | 174                |
| Actuarial loss (gain)                           |                            | 1,937              | (1,122)                   | 5,083              |
| Total net periodic pension cost                 | \$ 598                     | \$ 2,701           | \$ 634                    | \$ 7,375           |

In the nine months ended September 29, 2013, Teradyne contributed \$1.3 million to the U.S. supplemental executive defined benefit pension plan and \$1.3 million to certain qualified plans for non-U.S. subsidiaries.

During the three months ended September 30, 2012, Teradyne offered to certain former U.S. employees the option to receive their vested pension benefit as a one-time lump sum payment. Approximately 2,000 former employees selected to receive a one-time lump sum payment. Total one-time lump sum payments were approximately \$52.0 million.

**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.

Net periodic postretirement benefit was comprised of the following:

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|  | (in thousands)             |                    |                           |                    |
| Service cost                                       | \$ 19                      | \$ 17              | \$ 56                     | \$ 50              |
| Interest cost                                      | 86                         | 109                | 257                       | 328                |
| Amortization of unrecognized prior service benefit | (150)                      | (150)              | (449)                     | (449)              |
| Actuarial gain                                     |                            |                    | (236)                     | (92)               |

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|  |         |         |          |          |
|--|---------|---------|----------|----------|
| Total net periodic post-retirement benefit | \$ (45) | \$ (24) | \$ (372) | \$ (163) |
|--|---------|---------|----------|----------|



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### **N. Commitments and Contingencies**

#### ***Purchase Commitments***

As of September 29, 2013, Teradyne had entered into purchase commitments for certain components and materials. The purchase commitments aggregate to approximately \$243.3 million, of which \$231.5 million is for less than one year.

#### ***Legal Claims***

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

On May 17, 2013, Boston Semi Equipment ( BSE ) filed a complaint against Teradyne for antitrust violations and unfair business practices alleging that Teradyne excluded BSE from competing in the market for the sale of reconfigured Teradyne equipment and the market for the repair of Teradyne equipment. BSE sought unspecified damages and an injunction. Teradyne filed a motion to dismiss the complaint. On October 18, 2013, the parties settled the litigation. The settlement included no monetary consideration. The settlement did not and will not have a material impact on Teradyne's consolidated financial results.

### **O. Income Taxes**

The effective tax rate for the three months ended September 29, 2013 and September 30, 2012 was 21% and 14%, respectively. The increase in Teradyne's tax rate for the three months ended September 29, 2013 compared to the three months ended September 30, 2012, was primarily attributable to the reduction to deferred income tax benefit recognized discretely in 2012 in connection with Teradyne's plan to repatriate the unremitted earnings of its Japanese subsidiary.

The effective tax rate for the nine months ended September 29, 2013 and September 30, 2012 was 14% and 21%, respectively. The decrease in Teradyne's tax rate for the nine months ended September 29, 2013 compared to the nine months ended September 30, 2012, was primarily the result of recognizing the tax benefit attributable to the retroactive reinstatement of the U.S. research and development credit and the mix of income by jurisdiction.

The effective tax rate for the three months and nine months ended September 29, 2013 is lower than the 35% U.S. statutory federal tax rate primarily due to the research and development credit and the effect of foreign income taxed at a rate lower than the U.S. statutory rate.

### **P. Segment Information**

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

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Teradyne evaluates performance based on several factors, of which the primary financial measure is business segment income before income taxes. The accounting policies of the business segments are the same as those described in Note B Accounting Policies in Teradyne's Annual Report on Form 10-K for the year ended December 31, 2012. Segment information is as follows:

|   | Semiconductor<br>Test | Wireless<br>Test | System<br>Test<br>(in thousands) | Corporate<br>and<br>Eliminations | Consolidated |
|---|-----------------------|------------------|----------------------------------|----------------------------------|--------------|
| <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>Three months ended September 30, 2012:</b> |                       |                  |                                  |                                  |              |
| Net revenues                                  | \$ 310,979            | \$ 118,571       | \$ 33,844                        | \$                               | \$ 463,394   |
| Income (loss) before income taxes(1)(2)       | 55,348                | 58,902           | (2,642)                          | (8,583)                          | 103,025      |
| <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      |
| <b>Nine months ended September 30, 2012:</b>  |                       |                  |                                  |                                  |              |
| Net revenues                                  | \$ 943,625            | \$ 261,827       | \$ 202,894                       | \$                               | \$ 1,408,346 |
| Income (loss) before income taxes(1)(2)       | 181,594               | 97,729           | 30,964                           | (14,026)                         | 296,261      |

- (1) Pension and post retirement 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 29, 2013 and September 30, 2012 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<br>Ended |                       | For the Nine Months<br>Ended |                       |
|--|-------------------------------|-----------------------|------------------------------|-----------------------|
|  | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|  | (in thousands)                |                       |                              |                       |
| Cost of revenues provision for excess and obsolete inventory | \$ 1,378                      | \$ 3,085              | \$ 1,878                     | \$ 9,254              |
| Restructuring and other                                      | 282                           | (4)                   | 416                          | 315                   |
| <b>Total</b>   | <b>\$ 1,660</b>               | <b>\$ 3,081</b>       | <b>\$ 2,294</b>              | <b>\$ 9,569</b>       |

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

|  | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |
|--|-------------------------------|-----------------------|------------------------------|-----------------------|
|  | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
|  | (in thousands)                |                       |                              |                       |
| Cost of revenues provision for excess and obsolete inventory | \$ 2,059                      | \$ 2,018              | \$ 6,125                     | \$ 4,134              |
| Cost of revenues inventory step-up                           |                               |                       |                              | 6,089                 |
| Restructuring and other                                      |                               | 236                   | 82                           | 236                   |

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|       |          |          |          |           |
|-------|----------|----------|----------|-----------|
| Total | \$ 2,059 | \$ 2,254 | \$ 6,207 | \$ 10,459 |
|-------|----------|----------|----------|-----------|

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

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|  | (in thousands)             |                    |                           |                    |
| Cost of revenues provision for excess and obsolete inventory | \$ 404                     | \$ 378             | \$ 1,613                  | \$ 3,020           |
| Restructuring and other                                      | 1,055                      | 451                | 1,430                     | 451                |
| <b>Total</b>   | <b>\$ 1,459</b>            | <b>\$ 829</b>      | <b>\$ 3,043</b>           | <b>\$ 3,471</b>    |

Included in Corporate and Eliminations are credits for the following:

|                         | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|-------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                         | September 29, 2013         | September 30, 2012 | September 29, 2013        | September 30, 2012 |
|                         | (in thousands)             |                    |                           |                    |
| Restructuring and other | \$ (448)                   | \$                 | \$ (448)                  | \$ (8,406)         |
| <b>Total</b>            | <b>\$ (448)</b>            | <b>\$</b>          | <b>\$ (448)</b>           | <b>\$ (8,406)</b>  |

**Q. 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 29, 2013 and September 30, 2012, Teradyne did not repurchase any shares. Cumulatively, as of September 29, 2013, Teradyne has repurchased 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84.

**R. Subsequent Events**

On October 25, 2013, Teradyne completed its acquisition of ZTEC Instruments, Inc. ( ZTEC ) located in Albuquerque, New Mexico. The acquisition was completed by acquiring all of the common and preferred stock of ZTEC for approximately \$15 million and up to \$5 million payable upon achievement of certain performance targets through December 31, 2015. The fair value of assets and liabilities acquired has not been disclosed because Teradyne has not completed the valuation. ZTEC is a supplier of modular wireless test instruments. The acquisition of ZTEC expands Teradyne's wireless segment into the design verification test of wireless components and chipsets.

On November 1, 2013, Teradyne sold its equity interest in Empirix Inc. and received proceeds of \$34.2 million. An additional \$5.2 million of proceeds will be held in escrow for 15 months, for potential indemnifications to the buyer. Teradyne will record a gain of \$34.2 million in the fourth quarter of 2013.

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

Statements in this Quarterly Report on Form 10-Q which are not historical facts, so called forward looking statements, are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in our filings with the Securities and Exchange Commission. See also Part II, Item 1A of this Quarterly Report on Form 10-Q and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. 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 and inspection ( Commercial 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.

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

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

In 2011, we acquired LitePoint Corporation ( LitePoint ) to expand our product portfolio of test equipment in the wireless test sector. LitePoint designs, develops, and supports advanced wireless test solutions for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi and cellular enabled devices. LitePoint and the design verification test business from ZTEC constitute our Wireless Test segment.

We believe our acquisitions of LitePoint and ZTEC, have enhanced our opportunities for growth. We will continue to invest in our business to further expand our addressable markets while tightly managing our costs.

#### **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 29, 2013 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, 2012.



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

|   | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
|   | September 29,<br>2013         | September 30,<br>2012 | September 29,<br>2013        | September 30,<br>2012 |
| Percentage of total net revenues:       |                               |                       |                              |                       |
| Net revenues:                           |                               |                       |                              |                       |
| Products                                | 84%                           | 85%                   | 83%                          | 86%                   |
| Services                                | 16                            | 15                    | 17                           | 14                    |
| Total net revenues                      | 100                           | 100                   | 100                          | 100                   |
| Cost of revenues:                       |                               |                       |                              |                       |
| Cost of products                        | 35                            | 37                    | 35                           | 39                    |
| Cost of services                        | 7                             | 7                     | 8                            | 7                     |
| Total cost of revenues                  | 41                            | 44                    | 43                           | 46                    |
| Gross profit                            | 59                            | 56                    | 57                           | 54                    |
| Operating expenses:                     |                               |                       |                              |                       |
| Engineering and development             | 16                            | 14                    | 17                           | 14                    |
| Selling and administrative              | 17                            | 15                    | 18                           | 15                    |
| Acquired intangible assets amortization | 4                             | 4                     | 5                            | 4                     |
| Restructuring and other                 |                               |                       |                              | (1)                   |
| Total operating expenses                | 37                            | 33                    | 41                           | 32                    |
| Income from operations                  | 22                            | 23                    | 16                           | 22                    |
| Interest income                         |                               |                       |                              |                       |
| Interest expense and other              | (2)                           | (1)                   | (2)                          | (1)                   |
| Income before income taxes              | 20                            | 22                    | 15                           | 21                    |
| Income tax provision                    | 4                             | 3                     | 2                            | 4                     |
| Net income                              | 16%                           | 19%                   | 12%                          | 17%                   |

**Results of Operations***Third Quarter 2013 Compared to Third Quarter 2012**Book to Bill Ratio*

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

|                    | For the Three Months<br>Ended |                       |
|--------------------|-------------------------------|-----------------------|
|                    | September 29,<br>2013         | September 30,<br>2012 |
| Semiconductor Test | 0.7                           | 0.5                   |

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|               |     |     |
|---------------|-----|-----|
| Wireless Test | 0.4 | 0.4 |
| System Test   | 0.7 | 0.7 |
| Total Company | 0.6 | 0.5 |



**Table of Contents***Revenues*

Net revenues by reportable segment were as follows:

|                    | For the Three Months<br>Ended |  | Dollar<br>Change |
|--------------------|-------------------------------|--|------------------|
|                    | September 29,<br>2013         | September 30,<br>2012<br>(in millions) |                  |
| Semiconductor Test | \$ 304.2                      | \$ 311.0                               | \$ (6.8)         |
| Wireless Test      | 93.1                          | 118.6                                  | (25.5)           |
| System Test        | 36.1                          | 33.8                                   | 2.3              |
|                    | \$ 433.4                      | \$ 463.4                               | \$ (30.0)        |

The decrease in Semiconductor Test revenues of \$6.8 million or 2% from the three months ended September 30, 2012 to the three months ended September 29, 2013, was primarily due to a decrease in system-on-a-chip ( SOC ) service revenue. The decrease in Wireless Test revenue of \$25.5 million or 22% was primarily due to lower volume. The increase in System Test revenue of \$2.3 million or 7% was primarily due to an increase in sales due to higher product volume in Storage Test systems, partially offset by lower Mil/Aero product sales.

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

|               | For the Three Months<br>Ended |                       |
|---------------|-------------------------------|-----------------------|
|               | September 29,<br>2013         | September 30,<br>2012 |
| China         | 27%                           | 29%                   |
| Taiwan        | 25                            | 17                    |
| United States | 11                            | 12                    |
| Korea         | 9                             | 19                    |
| Singapore     | 7                             | 3                     |
| Malaysia      | 6                             | 3                     |
| Europe        | 4                             | 5                     |
| Japan         | 4                             | 7                     |
| Philippines   | 4                             | 3                     |
| Thailand      | 2                             | 1                     |
| Rest of World | 1                             | 1                     |
|               | 100%                          | 100%                  |

*Gross Profit*

Our gross profit was as follows:

|              | For the Three Months<br>Ended |  | Dollar/Point<br>Change |
|--------------|-------------------------------|--|------------------------|
|              | September 29,<br>2013         | September 30,<br>2012<br>(in millions) |                        |
| Gross Profit | \$ 254.3                      | \$ 260.2                               | \$ (5.9)               |

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Percent of Total Revenue

58.7%

56.2%

2.5

Gross profit as a percent of revenue increased by 2.5 percentage points from the three months ended September 30, 2012 to the three months ended September 29, 2013. This increase was a result of an increase of

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1.7 points due to lower warranty and material cost, an increase of 1.1 points due to lower excess and obsolete inventory provisions and increased sales of previously reserved inventory, partially offset by a decrease of 0.6 points due to lower sales volume across the Wireless Test and Semiconductor Test segments.

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 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 30, 2012, we recorded an inventory provision of \$5.5 million included in cost of revenues, due to the following factors:

A \$3.1 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

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

The remainder of the charge of \$0.4 million reflects downward revisions to previously forecasted demand levels in System Test. During the three months ended September 29, 2013 and September 30, 2012, we scrapped \$13.9 million and \$1.1 million of inventory, respectively. During the three months ended September 29, 2013 and September 30, 2012, we sold \$4.1 million and \$0.7 million of previously written-down or written-off inventory. As of September 29, 2013, we had inventory related reserves for inventory which had been written-down or written-off totaling \$127.4 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

|                             | For the Three Months Ended |                                     | Dollar Change |
|-----------------------------|----------------------------|-------------------------------------|---------------|
|                             | September 29, 2013         | September 30, 2012<br>(in millions) |               |
| Engineering and Development | \$ 68.9                    | \$ 63.9                             | \$ 5.0        |
| Percent of Total Revenue    | 15.9%                      | 13.8%                               |               |

The increase of \$5.0 million in engineering and development expenses from the three months ended September 30, 2012 to the three months ended September 29, 2013, was due primarily to increased spending in Semiconductor Test and Wireless Test.



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

Selling and administrative expenses were as follows:

|                            | <b>For the Three Months<br/>Ended</b> |                               |                          |
|----------------------------|---------------------------------------|-------------------------------|--------------------------|
|                            | <b>September 29,<br/>2013</b>         | <b>September 30,<br/>2012</b> | <b>Dollar<br/>Change</b> |
|                            | <b>(in millions)</b>                  |                               |                          |
| Selling and Administrative | \$ 72.9                               | \$ 69.0                       | \$ 3.9                   |
| Percent of Total Revenue   | 16.8%                                 | 14.9%                         |                          |

The increase of \$3.9 million in selling and administrative expenses from the three months ended September 30, 2012 to the three months ended September 29, 2013, was due primarily to increased sales and marketing spending in Semiconductor Test and Wireless Test.

*Restructuring and Other**Restructuring*

During the three months ended September 29, 2013, we recorded \$1.3 million of severance charges related to headcount reductions of 40 people, of which \$1.0 million was in System Test and \$0.3 million 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.

During the three months ended September 30, 2012, Teradyne recorded \$0.7 million of severance charges related to headcount reductions of 9 people, of which \$0.5 million and 7 people were in System Test, and \$0.2 million and 2 people were in Wireless Test.

*Interest and Other*

Interest expense and other increased by \$0.7 million from the three months ended September 30, 2012 to the three months ended September 29, 2013, due primarily to higher interest expense from increased convertible debt discount amortization.

*Income Taxes*

The effective tax rate for the three months ended September 29, 2013 and September 30, 2012 was 21% and 14%, respectively. The increase in our tax rate for the three months ended September 29, 2013 compared to the three months ended September 30, 2012, was primarily attributable to the reduction to deferred income tax benefit recognized discretely in 2012 in connection with our plan to repatriate the unremitted earnings of our Japanese subsidiary.

The effective tax rate for the three months ended September 29, 2013 is lower than the 35% U.S. statutory federal tax rate primarily due to the research and development credit and the effect of foreign income taxed at a rate lower than the U.S. statutory rate.

On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. At September 29, 2013, we believe that we will ultimately realize the deferred tax assets recorded on our condensed consolidated balance sheet. However, should we believe that it is more likely than not that our deferred tax assets would not be realized, our tax provision would increase in the period in which we determined that the realizability was not likely. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the realizability of our deferred tax assets.

**Table of Contents***Nine Months of 2013 Compared to Nine Months of 2012**Revenues*

Net revenues by reportable segment were as follows:

|                    | For the Nine Months<br>Ended |  | Dollar<br>Change |
|--------------------|------------------------------|--|------------------|
|                    | September 29,<br>2013        | September 30,<br>2012<br>(in millions) |                  |
| Semiconductor Test | \$ 808.1                     | \$ 943.6                               | \$ (135.5)       |
| Wireless Test      | 226.1                        | 261.8                                  | (35.7)           |
| System Test        | 108.4                        | 202.9                                  | (94.5)           |
|                    | \$ 1,142.6                   | \$ 1,408.3                             | \$ (265.7)       |

The decrease of \$135.5 million or 14% in Semiconductor Test revenues from the nine months ended September 30, 2012 to the nine months ended September 29, 2013, was primarily due to a decrease in system-on-a-chip ( SOC ) test product sales because of a lower application processor market in 2013 compared to 2012. The decrease in System Test revenue of \$94.5 million or 47% was primarily due to a decrease in sales due to lower product volume in Storage Test systems. The decrease in Storage Test systems sales was due to lower hard disk drive demand primarily from lower shipments of personal computers, a trend which is expected to continue. The decrease in Wireless Test revenue of \$35.7 million or 14% was primarily due to lower volume.

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

|               | For the Nine Months<br>Ended |                       |
|---------------|------------------------------|-----------------------|
|               | September 29,<br>2013        | September 30,<br>2012 |
| China         | 25%                          | 23%                   |
| Taiwan        | 21                           | 18                    |
| United States | 13                           | 12                    |
| Singapore     | 9                            | 4                     |
| Korea         | 9                            | 15                    |
| Europe        | 6                            | 5                     |
| Malaysia      | 6                            | 4                     |
| Japan         | 5                            | 6                     |
| Philippines   | 3                            | 6                     |
| Thailand      | 2                            | 5                     |
| Rest of World | 1                            | 2                     |
|               | 100%                         | 100%                  |

*Gross Profit*

Our gross profit was as follows:

| For the Nine Months<br>Ended | Dollar/Point<br>Change |
|------------------------------|------------------------|
|------------------------------|------------------------|

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|                          | September 29,<br>2013 | September 30,<br>2012<br>(in millions) |            |
|--------------------------|-----------------------|--|------------|
| Gross Profit             | \$ 648.9              | \$ 760.6                               | \$ (111.7) |
| Percent of Total Revenue | 56.8%                 | 54.0%                                  | 2.8        |

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Gross profit as a percent of revenue increased by 2.8 percentage points from the nine months ended September 30, 2012 to the nine months ended September 29, 2013. This increase was a result of an increase of 1.9 points related to a favorable product mix in SOC Semiconductor Test and lower Storage Test system sales, an increase of 1.3 points due to lower variable compensation and warranty cost, and an increase of 1.1 points due to lower excess and obsolete inventory provisions and increased sales of previously reserved inventory, partially offset by a decrease of 1.9 points due to lower sales volume across all segments.

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 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.

During the nine months ended September 30, 2012, we recorded an inventory provision of \$16.4 million included in cost of revenues, due to the following factors:

A \$5.7 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test.

A \$3.2 million inventory provision due to a decline in demand versus previously forecasted demand levels for a prior generation Nextest Magnum.

A \$2.0 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 \$3.0 million was related to System Test, \$2.1 million was related to Wireless Test and \$0.4 million was related to Semiconductor Test.

During the nine months ended September 29, 2013 and September 30, 2012, we scrapped \$16.8 million and \$8.0 million of inventory, respectively. During the nine months ended September 29, 2013 and September 30, 2012, we sold \$8.9 million and \$3.2 million, respectively, of previously written-down or written-off inventory. As of September 29, 2013, we had inventory related reserves for inventory which had been written-down or written-off totaling \$127.4 million. We have no pre-determined timeline to scrap the remaining inventory.

*Engineering and Development*

Engineering and development expenses were as follows:

**For the Nine Months  
Ended**

**Dollar  
Change**



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|                             | September 29,<br>2013 | September 30,<br>2012<br>(in millions) |        |
|-----------------------------|-----------------------|--|--------|
| Engineering and Development | \$ 199.4              | \$ 193.1                               | \$ 6.3 |
| Percent of Total Revenue    | 17.5%                 | 13.7%                                  |        |

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The increase of \$6.3 million in engineering and development expenses from the nine months ended September 30, 2012 to the nine months ended September 29, 2013, was due primarily to increased spending in Semiconductor Test, partially offset by lower variable compensation.

*Selling and Administrative*

Selling and administrative expenses were as follows:

|                            | <b>For the Nine Months<br/>Ended</b> |   | <b>Dollar<br/>Change</b> |
|----------------------------|--------------------------------------|---|--------------------------|
|                            | <b>September 29,<br/>2013</b>        | <b>September 30,<br/>2012<br/>(in millions)</b> |                          |
| Selling and Administrative | \$ 210.0                             | \$ 207.7  | \$ 2.3                   |
| Percent of Total Revenue   | 18.4%                                | 14.7%   |                          |

The increase of \$2.3 million in selling and administrative expenses from the nine months ended September 30, 2012 to the nine months ended September 29, 2013, was due primarily to increased sales and marketing spending in Semiconductor Test and Wireless Test, partially offset by lower variable compensation.

*Restructuring and Other**Restructuring*

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

During the nine months ended September 30, 2012, we recorded \$0.7 million of severance charges related to headcount reductions of 9 people primarily in System Test.

*Other*

During the nine months ended September 30, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, we recorded an \$8.4 million fair value adjustment to decrease the LitePoint acquisition contingent consideration.

*Interest and Other*

Interest expense and other increased by \$1.7 million from the nine months ended September 30, 2012 to the nine months ended September 29, 2013, due primarily to higher interest expense from increased convertible debt discount amortization.

*Income Taxes*

The effective tax rate for the nine months ended September 29, 2013 and September 30, 2012 was 14% and 21%, respectively. The decrease in our tax rate for the nine months ended September 29, 2013 compared to the nine months ended September 30, 2012, was primarily the result of recognizing the tax benefit attributable to the retroactive reinstatement of the U.S. research and development credit and the mix of income by jurisdiction.

The effective tax rate for the nine months ended September 29, 2013 is lower than the 35% U.S. statutory federal tax rate primarily due to the research and development credit and the effect of foreign income taxed at a rate lower than the U.S. statutory rate.

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On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. At September 29, 2013, we believe that we will ultimately realize the deferred tax assets recorded on our condensed consolidated balance sheet. However, should we believe that it is more likely than not that our deferred tax assets would not be realized, our tax provision would increase in the period in which we determined that the realizability was not likely. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the realizability of our deferred tax assets.

**Contractual Obligations**

The following table reflects our contractual obligations at September 29, 2013:

|  | Total             | Payments Due by Period |                             |                  |                      | Other            |
|--|-------------------|------------------------|-----------------------------|------------------|----------------------|------------------|
|  |                   | Less than<br>1 year    | 1-3 years<br>(in thousands) | 3-5 years        | More than<br>5 years |                  |
| Purchase Obligations   | \$ 243,264        | \$ 231,507             | \$ 11,757                   | \$               | \$                   | \$               |
| Debt Obligations   | 192,021           | 192,021                |                             |                  |                      |                  |
| Retirement Plan Contributions  | 50,749            | 5,054                  | 10,722                      | 10,934           | 24,039               |                  |
| Operating Lease Obligations  | 46,184            | 13,273                 | 19,209                      | 7,576            | 6,126                |                  |
| Interest on Debt   | 8,571             | 8,571                  |                             |                  |                      |                  |
| Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP(1) | 76,442            |                        | 17,455                      |                  |                      | 58,987           |
| <b>Total</b>   | <b>\$ 617,231</b> | <b>\$ 450,426</b>      | <b>\$ 59,143</b>            | <b>\$ 18,510</b> | <b>\$ 30,165</b>     | <b>\$ 58,987</b> |

- (1) Included in Other Long-Term Liabilities are liabilities for customer advances, extended warranty, uncertain tax positions 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 increased by \$153.0 million in the nine months ended September 29, 2013, to \$1,159 million. Cash activity for the nine months ended September 29, 2013 and September 30, 2012 was as follows:

|  | For the Nine Months Ended |                    |
|--|---------------------------|--------------------|
|  | September 29, 2013        | September 30, 2012 |
|  | (in millions)             |                    |
| Cash provided by operating activities:           |                           |                    |
| Net income, adjusted for non-cash items          | \$ 270.6                  | \$ 387.6           |
| Change in operating assets and liabilities       | (47.2)                    | (25.4)             |
| Net cash provided by operating activities        | 223.4                     | 362.2              |
| Net cash used for investing activities           | (5.6)                     | (430.6)            |
| Net cash provided (used) by financing activities | 16.1                      | (19.7)             |
| Increase (decrease) in cash and cash equivalents | \$ 233.9                  | \$ (88.0)          |

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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.

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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 a \$9.4 million increase in accounts payable, a \$13.8 million increase in accrued income taxes and a \$10.5 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 \$9.8 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 \$5.6 million, due to \$657.2 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 \$332.6 million, respectively.

Financing activities during the nine months ended September 29, 2013 provided cash of \$16.1 million. \$16.8 million was due to the issuance of common stock under stock option and stock purchase plans and \$0.8 million from a tax benefit related to stock options and restricted stock units, partially offset by \$1.1 million of cash used for 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.

In the nine months ended September 30, 2012, changes in operating assets and liabilities used cash of \$25.4 million. This was due to a \$43.8 million increase in operating assets, and a \$18.4 million increase in operating liabilities.

The increase in operating assets was due to a \$76.1 million increase in accounts receivable resulting from higher sales volume, partially offset by a \$25.1 million decrease in inventories and a \$7.3 million decrease in other assets primarily due to a decrease in prepayments. The increase in operating liabilities was due to a \$50.3 million increase in accrued income taxes, a \$4.3 million increase in accounts payable due to increased sales volume and a \$0.8 million increase in other accrued liabilities, partially offset by a \$22.7 million decrease in accrued employee compensation due primarily to variable compensation and employee stock awards payroll taxes payments, a \$10.7 million decrease in customer advance payments and deferred revenue and \$3.7 million of retirement plan contributions.

Investing activities during the nine months ended September 30, 2012 used cash of \$430.6 million, due to \$510.2 million used for purchases of marketable securities and \$91.1 million used for purchases of property, plant and equipment, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$156.4 million and \$14.3 million, respectively.

Financing activities during the nine months ended September 30, 2012 used cash of \$19.7 million due to \$44.0 million of cash used for payments related to LitePoint acquisition contingent consideration and \$1.2 million of cash used for payments on long-term debt related to the Japan loan, partially offset by \$17.9 million in proceeds from the issuance of common stock under stock option and stock purchase plans, and \$7.6 million from the tax benefit related to stock options and restricted stock units.

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 \$360 million of cash 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 P Stock Based Compensation in our 2012 Form 10-K, we have a 1996 Employee Stock Purchase Plan and a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan ).

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

### **Recently Issued Accounting Pronouncements**

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*. This ASU is intended to enhance the understanding of the effects of netting arrangements on an entity's financial statements, including financial instruments and derivative instruments that are either offset or subject to a master netting arrangement. The scope of this ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013. We adopted this ASU effective January 1, 2013. See Note D Financial Instruments and Derivatives.

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* amending the disclosure requirements regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment does not change the current requirement for reporting net income or other comprehensive income, but requires additional disclosures about significant amounts reclassified out of accumulated other comprehensive income including the effect of the reclassification on the related statement of operations line items. The provisions of this ASU are effective for interim and annual periods beginning on or after January 1, 2013. We adopted this amendment effective January 1, 2013. See Note I Accumulated Other Comprehensive Income.

On July 18, 2013, the FASB issued 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*. 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. We do not expect this ASU to have a material impact on our financial position or results of operations.

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

For Quantitative and Qualitative Disclosures about Market Risk affecting Teradyne, see Item 7a, Quantitative and Qualitative Disclosures about Market Risks, in our Annual Report on Form 10-K filed with the SEC on March 1, 2013. 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, 2012.

### **Item 4: Controls and Procedures**

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

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

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**PART II. OTHER INFORMATION**

**Item 1: Legal Proceedings**

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

On May 17, 2013, Boston Semi Equipment ( BSE ) filed a complaint against us for antitrust violations and unfair business practices alleging that we excluded BSE from competing in the market for the sale of reconfigured Teradyne equipment and the market for the repair of Teradyne equipment. BSE sought unspecified damages and an injunction. We filed a motion to dismiss the complaint. On October 18, 2013, the parties settled the litigation. The settlement included no monetary consideration. The settlement did not and will not have a material impact on our consolidated financial results.

**Item 1A: Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, 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.

*A breach of our operational or security systems could negatively affect our business and results of operations.*

A failure in or a breach of our operational or security systems or infrastructure, or those of our suppliers and other service providers, including as a result of cyber attacks, could disrupt our business, result in the disclosure or misuse of proprietary or confidential information, damage our reputation, cause losses and increase our costs.

*We have significant guarantee, indemnification and customer confidentiality obligations.*

From time to time, we make guarantees to customers regarding the delivery, price and performance of our products and guarantee certain indebtedness, performance obligations or lease commitments of our subsidiary and affiliate companies. We also have agreed to provide indemnification to our officers, directors, employees and agents, to the extent permitted by law, arising from certain events or occurrences while the officer, director, employee or agent, is or was serving at our request in such capacity. Additionally, we have confidentiality obligations to certain customers. If we become liable under any of these obligations, it could materially and adversely affect our business, financial condition or operating results.

*We may take actions in response to slowdowns in the markets for our products which may adversely affect our operating results.*

During the third quarter of 2013, in response to the slowdown in the hard disk drive test market, we implemented a headcount reduction in our storage test business unit. It is possible that we may need to take further cost control and reduction measures including shifting more of our operations to lower cost regions, divesting of certain businesses, reducing the number of our employees, and reducing planned capital expenditures and expense budgets. We cannot predict whether these measures will be sufficient to offset certain of the negative trends that might affect our storage test business.

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In addition, slowdowns in the markets for our products and deterioration in economic conditions may, among other things, result in increased price competition for our products, increased risk of excess and obsolete inventories, increased risk in the collectability of our accounts receivable from our customers, asset write-offs and restructuring charges that adversely affect our 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. Cumulatively, as of September 29, 2013, we have repurchased 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 29, 2013 (in thousands except per share price):

| Period                               | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|---|--|---|---|
| July 1, 2013 – July 28, 2013         |   | \$   |   | \$ 168,825  |
| July 29, 2013 – August 25, 2013      |   | \$   |   | \$ 168,825  |
| August 26, 2013 – September 29, 2013 |   | \$   |   | \$ 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



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**Item 6: Exhibits**

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

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**SIGNATURES**

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

**TERADYNE, INC.**  
Registrant

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

**Vice President,**  
**Chief Financial Officer and Treasurer**

**(Duly Authorized Officer**  
**and Principal Financial Officer)**

**November 8, 2013**