

TERADYNE, INC  
Form 10-K  
February 27, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT

PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

For the fiscal year ended December 31, 2014

OR

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

Commission file number 001-06462

**TERADYNE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

MASSACHUSETTS  
(State or Other Jurisdiction of

Incorporation or Organization)

04-2272148  
(I.R.S. Employer

Identification Number)

600 RIVERPARK DRIVE

NORTH READING, MASSACHUSETTS

01864

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(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (978) 370-2700

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

**Name of Each Exchange on Which Registered**

Common Stock, par value \$0.125 per share

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405) is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K.

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 aggregate market value of the voting stock held by non-affiliates of the registrant as of June 27, 2014 was approximately \$3.8 billion based upon the closing price of the registrant's Common Stock on the New York Stock Exchange on that date.

The number of shares outstanding of the registrant's only class of Common Stock as of February 20, 2015 was 217,783,809 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement in connection with its 2015 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

**TERADYNE, INC.**

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TERADYNE, INC.

FORM 10-K

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. When used herein, the words will, would, believe, anticipate, plan, expect, estimate, project, intend, may, see, target and other words and terms of similar meaning are intended to forward-looking statements although not all forward looking statements contain these identifying words. Forward looking statements involve risks and uncertainties, including, but not limited to, those discussed in the section entitled Risk Factors of this annual report on Form 10-K and elsewhere, and in other reports we file with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements which reflect management's analysis only as of the date hereof and are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied. Teradyne assumes no obligation to update these forward-looking statements for any reason, except as may be required by law.

PART I

**Item 1: Business**

Teradyne, Inc. (the Company or Teradyne) was founded in 1960 and is 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, solid state disks 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

defense/aerospace ( Defense/Aerospace ) test instrumentation and systems, storage test ( Storage Test ) systems, and circuit-board test and inspection ( Production Board Test ) systems (collectively these products represent System Test).

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, and aerospace and military contractors.

In 2014, we acquired Avionics Interface Technologies LLC ( AIT ), a supplier of equipment for testing state-of-the-art data communication buses. The acquisition of AIT complements our Defense/Aerospace line of bus test instrumentation for commercial and defense avionics systems. AIT is included in our System Test segment. The total purchase price for AIT was approximately \$21 million.

In 2013, we acquired ZTEC Instruments Inc. ( ZTEC ), a supplier of modular wireless test instruments. The acquisition of ZTEC expands our Wireless Test segment into the design verification test of wireless components and chipsets. The total purchase price for ZTEC was approximately \$17 million.

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



manufacturing of wireless devices, including smart phones, tablets, notebooks, laptops, personal computer peripherals, and other Wi-Fi, Bluetooth and cellular enabled devices. The total purchase price for LitePoint was approximately \$646 million. LitePoint and ZTEC represent our Wireless Test segment.

### **Investor Information**

We are a Massachusetts corporation incorporated on September 23, 1960. We are subject to the informational requirements of the Securities Exchange Act of 1934 ( Exchange Act ). We file periodic reports, proxy statements and other information with the Securities and Exchange Commission ( SEC ). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file documents electronically.

You can access financial and other information, including the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, our Corporate Governance Guidelines and Code of Conduct, by clicking the Investors link on our web site at [www.teradyne.com](http://www.teradyne.com). We make available, free of charge, copies of our filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act through our web site as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

### **Products**

#### ***Semiconductor Test***

We design, manufacture, sell and support Semiconductor Test products and services on a worldwide basis. The test systems we provide are used both for wafer level and device package testing. These chips are used in automotive, industrial, communications, consumer, and computer and electronic game applications, among others. Semiconductor devices span a broad range of functionality, from very simple low-cost devices such as appliance microcontrollers, operational amplifiers or voltage regulators to complex digital signal processors, microprocessors and high-density as well as high-speed memory devices. Semiconductor Test products and services are sold to integrated device manufacturers ( IDMs ) that integrate the fabrication of silicon wafers into their business, Fabless companies that outsource the manufacturing of silicon wafers, Foundries that cater to the processing and manufacturing of silicon wafers, and outsourced semiconductor assembly and test providers ( OSATs ) that provide test and assembly services for the final packaged devices to both Fabless companies and IDMs. Fabless companies perform the design of integrated circuits without manufacturing capabilities, and use Foundries for wafer manufacturing and OSATs for test and assembly. These customers obtain the overall benefit of comprehensively testing devices and reducing the total costs associated with testing by using our Semiconductor Test systems to:

improve and control product quality;

measure and improve product performance;

reduce time to market; and

increase production yields.

Our FLEX Test Platform architecture advances our core technologies to produce test equipment that is designed for high efficiency multi-site testing. Multi-site testing involves the simultaneous testing of many devices and functions in parallel. Leading semiconductor manufacturers are using multi-site testing to significantly improve their Cost of Test economics. The FLEX Test Platform architecture addresses customer requirements through the following key capabilities:

1) A high efficiency multi-site architecture that eliminates tester overhead such as instrument setup, synchronization and data movement, and signal processing;



2) The IG-XL software operating system which provides fast program development, including instant conversion from single to multi-site test; and

3) Broad technology coverage by instruments designed to cover the range of test parameters, coupled with a universal slot test head design that allows easy test system reconfiguration to address changing test needs.

FLEX Test Platform purchases are being made by IDMs, OSATs, Foundries and Fabless customers. The FLEX Test Platform has become a widely used test solution at OSATs by providing versatile testers that can handle the widest range of devices, allowing OSATs to leverage their capital investments. The broad consumer, automotive and broadband markets have historically driven most of the device volume growth in the semiconductor industry. These markets include smart phones, cell phones, tablets, set top boxes, HDTVs, game controllers, computer graphics, and automotive controllers to name a few. These end use markets continue to be drivers for the FLEX Test Platform family of products because they require a wide range of technologies and instrument coverage. The UltraFLEX-M tester extends the FLEX Test Platform into the High Speed DRAM testing market. The FLEX Test Platform has an installed base of more than 4,400 systems.

Our J750 test system shares the IG-XL software environment with the family of FLEX Test Platform systems. The J750 is designed to address the highest volume semiconductor devices, such as microcontrollers, that are central to the functionality of almost every consumer electronics product, from small appliances to automotive engine controllers. J750 test systems combine compact packaging, high throughput and ease of production test. We extended the J750 platform technology to create the IP750 Image Sensor test system. The IP750 is focused on testing image sensor devices used in digital cameras and other imaging products. We continue to invest in the J750 platform with new instrument releases that bring new capabilities to existing market segments and expand the J750 platform to new devices that include high end microcontrollers and the latest generation of cameras. In 2013, we introduced the J750 Ex-HD which includes system enhancements and new high density instruments that enable the J750 test platform to provide higher test cell productivity. The J750 platform has an installed base of over 4,600 systems.

Our Magnum platform addresses the requirements of mass production test of memory devices such as flash memory and DRAM. Flash and DRAM memory are widely used core building blocks in modern electronic products finding wide application in consumer, industrial, and computing equipment. Magnum V, the newest member of the family, is a next generation memory test solution designed for parallel memory test in the flash, DRAM and multi-chip package markets. The Magnum platform has an installed base of over 1,700 systems.

Our ETS platform is used by semiconductor manufacturers and assembly and test subcontractors, primarily in the low pin count analog/mixed signal discrete markets that cover more cost sensitive applications. Our proprietary SmartPin technology enables multiple semiconductor devices to be tested simultaneously, or in parallel, on an individual test system, permitting greater test throughput. Semiconductors tested by ETS platform systems are incorporated into a wide range of products in historically high-growth markets, including digital cameras, MP3 players, cell phones, video/multimedia products, automotive electronics, computer peripherals, and notebook and desktop computers. In 2013, we introduced ETS-88, a high performance multiside production test system designed to test a wide variety of high volume commodity and precision devices. The ETS platform has an installed base of over 3,500 systems.

### ***Wireless Test***

Our acquisition of LitePoint in October of 2011 and ZTEC in October of 2013 expanded our product offerings in the wireless test industry. LitePoint designs, develops, and supports advanced wireless test equipment for the manufacturing of wireless devices, including smart phones, tablets, notebooks, laptops, personal computer peripherals, and other Wi-Fi, Bluetooth, Near Field Communication ( NFC ) and cellular enabled devices. LitePoint collaborates with developers, chipset/component manufacturers, and manufacturing leaders to create agile systems designed to ensure the quality of wireless products manufactured in very large numbers. Using easy-to-deploy, innovative test methodologies LitePoint's IQ product line is designed for high-



volume, low-cost production test, and fall into two test categories: cellular and connectivity. Our acquisition of ZTEC in October 2013 expanded our wireless product offerings into modular wireless test instruments for the design verification test of wireless components and chipsets.

### ***Cellular***

The IQxstream is an optimized solution for high-speed testing of GSM, EDGE, CDMA2000, TD-SCDMA, WCDMA, HSPA+, LTE-FDD, TD-LTE, and LTE-A technologies used for calibration and verification of smartphones, tablets, small cell wireless gateways and embedded cellular modules. As the industry's first multi-DUT test solution, IQxstream greatly increased production output through the implementation of parallel test methods of multiple devices. IQxstream is complemented by IQvector, a turnkey production-optimized testing package that supports the leading cellular chipset solutions, which allows manufacturers to ramp volume production in a matter of weeks, rather than months. The IQxstream is embedded in the test software provided by leading cellular chipset companies including Qualcomm, Intel, MediaTek, Spreadtrum, Marvell and others.

### ***Connectivity***

We offer a comprehensive range of test equipment for connectivity testing. The IQxel family enables calibration and verification of the latest Wi-Fi standard-802.11ac-taking wireless data rates beyond the gigabit per second barrier. The IQxel family supports multiple bandwidth and channel configurations, MIMO antenna arrangements, Bluetooth Classic and Low Energy, and covers the full range of communication standards. These solutions target manufacturers of networking equipment, Internet access devices, Internet of Things (IoT) products and embedded modules used in smartphones, tablets, and PCs. The IQ2015 is a one-box solution for multi-connectivity needs, covers the full range of communication standards. It is a preferred choice by manufacturers of smartphones and tablets. We were the first to introduce parametric production test of NFC technology with our IQnfc addressing the growing use of NFC technology for mobile payments with smartphones.

To complement the IQ family of connectivity testers, we offer IQfact+ a turnkey, chipset-optimized, customizable software library covering over 300 wireless IC solutions, enabling the rapid development of volume manufacturing solutions with a minimum of engineering effort by our customers. Similar to our cellular products, drivers for our connectivity products are found in the test software solutions from Broadcom, Qualcomm, Marvell, MediaTek and others.

### ***Design Verification Test***

We offer the zSeries of modular wireless test instruments for the design verification test of wireless components and chipsets. In 2014, we released the zSignal for testing LTE cellular devices.

### ***System Test***

Our System Test segment is comprised of three business units: Defense/Aerospace, Storage Test and Production Board Test.

### ***Defense/Aerospace***

We are a leading provider of high-performance test systems, subsystems, instruments and service for the defense and aerospace markets. Our test products are used to ensure the readiness of military and commercial aerospace electronics systems. New programs, such as tactical aircraft and missile systems, as well as upgrade programs, continue to fuel the demand for high performance test systems in this market. Our test products are well-suited to the demands of defense/aerospace electronics manufacturers and repair depots worldwide. Our

leadership in this market is underscored by our success with major Department of Defense programs across all U.S. military service branches and many allied defense services worldwide. Our acquisition of AIT in 2014 complements our line of bus test instrumentation for commercial and defense avionics systems. AIT is a supplier of equipment for testing state-of-the-art data communication buses.

**Storage Test**

The Storage Test business unit addresses the high throughput, automated manufacturing test requirements of hard disk drive ( HDD ) and solid state disk ( SSD ) manufacturers. Our products address the client and enterprise storage markets. The client market is driven by the needs of desktop, laptop, and external HDD and SSD storage products. The enterprise market is driven by the needs of data centers and cloud storage. Our products lead in addressing customer requirements related to factory density, throughput, thermal performance and vibration isolation.

**Production Board Test**

Our test systems are used by electronics manufacturers worldwide to perform In-Circuit-Test ( ICT ) and device programming of printed circuit board assemblies. Fast, accurate and cost-effective test capabilities are hallmark features of our Test Station and Spectrum ICT product families. We offer the Test Station in off-line and automated in-line configurations. The automated in-line configurations address the growing requirements for increased throughput in high volume applications.

**Summary of Revenues by Reportable Segment**

Our three reportable segments accounted for the following percentages of consolidated revenues for each of the last three years:

|                    | 2014 | 2013 | 2012 |
|--------------------|------|------|------|
| Semiconductor Test | 79%  | 71%  | 68%  |
| Wireless Test      | 11   | 18   | 17   |
| System Test        | 10   | 11   | 15   |
|                    | 100% | 100% | 100% |

**Sales and Distribution**

In 2014, no single customer accounted for more than 10% of our consolidated revenues. In 2013 and 2012, revenues from Apple Inc. accounted for 12% and 10%, respectively, of our consolidated revenues. Apple Inc. is a customer of our Semiconductor Test and Wireless Test segments. In each of the years, 2014, 2013 and 2012, our three largest customers in aggregate accounted for 21%, 26% and 29% of our consolidated revenues, respectively. OSAT customers often purchase our test systems based upon recommendations from IDMs and Fabless companies. In all cases when an OSAT customer purchases a test system from us, we consider the OSAT as the customer since credit risk, title and risk of loss, among other things, are between Teradyne and the OSAT.

Direct sales to United States government agencies accounted for 2%, 3% and 2% of our consolidated revenues in 2014, 2013 and 2012, respectively. Approximately 20%, 32% and 15% of System Test s revenues in 2014, 2013 and 2012, respectively, were to United States government agencies and 23%, 24% and 20% of System Test s revenues in 2014, 2013 and 2012, respectively, were to government contractor customers.

We have sales and service offices located throughout North America, Asia and Europe, as our customers outside the United States are located primarily in these geographic areas. We sell in these areas predominantly through a direct sales force. Our manufacturing activities are primarily conducted through subcontractors and outsourced contract manufacturers with a significant operation concentrated in China.

Sales to customers outside the United States were 87%, 84% and 86% of our consolidated revenues in 2014, 2013 and 2012, respectively. Sales are attributed to geographic areas based on the location of the customer site.

Sales to customers by country outside of the United States that accounted for 10% or more of our consolidated revenues in any of the previous three years were as follows:

|        | 2014 | 2013 | 2012 |
|--------|------|------|------|
| Taiwan | 30%  | 19%  | 18%  |
| China  | 18   | 23   | 21   |
| Korea  | 9    | 8    | 13   |

See also Item 1A: Risk Factors and Note Q: Operating Segment, Geographic and Significant Customer Information in Notes to Consolidated Financial Statements.

### Competition

We face significant competition throughout the world in each of our reportable segments. Competitors in the Semiconductor Test segment include, among others, Advantest Corporation and Xcerra Corporation. Competitors in the System Test segment include, among others, Keysight Technologies, Inc. (formerly Agilent Technologies), Astronics, Test Research Inc. and SPEA S.p.A.

Competitors in our Wireless Test segment include, among others, Keysight Technologies, Inc., Cobham/Aeroflex, Inc., Anritsu Company, National Instruments Corporation and Rohde & Schwarz GmbH & Co. KG.

Some of our competitors have substantially greater financial and other resources to pursue engineering, manufacturing, marketing and distribution of their products. We also face competition from emerging Asian equipment companies and from internal suppliers at several of our customers. Some of our competitors have introduced or announced new products with certain performance characteristics which may be considered equal or superior to those we currently offer. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. See also Item 1A: Risk Factors.

### Backlog

At December 31, 2014 and 2013, our backlog of unfilled orders in our three reportable segments was as follows:

|                    | 2014          | 2013     |
|--------------------|---------------|----------|
|                    | (in millions) |          |
| Semiconductor Test | \$ 262.8      | \$ 233.8 |
| Wireless Test      | 37.0          | 31.2     |
| System Test        | 96.1          | 96.6     |
|                    | \$ 395.9      | \$ 361.6 |

Of the backlog at December 31, 2014, approximately 97% of the Semiconductor Test backlog, 66% of Wireless Test backlog and 97% of System Test backlog, is expected to be delivered in 2015.

Customers may delay delivery of products or cancel orders suddenly and without advanced notice, subject to possible cancellation penalties. Due to possible customer changes in delivery schedules and cancellation of orders, our backlog at any particular date is not necessarily indicative of the actual sales for any succeeding period. Delays in delivery schedules or cancellations of backlog during any particular period could have a material adverse effect on our business, financial condition or results of operations.

## Raw Materials

Our products contain electronic and mechanical components that are provided by a wide range of suppliers. Some of these components are standard products, while others are manufactured to our specifications. We can experience occasional delays in obtaining timely delivery of certain items. While the majority of our components are available from multiple suppliers, certain items are obtained from sole sources. We may experience a temporary adverse impact if any of our sole source suppliers delay or cease to deliver products.

## Intellectual Property and Licenses

The development of our products, both hardware and software, is based in significant part on proprietary information, our brands and technology. We protect our rights in proprietary information, brands and technology through various methods, such as:

patents;

copyrights;

trademarks;

trade secrets;

standards of business conduct and related business practices; and

technology license agreements, software license agreements, non-disclosure agreements, employment agreements, and other agreements.

However, these protections might not be effective in all circumstances. Competitors might independently develop similar technology or exploit our proprietary information and our brands in countries where we lack enforceable intellectual property rights or where enforcement of such rights through the legal system provides an insufficient deterrent. Also, intellectual property protections can lapse or be invalidated through appropriate legal processes. We do not believe that any single piece of intellectual property or proprietary rights is essential to our business.

## Employees

As of December 31, 2014, we employed approximately 3,900 people. Since the inception of our business, we have experienced no work stoppages or other labor disturbances. We have no collective bargaining contracts.

## Engineering and Development Activities

The highly technical nature of our products requires a large and continuing engineering and development effort. For the years ended December 31, 2014, 2013 and 2012, our engineering and development expenditures were \$291.6 million, \$264.1 million, and \$255.9 million, respectively. These expenditures accounted for approximately 17.7%, 18.5%, and 15.4% of our consolidated revenues in 2014, 2013, and 2012, respectively.

## Environmental Affairs

We are subject to various federal, state, and local government laws and regulations relating to the protection of employee health and safety and the environment. We accrue for all known environmental liabilities when it becomes probable that we will incur cleanup costs and those costs can reasonably be estimated. Estimated environmental costs are not expected to materially affect the financial position or results of our operations in future periods. However, estimates of future costs are subject to change due to protracted cleanup periods and changing environmental remediation laws and regulations.



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**OUR EXECUTIVE OFFICERS**

Pursuant to General Instruction G(3) of Form 10-K, the following table is included in Part I of this Annual Report on Form 10-K in lieu of being included in the Proxy Statement for the Annual Meeting of Shareholders. The table sets forth the names of all of our executive officers and certain other information relating to their positions held with Teradyne and other business experience. Our executive officers do not have a specific term of office but rather serve at the discretion of the Board of Directors.

| <b>Executive Officer</b> | <b>Age</b> | <b>Position</b>  | <b>Business Experience For The Past 5 Years</b>  |
|--------------------------|------------|--|--|
| Mark E. Jagiela          | 54         | Chief Executive Officer, President and President of Semiconductor Test | Chief Executive Officer since February 2014; President of Teradyne since January 2013; President of Semiconductor Test since 2003; Vice President of Teradyne from 2001 to 2013.   |
| Gregory R. Beecher       | 57         | Vice President, Chief Financial Officer and Treasurer                  | Vice President and Chief Financial Officer of Teradyne since 2001; Treasurer of Teradyne from 2003 to 2005 and since 2006.   |
| Charles J. Gray          | 53         | Vice President, General Counsel and Secretary                          | Vice President, General Counsel and Secretary of Teradyne since April 2009.  |
| Bradford B. Robbins      | 56         | President of Wireless Test   | President of Wireless Test since August 2014; Chief Operating Officer of LitePoint Corporation from 2012 to 2014; Vice President of Teradyne since 2001.   |
| Walter G. Vahey          | 50         | President of System Test   | President of System Test since July 2012; Vice President of Teradyne since 2008; General Manager of Storage Test since 2008; General Manager of Production Board Test since April 2013; General Manager of Defense/Aerospace from 2004 to July 2012. |

**Item 1A: Risk Factors**  
**Risks Associated with Our Business**

The risks described below 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.

*Our business is impacted by global and industry-specific economic cycles, which are difficult to predict, and actions we have taken or may take to offset these cycles may not be sufficient.*

Capital equipment providers in the electronics and semiconductor industries, such as Teradyne, have, in the past, been negatively impacted by both sudden slowdowns in the global economies and recurring cyclicity within those industries. These cycles have resulted in periods of over-supply; a trend we believe will continue to occur for newer generations of electronic products. Our business and results of operations depend, in significant part, upon capital expenditures of manufacturers of semiconductors and other electronics, which in turn depend upon the current and anticipated market demand for those products. Disruption or deterioration in economic conditions may reduce customer purchases of our products, thereby reducing our revenues and earnings. In addition, such adverse changes in economic conditions, and resulting slowdowns in the market for our products, 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, potential reserves for doubtful accounts and write-offs of accounts receivable, increased risk of restructuring charges, and

higher operating costs as a percentage of revenues, which, in each case and together, adversely affect our operating results. We are unable to predict the likely duration, frequency and severity of disruptions in financial markets, credit availability, and adverse economic conditions throughout the world, and we cannot ensure that the level of revenues or new orders for a fiscal quarter will be sustained in subsequent quarters. We have taken actions to address the effects of general economic variability and recurring industry cyclicality, including implementing cost control and reduction measures. If our businesses experience further downturns, whether due to a deterioration in global economic conditions or slowdowns in specific markets we serve, we may need to take further cost control and reduction measures. We cannot predict whether these measures will be sufficient to offset global or market-specific disruptions that might affect our test businesses.

In 2013, revenues from our Storage Test business unit were significantly lower than in 2012 due to lower hard disk drive demand from lower shipments of personal computers. In response to this lower demand, during the third quarter of 2013, we implemented a headcount reduction in the Storage Test business unit. It is possible that we may need to take further cost control and reduction measures including reducing the number of employees and reducing manufacturing capacity. A prolonged slowdown in hard disk drive demand may result in increased risk of excess and obsolete inventories, asset write-offs and restructuring charges.

***We are subject to intense competition.***

We face significant competition throughout the world in each of our reportable segments. Some of our competitors have substantial financial and other resources to pursue engineering, manufacturing, marketing and distribution of their products. We also face competition from emerging Asian equipment companies and internal development at several of our customers. Some of our competitors have introduced or announced new products with certain performance characteristics which may be considered equal or superior to those we currently offer. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by competitors could cause a decline in revenues or loss of market acceptance of our products.

***The market for our products is concentrated, and our business depends, in part, on obtaining orders from a few significant customers.***

The market for our products is concentrated with a limited number of significant customers accounting for a substantial portion of the purchases of test equipment. In each of the years 2014, 2013 and 2012, our three largest customers in aggregate accounted for 21%, 26% and 29% of consolidated revenues, respectively. In any one reporting period, a single customer or several customers may contribute even a larger percentage of our consolidated revenues. In addition, our ability to increase sales will depend, in part, on our ability to obtain orders from current or new significant customers. The opportunities to obtain orders from these customers may be limited, which may impair our ability to grow revenues. We expect that sales of our products will continue to be concentrated with a limited number of significant customers for the foreseeable future. The loss of a significant customer or any reduction in orders by these customers, including reductions due to market or competitive conditions, would likely have a material adverse effect on our business, financial condition or results of operations.

***Failure to realize the estimated sales value of equipment leased to our customers may adversely affect our results of operations.***

We occasionally lease equipment to our customers, typically for a term of one year. Subsequent to the one year term, the customer can cancel the lease by providing us two months notice. In 2014, the volume of leasing transactions and the value of equipment under leases increased significantly. The cost of the leased equipment is recorded as an asset on our balance sheet and depreciated over an estimated useful life of approximately four years. Realization of the leased equipment's value depends on numerous factors including: the technological

obsolescence of the leased equipment; elections by customers to terminate a lease prior to scheduled termination; the general market conditions at the time of expiration of the lease; the customer's election to renew the lease; and the cost of comparable new equipment. Our inability to realize the leased equipment's value could cause a decrease in revenues and an increase in asset write-offs which would in each case reduce our operating income.

***Our operating results are likely to fluctuate significantly.***

Our operating results are affected by a wide variety of factors that could materially adversely affect revenues or profitability. The following factors could impact future operations:

a worldwide economic slowdown or disruption in the global financial markets;

competitive pressures on selling prices;

our ability to introduce, and the market acceptance of, new products;

changes in product revenues mix resulting from changes in customer demand;

the level of orders received which can be shipped in a quarter because of the tendency of customers to wait until late in a quarter to commit to purchase due to capital expenditure approvals and constraints occurring at the end of a quarter, or the hope of obtaining more favorable pricing from a competitor seeking the business;

engineering and development investments relating to new product introductions, and the expansion of manufacturing, outsourcing and engineering operations in Asia;

provisions for excess and obsolete inventory relating to the lack of demand for and the discontinuance of products;

impairment charges for certain long-lived and intangible assets and goodwill;

an increase in the leasing of our products to customers;

parallel or multi-site testing could lead to a decrease in the ultimate size of the market for our products; and

the ability of our suppliers and subcontractors to meet product quality or delivery requirements needed to satisfy customer orders for our products, especially if product demand increases.

As a result of the foregoing and other factors, we have experienced and may continue to experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely affect our business, financial condition, operating results or stock price.

***We are subject to risks of operating internationally.***

A significant portion of our total revenues is derived from customers outside the United States. Our international sales and operations are subject to significant risks and difficulties, including:



unexpected changes in legal and regulatory requirements affecting international markets;

changes in tariffs and exchange rates;

social, political and economic instability, acts of terrorism and international conflicts;

difficulties in protecting intellectual property;

difficulties in accounts receivable collection;

cultural differences in the conduct of business;

difficulties in staffing and managing international operations;

compliance with customs regulations; and

compliance with international tax laws and regulations.

In addition, an increasing portion of our products and the products we purchase from our suppliers are sourced or manufactured in foreign locations, including China, and a large portion of the devices our products test are fabricated and tested by foundries and subcontractors in Taiwan, China, Singapore and other parts of Asia. As a result, we are subject to a number of economic and other risks, particularly during times of political or financial instability in these regions. Disruption of manufacturing or supply sources in these international locations could materially adversely impact our ability to fill customer orders and potentially result in lost business.

*If we fail to develop new technologies to adapt to our customers' needs and if our customers fail to accept our new products, our revenues will be adversely affected.*

We believe that our technological position depends primarily on the technical competence and creative ability of our engineers. In a rapidly evolving market, such as ours, the development or acquisition of new technologies, commercialization of those technologies into products and market acceptance and customer demand for those products are critical to our success. Successful product development or acquisition, introduction and acceptance depend upon a number of factors, including:

new product selection;

ability to meet customer requirements;

development of competitive products by competitors;

timely and efficient completion of product design;

timely and efficient implementation of manufacturing and manufacturing processes;

timely remediation of product performance issues, if any, identified during testing;

assembly processes and product performance at customer locations;

differentiation of our products from our competitors' products;

management of customer expectations concerning product capabilities and product life cycles;

ability to attract and retain technical talent; and

innovation that does not infringe on the intellectual property rights of third parties.

*If our suppliers do not meet product or delivery requirements, we could have reduced revenues and earnings.*

Certain components, including semiconductor chips, may be in short supply from time to time because of high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. Approximately 25% of material purchases require some custom work where having multiple suppliers would be cost prohibitive. If any of our suppliers were to cancel contracts or commitments or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders, have significantly decreased revenues and earnings and be subject to contractual penalties, which would have a material adverse effect on our business, results of operations and financial condition. In addition, we rely on contract manufacturers for certain subsystems used in our products, and our ability to meet customer orders for those products depends upon the timeliness and quality of the work performed by these subcontractors, over whom we do not exercise any control.

To a certain extent, we are dependent upon the ability of our suppliers and contractors to help meet increased product or delivery requirements. It may be difficult for certain suppliers to meet delivery requirements in a period of rapid growth, therefore impacting our ability to meet our customers' demands.

We rely on the financial strength of our suppliers. There can be no assurance that the loss of suppliers either as a result of financial viability, bankruptcy or otherwise will not have a material adverse effect on our business, results of operations or financial condition.

***Our operations may be adversely impacted if our outsourced contract manufacturers or service providers fail to perform.***

We depend on Flextronics International Ltd. ( Flextronics ) to manufacture and test our FLEX and J750 family of products from its facility in China and on other contract manufacturers to manufacture other products. If for any reason these contract manufacturers cannot provide us with these products in a timely fashion, or at all, we may not be able to sell these products to our customers until we enter a similar arrangement with an alternative contract manufacturer. If we experience a problem with our supply of products from Flextronics or our other contract manufacturers, it may take us significant time to either manufacture the product or find an alternate contract manufacturer, which could result in substantial expense and disruption to our business.

We have also outsourced a number of our general and administrative functions, including information technology, to reputable service providers, many of which are in foreign countries, sometimes impacting communication with them because of language and time differences. Their presence in foreign countries also increases the risk they could be exposed to political risk. Additionally, there may be difficulties encountered in coordinating the outsourced operations with existing functions and operations. If we fail in successfully coordinating and managing the outsourced service providers, it may cause an adverse effect on our operations which could have a material adverse effect on our business, results of operations or financial condition.

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

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

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

***We may incur significant liabilities if we fail to comply with environmental regulations.***

We are subject to both domestic and international environmental regulations and statutory strict liability relating to the use, storage, discharge, site cleanup and disposal of hazardous chemicals used in our

manufacturing processes. If we fail to comply with present and future regulations, or are required to perform site remediation, we could be subject to future liabilities or cost, including penalties or the suspension of production. Present and future regulations may also:

restrict our ability to expand facilities;

restrict our ability to ship certain products;

require us to modify our operations logistics;

require us to acquire costly equipment; or

require us to incur other significant costs and expenses.

Pursuant to present regulations and agreements, we are conducting groundwater and subsurface assessment and monitoring and are implementing remediation and corrective action plans for facilities located in Massachusetts and New Hampshire which are no longer conducting manufacturing operations. As of December 31, 2014, we have not incurred material costs as result of the monitoring and remediation steps taken at the Massachusetts and New Hampshire sites.

On January 27, 2003, the European Union adopted the following directives: (i) the directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive ); and (ii) the directive on Waste Electrical and Electronic Equipment (the WEEE Directive ). The WEEE Directive became effective August 13, 2005 and the RoHS Directive became effective on July 6, 2006. Both the RoHS Directive and the WEEE Directive alter the form and manner in which electronic equipment is imported, sold and handled in the European Union. Other jurisdictions, such as China, have followed the European Union's lead in enacting legislation with respect to hazardous substances and waste removal. Ensuring compliance with the RoHS Directive, the WEEE Directive and similar legislation in other jurisdictions, and integrating compliance activities with our suppliers and customers could result in additional costs and disruption to operations and logistics and thus, could have a negative impact on our business, operations or financial condition.

***We currently are, and in the future may be, subject to litigation or regulatory proceedings that could have an adverse effect on our business.***

From time to time, we may be subject to litigation or other administrative, regulatory or governmental proceedings, including tax audits and resulting claims that could require significant management time and resources and cause us to incur expenses and, in the event of an adverse decision, pay damages or incur costs in an amount that could have a material adverse effect on our financial position or results of operations.

***Third parties may claim we are infringing their intellectual property and we could suffer significant litigation costs, licensing expenses or be prevented from selling our products.***

We have been sued for patent infringement in the past and receive notifications from time to time that we may be in violation of patents held by others. An assertion of patent infringement against us, if successful, could have a material adverse effect on our ability to sell our products or it could force us to seek a license to the intellectual property rights of others or alter such products so that they no longer infringe the intellectual property rights of others. A license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. Additionally, patent litigation could require a significant use of management resources and involve a lengthy and expensive defense, even if we eventually prevail. If we do not prevail, we might be forced to pay significant damages, obtain licenses, modify our products, or stop making our products; each of which could have a material adverse effect on our financial condition, operating results or cash flows.

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***If we are unable to protect our intellectual property ( IP ), we may lose a valuable asset or may incur costly litigation to protect our rights.***

We protect the technology that is incorporated in our products in several ways, including through patent, copyright, and trade secret protection and by contractual agreement. However, even with these protections, our IP may still be challenged, invalidated or subject to other infringement actions. While we believe that our IP has value in the aggregate, no single element of our IP is in itself essential. If a significant portion of our IP is invalidated or ineffective, our business could be materially adversely affected.

***We may incur higher tax rates than we expect and may have exposure to additional international tax liabilities and costs.***

We are subject to paying income taxes in the United States and various other countries where we operate. Our effective tax rate is dependent on where our earnings are generated and the tax regulations and the interpretation and judgment of administrative tax or revenue entities in the United States and other countries. We have pursued a global tax strategy which could adversely be affected by the mix of earnings and tax rates in the countries where we operate, changes to tax laws or an adverse tax ruling by administrative entities. We are also subject to tax audits in the countries where we operate. Any material assessment resulting from an audit from an administrative tax or revenue entity could also negatively affect our financial results.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. In certain foreign jurisdictions, we qualify for tax incentives and tax holidays based on our ability to meet, on a continuing basis, various tests relating to our employment levels, research and development expenditures and other qualification requirements in a particular foreign jurisdiction. While we intend to operate in such a manner to maintain and maximize our tax incentives, no assurance can be given that we have so qualified or that we will so qualify for any particular year or jurisdiction. If we fail to qualify and to remain qualified for certain foreign tax incentives and tax holidays, we may be subject to further taxation or an increase in our effective tax rate which would adversely impact our financial results. In Singapore, we operate under a tax holiday which is effective through December 31, 2015. The tax savings attributable to the Singapore tax holiday for the years ended December 31, 2014, 2013 and 2012 were \$13.2 million or \$0.06 per diluted share, \$4.7 million or \$0.02 per diluted share and \$10.9 million or \$0.05 per diluted share, respectively. We are in discussions with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015. No assurances can be given that such discussions will be successful. If we are unable to reach an agreement with the Singapore Economic Development Board, our results of operations and financial condition for periods after December 31, 2015 will be adversely affected.

In addition, we may incur additional costs, including headcount expenses, in order to obtain or maintain a foreign tax incentive in a particular foreign jurisdiction.

***We have significant guarantees, 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 and if breached would require the payment of significant penalties. If we become liable under any of these obligations, it could materially and adversely affect our business, financial condition or operating results. For additional information see Note J: Commitments and Contingencies Guarantees and Indemnification Obligations in Notes to Consolidated Financial Statements.

***We may discontinue or reduce our quarterly cash dividend or share repurchase program.***

In January 2014, our Board of Directors initiated a quarterly dividend of \$0.06 per share. In January 2015, our Board of Directors authorized Teradyne to repurchase up to \$500 million of common stock, \$300 million of which we intend to repurchase in 2015. Holders of our common stock are only entitled to receive dividends when and if they are declared by our Board of Directors. Future cash dividends and share repurchases are subject to the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition. While we have declared a quarterly cash dividend on our common stock and authorized a share repurchase program, we are not required to do either and may reduce or eliminate our cash dividend or share repurchase program in the future. The reduction or elimination of our cash dividend or our share repurchase program could adversely affect the market price of our common stock.

***Our business may suffer if we are unable to attract and retain key employees.***

Competition for employees with skills we require is intense in the high technology industry. Our success will depend on our ability to attract and retain key technical employees. The loss of one or more key or other employees, a decrease in our ability to attract additional qualified employees, or the delay in hiring key personnel could each have a material adverse effect on our business, results of operations or financial condition.

***New regulations related to conflict minerals may adversely affect us.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes new disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries in our products, whether or not these products are manufactured by third parties. This requirement could affect the pricing, sourcing and availability of minerals used in the manufacture of components we use in our products. In addition, there are additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all minerals used in our products. As a result, we may be unable to certify that our products are conflict free.

***Our operations, and the operations of our customers and suppliers, are subject to risks of natural catastrophic events, widespread health epidemics, acts of war, terrorist attacks and the threat of domestic and international terrorist attacks, any one of which could result in cancellation of orders, delays in deliveries or other business activities, or loss of customers and could negatively affect our business and results of operations.***

Our business is international in nature, with our sales, service and administrative personnel and our customers and suppliers located in numerous countries throughout the world. Our operations, and those of our customers and suppliers, are subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, health epidemics, fires, earthquakes, hurricanes, volcanic eruptions, energy shortages, telecommunication failures, tsunamis, flooding or other natural disasters. Such disruption could materially increase our costs and expenses as well as cause delays in, among other things, shipments of products to our customers, our ability to perform services requested by our customers, or the installation and acceptance of our products at customer sites. Any of these conditions could have a material adverse effect on our business, financial conditions or results of operations.

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

We rely on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including confidential data, and to carry out and support a variety of business activities, including manufacturing, research and development, supply chain management, sales and accounting. 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 may face risks associated with shareholder activism.***

Publicly traded companies have increasingly become subject to campaigns by shareholders advocating corporate actions such as financial restructuring, increased borrowing, special dividends, stock repurchases or divestitures. We may become subject in the future to such shareholder activity and demands. Such activities could interfere with our ability to execute our business plans, be costly and time-consuming, disrupt our operations, divert the attention of management or result in our initiating borrowing or increasing our share repurchase plan or dividend, any of which could have an adverse effect on our business or stock price.

***Provisions of our charter and by-laws and Massachusetts law make a takeover of Teradyne more difficult.***

There are provisions in our basic corporate documents and under Massachusetts law that could discourage, delay or prevent a change in control, even if a change in control may be regarded as beneficial to some or all of our stockholders.

**Item 1B: *Unresolved Staff Comments***

None.

**Item 2: *Properties***

The following table provides information as to our principal facilities:

| Location                     | Operating Segment                               | Major Activity+ | Approximate Square Feet of Floor Space |
|------------------------------|---|-----------------|--|
| <b>Properties Owned:</b>     |   |                 |  |
| North Reading, Massachusetts | Semiconductor Test, System Test                 | 1-2-3-4-5       | 422,000                                |
| Agoura Hills, California     | Semiconductor Test                              | 3-4             | 120,000                                |
| Kumamoto, Japan              | Semiconductor Test                              | 2-3-4-5         | 79,000                                 |
|                              |   |                 | 621,000                                |
| <b>Properties Leased:</b>    |   |                 |  |
| Cebu, Philippines            | Semiconductor Test                              | 1-5             | 135,000                                |
| San Jose, California         | Semiconductor Test                              | 2-3-4-5         | 128,000                                |
| Buffalo Grove, Illinois      | Semiconductor Test                              | 2-3-4-5         | 95,000                                 |
| Sunnyvale, California        | Wireless Test                                   | 2-3-4-5         | 75,000                                 |
| Shanghai, China              | Semiconductor Test, System Test & Wireless Test | 3-4-5           | 68,000                                 |
| Heredia, Costa Rica          | Semiconductor Test                              | 1-5             | 49,000                                 |
| Hsinchu, Taiwan              | Semiconductor Test & System Test                | 4               | 43,000                                 |
| Seoul, Korea                 | Semiconductor Test                              | 4               | 28,000                                 |
| Singapore, Singapore         | Semiconductor Test                              | 1-3-4           | 23,000                                 |
|                              |   |                 | 644,000                                |

+ Major activities have been separated into the following categories: 1. Corporate Administration, 2. Manufacturing, 3. Engineering, 4. Sales and Marketing, 5. Storage and Distribution.

**Item 3: *Legal Proceedings***

We are subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. We believe that we have meritorious defenses against all pending claims and intend to vigorously contest them. While it is not possible to





predict or determine the outcomes of any pending claims or to provide possible ranges of losses that may arise, we believe the potential losses associated with all of these actions are unlikely to have a material adverse effect on our results of operations, financial condition or cash flows.

**Item 4: *Mine Safety Disclosure***

Not Applicable.

## PART II

**Item 5: Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

The following table shows the market range for our common stock based on reported sales price on the New York Stock Exchange and the dividends declared per share during such periods:

| Period         | High     | Low      | Dividends  |
|----------------|----------|----------|------------|
| <b>2013</b>    |          |          |            |
| First Quarter  | \$ 17.66 | \$ 15.44 | N/A        |
| Second Quarter | 18.57    | 14.05    | N/A        |
| Third Quarter  | 18.73    | 15.22    | N/A        |
| Fourth Quarter | 17.90    | 15.75    | N/A        |
| <b>2014</b>    |          |          |            |
| First Quarter  | \$ 20.54 | \$ 17.36 | N/A        |
| Second Quarter | 20.72    | 16.95    | \$ 0.06(1) |
| Third Quarter  | 20.88    | 17.74    | 0.06       |
| Fourth Quarter | 20.49    | 16.02    | 0.06       |

(1) Dividend declared January 22, 2014 with a record date of May 9, 2014 and a payment date of June 2, 2014. The number of record holders of our common stock at February 20, 2015 was 2,108.

In January 2014, our Board of Directors initiated a quarterly dividend program. Our Board of Directors declared quarterly cash dividends of \$0.06 per share of common stock payable in each of the second, third and fourth quarters of 2014.

In November 2010, our Board of Directors authorized a stock repurchase program for up to \$200 million. The cumulative repurchases as of December 31, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84 per share.

In January 2015, our Board of Directors cancelled the November 2010 stock repurchase program and authorized a new stock repurchase program for up to \$500 million, \$300 million of which we intend to repurchase in 2015.

See Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, for information on our equity compensation plans and our performance graph.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended December 31, 2014 (in thousands except per share price):

| Period                                | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|---|--|---|---|
| September 29, 2014 – October 26, 2014 |   | \$   |   | \$ 168,825  |
| October 27, 2014 – November 23, 2014  |   | \$   |   | \$ 168,825  |
| November 24, 2014 – December 31, 2014 |   | \$   |   | \$ 168,825  |

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



**Item 6: Selected Financial Data**

|  | Years Ended December 31, |              |              |              |              |
|--|--------------------------|--------------|--------------|--------------|--------------|
|  | 2014                     | 2013         | 2012         | 2011         | 2010         |
| (dollars in thousands, except per share amounts)                     |                          |              |              |              |              |
| <b>Consolidated Statement of Operations Data (1)(2)(3)(4)(5)(6):</b> |                          |              |              |              |              |
| Revenues   | \$ 1,647,824             | \$ 1,427,933 | \$ 1,656,750 | \$ 1,429,061 | \$ 1,566,162 |
| Income from continuing operations                                    | 81,272                   | 164,947      | 217,049      | 343,957      | 379,692      |
| Net income   | \$ 81,272                | \$ 164,947   | \$ 217,049   | \$ 369,873   | \$ 384,820   |
| Income from continuing operations per common share basic             | \$ 0.40                  | \$ 0.86      | \$ 1.16      | \$ 1.86      | \$ 2.11      |
| Income from continuing operations per common share diluted           | \$ 0.37                  | \$ 0.70      | \$ 0.94      | \$ 1.52      | \$ 1.73      |
| Net income per common share basic                                    | \$ 0.40                  | \$ 0.86      | \$ 1.16      | \$ 2.00      | \$ 2.14      |
| Net income per common share diluted                                  | \$ 0.37                  | \$ 0.70      | \$ 0.94      | \$ 1.63      | \$ 1.75      |
| Cash dividend declared per common share                              | \$ 0.18                  | \$           | \$           | \$           | \$           |
| <b>Consolidated Balance Sheet Data:</b>                              |                          |              |              |              |              |
| Total assets   | \$ 2,538,520             | \$ 2,629,824 | \$ 2,429,345 | \$ 2,188,639 | \$ 1,810,355 |
| Short-term debt obligations  |                          | 186,663      | 2,328        | 2,573        | 2,450        |
| Long-term debt obligations   | \$                       | \$           | \$ 171,059   | \$ 159,956   | \$ 150,182   |

- (1) The Consolidated Statement of Operations Data for the year ended December 31, 2014 includes a \$98.9 million goodwill impairment charge related to the Wireless Test segment and \$46.6 million of pension actuarial losses.
- (2) The Consolidated Statement of Operations Data for the year ended December 31, 2013 includes a \$34.2 million gain from the sale of an equity investment and \$10.3 million of pension actuarial gains.
- (3) The Consolidated Statement of Operations Data for the year ended December 31, 2012 includes \$23.3 million of pension actuarial losses.
- (4) As a result of the divestiture of Diagnostic Test Solutions in 2011, we are reporting this business unit as discontinued operations for 2011 and 2010.
- (5) The Consolidated Statement of Operations Data for the year ended December 31, 2011 includes the results of operations of LitePoint from October 5, 2011.
- (6) The Consolidated Statement of Operations Data for the year ended December 31, 2011 includes a tax benefit of \$129.5 million due primarily to the release of the deferred tax valuation allowance and \$13.6 million of pension actuarial losses.

**Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations 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, solid state disks 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

defense/aerospace ( Defense/Aerospace ) test instrumentation and systems, storage test ( Storage Test ) systems, and circuit-board test and inspection ( Production Board Test ) systems (collectively these products represent System Test ).

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

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

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

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

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

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

In 2013, revenues from our Storage Test business unit were significantly lower than in 2012 due to lower hard disk drive demand from lower shipments of personal computers. In response to this lower demand, during the third quarter of 2013, we implemented a headcount reduction in the Storage Test business unit. It is possible that we may need to take further cost control and reduction measures including reducing the number of employees and reducing manufacturing capacity. A prolonged slowdown in Storage Test demand may result in increased risk of excess and obsolete inventories, asset write-offs and restructuring charges.

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

We have identified the policies discussed below as critical to understanding our business and our results of operations and financial condition. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

### ***Revenue Recognition***

We recognize revenues when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, we defer revenue recognition until such events occur.

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

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

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

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

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

### ***Retirement and Postretirement Plans***

Effective January 1, 2012, we changed the method of recognizing actuarial gains and losses for our defined benefit pension plans and postretirement benefit plan and calculating the expected return on plan assets for our defined benefit pension plans. Historically, we recognized net actuarial gains and losses in accumulated other comprehensive income within shareholders' equity on our consolidated balance sheet on an annual basis and amortized them into operating results over the average remaining years of service of the plan participants, to the extent such gains and losses were outside of a range ( corridor ). In 2012, we elected to immediately recognize net actuarial gains and losses and the change in the fair value of the plan assets in our operating results in the year in which they occur or upon any interim remeasurement of the plans. In addition, we used to calculate the expected return on plan assets using a calculated market-related value of plan assets. Effective January 1, 2012, we elected to calculate the expected return on plan assets using the fair value of the plan assets.

We believe that this new method is preferable as it eliminates the delay in recognizing gains and losses in our operating results and it will improve the transparency by faster recognition of the effects of economic and



interest rate trends on plan obligations and investments. These actuarial gains and losses are generally measured annually as of December 31 and, accordingly, will be recorded during the fourth quarter of each year or upon any interim remeasurement of the plans. In accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*, all prior periods presented in this Annual Report on Form 10-K have been adjusted to apply the new accounting method retrospectively.

### ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. On a quarterly basis, we use consistent methodologies to evaluate all inventories for net realizable value. We record a provision for both excess and obsolete inventory when such write-downs or write-offs are identified through the quarterly review process. The inventory valuation is based upon assumptions about future demand, product mix, and possible alternative uses.

### ***Equity Incentive and Stock Purchase Plans***

Stock-based compensation expense is based on the grant-date fair value estimated in accordance with the provisions of ASC 718, *Compensation Stock Compensation*. As required by ASC 718, we have made an estimate of expected forfeitures and are recognizing compensation costs only for those stock-based compensation awards expected to vest.

### ***Income Taxes***

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. We performed the required assessment of positive and negative evidence regarding the realization of the net deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes*. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, estimates of projected future taxable income and tax-planning strategies. Although realization is not assured, based on our assessment, we concluded that it is more likely than not that such assets, net of the existing valuation allowance, will be realized. U.S. income taxes are not provided for on the earnings of non-U.S. subsidiaries which are expected to be reinvested indefinitely in operations outside the U.S. For intra-period tax allocations, we first utilize non-equity related tax attributes, such as net operating losses and credit carryforwards, and then equity-related tax attributes. We use the with-and-without method for calculating excess stock compensation deductions and do not take into account any indirect impacts of excess stock compensation deductions on its research and development tax credits, domestic production activities deduction, and other differences between financial reporting and tax reporting.

### ***Investments***

We account for our investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities*. On a quarterly basis, we review our investments to identify and evaluate those that have an indication of a potential other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include:

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

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

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

***Goodwill, Intangible and Long-Lived Assets***

We assess goodwill for impairment at least annually in the fourth quarter, as of December 31, on a reporting unit basis, or more frequently, when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment charge is recorded in an amount equal to that excess. In the fourth quarter of 2014, we performed our annual goodwill impairment test and recorded a goodwill impairment charge of \$98.9 million in our Wireless Test segment as a result of decreased projected demand attributable to an estimated smaller future wireless test market due to reuse of wireless test equipment, price competition and different testing techniques.

We assess the impairment of intangible and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important in the determination of an impairment include significant underperformance relative to historical or projected future operating results, significant changes in the manner that we use the acquired asset and significant negative industry or economic trends.

As a result of the Wireless Test segment goodwill impairment charge in the fourth quarter of 2014 described above, we performed an impairment test of the Wireless Test segment's intangible and long-lived assets based on a comparison of the estimated undiscounted cash flows to the recorded value of the assets and there was no indication of impairment. When we determine that the carrying value of intangible and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate commensurate with the associated risks.

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

|   | Year Ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2014                    | 2013         | 2012         |
| Percentage of revenues:   |                         |              |              |
| Revenues:   |                         |              |              |
| Products  | 82.8%                   | 80.9%        | 83.5%        |
| Services  | 17.2                    | 19.1         | 16.5         |
| <b>Total revenues</b>   | <b>100.0</b>            | <b>100.0</b> | <b>100.0</b> |
| Cost of revenues:   |                         |              |              |
| Cost of products  | 38.9                    | 34.9         | 38.8         |
| Cost of services  | 7.8                     | 8.4          | 7.7          |
| <b>Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)</b> | <b>46.7</b>             | <b>43.4</b>  | <b>46.5</b>  |
| <b>Gross profit</b>   | <b>53.3</b>             | <b>56.6</b>  | <b>53.5</b>  |
| Operating expenses:   |                         |              |              |
| Engineering and development   | 17.7                    | 18.5         | 15.4         |
| Selling and administrative  | 19.4                    | 19.6         | 16.7         |
| Goodwill impairment   | 6.0                     |              |              |
| Acquired intangible assets amortization   | 4.3                     | 5.1          | 4.4          |
| Restructuring and other   | 0.1                     | 0.1          | (0.5)        |
| <b>Total operating expenses</b>   | <b>47.5</b>             | <b>43.3</b>  | <b>36.1</b>  |
| <b>Income from operations</b>   | <b>5.9</b>              | <b>13.4</b>  | <b>17.3</b>  |
| Non-operating (income) expenses:  |                         |              |              |
| Interest income   | (0.4)                   | (0.3)        | (0.2)        |
| Interest expense  | 0.4                     | 1.8          | 1.5          |
| Other (income) expense, net   |                         | (2.3)        | 0.1          |
| <b>Income before income taxes</b>   | <b>5.8</b>              | <b>14.1</b>  | <b>16.1</b>  |
| Provision for income taxes  | 0.9                     | 2.6          | 3.0          |
| <b>Net income</b>   | <b>4.9%</b>             | <b>11.6%</b> | <b>13.1%</b> |

**Results of Operations*****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:

|                      | Three months ended December 31, |            |            |
|----------------------|---------------------------------|------------|------------|
|                      | 2014                            | 2013       | 2012       |
| Semiconductor Test   | 1.0                             | 1.0        | 1.0        |
| Wireless Test        | 1.0                             | 0.7        | 1.1        |
| System Test          | 1.5                             | 1.0        | 1.6        |
| <b>Total Company</b> | <b>1.0</b>                      | <b>1.0</b> | <b>1.1</b> |

**Revenues**

Revenues for our three reportable segments were as follows:

|                    | 2014       | 2013       | 2012<br>(in millions) | 2013-2014<br>Dollar<br>Change | 2012-2013<br>Dollar<br>Change |
|--------------------|------------|------------|-----------------------|-------------------------------|-------------------------------|
| Semiconductor Test | \$ 1,300.8 | \$ 1,023.0 | \$ 1,127.7            | \$ 277.8                      | \$ (104.7)                    |
| Wireless Test      | 184.5      | 251.9      | 286.4                 | (67.4)                        | (34.5)                        |
| System Test        | 162.5      | 153.0      | 242.7                 | 9.5                           | (89.7)                        |
|                    | \$ 1,647.8 | \$ 1,427.9 | \$ 1,656.8            | \$ 219.9                      | \$ (228.9)                    |

The increase in Semiconductor Test revenues of \$277.8 million or 27% from 2013 to 2014 was primarily due to higher system-on-a-chip ( SOC ) product volume, driven by a larger application processor test market driven by market demand.

The decrease in Semiconductor Test revenues of \$104.7 million or 9% from 2012 to 2013 was primarily due to a decrease in SOC test product sales because of a smaller application processor test market, partially offset by higher memory system sales.

The decrease in Wireless Test revenues of \$67.4 million or 27% from 2013 to 2014 was primarily due to lower cellular and connectivity product volume.

The decrease in Wireless Test revenues of \$34.5 million or 12% from 2012 to 2013 was primarily due to lower connectivity product volume, partially offset by higher cellular product volume.

The increase in System Test revenues of \$9.5 million or 6% from 2013 to 2014 was primarily due to higher product volume in Storage Test and Production Board Test, partially offset by lower Defense/Aerospace product sales.

The decrease in System Test revenues of \$89.7 million or 37% from 2012 to 2013 was primarily due to lower product volume in Storage Test. The decrease in Storage Test sales was due to lower hard disk drive demand primarily from lower shipments of personal computers.

Our three reportable segments accounted for the following percentages of consolidated revenues for each of the last three years:

|                    | 2014 | 2013 | 2012 |
|--------------------|------|------|------|
| Semiconductor Test | 79%  | 71%  | 68%  |
| Wireless Test      | 11   | 18   | 17   |
| System Test        | 10   | 11   | 15   |
|                    | 100% | 100% | 100% |

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

|                   | 2014 | 2013 | 2012 |
|-------------------|------|------|------|
| Taiwan            | 30%  | 19%  | 18%  |
| China             | 18   | 23   | 21   |
| United States     | 13   | 16   | 14   |
| Korea             | 9    | 8    | 13   |
| Singapore         | 7    | 8    | 6    |
| Europe            | 7    | 6    | 5    |
| Malaysia          | 5    | 6    | 4    |
| Philippines       | 4    | 4    | 7    |
| Japan             | 4    | 6    | 6    |
| Thailand          | 2    | 2    | 5    |
| Rest of the World | 1    | 2    | 1    |
|                   | 100% | 100% | 100% |

(1) Revenues attributable to a country are based on location of customer site.  
The breakout of product and service revenues for the past three years was as follows:

|                  | 2014       | 2013       | 2012          | 2013-2014<br>Dollar<br>Change | 2012-2013<br>Dollar<br>Change |
|------------------|------------|------------|---------------|-------------------------------|-------------------------------|
|                  |            |            | (in millions) |                               |                               |
| Product Revenues | \$ 1,364.0 | \$ 1,154.9 | \$ 1,383.6    | \$ 209.1                      | \$ (228.7)                    |
| Service Revenues | 283.8      | 273.0      | 273.2         | 10.8                          | (0.2)                         |
|                  | \$ 1,647.8 | \$ 1,427.9 | \$ 1,656.8    | \$ 219.9                      | \$ (228.9)                    |

Our product revenues increased \$209.1 million or 18% in 2014 from 2013 primarily due to an increase in SOC test product volume, driven by a larger application processor test market driven by market demand. This increase was partially offset by lower cellular and connectivity product volume in Wireless Test. Service revenues, which are derived from the servicing of our installed base of products and includes equipment maintenance contracts, repairs, extended warranties, parts sales, and applications support, increased \$10.8 million or 4%.

Our product revenues decreased \$228.7 million or 17% in 2013 from 2012 primarily due to a decrease in SOC test product sales because of a smaller application processor test market and due to lower product volume in Storage Test.

In 2014, no single customer accounted for more than 10% of our consolidated revenues. In 2013 and 2012, revenues from one customer accounted for 12% and 10%, respectively, of our consolidated revenues. In each of the years 2014, 2013 and 2012, our three largest customers in aggregate accounted for 21%, 26% and 29%, respectively, of our consolidated revenues.

### Gross Profit

|                           | 2014     | 2013     | 2012                  | 2013-2014<br>Dollar /<br>Point<br>Change | 2012-2013<br>Dollar /<br>Point<br>Change |
|---------------------------|----------|----------|-----------------------|--|--|
|                           |          |          | (dollars in millions) |  |  |
| Gross Profit              | \$ 878.8 | \$ 808.8 | \$ 886.0              | \$ 70.0                                  | \$ (77.2)                                |
| Percent of Total Revenues | 53.3%    | 56.6%    | 53.5%                 | (3.3)                                    | 3.1                                      |



Gross profit as a percent of total revenues decreased from 2013 to 2014 by 3.3 points. This decrease was a result of a decrease of 2.8 points related to unfavorable product mix in SOC Semiconductor Test and lower Wireless Test sales and a decrease of 1.1 points due to pension expense in 2014 compared to pension income in 2013, partially offset by an increase of 1.1 points due to higher sales volume.

Gross profit as a percent of total revenues increased from 2012 to 2013 by 3.1 points. This increase was a result of an increase of 1.7 points related to favorable product mix in SOC Semiconductor Test and lower Storage Test system sales compared to 2012, an increase of 1.1 points due to pension income in 2013 compared to pension expense in 2012, an increase of 1.1 points due to lower excess and obsolete inventory provisions and increased sales of previously reserved inventory, and an increase of 0.4 points as a result of no purchase accounting inventory step-up in 2013, partially offset by a decrease of 1.4 points due to lower sales volume across all segments.

The breakout of product and service gross profit was as follows:

|                             | 2014                  | 2013     | 2012     | 2013-2014<br>Dollar /<br>Point<br>Change | 2012-2013<br>Dollar /<br>Point<br>Change |
|-----------------------------|-----------------------|----------|----------|--|--|
|                             | (dollars in millions) |          |          |  |  |
| Product Gross Profit        | \$ 723.2              | \$ 655.9 | \$ 740.7 | \$ 67.3                                  | \$ (84.8)                                |
| Percent of Product Revenues | 53.0%                 | 56.8%    | 53.5%    | (3.8)                                    | 3.3                                      |
| Service Gross Profit        | \$ 155.6              | \$ 152.9 | \$ 145.3 | \$ 2.7                                   | \$ 7.6                                   |
| Percent of Service Revenues | 54.8%                 | 56.0%    | 53.2%    | (1.2)                                    | 2.8                                      |

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 product 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 for our Semiconductor Test and System Test segments and next four quarters for our Wireless Test segment, is written-down to estimated net realizable value.

During the year ended December 31, 2014, we recorded an inventory provision of \$22.2 million included in cost of revenues, due to the following factors:

A charge of \$15.4 million due to downward revisions to previously forecasted demand levels, of which \$8.1 million was in Semiconductor Test, \$5.2 million was in Wireless Test and \$2.1 million was in System Test; and

A \$6.8 million inventory write-down as a result of product transition, of which \$6.3 million was in Semiconductor test and \$0.5 million in Wireless Test.

During the year ended December 31, 2013, we recorded an inventory provision of \$16.6 million included in cost of revenues, due to the following factors:

A charge of \$12.2 million due to downward revisions to previously forecasted demand levels, of which \$5.2 million was in Semiconductor Test, \$4.2 million was in System Test and \$2.8 million was in Wireless Test; and

A \$4.4 million inventory write-down as a result of product transition in Wireless Test.





\$6.8 million of pension expense in 2012.

**Acquired Intangible Assets Amortization**

Acquired intangible assets amortization expense was as follows:

|   | 2014                  | 2013    | 2012    | 2013-2014<br>Change | 2012-2013<br>Change |
|---|-----------------------|---------|---------|---------------------|---------------------|
|   | (dollars in millions) |         |         |                     |                     |
| Acquired Intangible Assets Amortization | \$ 70.8               | \$ 72.4 | \$ 73.5 | \$ (1.6)            | \$ (1.1)            |
| Percent of Total Revenues               | 4.3%                  | 5.1%    | 4.4%    |                     |                     |

Acquired intangible assets amortization expense decreased from 2013 to 2014 due to intangible assets that became fully amortized during the year, partially offset by increased amortization expense due to the AIT acquisition. Acquired intangible assets amortization expense decreased from 2012 to 2013 due to intangible assets that became fully amortized during the year, partially offset by increased amortization expense due to the ZTEC acquisition.

**Goodwill Impairment**

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

**Restructuring and Other*****Restructuring***

During the year ended December 31, 2014, we recorded \$1.6 million of charges related to headcount reductions of approximately 43 people, primarily in Semiconductor Test and Wireless Test.

During the year ended December 31, 2013, we recorded \$1.9 million of severance charges related to headcount reductions of 48 people primarily in System Test and Semiconductor Test and a \$(0.4) million credit in Corporate related to a change in the estimated exit costs related to a leased facility.

During the year ended December 31, 2012, we recorded \$1.0 million of severance charges related to headcount reductions of 19 people primarily in System Test and Semiconductor Test.

The remaining accrual for severance of \$0.4 million is reflected in the accrued employees' compensation and withholdings on the balance sheet and is expected to be paid by June 2015.

***Other***

During the year ended December 31, 2014, we recorded a \$0.6 million gain from the fair value adjustment to decrease the ZTEC acquisition contingent consideration, partially offset by \$0.4 million of acquisition costs related to AIT.

During the year ended December 31, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, we recorded an \$8.8 million gain from the fair value adjustment to decrease the LitePoint acquisition contingent consideration.

**Interest and Other**

|                             | 2014     | 2013     | 2012          | 2013-2014 | 2012-2013 |
|-----------------------------|----------|----------|---------------|-----------|-----------|
|                             |          |          | (in millions) | Change    | Change    |
| Interest Income             | \$ (6.3) | \$ (4.1) | \$ (4.1)      | \$ (2.2)  | \$        |
| Interest Expense            | 6.9      | 26.1     | 24.5          | (19.2)    | 1.6       |
| Other (income) expense, net | 0.4      | (33.2)   | 1.0           | 33.6      | (34.2)    |

Interest income increased by \$2.2 million, from \$4.1 million in 2013 to \$6.3 million in 2014, due primarily to higher cash and marketable securities balances in 2014.

Interest expense decreased by \$19.2 million, from \$26.1 million in 2013 to \$6.9 million in 2014, due primarily to a repayment of our convertible debt in the first quarter of 2014. In 2013 and 2012, interest expense included convertible debt discount amortization.

In 2013, other (income) expense, net included a \$34.2 million gain from the sale of an equity investment.

**Income (Loss) Before Income Taxes**

|                    | 2014     | 2013     | 2012          | 2013-2014  | 2012-2013 |
|--------------------|----------|----------|---------------|------------|-----------|
|                    |          |          | (in millions) | Change     | Change    |
| Semiconductor Test | \$ 255.8 | \$ 153.8 | \$ 186.0      | \$ 102.0   | \$ (32.2) |
| Wireless Test      | (116.2)  | 23.1     | 83.1          | (139.3)    | (60.0)    |
| System Test        | 12.1     | 3.1      | 34.2          | 9.0        | (31.1)    |
| Corporate (1)      | (56.3)   | 21.9     | (37.3)        | (78.2)     | 59.2      |
|                    | \$ 95.4  | \$ 201.9 | \$ 266.0      | \$ (106.5) | \$ (64.1) |

(1) Included in Corporate are pension and postretirement plans actuarial gains and losses, interest income and interest expense. The decrease in income before income taxes from 2013 to 2014 was primarily due to a \$98.9 million goodwill impairment charge related to Wireless Test and \$46.6 million pension expense related to actuarial losses in 2014, partially offset by higher income due to higher revenues in Semiconductor Test in 2014.

The decrease in income before income taxes from 2012 to 2013 was primarily due to lower revenues in 2013 compared to 2012, a \$9.8 million increase in restructuring and other costs, partially offset by a \$34.2 million gain from the sale of an equity investment in 2013.

**Income Taxes**

Income tax expense for 2014, 2013 and 2012 totaled \$14.1 million, \$37.0 million and \$48.9 million, respectively. The effective tax rate for 2014, 2013 and 2012 was 14.8%, 18.3% and 18.4%, respectively. The decrease in income tax expense from 2013 to 2014 was primarily attributable to a shift in the geographic distribution of income which decreased income subject to taxation in the United States relative to lower tax rate jurisdictions, partially offset by an increase in income tax expense associated with uncertain tax positions and a reduction in the benefit from U.S. research and development tax credits.

The decrease in income tax expense from 2012 to 2013 was due to the reinstatement of the U.S. research and development tax credit in 2013 for fiscal years 2013 and 2012 and lower pre-tax income, partially offset by higher tax expense for uncertain tax positions and state taxes.

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U.S. research and development tax credits provided a 7.9% and 7.2% reduction to the 2014 and 2013 U.S. statutory federal tax rate of 35.0%, respectively. The research and development tax credit expired at the end of 2014; therefore if the credit is not re-enacted there could be an unfavorable impact on our 2015 effective income tax rate.

We operate under a tax holiday in Singapore, which is effective through December 31, 2015. The tax savings attributable to the Singapore tax holiday for the years ended December 31, 2014, 2013 and 2012 were \$13.2 million or \$0.06 per diluted share, \$4.7 million or \$0.02 per diluted share and \$10.9 million or \$0.05 per diluted share, respectively. We are in discussions with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015.

### Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2014:

|   | Total             | Less than<br>1 year | Payments Due by Period |                  | More than<br>5 years | Other            |
|---|-------------------|---------------------|------------------------|------------------|----------------------|------------------|
|   |                   |                     | 1-3<br>years           | 3-5<br>years     |                      |                  |
| Operating Lease Obligations   | \$ 53,991         | \$ 13,521           | \$ 18,618              | \$ 8,638         | \$ 13,214            |                  |
| Purchase Obligations  | 151,459           | 146,543             | 4,916                  |                  |                      |                  |
| Retirement Plan Contributions   | 112,637           | 4,260               | 8,351                  | 8,853            | 91,173               |                  |
| Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP (1) | 58,674            |                     | 19,929                 |                  |                      | 38,745           |
| <b>Total</b>  | <b>\$ 376,761</b> | <b>\$ 164,324</b>   | <b>\$ 51,814</b>       | <b>\$ 17,491</b> | <b>\$ 104,387</b>    | <b>\$ 38,745</b> |

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

### Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities balance increased \$99.2 million to \$1.3 billion from 2013 to 2014. Cash activity for 2014, 2013 and 2012 was as follows:

|  | 2014       | 2013     | 2012<br>(in millions) | 2013-2014<br>Change | 2012-2013<br>Change |
|--|------------|----------|-----------------------|---------------------|---------------------|
| Cash provided by operating activities:                                 |            |          |                       |                     |                     |
| Net income, adjusted for non-cash items                                | \$ 439.7   | \$ 318.4 | \$ 444.8              | \$ 121.3            | \$ (126.4)          |
| Change in operating assets and liabilities, net of businesses acquired | 52.4       | (49.7)   | (41.8)                | 102.1               | (7.9)               |
| Net cash provided by operating activities                              | \$ 492.1   | \$ 268.7 | \$ 402.9              | \$ 223.4            | \$ (134.3)          |
| Net cash used for investing activities                                 | (332.9)    | (283.3)  | (602.5)               | (49.6)              | 319.2               |
| Net cash (used for) provided by financing activities                   | \$ (206.6) | \$ 17.3  | \$ (35.3)             | \$ (223.9)          | \$ 52.6             |
| (Decrease) increase of cash and cash equivalents                       | \$ (47.4)  | \$ 2.7   | \$ (234.8)            | \$ (50.1)           | \$ 237.5            |

In 2014, changes in operating assets and liabilities, net of businesses acquired, provided cash of \$52.4 million. This was due to a \$100.8 million decrease in operating assets and a \$48.4 million decrease in operating liabilities.



The decrease in operating assets was due to a \$41.5 million decrease in prepayments and other assets primarily related to a reduction in prepayments to our contract manufacturers, a \$51.2 million decrease in inventories due to higher sales, and an \$8.1 million decrease in accounts receivable.

The decrease in operating liabilities was due to \$33.9 million of retirement plan contributions, a \$17.0 million decrease in other accrued liabilities, a \$16.9 million decrease in accounts payable, a \$7.3 million decrease in accrued employee compensation due primarily to employee stock awards payroll taxes and variable compensation payments, a \$4.3 million convertible note interest payment, partially offset by a \$22.0 million increase in customer advance payments and deferred revenue, and an \$8.9 million increase in accrued income taxes.

Investing activities during 2014 used cash of \$332.9 million due to \$1,578.7 million used for purchases of marketable securities and \$169.0 million used for purchases of property, plant and equipment, and \$19.4 million used for the acquisition of AIT, completed in October 2014, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$859.7 million and \$570.4 million, respectively, and net proceeds from life insurance of \$4.2 million primarily related to the cash surrender value from the cancellation of Teradyne owned life insurance policies on its retired chief executive officer. The increase in purchase of property, plant and equipment of \$62.3 million in 2014 compared to the year ended December 31, 2013 is primarily due to testers used for customer leases.

Financing activities during 2014 used cash of \$206.6 million, \$191.0 million of cash was used for payments on long-term debt related to the convertible note and a loan in Japan and \$37.4 million was used for dividend payments, partially offset by \$21.3 million provided by the issuance of common stock under employee stock purchase and stock option plans and \$0.5 million from the tax benefit related to stock options and restricted stock units.

In 2013, changes in operating assets and liabilities, net of businesses sold and acquired, used cash of \$49.7 million. This was due to a \$32.1 million increase in operating assets and a \$17.7 million decrease in operating liabilities.

The increase in operating assets was due to a \$49.6 million increase in prepayments due primarily to prepayments to our contract manufacturers and a \$3.7 million increase in accounts receivable, partially offset by a \$21.2 million decrease in inventories.

The decrease in operating liabilities was due to a \$2.5 million decrease in accrued employee compensation due primarily to employee stock awards payroll taxes and variable compensation payments, a \$28.9 million decrease in customer advance payments and deferred revenue, and \$5.5 million of retirement plan contributions, partially offset by a \$13.9 million increase in other accrued liabilities, a \$3.7 million increase in accounts payable due to higher fourth quarter sales volume, and a \$1.6 million increase in accrued income taxes.

Investing activities during 2013 used cash of \$283.3 million. In October 2013, we completed the acquisition of ZTEC for an initial cash purchase price, net of cash acquired, of \$15.0 million. Purchases of property, plant and equipment were \$106.7 million. Purchases of marketable securities used cash of \$1,170.5 million, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$516.5 million and \$458.5 million, respectively. The sale of an equity investment provided cash of \$34.2 million. Purchases of life insurance policies used cash of \$0.3 million.

Financing activities during 2013 provided cash of \$17.3 million, \$17.6 million was from the issuance of common stock under stock option and stock purchase plans, and \$2.7 million from the tax benefit related to stock options and restricted stock units, partially offset by \$0.4 million of cash used for payments related to LitePoint acquisition contingent consideration and \$2.5 million of cash used for payments on long-term debt related to a loan in Japan.

In 2012, changes in operating assets and liabilities, net of businesses sold and acquired, used cash of \$41.8 million. This was due to a \$9.4 million increase in operating assets and a \$32.4 million decrease in operating liabilities.

The increase in operating assets was due to a \$24.1 million increase in accounts receivable and a \$3.0 million increase in prepayments due primarily to supplier prepayments, partially offset by a \$17.7 million decrease in inventories.

The decrease in operating liabilities was due to a \$15.7 million decrease in accrued employee compensation due primarily to employee stock awards payroll taxes and variable compensation payments, a \$14.6 million decrease in customer advance payments and deferred revenue, a \$11.5 million decrease in accounts payable due to lower fourth quarter sales volume, a \$5.6 million decrease in other accrued liabilities, and \$4.8 million of retirement plan contributions, partially offset by a \$19.8 million increase in accrued income taxes.

Investing activities during 2012 used cash of \$602.5 million, due to \$748.2 million used for purchases of marketable securities and \$119.1 million used for purchases of property, plant and equipment, partially offset by proceeds from sales and maturities of marketable securities that provided cash of \$38.3 million and \$225.1 million, respectively, and proceeds of \$1.5 million from life insurance policies.

Financing activities during 2012 used cash of \$35.3 million, \$18.5 million was from the issuance of common stock under stock option and stock purchase plans, and \$8.5 million from the tax benefit related to stock options and restricted stock units, partially offset by \$59.7 million of cash used for payments related to LitePoint acquisition contingent consideration and \$2.5 million of cash used for payments on long-term debt related to a loan in Japan.

In January 2014, our Board of Directors declared an initial quarterly cash dividend of \$0.06 per share. In each of the second, third and fourth quarters of 2014, we paid a cash dividend of \$0.06 per share. In January 2015, our Board of Directors declared a quarterly dividend of \$0.06 per share to be paid on March 24, 2015 to shareholders of record as of February 27, 2015. Total dividend payments in 2014 were \$37.4 million. Payment of future cash dividends are subject to the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

In January 2015, our Board of Directors authorized the repurchase of up to \$500 million of common stock, \$300 million of which we intend to repurchase in 2015.

We believe our cash, cash equivalents and marketable securities balance will be sufficient to pay our quarterly dividend, execute our authorized share repurchase program and meet our working capital and expenditure needs for at least the next twelve months. The amount of cash, cash equivalents and marketable securities in the U.S. and our operations in the U.S. provide sufficient liquidity to fund our business activities in the U.S. We have approximately \$616 million of cash outside the U.S. that if repatriated would incur additional taxes. Determination of the additional taxes that would be incurred is not practicable due to uncertainty regarding the remittance structure, the mix of earnings and earnings and profit pools in the year of remittance, and overall complexity of the calculation. Inflation has not had a significant long-term impact on earnings.

#### **Retirement Plans**

ASC 715-20, *Compensation Retirement Benefits Defined Benefit Plans* requires an employer with defined benefit plans or other postretirement benefit plans to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plans as defined by ASC 715-20. The pension asset or liability represents the difference between the fair value of the pension plan's assets and the projected benefit obligation as of December 31. For other postretirement benefit plans, the liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation as of December 31.

Our pension expense, which includes the U.S. Qualified Pension Plan ( U.S. Plan ), certain qualified plans for non-U.S. subsidiaries, and a U.S. Supplemental Executive Defined Benefit Plan, was approximately \$52.4 million for the year ended December 31, 2014. The largest portion of our 2014 pension expense was \$31.2 million for our U.S. Plan. Pension expense is calculated based upon a number of actuarial assumptions. Discount rate and expected return on assets are two assumptions which are important elements of pension plan expense/income and asset/liability measurement. We evaluate our discount rate and expected rate of return on assets assumptions annually on a plan and country specific basis. We evaluate other assumptions related to demographic factors, such as retirement age, mortality and turnover periodically, and update them to reflect our experience and expectations for the future. In the fourth quarter of 2014, we updated the mortality assumptions related to our U.S retirement plans using the mortality tables published in October 2014 by the U.S. Society of Actuaries. The change in the mortality assumptions resulted in approximately \$39.0 million of actuarial losses in 2014 for the U.S. retirement plans.

In developing the expected return on U.S. Plan assets assumption, we evaluated input from our investment managers and pension consultants, including their review of asset class return expectations. Based on this review, we believe that 5.0% was an appropriate rate to use for 2014. The December 31, 2014 asset allocation for our U.S. Plan was 83% invested in fixed income securities, 16% invested in equity securities, and 1% invested in other securities. Our investment managers regularly review the actual asset allocation and periodically rebalance the portfolio to ensure alignment with our targeted allocations.

Effective January 1, 2012, we elected to immediately recognize net actuarial gains and losses and the change in the fair value of plans assets in our operating results in the year in which they occur or upon any interim rereasurement of the plans. In addition, we used to calculate the expected return on plan assets using a calculated market-related value of plan assets. Effective January 1, 2012, we elected to calculate the expected return on plan assets using the fair value of the plan assets.

The discount rate that we utilized for determining future pension obligations for the U.S. Plan is based on the Citigroup Pension Index adjusted for the U.S. Plan's expected cash flows and was 3.7% at December 31, 2014, down from 4.5% at December 31, 2013. We estimate that in 2015 we will recognize approximately \$1.5 million of pension income for the U.S. Plan. The U.S. Plan pension income estimate for 2015 is based on a 3.7% discount rate and 4.75% return on assets. Future pension expense or income will depend on future investment performance, changes in future discount rates and various other factors related to the employee population participating in our pension plans.

As of December 31, 2014, our pension plans had unrecognized pension prior service cost of \$0.4 million.

We performed a sensitivity analysis, which expresses the potential U.S. Plan (income) expense for the year ending December 31, 2015, which would result from changes to either the discount rate or the expected return on plan assets. The below estimates exclude the impact of any potential actuarial gains or losses. It is difficult to reliably forecast or predict whether there will be any actuarial gains or losses in 2015 as they are primarily driven by events and circumstances beyond our control, such as changes in interest rates and the performance of the financial markets.

| Return on Plan Assets | Discount Rate |        |        |
|-----------------------|---------------|--------|--------|
|                       | 3.2%          | 3.7%   | 4.2%   |
|                       | (in millions) |        |        |
| 4.25%                 | \$ (0.8)      | \$ 0.0 | \$ 0.6 |
| 4.75%                 | (2.3)         | (1.5)  | (0.9)  |
| 5.25%                 | (3.8)         | (3.1)  | (2.5)  |

The assets of the U.S. Plan consist substantially of fixed income securities. U.S. Plan assets have increased from \$256.4 million at December 31, 2013 to \$316.1 million at December 31, 2014.



Our funding policy is to make contributions to our pension plans in accordance with local laws and to the extent that such contributions are tax deductible. During 2014, we made contributions of \$30.0 million to the U.S. Plan, \$1.8 million to the U.S. supplemental executive defined benefit pension plan and \$1.2 million to certain qualified plans for non-U.S. subsidiaries. We expect to contribute approximately \$2.5 million to the U.S. supplemental executive defined benefit pension plan in 2015. Contributions that will be made in 2015 to certain qualified plans for non-U.S. subsidiaries are based on local statutory requirements and will be approximately \$1.0 million. We do not expect to make any contributions to the U.S. Plan in 2015.

### Equity Compensation Plans

In addition to our 1996 Employee Stock Purchase Plan discussed in Note N: Stock Based Compensation in Notes to Consolidated Financial Statements, we have a 2006 Equity and Cash Compensation Incentive Plan (the 2006 Equity Plan) under which equity securities are authorized for issuance. The 2006 Equity Plan was initially approved by stockholders on May 25, 2006.

At our annual meeting of stockholders held May 21, 2013, our stockholders approved an amendment to the 2006 Equity Plan to increase the number of shares issuable thereunder by 10.0 million, for an aggregate of 32.0 million shares issuable thereunder, and our stockholders also approved an amendment to our 1996 Employee Stock Purchase Plan to increase the number of shares issuable thereunder by 5.0 million, for an aggregate of 30.4 million shares issuable thereunder.

The following table presents information about these plans as of December 31, 2014 (share numbers in thousands):

| Plan category                                     | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column one) |
|---|---|---|---|
| Equity plans approved by shareholders             | 4,871(1)  | \$ 17.03  | 17,787(2)   |
| Equity plans not approved by shareholders (3,4,5) | 988   | \$ 3.09   |   |
| <b>Total</b>                                      | <b>5,859</b>  | <b>\$ 7.89</b>  | <b>17,787</b>   |

- (1) Includes 4,351,325 shares of restricted stock units that are not included in the calculation of the weighted average exercise price.
- (2) Consists of 12,443,022 securities available for issuance under the 2006 Equity Plan and 5,343,654 of securities available for issuance under the Employee Stock Purchase Plan.
- (3) In connection with the 2008 acquisition of Nextest (the Nextest Acquisition), we assumed the options and restricted stock units granted under the Nextest Systems Corporation 1998 Equity Incentive Plan, as amended, and the Nextest Systems Corporation 2006 Equity Incentive Plan (collectively, the Nextest Plans). Upon the consummation of the Nextest Acquisition, these options and restricted stock units were converted automatically into, respectively, options to purchase and restricted stock units representing, an aggregate of 4,417,594 shares of our common stock. No additional awards will be granted under the Nextest Plans. As of December 31, 2014, there were outstanding options exercisable for an aggregate of 185,036 shares of our common stock pursuant to the Nextest Plans, with a weighted average exercise price of \$3.18 per share.
- (4) In connection with the 2008 acquisition of Eagle Test (the Eagle Acquisition), we assumed the options granted under the Eagle Test Systems, Inc. 2003 Stock Option and Grant Plan and the Eagle Test Systems, Inc. 2006 Stock Option and Incentive Plan (collectively, the Eagle Plans). Upon the consummation of the Eagle Acquisition, these options were converted automatically into options to purchase an aggregate of 3,594,916 shares of our common stock. No additional awards will be granted under the Eagle Plans. As of December 31, 2014, there were outstanding options exercisable for an aggregate of 129,467 shares of our common stock pursuant to the Eagle Plans, with a weighted average exercise price of \$3.85 per share.

- (5) In connection with the 2011 acquisition of LitePoint Corporation (the LitePoint Acquisition), we assumed the options granted under the LitePoint Corporation 2002 Stock Plan (the LitePoint Plan). Upon the consummation of the LitePoint Acquisition, these options were converted automatically into options to purchase an aggregate of 2,828,344 shares of our common stock. No additional awards will be granted under the LitePoint Plan. As of December 31, 2014, there were outstanding options exercisable for an aggregate of 673,703 shares of our common stock pursuant to the LitePoint Plan, with a weighted average exercise price of \$2.92 per share.

The purpose of the 2006 Equity Plan is to motivate employees, officers and directors by providing equity ownership and compensation opportunities in Teradyne. The aggregate number of shares available under the 2006 Equity Plan as of December 31, 2014 was 12,443,022 shares of our common stock. The 2006 Equity Plan authorizes the grant of stock-based awards in the form of (1) non-qualified and incentive stock options, (2) stock appreciation rights, (3) restricted stock awards and restricted stock unit awards, (4) phantom stock, and (5) other stock-based awards. Awards may be tied to time-based vesting schedules and/or performance-based vesting measured by reference to performance criteria chosen by the Compensation Committee of the Board of Directors, which administers the 2006 Equity Plan. Awards may be made to any employee, officer, consultant and advisor of Teradyne and our subsidiaries, as well as, to our directors. The maximum number of shares of stock-based awards that may be granted to one participant during any one fiscal year is 2,000,000 shares of common stock. The 2006 Equity Plan will expire on May 24, 2016.

As of December 31, 2014, total unrecognized compensation expense related to non-vested restricted stock units and options was \$51.3 million, and is expected to be recognized over a weighted average period of 2.4 years.

### **Performance Graph**

The following graph compares the change in our cumulative total shareholder return in our common stock with (i) the Standard & Poor's 500 Index and (ii) the Philadelphia Semiconductor Index. The comparison assumes \$100.00 was invested on December 31, 2009 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. Historic stock price performance is not necessarily indicative of future price performance.

### ***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to show the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be

entitled to in exchange for those goods or services. The new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. For Teradyne, the standard will be effective in the first quarter of 2017. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We have not yet selected a transition method. We are currently evaluating the impact of this ASU on our financial position and results of operations.

**Item 7A: *Quantitative and Qualitative Disclosures about Market Risks***  
**Concentration of Credit Risk**

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, forward currency contracts and accounts receivable. Our cash equivalents consist primarily of money market funds invested in U.S. Treasuries and government agencies. Our fixed income available-for-sale marketable securities have a minimum rating of AA by one or more of the major credit rating agencies. We place forward currency contracts with high credit-quality financial institutions in order to minimize credit risk exposure. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of geographically dispersed customers. We perform ongoing credit evaluations of our customers' financial condition and from time to time may require customers to provide a letter of credit from a bank to secure accounts receivable.

**Exchange Rate Risk Management**

We regularly enter into foreign currency forward contracts to hedge the value of our monetary assets and liabilities in Japanese Yen, British Pound, Korean Won, Taiwan Dollar and Euro. These foreign currency forward contracts have maturities of approximately one month. These contracts are used to minimize the effect of exchange rate fluctuations associated with the remeasurement of monetary assets and liabilities. We do not engage in currency speculation.

We performed a sensitivity analysis assuming a hypothetical 10% fluctuation in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of December 31, 2014, 2013 and 2012, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

**Interest Rate Risk Management**

We are exposed to potential losses due to changes in interest rates. Our interest rate exposure is primarily in the United States in short-term and long-term marketable securities.

In order to estimate the potential loss due to interest rate risk, a fluctuation in interest rates of 25 basis points was assumed. Market risk for the short and long-term marketable securities was estimated as the potential change in the fair value resulting from a hypothetical change in interest rates for securities contained in the investment portfolio. The potential change in fair value from changes in interest rates is immaterial as of December 31, 2014 and 2013.

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**Item 8: Financial Statements and Supplementary Data**  
**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Teradyne, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Teradyne, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 27, 2015

## TERADYNE, INC.

## CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

|   | 2014<br>(in thousands, except per<br>share information) | 2013         |
|---|---|--------------|
| <b>ASSETS</b>   |   |              |
| Current assets:   |   |              |
| Cash and cash equivalents   | \$ 294,256  | \$ 341,638   |
| Marketable securities   | 533,787   | 586,882      |
| Accounts receivable, less allowance for doubtful accounts of \$2,491 and \$2,912 in 2014 and 2013, respectively | 151,034   | 157,642      |
| Inventories:  |   |              |
| Parts   | 70,821  | 84,232       |
| Assemblies in process   | 10,347  | 15,539       |
| Finished goods  | 23,961  | 38,168       |
|   | 105,129   | 137,939      |
| Deferred tax assets   | 57,239  | 72,478       |
| Prepayments   | 95,819  | 136,374      |
| Other current assets  | 6,582   | 7,324        |
| Total current assets  | 1,243,846   | 1,440,277    |
| Net property, plant and equipment   | 329,038   | 275,236      |
| Marketable securities   | 470,789   | 271,078      |
| Deferred tax assets   | 7,494   | 5,217        |
| Other assets  | 10,419  | 14,591       |
| Retirement plans assets   | 12,896  | 9,342        |
| Intangible assets, net  | 190,600   | 252,291      |
| Goodwill  | 273,438   | 361,792      |
| Total assets  | \$ 2,538,520  | \$ 2,629,824 |
| <b>LIABILITIES</b>  |   |              |
| Current liabilities:  |   |              |
| Accounts payable  | \$ 47,763   | \$ 62,874    |
| Accrued employees' compensation and withholdings  | 100,994   | 95,619       |
| Deferred revenue and customer advances  | 71,603  | 55,404       |
| Other accrued liabilities   | 51,997  | 63,712       |
| Accrued income taxes  | 20,049  | 11,360       |
| Debt  |   | 186,663      |
| Total current liabilities   | 292,406   | 475,632      |
| Long-term deferred revenue and customer advances  | 19,929  | 13,756       |
| Retirement plans liabilities  | 108,460   | 91,517       |
| Deferred tax liabilities  | 23,315  | 40,686       |
| Long-term other accrued liabilities   | 15,430  | 23,139       |
| Total liabilities   | 459,540   | 644,730      |
| Commitments and contingencies (Note J)  |   |              |

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**SHAREHOLDERS EQUITY**

|   |                     |                     |
|---|---------------------|---------------------|
| Common stock, \$0.125 par value, 1,000,000 shares authorized, 216,613 and 191,731 shares issued and outstanding at December 31, 2014 and 2013, respectively | 27,077              | 23,966              |
| Additional paid-in capital  | 1,437,135           | 1,390,896           |
| Accumulated other comprehensive income  | 4,689               | 4,000               |
| Retained earnings   | 610,079             | 566,232             |
| <b>Total shareholders equity</b>  | <b>2,078,980</b>    | <b>1,985,094</b>    |
| <b>Total liabilities and shareholders equity</b>  | <b>\$ 2,538,520</b> | <b>\$ 2,629,824</b> |

The accompanying notes are an integral part of the consolidated financial statements.

## TERADYNE, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Years Ended December 31,                 |              |              |
|--|--|--------------|--------------|
|  | 2014                                     | 2013         | 2012         |
|  | (in thousands, except per share amounts) |              |              |
| Revenues:  |  |              |              |
| Products   | \$ 1,364,024                             | \$ 1,154,922 | \$ 1,383,569 |
| Services   | 283,800                                  | 273,011      | 273,181      |
| Total revenues   | 1,647,824                                | 1,427,933    | 1,656,750    |
| Cost of revenues:  |  |              |              |
| Cost of products   | 640,787                                  | 499,030      | 642,881      |
| Cost of services   | 128,229                                  | 120,102      | 127,832      |
| Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below) | 769,016                                  | 619,132      | 770,713      |
| Gross profit   | 878,808                                  | 808,801      | 886,037      |
| Operating expenses:  |  |              |              |
| Engineering and development  | 291,639                                  | 264,055      | 255,866      |
| Selling and administrative   | 319,713                                  | 279,560      | 277,016      |
| Goodwill impairment  | 98,897                                   |              |              |
| Acquired intangible assets amortization  | 70,771                                   | 72,447       | 73,508       |
| Restructuring and other  | 1,365                                    | 2,080        | (7,721)      |
| Total operating expenses   | 782,385                                  | 618,142      | 598,669      |
| Income from operations   | 96,423                                   | 190,659      | 287,368      |
| Non-operating (income) expenses:   |  |              |              |
| Interest income  | (6,259)                                  | (4,129)      | (4,090)      |
| Interest expense   | 6,934                                    | 26,097       | 24,534       |
| Other (income) expense, net  | 372                                      | (33,231)     | 948          |
| Income before income taxes   | 95,376                                   | 201,922      | 265,976      |
| Provision for income taxes   | 14,104                                   | 36,975       | 48,927       |
| Net income   | \$ 81,272                                | \$ 164,947   | \$ 217,049   |
| Net income per common share:   |  |              |              |
| Basic  | \$ 0.40                                  | \$ 0.86      | \$ 1.16      |
| Diluted  | \$ 0.37                                  | \$ 0.70      | \$ 0.94      |
| Weighted average common shares basic   | 202,908                                  | 190,772      | 186,878      |
| Weighted average common shares diluted   | 222,550                                  | 235,599      | 230,246      |
| Cash dividend declared per common share  | \$ 0.18                                  | \$           | \$           |

The accompanying notes are an integral part of the consolidated financial statements.





## TERADYNE, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Years Ended December 31, |            |            |
|--|--------------------------|------------|------------|
|  | 2014                     | 2013       | 2012       |
|  | (in thousands)           |            |            |
| Net income   | \$ 81,272                | \$ 164,947 | \$ 217,049 |
| Other comprehensive income (loss), net of tax:   |                          |            |            |
| Unrealized gains (losses) on marketable securities:  |                          |            |            |
| Unrealized gains (losses) on marketable securities arising during period, net of tax of \$1,449, \$216, \$370  | 2,417                    | (1,097)    | 2,009      |
| Less: Reclassification adjustment for gains included in net income, net of tax of \$(645), \$(257), \$(201)  | (1,433)                  | (447)      | (702)      |
|  | 984                      | (1,544)    | 1,307      |
| Defined benefit pension and post-retirement plans:   |                          |            |            |
| Amortization of prior service (benefit) cost included in net periodic pension and post-retirement expense/income, net of tax \$(169), \$(159), \$(134) | (295)                    | (276)      | (233)      |
| Other comprehensive income (loss)  | 689                      | (1,820)    | 1,074      |
| Comprehensive income   | \$ 81,961                | \$ 163,127 | \$ 218,123 |

The accompanying notes are an integral part of the consolidated financial statements.

## TERADYNE, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years Ended December 31, 2014, 2013 and 2012

|  | Common<br>Stock<br>Shares<br>Issued | Common<br>Stock Par<br>Value | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(in thousands) | Retained<br>Earnings | Total<br>Shareholders<br>Equity |
|--|-------------------------------------|------------------------------|----------------------------------|---|----------------------|---------------------------------|
| Balance, December 31, 2011   | 183,587                             | \$ 22,948                    | \$ 1,293,130                     | \$ 4,746  | \$ 184,236           | \$ 1,505,060                    |
| Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of \$11,582 | 4,321                               | 540                          | 6,354                            |   |                      | 6,894                           |
| Stock-based compensation expense   |                                     |                              | 39,920                           |   |                      | 39,920                          |
| Tax benefit related to stock options and restricted stock units  |                                     |                              | 8,358                            |   |                      | 8,358                           |
| Net income   |                                     |                              |                                  |   | 217,049              | 217,049                         |
| Unrealized gain on marketable securities:  |                                     |                              |                                  |   |                      |                                 |
| Unrealized gain on marketable securities, net of tax of \$370  |                                     |                              |                                  | 2,009   |                      | 2,009                           |
| Less: reclassification adjustment for gains included in net income, net of tax of \$(201)              |                                     |                              |                                  | (702)   |                      | (702)                           |
| Amortization of prior service benefit, net of tax of \$(134)   |                                     |                              |                                  | (233)   |                      | (233)                           |
| Balance, December 31, 2012   | 187,908                             | 23,488                       | 1,347,762                        | 5,820   | 401,285              | 1,778,355                       |
| Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of \$12,192 | 3,823                               | 478                          | 4,926                            |   |                      | 5,404                           |
| Stock-based compensation expense   |                                     |                              | 35,612                           |   |                      | 35,612                          |
| Tax benefit related to stock options and restricted stock units  |                                     |                              | 2,596                            |   |                      | 2,596                           |
| Net income   |                                     |                              |                                  |   | 164,947              | 164,947                         |
| Unrealized loss (gain) on marketable securities:   |                                     |                              |                                  |   |                      |                                 |
| Unrealized loss on marketable securities, net of tax of \$216  |                                     |                              |                                  | (1,097)   |                      | (1,097)                         |
| Less: reclassification adjustment for gains included in net income, net of tax \$(257)                 |                                     |                              |                                  | (447)   |                      | (447)                           |
| Amortization of prior service benefit, net of tax of \$(159)   |                                     |                              |                                  | (276)   |                      | (276)                           |
| Balance, December 31, 2013   | 191,731                             | 23,966                       | 1,390,896                        | 4,000   | 566,232              | 1,985,094                       |
| Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of \$12,018 | 3,661                               | 458                          | 8,815                            |   |                      | 9,273                           |
| Warrant settlement   | 21,221                              | 2,653                        | (2,653)                          |   |                      |                                 |
| Stock-based compensation expense   |                                     |                              | 39,868                           |   |                      | 39,868                          |
| Tax benefit related to stock options and restricted stock units  |                                     |                              | 209                              |   |                      | 209                             |
| Cash dividends   |                                     |                              |                                  |   | (37,425)             | (37,425)                        |
| Net income   |                                     |                              |                                  |   | 81,272               | 81,272                          |
| Unrealized gain on marketable securities:  |                                     |                              |                                  |   |                      |                                 |
| Unrealized gain on marketable securities, net of tax of \$1,449  |                                     |                              |                                  | 2,417   |                      | 2,417                           |
| Less: reclassification adjustment for gains included in net income, net of tax \$(645)                 |                                     |                              |                                  | (1,433)   |                      | (1,433)                         |
| Amortization of prior service benefit, net of tax of \$(169)   |                                     |                              |                                  | (295)   |                      | (295)                           |
| Balance, December 31, 2014   | 216,613                             | \$ 27,077                    | \$ 1,437,135                     | \$ 4,689  | \$ 610,079           | \$ 2,078,980                    |

The accompanying notes are an integral part of the consolidated financial statements.

## TERADYNE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years Ended December 31, |             |            |
|---|--------------------------|-------------|------------|
|   | 2014                     | 2013        | 2012       |
|   | (in thousands)           |             |            |
| Cash flows from operating activities:   |                          |             |            |
| Net income  | \$ 81,272                | \$ 164,947  | \$ 217,049 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: |                          |             |            |
| Depreciation  | 73,390                   | 57,317      | 55,049     |
| Amortization  | 79,154                   | 93,370      | 90,465     |
| Stock-based compensation  | 40,307                   | 36,612      | 39,920     |
| Goodwill impairment   | 98,897                   |             |            |
| Provision for excess and obsolete inventory   | 22,193                   | 16,592      | 26,849     |
| Deferred taxes  | (4,411)                  | (4,284)     | 5,556      |
| Gain from the sale of an equity investment  |                          | (34,212)    |            |
| Tax benefit related to stock options and restricted stock units                               | (535)                    | (2,675)     | (8,490)    |
| Non cash charge for the sale of inventories revalued at the date of acquisition               |                          |             | 6,089      |
| Retirement plans actuarial losses (gains)   | 46,564                   | (10,340)    | 23,320     |
| Contingent consideration adjustment   | (630)                    |             | (8,761)    |
| Other   | 3,505                    | 1,107       | (2,250)    |
| Changes in operating assets and liabilities, net of businesses acquired:                      |                          |             |            |
| Accounts receivable   | 8,060                    | (3,656)     | (24,093)   |
| Inventories   | 51,172                   | 21,170      | 17,652     |
| Prepayments and other assets  | 41,537                   | (49,572)    | (2,995)    |
| Accounts payable and other accrued expenses   | (45,430)                 | 15,205      | (32,810)   |
| Deferred revenue and customer advances  | 22,033                   | (28,979)    | (14,627)   |
| Retirement plan contributions   | (33,916)                 | (5,540)     | (4,778)    |
| Accrued income taxes  | 8,900                    | 1,648       | 19,804     |
| Net cash provided by operating activities   | 492,062                  | 268,710     | 402,949    |
| Cash flows from investing activities:   |                          |             |            |
| Purchases of property, plant and equipment  | (168,982)                | (106,731)   | (119,080)  |
| Purchases of available-for-sale marketable securities   | (1,578,743)              | (1,170,506) | (748,229)  |
| Acquisition of businesses, net of cash acquired   | (19,419)                 | (14,999)    |            |
| Proceeds from maturities of available-for-sale marketable securities                          | 570,358                  | 516,499     | 225,085    |
| Proceeds from sales of available-for-sale marketable securities                               | 859,729                  | 458,491     | 38,284     |
| Proceeds from (purchases of) life insurance   | 4,184                    | (307)       | 1,451      |
| Proceeds from the sale of an equity investment  |                          | 34,212      |            |
| Net cash used for investing activities  | (332,873)                | (283,341)   | (602,489)  |
| Cash flows from financing activities:   |                          |             |            |
| Issuance of common stock under stock option and stock purchase plans                          | 21,291                   | 17,596      | 18,477     |
| Tax benefit related to stock options and restricted stock units                               | 535                      | 2,675       | 8,490      |
| Dividend payments   | (37,425)                 |             |            |
| Payments of long-term debt  | (190,972)                | (2,534)     | (2,533)    |
| Payments of contingent consideration  |                          | (388)       | (59,710)   |
| Net cash (used for) provided by financing activities  | (206,571)                | 17,349      | (35,276)   |
| (Decrease) increase in cash and cash equivalents  | (47,382)                 | 2,718       | (234,816)  |
| Cash and cash equivalents at beginning of year  | 341,638                  | 338,920     | 573,736    |
| Cash and cash equivalents at end of year  | \$ 294,256               | \$ 341,638  | \$ 338,920 |
| Supplementary disclosure of cash flow information:  |                          |             |            |
| Cash paid during the year for:  |                          |             |            |
| Interest  | \$ 4,294                 | \$ 8,590    | \$ 8,602   |

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|              |    |        |    |        |    |       |
|--------------|----|--------|----|--------|----|-------|
| Income taxes | \$ | 25,893 | \$ | 38,156 | \$ | 8,084 |
|--------------|----|--------|----|--------|----|-------|

The accompanying notes are an integral part of the consolidated financial statements.

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TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**A. THE COMPANY**

Teradyne, Inc. 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

defense/aerospace ( Defense/Aerospace ) test instrumentation and systems, storage test ( Storage Test ) systems, and circuit-board test and inspection ( Production Board Test ) systems (collectively these products represent System Test ).

**B. ACCOUNTING POLICIES**

The consolidated financial statements include the accounts of Teradyne and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated. Certain prior years' amounts were reclassified to conform to the current year presentation.

**Preparation of Financial Statements and Use of Estimates**

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, management evaluates its estimates, including those related to inventories, investments, goodwill, intangible and other long-lived assets, doubtful accounts, income taxes, deferred tax assets, pensions, warranties, and loss contingencies. Management bases its estimates on historical experience and on appropriate and customary assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

**Revenue Recognition**

Teradyne recognizes revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to its customers upon shipment or at delivery destination point. In circumstances where either title or risk of loss pass upon destination, acceptance or cash payment, Teradyne defers revenue recognition until such events occur.

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

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

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

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

As of December 31, 2014 and 2013, deferred revenue and customer advances consisted of the following and are included in the short and long-term deferred revenue and customer advances:

|   | 2014             | 2013             |
|---|------------------|------------------|
|   | (in thousands)   |                  |
| Extended warranty                                   | \$ 43,300        | \$ 34,909        |
| Equipment maintenance and training                  | 30,500           | 22,455           |
| Customer advances                                   | 8,875            | 4,825            |
| Undelivered elements                                | 8,857            | 6,971            |
| <b>Total deferred revenue and customer advances</b> | <b>\$ 91,532</b> | <b>\$ 69,160</b> |

#### Product Warranty

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

|  | Amount          |
|--|-----------------|
|  | (in thousands)  |
| Balance at December 31, 2011                     | \$ 8,153        |
| Accruals for warranties issued during the period | 14,704          |
| Accruals related to pre-existing warranties      | 877             |
| Settlements made during the period               | (13,948)        |
| <b>Balance at December 31, 2012</b>              | <b>9,786</b>    |
| Accruals for warranties issued during the period | 10,574          |
| Accruals related to pre-existing warranties      | (3,534)         |
| Settlements made during the period               | (10,166)        |
| <b>Balance at December 31, 2013</b>              | <b>6,660</b>    |
| Accruals for warranties issued during the period | 15,406          |
| Accruals related to pre-existing warranties      | (2,008)         |
| Settlements made during the period               | (11,116)        |
| <b>Balance at December 31, 2014</b>              | <b>\$ 8,942</b> |

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

|   | <b>Amount<br/>(in thousands)</b> |
|---|----------------------------------|
| Balance at December 31, 2011                      | \$ 14,030                        |
| Deferral of new extended warranty revenue         | 22,704                           |
| Recognition of extended warranty deferred revenue | (8,690)                          |
| Balance at December 31, 2012                      | 28,044                           |
| Deferral of new extended warranty revenue         | 20,630                           |
| Recognition of extended warranty deferred revenue | (13,765)                         |
| Balance at December 31, 2013                      | 34,909                           |
| Deferral of new extended warranty revenue         | 29,519                           |
| Recognition of extended warranty deferred revenue | (21,128)                         |
| Balance at December 31, 2014                      | \$ 43,300                        |

#### **Accounts Receivable and Allowance for Doubtful Accounts**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The volatility of the industries that Teradyne serves can cause certain of its customers to experience shortages of cash flows, which can impact their ability to make required payments. Teradyne maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Estimated allowances for doubtful accounts are reviewed periodically taking into account the customer's recent payment history, the customer's current financial statements and other information regarding the customer's credit worthiness. Account balances are charged off against the allowance when it is determined the receivable will not be recovered.

#### **Inventories**

Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. On a quarterly basis, Teradyne uses consistent methodologies to evaluate all inventories for net realizable value. Teradyne records a provision for both excess and obsolete inventory when such write-downs or write-offs are identified through the quarterly review process. The inventory valuation is based upon assumptions about future demand, product mix and possible alternative uses.

#### **Investments**

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities*. ASC 320-10 requires that certain debt and equity securities be classified into one of three categories; trading, available-for-sale or held-to-maturity securities. On a quarterly basis, Teradyne reviews its investments to identify and evaluate those that have an indication of a potential other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include:

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

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

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





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. Teradyne uses the market and income approach techniques to value its financial instruments and there were no changes in valuation techniques during the years ended December 31, 2014, 2013 and 2012. ASC 820-10 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

In accordance with ASC 820-10, Teradyne measures its debt and equity investments at fair value. Teradyne's debt and equity investments are primarily classified within Level 1 and 2, with the exception of acquisition-related contingent consideration, which was classified within Level 3. Teradyne determines the fair value of acquisition-related contingent consideration based on assessment of the probability that it would be required to make such payment.

### Prepayments

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

|  | 2014             | 2013              |
|--|------------------|-------------------|
|  | (in thousands)   |                   |
| Contract manufacturer prepayments      | \$ 65,972        | \$ 115,388        |
| Prepaid taxes                          | 11,462           | 3,281             |
| Prepaid maintenance and other services | 7,343            | 6,538             |
| Other prepayments                      | 11,042           | 11,167            |
| <b>Total prepayments</b>               | <b>\$ 95,819</b> | <b>\$ 136,374</b> |

### Retirement and Postretirement Plans

Effective January 1, 2012, Teradyne changed the method of recognizing actuarial gains and losses for its defined benefit pension plans and postretirement benefit plan and calculating the expected return on plan assets for its defined benefit pension plans. Historically, Teradyne recognized net actuarial gains and losses in accumulated other comprehensive income within shareholders' equity on its consolidated balance sheet on an annual basis and amortized them into operating results over the average remaining years of service of the plan participants, to the extent such gains and losses were outside of a range (corridor). Teradyne elected to immediately recognize net actuarial gains and losses and the change in the fair value of the plan assets in its operating results in the year in which they occur or upon any interim remeasurement of the plans. In addition, Teradyne used to calculate the expected return on plan assets using a calculated market-related value of plan assets. Effective January 1, 2012, Teradyne elected to calculate the expected return on plan assets using the fair value of the plan assets.

Teradyne believes that this new method is preferable as it eliminates the delay in recognizing gains and losses in its operating results and it will improve the transparency by faster recognition of the effects of economic and interest rate trends on plan obligations and investments. These actuarial gains and losses are generally measured annually as of December 31 and, accordingly, will be recorded during the fourth quarter of each year or upon any

interim remeasurement of the plans. In accordance with FASB ASC Topic 250, *Accounting Changes and Error Corrections*, all prior periods presented in this Annual Report on Form 10-K have been adjusted to apply the new accounting method retrospectively.

### Goodwill, Intangible and Long-Lived Assets

Teradyne accounts for goodwill and intangible assets in accordance with ASC 350-10, *Intangibles-Goodwill and Other*. Intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment at least annually in the fourth quarter, as of December 31, on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. In accordance with ASC 350-10, Teradyne has the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If Teradyne determines this is the case, Teradyne is required to perform the two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized. If Teradyne determines that it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying amounts, the two-step goodwill impairment test is not required.

In accordance with ASC 360-10, *Impairment or Disposal of Long-Lived Assets*, Teradyne reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. The cash flow estimates used to determine the impairment, if any, contain management's best estimates using appropriate assumptions and projections at that time. There were no events or circumstances indicating that the carrying value of intangible and long-lived assets may not be recoverable in 2013 or 2012. As a result of the Wireless Test segment goodwill impairment charge in the fourth quarter of 2014, Teradyne performed an impairment test of the Wireless Test segment's intangible and long-lived assets based on a comparison of the estimated undiscounted cash flows to the recorded value of the assets and there was no indication of impairment.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the assets. Leasehold improvements and major renewals are capitalized and included in property, plant and equipment accounts while expenditures for maintenance and repairs and minor renewals are charged to expense. When assets are retired, the assets and related allowances for depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations.

Teradyne provides for depreciation of its assets principally on the straight-line method with the cost of the assets being charged to expense over their useful lives as follows:

|                                      |                                  |
|--------------------------------------|----------------------------------|
| Buildings                            | 40 years                         |
| Building improvements                | 5 to 10 years                    |
| Leasehold improvements               | Lesser of lease term or 10 years |
| Furniture and fixtures               | 10 years                         |
| Test systems manufactured internally | 6 years                          |
| Machinery and equipment              | 3 to 5 years                     |
| Software                             | 3 to 5 years                     |

Test systems manufactured internally are used by Teradyne for customer evaluations and manufacturing and support of its customers. Teradyne depreciates the test systems manufactured internally over a six-year life to cost of revenues, engineering and development, and selling and administrative expenses. Teradyne often sells

internally manufactured test equipment to customers. Upon the sale of an internally manufactured test system, the net book value of the system is transferred to inventory and expensed as cost of revenues. Test systems leased by customers are depreciated over an estimated useful life of approximately four years. The net book value of internally manufactured test systems sold in the years ended December 31, 2014, 2013 and 2012 was \$9.7 million, \$9.0 million and \$6.0 million, respectively.

### **Engineering and Development Costs**

Teradyne's products are highly technical in nature and require a large and continuing engineering and development effort. Software development costs incurred prior to the establishment of technological feasibility are charged to expense. Software development costs incurred subsequent to the establishment of technological feasibility are capitalized until the product is available for release to customers. To date, the period between achieving technological feasibility and general availability of the product has been short and software development costs eligible for capitalization have not been material. Engineering and development costs are expensed as incurred and consist primarily of salaries, contractor fees, allocated facility costs, depreciation, and tooling costs.

### **Stock Compensation Plans and Employee Stock Purchase Plan**

Stock-based compensation expense is based on the grant-date fair value estimated in accordance with the provisions of ASC 718-10, *Compensation-Stock Compensation*. As required by ASC 718-10, Teradyne has made an estimate of expected forfeitures and is recognizing compensation costs only for those stock-based compensation awards expected to vest.

Under its stock compensation plans, Teradyne has granted stock options, restricted stock units and performance-based restricted stock units, and employees are eligible to purchase Teradyne's common stock through its Employee Stock Purchase Plan ( ESPP ).

### **Income Taxes**

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. Teradyne performed the required assessment of positive and negative evidence regarding the realization of the net deferred tax assets in accordance with ASC 740, *Accounting for Income Taxes*. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, estimates of projected future taxable income and tax-planning strategies. Although realization is not assured, based on its assessment, Teradyne concluded that it is more likely than not that such assets, net of the existing valuation allowance, will be realized. U.S. income taxes are not provided for on the earnings of non-U.S. subsidiaries, except Japan, which are expected to be reinvested indefinitely in operations outside the U.S. For intra-period tax allocations, Teradyne first utilizes non-equity related tax attributes, such as net operating losses and credit carryforwards and then equity-related tax attributes. Teradyne uses the with-and-without method for calculating excess stock compensation deductions and does not take into account any indirect impacts of excess stock compensation deductions on its research and development tax credits, domestic production activities deduction, and other differences between financial reporting and tax reporting.

### **Advertising Costs**

Teradyne expenses all advertising costs as incurred. Advertising costs were \$1.9 million, \$1.7 million and \$1.6 million in 2014, 2013 and 2012, respectively.

### **Translation of Non-U.S. Currencies**

The functional currency for all subsidiaries is the U.S. dollar. All foreign currency denominated monetary assets and liabilities are remeasured on a monthly basis into the functional currency using exchange rates in

effect at the end of the period. All foreign currency denominated non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates. Net foreign exchange gains and losses resulting from remeasurement are included in other (income) expense, net and were a loss of \$0.9 million, \$6.9 million and \$4.5 million, respectively, for the years ended December 31, 2014, 2013 and 2012. These amounts do not reflect the corresponding gains (losses) from foreign exchange contracts. See Note F: Financial Instruments regarding foreign exchange contracts. Revenue and expense amounts are translated using an average of exchange rates in effect during the period.

### **Net Income per Common Share**

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Except where the result would be antidilutive, diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares plus common stock equivalents, if applicable.

Dilutive potential common shares included incremental shares from the assumed conversion of the convertible notes and the convertible notes hedge warrant shares, during the periods the convertible notes and warrants were outstanding. Incremental shares from the assumed conversion of the convertible notes were calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period. Convertible notes hedge warrant shares were calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the warrant, was divided by the average Teradyne stock price for the period. Teradyne's call option for 34.7 million shares at an exercise price of \$5.48 was not used in the GAAP earnings per share calculation as its effect was anti-dilutive.

Teradyne settled its conversion spread (i.e., the intrinsic value of the embedded option feature contained in the convertible debt) in shares. Teradyne accounted for its conversion spread using the treasury stock method. Teradyne determined that it had the ability and intent to settle the principal amount of the convertible debt in cash; accordingly, the principal amount was excluded from the determination of diluted earnings per share.

### **Comprehensive Income (Loss)**

Comprehensive income (loss) includes net income, unrealized pension and postretirement prior service costs and benefits, unrealized gains and losses on investments in debt and equity marketable securities.

### **C. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

**D. ACQUISITIONS****Business***Avionics Interface Technologies, LLC.*

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

The total purchase price of \$21.2 million consisted of \$19.4 million of cash paid to acquire AIT's assets and liabilities and \$1.8 million in fair value of contingent consideration payable upon achievement of certain revenue and gross margin targets in 2015 and 2016. The maximum amount of contingent consideration that could be paid is \$2.1 million.

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

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

The purchase price allocation is preliminary pending the final determination of the fair value of certain acquired assets and assumed liabilities.

The following represents the allocation of the purchase price:

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

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

|                        | <b>Fair Value<br/>(in thousands)</b> | <b>Estimated Useful<br/>Life<br/>(in years)</b> |
|------------------------|--------------------------------------|---|
| Developed technology   | \$ 2,580                             | 4.8   |
| Customer relationships | 5,630                                | 5.0   |
| Trademark              | 380                                  | 5.0   |
| Non-competes           | 320                                  | 4.0   |
| Backlog                | 170                                  | 0.3   |

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|                         |    |       |     |
|-------------------------|----|-------|-----|
| Total intangible assets | \$ | 9,080 | 4.8 |
|-------------------------|----|-------|-----|

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For the period from October 31, 2014 to December 31, 2014, AIT contributed \$0.6 million of revenues and had a \$(0.8) million loss from operations before income taxes.

The following unaudited pro forma information gives effect to the acquisition of AIT as if the acquisition occurred on January 1, 2013. The unaudited pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the periods presented:

|                          | For the Year Ended                          |                      |
|--------------------------|---|----------------------|
|                          | December 31,<br>2014                        | December 31,<br>2013 |
|                          | (in thousands, except<br>per share amounts) |                      |
| Revenues                 | \$ 1,655,038                                | 1,434,699            |
| Net income               | \$ 82,169                                   | \$ 164,087           |
| Income per common share: |   |                      |
| Basic                    | \$ 0.40                                     | \$ 0.86              |
| Diluted                  | \$ 0.37                                     | \$ 0.70              |

### **ZTEC Instruments, Inc.**

On October 25, 2013, Teradyne completed its acquisition of ZTEC Instruments, Inc. ( ZTEC ) located in Albuquerque, New Mexico. ZTEC is a supplier of modular wireless test instruments. The acquisition of ZTEC expands Teradyne s Wireless Test segment into the design verification test of wireless components and chipsets.

The total purchase price of \$17.3 million consisted of \$15.1 million of cash paid to acquire the outstanding common and preferred stock of ZTEC and \$2.2 million in fair value of contingent consideration payable upon achievement of certain customer order and revenue targets through 2015. The maximum amount of contingent consideration that could be paid is \$5.0 million. Based on the projected results for the acquisition, no value was assigned to the revenue component of the contingent consideration.

The valuation of the customer order component of the contingent consideration utilized the following assumptions: (1) probability of meeting each target; (2) expected timing of meeting each target; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each target were estimated based on a review of the historical and projected results. A discount rate of 5.2 percent was selected based on the cost of debt for the business, as a significant portion of the risk in achieving the customer order contingent consideration was captured in the probabilities assigned to meeting each target.

The ZTEC acquisition was accounted for as a purchase business combination and, accordingly, the results have been included in Teradyne s consolidated results of operation from the date of acquisition. The allocation of the total purchase price of ZTEC net tangible and identifiable intangible assets was based on their estimated fair values as of the acquisition date. The excess of the purchase price over the identifiable intangible and net tangible assets in the amount of \$12.5 million was allocated to goodwill, which is not deductible for tax purposes.

The following represents the allocation of the purchase price:

|   | Purchase Price Allocation<br>(in thousands) |
|---|---|
| Goodwill  | \$ 12,520                                   |
| Intangible assets                                 | 4,870                                       |
| Tangible assets acquired and liabilities assumed: |   |
| Cash  | 79  |
| Other current assets                              | 1,612                                       |
| Non-current assets                                | 1,757                                       |
| Accounts payable and current liabilities          | (1,811)                                     |
| Long-term deferred tax liabilities                | (1,719)                                     |

|                      |    |        |
|----------------------|----|--------|
| Total purchase price | \$ | 17,308 |
|----------------------|----|--------|



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

|                                | Fair Value<br>(in thousands) | Estimated Useful<br>Life<br>(in years) |
|--------------------------------|------------------------------|--|
| Developed technology           | \$ 3,500                     | 5.0                                    |
| Customer relationships         | 1,370                        | 6.0                                    |
| <b>Total intangible assets</b> | <b>\$ 4,870</b>              | <b>5.3</b>                             |

For the period from October 25, 2013 to December 31, 2013, ZTEC contributed \$0.4 million of revenues and had a \$(0.8) million loss from operations before income taxes.

The following unaudited pro forma information gives effect to the acquisition of ZTEC as if the acquisition occurred on January 1, 2012. The unaudited pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the periods presented:

|                          | For the Year Ended<br>December 31,<br>2013  | December 31,<br>2012 |
|--------------------------|---|----------------------|
|                          | (in thousands, except<br>per share amounts) |                      |
| Revenues                 | \$ 1,431,270                                | \$ 1,660,758         |
| Net income               | \$ 163,394                                  | \$ 215,654           |
| Income per common share: |   |                      |
| Basic                    | \$ 0.86                                     | \$ 1.15              |
| Diluted                  | \$ 0.69                                     | \$ 0.94              |

#### E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

|                                      | 2014              | 2013              |
|--------------------------------------|-------------------|-------------------|
|                                      | (in thousands)    |                   |
| Land                                 | \$ 16,561         | \$ 16,561         |
| Buildings                            | 108,671           | 107,632           |
| Machinery and equipment              | 659,743           | 600,848           |
| Furniture and fixtures, and software | 77,566            | 81,994            |
| Leasehold improvements               | 31,981            | 30,757            |
| Construction in progress             | 2,508             | 622               |
|                                      | 897,030           | 838,414           |
| Less: accumulated depreciation       | 567,992           | 563,178           |
|                                      | <b>\$ 329,038</b> | <b>\$ 275,236</b> |

Depreciation of property, plant and equipment for the years ended December 31, 2014, 2013 and 2012 was \$73.4 million, \$57.3 million and \$55.0 million, respectively. As of December 31, 2014, \$66.9 million of gross book value included in machinery and equipment was for internally manufactured test systems being leased by customers. As of December 31, 2014, the accumulated depreciation on these test systems was \$10.1 million. As of December 31, 2014, minimum non-cancelable future lease payments for the year ending December 31, 2015, total

approximately \$13.9 million, in the aggregate. There are no payments due beyond 2015.

**F. FINANCIAL INSTRUMENTS**

**Cash Equivalents**

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

**Marketable Securities**

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

There were no realized losses recorded in 2014, 2013 and 2012. Realized gains recorded in 2014, 2013 and 2012 were \$2.4 million, \$1.0 million and \$1.4 million, respectively. Realized gains are included in interest income. Unrealized gains and losses are included in accumulated other comprehensive income (loss). The cost of securities sold is based on the specific identification method.

During the years ended December 31, 2014 and 2013, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

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 December 31, 2014 and 2013.

|   | December 31, 2014   |   |  | 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)                            |   |   |  |                     |
| <b>Assets</b>                             |   |   |  |                     |
| Cash                                      | \$ 111,471  | \$  | \$   | \$ 111,471          |
| Cash equivalents                          | 160,218   | 22,567  |  | 182,785             |
| Available for sale securities:            |   |   |  |                     |
| U.S. Treasury securities                  |   | 402,154   |  | 402,154             |
| U.S. government agency securities         |   | 258,502   |  | 258,502             |
| Corporate debt securities                 |   | 141,467   |  | 141,467             |
| Commercial paper                          |   | 140,638   |  | 140,638             |
| Certificates of deposit and time deposits |   | 49,036  |  | 49,036              |
| Equity and debt mutual funds              | 12,333  |   |  | 12,333              |
| Non-U.S. government securities            |   | 446   |  | 446                 |
| <b>Total</b>                              | <b>\$ 284,022</b>   | <b>\$ 1,014,810</b>                                       | <b>\$</b>  | <b>\$ 1,298,832</b> |
| <b>Liabilities</b>                        |   |   |  |                     |
| Contingent consideration                  | \$  | \$  | \$ 3,350   | \$ 3,350            |
| Derivatives                               |   | 149   |  | 149                 |
| <b>Total</b>                              | <b>\$</b>   | <b>\$ 149</b>   | <b>\$ 3,350</b>                                    | <b>\$ 3,499</b>     |

Reported as follows:

|                                 | (Level 1)  | (Level 2) | (Level 3) | Total      |
|---------------------------------|------------|-----------|-----------|------------|
| (in thousands)                  |            |           |           |            |
| <b>Assets</b>                   |            |           |           |            |
| Cash and cash equivalents       | \$ 271,689 | \$ 22,567 | \$        | \$ 294,256 |
| Marketable securities           |            | 533,787   |           | 533,787    |
| Long-term marketable securities | 12,333     | 458,456   |           | 470,789    |

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|                                     |            |              |          |              |
|-------------------------------------|------------|--------------|----------|--------------|
|                                     | \$ 284,022 | \$ 1,014,810 | \$       | \$ 1,298,832 |
| Liabilities                         |            |              |          |              |
| Other current liabilities           | \$         | \$ 149       | \$ 1,750 | \$ 1,899     |
| Long-term other accrued liabilities |            |              | 1,600    | 1,600        |
|                                     | \$         | \$ 149       | \$ 3,350 | 3,499        |

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

Reported as follows:

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

Changes in the fair value of Level 3 contingent consideration for the years ended December 31, 2014 and 2013 were as follows:

|                              | Contingent Consideration<br>(in thousands) |
|------------------------------|--|
| Balance at December 31, 2012 | \$ 388                                     |
| Acquisition of ZTEC          | 2,230                                      |
| Payments                     | (388)                                      |

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|                              |          |
|------------------------------|----------|
| Balance at December 31, 2013 | 2,230    |
| Fair value adjustment        | (630)    |
| Acquisition of AIT           | 1,750    |
| Balance at December 31, 2014 | \$ 3,350 |

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

| Liability                       | December 31, 2014<br>Fair Value<br>(in thousands) | Valuation<br>Technique               | Unobservable Inputs  | Weighted<br>Average |
|---------------------------------|---|--------------------------------------|--|---------------------|
| Contingent consideration (ZTEC) | \$1,600   | Income approach-discounted cash flow | Revenue earn-out-probability for calendar year 2015 revenue.<br>Customer orders-probability of achievement during earn out period (acquisition date through December 31, 2015) | 0%<br>40%           |
|                                 |   |                                      | Discount rate for revenue earn-out   | N/A                 |
|                                 |   |                                      | Discount rate for customer orders  | 5.2%                |

The significant unobservable inputs used in the fair value measurement of contingent consideration are the probabilities of successful achievement of calendar year 2015 revenue, customer orders, and a discount rate. Increases or decreases in the revenue and customer order probabilities and the period in which results will be achieved would result in a higher or lower fair value measurement.

The carrying amounts and fair values of financial instruments at December 31, 2014 and 2013 were as follows:

|                           | December 31, 2014 |                | December 31, 2013 |            |
|---------------------------|-------------------|----------------|-------------------|------------|
|                           | Carrying Value    | Fair Value     | Carrying Value    | Fair Value |
|                           |                   | (in thousands) |                   |            |
| Cash and cash equivalents | \$ 294,256        | \$ 294,256     | \$ 341,638        | \$ 341,638 |
| Marketable securities     | 1,004,576         | 1,004,576      | 857,960           | 857,960    |
| Convertible debt (1)      |                   |                | 185,708           | 611,433    |
| Japan loan                |                   |                | 955               | 955        |

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

The fair values of 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 December 31, 2014 and 2013:

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

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Reported as follows:

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

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

Reported as follows:

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

As of December 31, 2014, the fair market value of investments with unrealized losses totaled \$583.1 million. Of this value, \$2.3 million had unrealized losses for greater than one year and \$580.8 million had unrealized losses for less than one year.

As of December 31, 2013, the fair market value of investments with unrealized losses totaled \$241.8 million. Of this value, \$0.9 million had unrealized losses for greater than one year and \$240.9 million had unrealized losses for less than one year.

Teradyne reviews its investments to identify and evaluate investments that have an indication of possible impairment. Based on this review, Teradyne determined that the unrealized losses related to these investments, at December 31, 2014 and 2013, were temporary.

The contractual maturities of investments held at December 31, 2014 were as follows:



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|                                    | Cost           | Fair Value |
|------------------------------------|----------------|------------|
|                                    | (in thousands) |            |
| Due within one year                | \$ 533,833     | \$ 533,787 |
| Due after 1 year through 5 years   | 418,732        | 418,363    |
| Due after 5 years through 10 years | 5,735          | 5,924      |
| Due after 10 years                 | 31,833         | 34,169     |
| Total                              | \$ 990,133     | \$ 992,243 |

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Contractual maturities of investments held at December 31, 2014, exclude equity and debt mutual funds as they do not have a contractual maturity date.

Assets of Teradyne measured at fair value on a non-recurring basis as of December 31, 2014 are summarized as follows:

|                                  | December 31,<br>2014 | Fair Value Measurements at Reporting Period  |   |   | Total Losses |
|----------------------------------|----------------------|--|---|---|--------------|
|                                  |                      | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2)<br>(in thousands) | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3) |              |
| Assets                           |                      |  |   |   |              |
| Goodwill                         | \$ 273,438           | \$   | \$  | \$ 273,438  | \$ 98,897    |
| Definite lived intangible assets | 158,237              |  |   | 158,237   |              |
| Long-lived assets held and used  | 10,189               |  | 10,189  |   |              |
|                                  | \$ 441,864           | \$   | \$ 10,189   | \$ 431,675  | \$ 98,897    |

In accordance with the provisions of ASC 350-10, *Intangibles- Goodwill and Other*, goodwill with a carrying amount of \$372.3 million was written down to its implied fair value of \$273.4 million, resulting in an impairment charge of \$98.9 million in the fourth quarter of 2014. See Note I: Goodwill and Intangibles regarding goodwill impairment.

### Derivatives

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

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

At December 31, 2014 and 2013, Teradyne had the following contracts to buy and sell non-U.S. currencies for U.S. dollars and other non-U.S. currencies with the following notional amounts:

|                        | December 31, 2014 |                  |              | December 31, 2013 |                  |              |
|------------------------|-------------------|------------------|--------------|-------------------|------------------|--------------|
|                        | Buy<br>Position   | Sell<br>Position | Net<br>Total | Buy<br>Position   | Sell<br>Position | Net<br>Total |
|                        | (in millions)     |                  |              |                   |                  |              |
| Japanese Yen           | \$                | \$ 19.7          | \$ 19.7      | \$                | \$ 32.6          | \$ 32.6      |
| Taiwan Dollar          | (0.9)             | 5.7              | 4.8          |                   | 4.0              | 4.0          |
| British Pound Sterling |                   | 11.7             | 11.7         |                   | 6.9              | 6.9          |
| Korean Won             |                   | 4.4              | 4.4          |                   | 5.8              | 5.8          |
| Euro                   | (30.6)            |                  | (30.6)       | (24.8)            | 0.7              | (24.1)       |
| Total                  | \$ (31.5)         | \$ 41.5          | \$ 10.0      | \$ (24.8)         | \$ 50.0          | \$ 25.2      |

The fair value of the outstanding contracts was a loss of \$0.1 million at December 31, 2014 and a gain of \$0.2 million at December 31, 2013.

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In 2014, Teradyne recorded net realized losses of \$0.2 million related to foreign currency forward contracts hedging net monetary position. In 2013 and 2012, Teradyne recorded net realized gains of \$5.9 million and

\$4.0 million, respectively, related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in other (income) expense, net.

The following table summarizes the fair value of derivative instruments as of December 31, 2014 and 2013:

|  | Balance Sheet Location    | December 31,<br>2014 | December 31,<br>2013 |
|--|---------------------------|----------------------|----------------------|
| (in thousands)                                     |                           |                      |                      |
| Derivatives not designated as hedging instruments: |                           |                      |                      |
| Foreign exchange contracts                         | Other current liabilities | \$ 149               | \$                   |
| Foreign exchange contracts                         | Other current assets      |                      | 153                  |
| Total derivatives                                  |                           | \$ 149               | \$ 153               |

The following table summarizes the effect of derivative instruments in the statement of operations recognized for the years ended December 31, 2014, 2013 and 2012. The table does not reflect the corresponding losses from the remeasurement of the monetary assets and liabilities denominated in foreign currencies. For the years ended December 31, 2014, 2013, and 2012, losses from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$0.9 million, \$6.9 million, and \$4.5 million, respectively.

|  | Location of Losses (Gains)<br>Recognized in Statement<br>of Operations | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2012 |
|--|--|----------------------|----------------------|----------------------|
| (in thousands)                                     |  |                      |                      |                      |
| Derivatives not designated as hedging instruments: |  |                      |                      |                      |
| Foreign exchange contracts                         | Other (income) expense, net  | \$ 237               | \$ (5,933)           | \$ (3,974)           |
| Total derivatives                                  |  | \$ 237               | \$ (5,933)           | \$ (3,974)           |

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

### Concentration of Credit Risk

Financial instruments which potentially subject Teradyne to concentrations of credit risk consist principally of cash equivalents, marketable securities, forward currency contracts and accounts receivable. Teradyne's cash equivalents consist primarily of money market funds invested in U.S. Treasuries and government agencies. Teradyne's fixed income available-for-sale marketable securities have a minimum rating of AA by one or more of the major credit rating agencies. Teradyne places foreign currency forward contracts with high credit-quality financial institutions in order to minimize credit risk exposure. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of geographically dispersed customers. Teradyne performs ongoing credit evaluations of its customers' financial condition and from time to time may require customers to provide a letter of credit from a bank to secure accounts receivable.

### Equity Interest

On November 1, 2013, in connection with the acquisition of Empirix, Inc. by Thoma Bravo LLC, Teradyne sold its equity interest in Empirix, Inc., a private company, and received cash proceeds of \$34.2 million which was recorded as other income. An additional \$4.8 million of cash proceeds that was held in escrow for 15 months, for potential indemnifications to the buyer, was paid to Teradyne in February 2015 and it will be recorded as other income in the first quarter of 2015.

**G. DEBT**

At December 31, 2014 and 2013, debt consisted of the following:

|                                   | 2014           | 2013           |
|-----------------------------------|----------------|----------------|
|                                   | (in thousands) |                |
| Convertible senior notes          | \$             | \$ 185,708     |
| Japan loan                        |                | 955            |
| <b>Total debt</b>                 |                | <b>186,663</b> |
| Current portion of long-term debt |                | 186,663        |
| <b>Long-term debt</b>             | <b>\$</b>      | <b>\$</b>      |

**Loan Agreement**

On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million (the loan was denominated in Japanese Yen). The loan had a term of 5 years and a fixed interest rate of 0.8%. Approximately \$6.0 million of the loan was collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan and approximately \$4.0 million was unsecured. Teradyne, Inc. had guaranteed payment of the loan obligation. The principal was amortized over the term of the loan with semi-annual principal payments of approximately \$1 million payable on September 30 and March 30 each year. The final principal and interest payments were made in March 2014.

**Convertible Senior Notes**

On March 31, 2009, Teradyne entered into an underwriting agreement regarding a public offering of \$175.0 million aggregate principal amount of 4.50% convertible senior notes due March 15, 2014 (the Notes). On April 1, 2009, the underwriters exercised their option to purchase an additional \$15.0 million aggregate principal amount of the Notes for a total aggregate principal amount of \$190.0 million. The Notes bore interest at a rate of 4.50% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2009. The Notes had a maturity date of March 15, 2014. Substantially all of the Notes were converted prior to March 15, 2014 and were net share settled, meaning that the holders received, for each \$1,000 in principal amount of Notes, \$1,000 in cash and approximately 131.95 shares of Teradyne common stock (calculated by taking 182.65 shares, being the fixed number specified in the Notes purchase agreement, less 50.7 shares). The 50.7 shares were determined, as specified in the Notes purchase agreement, by dividing the \$1,000 principal amount by the \$19.74 average trading price of Teradyne's common stock over the 25 day trading period from February 5, 2014 to March 12, 2014.

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

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

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

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

|   | For the year ended<br>December 31,<br>2014 | December 31,<br>2013 |
|---|--|----------------------|
|   | (in thousands)                             |                      |
| Contractual interest expense on the coupon  | \$ 1,757                                   | \$ 8,550             |
| Amortization of the discount component and debt issue fees recognized as interest expense | 4,493                                      | 16,628               |
| <b>Total interest expense on the convertible debt</b>                                     | <b>\$ 6,250</b>                            | <b>\$ 25,178</b>     |

#### H. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

|  | Unrealized Gains on<br>Marketable Securities | Retirement Plans<br>Prior Service Benefit<br>(in thousands) | Total           |
|--|--|---|-----------------|
| Balance at December 31, 2012, net of tax of \$835, \$(125)                                       | \$ 2,925                                     | \$ 2,895  | \$ 5,820        |
| Other comprehensive income before reclassifications, net of tax of \$216                         | (1,097)                                      |   | (1,097)         |
| Amounts reclassified from accumulated other comprehensive income, net of tax of \$(257), \$(159) | (447)  | (276)   | (723)           |
| Net current period other comprehensive income, net of tax of \$(41), \$(159)                     | (1,544)                                      | (276)   | (1,820)         |
| <b>Balance at December 31, 2013, net of tax of \$794, \$(284)</b>                                | <b>1,381</b>                                 | <b>2,619</b>  | <b>4,000</b>    |
| Other comprehensive income before reclassifications, net of tax of \$1,449                       | 2,417  |   | 2,417           |
| Amounts reclassified from accumulated other comprehensive income, net of tax of \$(645), \$(169) | (1,433)                                      | (295)   | (1,728)         |
| Net current period other comprehensive income, net of tax of \$804, \$(169)                      | 984  | (295)   | 689             |
| <b>Balance at December 31, 2014, net of tax of \$1,598, \$(453)</b>                              | <b>\$ 2,365</b>                              | <b>\$ 2,324</b>   | <b>\$ 4,689</b> |

Reclassifications out of accumulated other comprehensive income to the statement of operations for the years ended December 31, 2014, 2013 and 2012, were as follows:

**Details about Accumulated**

**Other Comprehensive Income**

| Components   | For the year ended   |  |                      | Affected Line Item<br>in the Statements<br>of Operations |
|--|----------------------|--|----------------------|--|
|  | December 31,<br>2014 | December 31,<br>2013<br>(in thousands) | December 31,<br>2012 |  |
| Available-for-sale marketable securities                         |                      |  |                      |  |
| Unrealized gains, net of tax of \$645, \$257, \$201              | \$ 1,433             | \$ 447                                 | \$ 702               | Interest income  |
|  | \$ 1,433             | \$ 447                                 | \$ 702               |  |
| Amortization of defined benefit pension and postretirement plans |                      |  |                      |  |
| Prior service benefit, net of tax of \$169, \$159, \$134         | \$ 295               | \$ 276                                 | \$ 233               | (a)  |
|  | \$ 295               | \$ 276                                 | \$ 233               |  |
| Total reclassifications, net of tax of \$814, \$416, \$335       | \$ 1,728             | \$ 723                                 | \$ 935               | 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.

**I. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

Teradyne performs its annual goodwill impairment test as required under the provisions of ASC 350-10, *Intangibles Goodwill and Other* on December 31 of each fiscal year unless interim indicators of impairment exist. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, Teradyne determines the fair value of a reporting unit using a discounted cash flow ( DCF ) analysis. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, perpetual growth rates, and the amount and timing of expected future cash flows. Discount rates are based on a weighted average cost of capital ( WACC ), which represents the average rate a business must pay its providers of debt and equity, plus a risk premium. The WACC used to test goodwill is derived from a group of comparable companies. The cash flows employed in the DCF analysis are derived from internal forecasts and external market forecasts. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying amount of goodwill to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, whereby the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

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As a result of decreased projected demand attributable to an estimated smaller future wireless test market due to reuse of wireless test equipment, price competition and different testing techniques, Teradyne determined that for its Wireless Test reporting unit, the carrying amount of its net assets exceeded its respective fair value, indicating that a potential impairment existed. After completing the second step of the goodwill impairment test, Teradyne recorded a \$98.9 million goodwill impairment charge in the fourth quarter of 2014.

The fourth quarter 2014 goodwill impairment test of Teradyne's Defense/Aerospace reporting unit, which is included in Teradyne's System Test reportable segment, did not identify any goodwill impairment.

Teradyne performed step one of the two step impairment test for 2013 and 2012. No goodwill impairment was identified in 2013 and 2012.

The changes in the carrying amount of goodwill by reportable segments for the years ended December 31, 2014 and 2013 are as follows:

|                               | Semiconductor<br>Test | System<br>Test | Wireless<br>Test | Total      |
|-------------------------------|-----------------------|----------------|------------------|------------|
|                               | (in thousands)        |                |                  |            |
| Balance at December 31, 2012: |                       |                |                  |            |
| Goodwill                      | \$ 260,540            | \$ 148,183     | \$ 349,272       | \$ 757,995 |
| Accumulated impairment losses | (260,540)             | (148,183)      |                  | (408,723)  |
|                               |                       |                | 349,272          | 349,272    |
| ZTEC acquisition              |                       |                | 12,520           | 12,520     |
| Balance at December 31, 2013: |                       |                |                  |            |
| Goodwill                      | 260,540               | 148,183        | 361,792          | 770,515    |
| Accumulated impairment losses | (260,540)             | (148,183)      |                  | (408,723)  |
|                               |                       |                | 361,792          | 361,792    |
| ZTEC adjustment               |                       |                | 27               | 27         |
| AIT acquisition               |                       | 10,516         |                  | 10,516     |
| Balance at December 31, 2014: |                       |                |                  |            |
| Goodwill                      | 260,540               | 158,699        | 361,819          | 781,058    |
| Accumulated impairment losses | (260,540)             | (148,183)      | (98,897)         | (507,620)  |
|                               | \$                    | \$ 10,516      | \$ 262,922       | \$ 273,438 |

### Intangible Assets

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

|                           | Gross<br>Carrying<br>Amount | December 31, 2014           |                           | Weighted<br>Average<br>Useful Life |
|---------------------------|-----------------------------|-----------------------------|---------------------------|------------------------------------|
|                           |                             | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |                                    |
|                           | (in thousands)              |                             |                           |                                    |
| Developed technology      | \$ 345,513                  | \$ 224,059                  | \$ 121,454                | 6.2 years                          |
| Customer relationships    | 146,635                     | 93,998                      | 52,637                    | 7.7 years                          |
| Tradenames and trademarks | 30,414                      | 14,205                      | 16,209                    | 9.0 years                          |
| Non-competes              | 320                         | 20                          | 300                       | 4.0 years                          |
| Customer backlog          | 170                         | 170                         |                           | 0.0 years                          |
| Total intangible assets   | \$ 523,052                  | \$ 332,452                  | \$ 190,600                | 6.8 years                          |





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

During the year ended December 31, 2014, Teradyne recorded intangible assets in the amount of \$9.1 million related to its AIT acquisition.

During the year ended December 31, 2013, Teradyne recorded intangible assets in the amount of \$4.9 million related to its ZTEC acquisition.

Aggregate intangible assets amortization expense for the years ended December 31, 2014, 2013 and 2012 was \$70.8 million, \$72.4 million, and \$73.5 million, respectively. Estimated intangible assets amortization expense for each of the five succeeding fiscal years is as follows:

| Year | Amortization Expense<br>(in thousands) |
|------|--|
| 2015 | \$ 55,231                              |
| 2016 | 55,231                                 |
| 2017 | 49,046                                 |
| 2018 | 24,405                                 |
| 2019 | 4,889                                  |

## J. COMMITMENTS AND CONTINGENCIES

### Purchase Commitments

As of December 31, 2014, Teradyne had entered into non-cancelable purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately \$151.5 million.

### Commitments

Teradyne leases certain of its office buildings and other facilities under various operating lease arrangements that include renewal options and escalation clauses for adjusting rent payments to reflect changes in price indices. Rental expense for leases with fixed escalation clauses is recognized on a straight line basis over the lease term.

Rental expense for the years ended December 31, 2014, 2013 and 2012 was \$16.0 million, \$16.5 million and \$15.5 million, respectively.

The following table reflects Teradyne's non-cancelable operating lease commitments:

|                     | <b>Non-cancelable<br/>Lease<br/>Commitments<br/>(in thousands)</b> |
|---------------------|--|
| 2015                | \$ 13,521  |
| 2016                | 11,776   |
| 2017                | 6,842  |
| 2018                | 4,535  |
| 2019                | 4,103  |
| Beyond 2019         | 13,214   |
| <b>Total</b>        | <b>\$ 53,991</b>   |
| <b>Legal Claims</b> |  |

Teradyne is subject to legal proceedings, claims and investigations that arise in the ordinary course of business such as, but not limited to, patent, employment, commercial and environmental matters. Teradyne believes that it has meritorious defenses against all pending claims and intends to vigorously contest them. While it is not possible to predict or determine the outcomes of any pending claims or to provide possible ranges of losses that may arise, Teradyne believes the potential losses associated with all of these actions are unlikely to have a material adverse effect on its business, financial position or results of operations.

#### **Guarantees and Indemnification Obligations**

Teradyne provides indemnification, to the extent permitted by law, to its officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent, is or was serving, at Teradyne's request in such capacity. Teradyne has entered into indemnification agreements with certain of its officers and directors. With respect to acquisitions, Teradyne provides indemnifications to or assumes indemnification obligations for the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' by-laws and charter. As a matter of practice, Teradyne has maintained directors' and officers' liability insurance coverage including coverage for directors and officers of acquired companies.

Teradyne enters into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require Teradyne to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to Teradyne's products. From time to time, Teradyne also indemnifies customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, breach of confidentiality obligations and environmental claims relating to the use of Teradyne's products and services or resulting from the acts or omissions of Teradyne, its employees, authorized agents or subcontractors. On occasion, Teradyne has also provided guarantees to customers regarding the delivery and performance of its products in addition to the warranty described below.

As a matter of ordinary business course, Teradyne warrants that its products will substantially perform in accordance with its standard published specifications in effect at the time of delivery. Most warranties have a one year duration commencing from installation. A provision is recorded upon revenue recognition to cost of revenue for estimated warranty expense based upon historical experience. When Teradyne receives revenue for extended warranties beyond the standard duration, it is deferred and recognized on a straight line basis over the contract period. Related costs are expensed as incurred. As of December 31, 2014 and 2013, Teradyne had a product warranty accrual of \$8.9 million and \$6.7 million, respectively, included in other accrued liabilities, and revenue deferrals related to extended warranties of \$43.3 million and \$34.9 million, respectively, included in short and long-term deferred revenue and customer advances.

In addition, and in the ordinary course of business, Teradyne provides minimum purchase guarantees to certain vendors to ensure continuity of supply against the market demand. Although some of these guarantees provide penalties for cancellations and/or modifications to the purchase commitments as the market demand decreases, most of the guarantees do not. Therefore, as the market demand decreases, Teradyne re-evaluates these guarantees and determines what charges, if any, should be recorded.

With respect to its agreements covering product, business or entity divestitures and acquisitions, Teradyne provides certain representations, warranties and covenants to purchasers and agrees to indemnify and hold such purchasers harmless against breaches of such representations, warranties and covenants. Many of the indemnification claims have a definite expiration date while some remain in force indefinitely. With respect to its acquisitions, Teradyne may, from time to time, assume the liability for certain events or occurrences that took place prior to the date of acquisition.

As a matter of ordinary course of business, Teradyne occasionally guarantees certain indebtedness obligations of its subsidiary companies, limited to the borrowings from financial institutions, purchase commitments to certain vendors, and lease commitments to landlords.

Based on historical experience and information known as of December 31, 2014 and 2013, except for product warranty, Teradyne has not recorded any liabilities for these guarantees and obligations because the amount would be immaterial.

#### K. NET INCOME PER COMMON SHARE

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

|   | 2014                                     | 2013       | 2012       |
|---|--|------------|------------|
|   | (in thousands, except per share amounts) |            |            |
| Net income for basic and diluted net income per share               | \$ 81,272                                | \$ 164,947 | \$ 217,049 |
| Weighted average common shares-basic                                | 202,908                                  | 190,772    | 186,878    |
| Effect of dilutive potential common shares:                         |  |            |            |
| Incremental shares from assumed conversion of convertible notes (1) | 5,013                                    | 23,341     | 22,367     |
| Convertible note hedge warrant shares (2)                           | 12,562                                   | 18,795     | 17,433     |
| Restricted stock units  | 1,092                                    | 1,127      | 2,291      |
| Stock options   | 944                                      | 1,528      | 1,213      |
| Employee stock purchase rights                                      | 31                                       | 36         | 64         |
| Dilutive potential common shares                                    | 19,642                                   | 44,827     | 43,368     |
| Weighted average common shares-diluted                              | 222,550                                  | 235,599    | 230,246    |
| Net income per common share-basic                                   | \$ 0.40                                  | \$ 0.86    | \$ 1.16    |
| Net income per common share-diluted                                 | \$ 0.37                                  | \$ 0.70    | \$ 0.94    |

- (1) Incremental shares from the assumed conversion of the convertible notes was calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the convertible debt, was divided by the average Teradyne stock price for the period.
- (2) Convertible notes hedge warrant shares were calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by 34.7 million shares. The result of this calculation, representing the total intrinsic value of the warrant, was divided by the average Teradyne stock price for the period. Teradyne's call option on its common stock (convertible note hedge transaction) was excluded from the calculation of diluted shares because the effect was anti-dilutive. See Note G: Debt regarding the convertible note hedge transaction.

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

The computation of diluted net income per common share for 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 2012 excludes the effect of the potential exercise of stock options to purchase approximately 0.3 million shares and restricted stock units to purchase approximately 0.3 million shares because the effect would have been anti-dilutive.

## **L. RESTRUCTURING AND OTHER**

### **Restructuring**

During the year ended December 31, 2014, Teradyne recorded \$0.5 million of charges related to headcount reductions of 8 people in Semiconductor Test, \$0.5 million of charges related to headcount reductions of 28 people in Wireless Test, \$0.4 million of charges related to headcount reductions of 4 people in System Test, and \$0.2 million charges related to headcount reduction of 3 people in Corporate.

During the year ended December 31, 2013, Teradyne recorded \$1.9 million of severance charges related to headcount reductions of 48 people primarily in System Test and Semiconductor Test and a \$(0.4) million credit in Corporate related to a change in the estimated exit costs related to a leased facility.

During the year ended December 31, 2012, Teradyne recorded \$1.0 million of severance charges related to headcount reductions of 19 people primarily in System Test and Semiconductor Test.

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The remaining accrual for severance of \$0.4 million, as of December 31, 2014, is reflected in the accrued employees' compensation and withholdings on the balance sheet and is expected to be paid by June 2015.

|                              | Severance<br>and<br>Benefits | Facility<br>Exit<br>Costs<br>(in thousands) | Total    |
|------------------------------|------------------------------|---|----------|
| <b>Pre-2012 Activities</b>   |                              |   |          |
| Balance at December 31, 2012 |                              | 1,084                                       | 1,084    |
| Change in estimate           |                              | (553)                                       | (553)    |
| Cash payments                |                              | (531)                                       | (531)    |
| Balance at December 31, 2013 | \$                           | \$  | \$       |
| <b>2012 Activities</b>       |                              |   |          |
| <b>Q2 2012 Activities:</b>   |                              |   |          |
| Provision                    | \$ 286                       | \$  | \$ 286   |
| Change in estimate           | (4)                          |   | (4)      |
| Cash payments                | (282)                        |   | (282)    |
| Balance at December 31, 2012 | \$                           | \$  | \$       |
| <b>Q3 2012 Activity:</b>     |                              |   |          |
| Provision                    | \$ 687                       | \$  | \$ 687   |
| Cash payments                | (444)                        |   | (444)    |
| Balance at December 31, 2012 | 243                          |   | 243      |
| Cash payments                | (243)                        |   | (243)    |
| Balance at December 31, 2013 | \$                           | \$  | \$       |
| <b>2013 Activities</b>       |                              |   |          |
| <b>Q3 2013 Activity:</b>     |                              |   |          |
| Provision                    | \$ 1,337                     | \$  | \$ 1,337 |
| Cash payments                | (966)                        |   | (966)    |
| Balance at December 31, 2013 | \$ 371                       | \$  | \$ 371   |
| Cash payments                | (371)                        |   | (371)    |
| Balance at December 31, 2014 | \$                           | \$  | \$       |
| <b>Q4 2013 Activity:</b>     |                              |   |          |
| Provision                    | \$ 600                       | \$  | \$ 600   |
| Cash payments                | (486)                        |   | (486)    |
| Balance at December 31, 2013 | \$ 114                       | \$  | \$ 114   |
| Cash payments                | (114)                        |   | (114)    |
| Balance at December 31, 2014 | \$                           | \$  | \$       |
| <b>2014 Activities</b>       |                              |   |          |
| <b>Q2 2014 Activity:</b>     |                              |   |          |
| Provision                    | \$ 572                       | \$  | \$ 572   |
| Cash payments                | (572)                        |   | (572)    |

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|                                 |        |    |        |
|---------------------------------|--------|----|--------|
| Balance at December 31, 2014    | \$     | \$ | \$     |
| <b><i>Q3 2014 Activity:</i></b> |        |    |        |
| Provision                       | \$ 225 | \$ | \$ 225 |
| Cash payments                   | (225)  |    | (225)  |
| Balance at December 31, 2014    | \$     | \$ | \$     |
| <b><i>Q4 2014 Activity:</i></b> |        |    |        |
| Provision                       | \$ 826 | \$ | \$ 826 |
| Cash payments                   | (432)  |    | (432)  |
| Balance at December 31, 2014    | \$ 394 | \$ | \$ 394 |
| Balance at December 31, 2014    | \$ 394 | \$ | \$ 394 |

**Other**

During the year ended December 31, 2014, Teradyne recorded a \$0.6 million fair value adjustment to decrease the ZTEC acquisition contingent consideration, partially offset by \$0.4 million of acquisition costs related to AIT.

During the year ended December 31, 2012, due to a decrease in specified new product revenue through the December 31, 2012 earn-out period end date, Teradyne recorded an \$8.8 million fair value adjustment to decrease the LitePoint acquisition contingent consideration.

**M. RETIREMENT PLANS**

ASC 715, *Compensation Retirement Benefits* requires an employer with defined benefit plans or other postretirement benefit plans to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plans as defined by ASC 715. The pension asset or liability represents a difference between the fair value of the pension plan's assets and the projected benefit obligation at December 31. Teradyne uses a December 31 measurement date for all of its 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 the 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 ( the IRC ), as well as unfunded qualified foreign plans.

The December 31 balances of these defined benefit pension plans assets and obligations are shown below:

|                                      | 2014           |             | 2013          |             |
|--------------------------------------|----------------|-------------|---------------|-------------|
|                                      | United States  | Foreign     | United States | Foreign     |
|                                      | (in thousands) |             |               |             |
| <b>Assets and Obligations</b>        |                |             |               |             |
| <b>Change in benefit obligation:</b> |                |             |               |             |
| Projected benefit obligation:        |                |             |               |             |
| Beginning of year                    | \$ 293,912     | \$ 52,182   | \$ 325,118    | \$ 51,380   |
| Service cost                         | 2,218          | 897         | 2,393         | 1,034       |
| Interest cost                        | 12,875         | 1,837       | 11,318        | 1,948       |
| Actuarial loss (gain)                | 72,596         | 8,975       | (31,259)      | (1,020)     |
| Benefits paid                        | (13,982)       | (1,265)     | (13,658)      | (2,511)     |
| Plan participants' contributions     |                | 88          |               | 95          |
| Non-U.S. currency movement           |                | (4,504)     |               | 1,256       |
| End of year                          | 367,619        | 58,210      | 293,912       | 52,182      |
| <b>Change in plan assets:</b>        |                |             |               |             |
| Fair value of plan assets:           |                |             |               |             |
| Beginning of year                    | 256,373        | 25,756      | 278,856       | 24,043      |
| Company contributions                | 31,753         | 1,168       | 1,738         | 2,522       |
| Plan participants' contributions     |                | 88          |               | 95          |
| Actual return on plan assets         | 41,928         | 5,192       | (10,563)      | 1,190       |
| Benefits paid                        | (13,982)       | (1,265)     | (13,658)      | (2,511)     |
| Non-U.S. currency movement           |                | (1,428)     |               | 417         |
| End of year                          | 316,072        | 29,511      | 256,373       | 25,756      |
| Funded status                        | \$ (51,547)    | \$ (28,699) | \$ (37,539)   | \$ (26,426) |





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The following table provides amounts recorded within the account line items of the statement of financial position as of December 31:

|  | 2014           |             | 2013          |             |
|--|----------------|-------------|---------------|-------------|
|  | United States  | Foreign     | United States | Foreign     |
|  | (in thousands) |             |               |             |
| Retirement plans assets                          | \$ 3,090       | \$ 9,806    | \$ 4,259      | \$ 5,083    |
| Accrued employees' compensation and withholdings | (2,492)        | (906)       | (1,781)       | (1,143)     |
| Retirement plans liabilities                     | (52,145)       | (37,599)    | (40,017)      | (30,366)    |
| Funded status                                    | \$ (51,547)    | \$ (28,699) | \$ (37,539)   | \$ (26,426) |

The following table provides amounts recognized in accumulated other comprehensive income as of December 31:

|  | 2014           |         | 2013          |         |
|--|----------------|---------|---------------|---------|
|  | United States  | Foreign | United States | Foreign |
|  | (in thousands) |         |               |         |
| Prior service cost, before tax                             | \$ 358         | \$      | \$ 493        | \$      |
| Deferred taxes   | 429            |         | 380           |         |
| Total recognized in other comprehensive income, net of tax | \$ 787         | \$      | \$ 873        | \$      |

The estimated portion of prior service cost remaining in accumulated other comprehensive income that is expected to be recognized as a component of net periodic pension cost in 2015 is \$0.1 million.

The accumulated benefit obligation for the United States defined benefit pension plans was \$357.0 million and \$286.2 million at December 31, 2014 and 2013, respectively. The accumulated benefit obligation for foreign defined benefit pension plans was \$49.8 million and \$45.0 million at December 31, 2014 and 2013, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets as of December 31:

|                                | 2014          |         | 2013          |         |
|--------------------------------|---------------|---------|---------------|---------|
|                                | United States | Foreign | United States | Foreign |
|                                | (in millions) |         |               |         |
| Projected benefit obligation   | \$ 54.6       | \$ 39.5 | \$ 41.8       | \$ 32.4 |
| Accumulated benefit obligation | 48.5          | 32.7    | 37.9          | 27.5    |
| Fair value of plan assets      |               | 1.0     |               | 0.9     |

**Expense**

For the years ended December 31, 2014, 2013 and 2012, Teradyne's net periodic pension cost (income) was comprised of the following:

|  | 2014             |                 | 2013              |               | 2012             |                 |
|--|------------------|-----------------|-------------------|---------------|------------------|-----------------|
|  | United States    | Foreign         | United States     | Foreign       | United States    | Foreign         |
| <b>Components of Net Periodic Pension Cost (Income):</b> |                  |                 |                   |               |                  |                 |
| Service cost   | \$ 2,218         | \$ 897          | \$ 2,393          | \$ 1,034      | \$ 2,102         | \$ 686          |
| Interest cost  | 12,875           | 1,837           | 11,318            | 1,948         | 13,713           | 1,956           |
| Expected return on plan assets                           | (12,500)         | (868)           | (13,632)          | (959)         | (15,248)         | (698)           |
| Amortization of prior service cost                       | 135              |                 | 164               |               | 232              |                 |
| Net actuarial loss (gain)                                | 43,168           | 4,651           | (7,063)           | (1,252)       | 15,458           | 7,779           |
| <b>Total net periodic pension cost (income)</b>          | <b>\$ 45,896</b> | <b>\$ 6,517</b> | <b>\$ (6,820)</b> | <b>\$ 771</b> | <b>\$ 16,257</b> | <b>\$ 9,723</b> |

**Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:**

|   |              |  |              |  |              |  |
|---|--------------|--|--------------|--|--------------|--|
| Reversal of amortization items:                       |              |  |              |  |              |  |
| Prior service cost                                    | (135)        |  | (164)        |  | (232)        |  |
| <b>Total recognized in other comprehensive income</b> | <b>(135)</b> |  | <b>(164)</b> |  | <b>(232)</b> |  |

|   |           |          |            |        |           |          |
|---|-----------|----------|------------|--------|-----------|----------|
| Total recognized in net periodic pension cost (income) and other comprehensive income | \$ 45,761 | \$ 6,517 | \$ (6,984) | \$ 771 | \$ 16,025 | \$ 9,723 |
|---|-----------|----------|------------|--------|-----------|----------|

**Weighted Average Assumptions to Determine Net Periodic Pension Cost at January 1:**

|                                | 2014          |         | 2013          |         | 2012          |         |
|--------------------------------|---------------|---------|---------------|---------|---------------|---------|
|                                | United States | Foreign | United States | Foreign | United States | Foreign |
| Discount rate                  | 4.5%          | 3.8%    | 3.6%          | 3.7%    | 4.2%          | 4.9%    |
| Expected return on plan assets | 5.0           | 3.4     | 5.0           | 3.7     | 5.0           | 3.1     |
| Salary progression rate        | 3.0           | 3.5     | 3.0           | 3.5     | 3.0           | 3.4     |

**Weighted Average Assumptions to Determine Pension Obligations at December 31:**

|                         | 2014          |         | 2013          |         |
|-------------------------|---------------|---------|---------------|---------|
|                         | United States | Foreign | United States | Foreign |
| Discount rate           | 3.7%          | 2.6%    | 4.5%          | 3.8%    |
| Salary progression rate | 2.9           | 3.2     | 3.0           | 3.5     |

In developing the expected return on plan assets assumption, Teradyne evaluates input from its investment manager and pension consultants, including their review of asset class return expectations. Based on this review, Teradyne believes that 5.0% was an appropriate rate to use for fiscal 2014 for the U.S. Qualified Pension Plan ( U.S. Plan ).

Effective January 1, 2012, Teradyne elected to immediately recognize net actuarial gains and losses and the change in the fair value of the plan assets in its operating results in the year in which they occur or upon any interim remeasurement of the plans. In addition, Teradyne used to calculate the expected return on plan assets using a calculated market-related value of plan assets. Effective January 1, 2012, Teradyne elected to calculate the expected return on plan assets using the fair value of the plan assets.

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The discount rate utilized to determine future pension obligations for the U.S. Plan is based on Citigroup Pension Index adjusted for the plan's expected cash flows and was 3.7% at December 31, 2014, down from 4.5% at December 31, 2013.

### *Plan Assets*

As of December 31, 2014, the fair value of Teradyne's pension plans' assets totaled \$345.6 million of which \$316.1 million was related to the U.S. Plan, \$28.5 million was related to the U.K. defined benefit pension plan, and \$1.0 million was related to the Taiwan defined benefit pension plan. Substantially all Teradyne's pension plans' assets are held in individual trusts, which were established for the investment of assets of Teradyne's sponsored retirement plans.

Teradyne's weighted average pension asset allocation at December 31, 2014 and 2013, by asset category is as follows:

|                         | 2014          |         | 2013          |         |
|-------------------------|---------------|---------|---------------|---------|
|                         | United States | Foreign | United States | Foreign |
| Fixed Income Securities | 83.3%         | 78.2%   | 86.7%         | 77.1%   |
| Equity Securities       | 15.4          | 20.7    | 12.1          | 21.6    |
| Other                   | 1.3           | 1.1     | 1.2           | 1.3     |
|                         | 100.0%        | 100.0%  | 100.0%        | 100.0%  |

The assets of the U.S. Plan are overseen by the Teradyne Fiduciary Committee which is comprised of members of senior management drawn from appropriate diversified levels of the management team. The Fiduciary Committee is responsible for setting the policy that provides the framework for management of the U.S. Plan assets. In accordance with its responsibilities, the Fiduciary Committee meets on a regular basis to review the performance of the U.S. Plan assets and compliance with the investment policy. The policy sets forth an investment structure for managing U.S. Plan assets, including setting the asset allocation ranges, which are expected to provide an appropriate level of overall diversification required to maximize the long-term return on plan assets for a prudent and reasonable level of risk given prevailing market conditions, total investment return over the long term, and preservation of capital, while maintaining sufficient liquidity to pay the benefits of the U.S. Plan. The investment portfolio will not, at any time, have a direct investment in Teradyne stock. It may have indirect investment in Teradyne stock, if one of the funds selected by the investment manager invests in Teradyne stock. In developing the asset allocation ranges, third party asset allocation studies are periodically performed that consider the current and expected positions of the plan assets and funded status. Based on this study and other appropriate information, the Fiduciary Committee establishes asset allocation ranges taking into account acceptable risk targets and associated returns. The investment return objectives are to avoid excessive volatility and produce a rate of return that at least matches the Policy Index identified below. The manager's investment performance is reviewed at least annually. Results for the total portfolio and for each major category of assets are evaluated in comparison with appropriate market indices and the Policy Index.

The target asset allocation and the index for each asset category for the U.S. Plan, per the investment policy, are as follows:

| Asset Category:                 | Policy Index:                                   | Target Allocation |
|---------------------------------|---|-------------------|
| Passive and Active Fixed Income | Barclays U.S. Long Government/Credit Bond Index | 85%               |
| Equity (Large cap)              | S&P 500 Stock Index                             | 10                |
| International Equity            | MSCI EAFE Index                                 | 5                 |

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Teradyne's U.S. Plan invests primarily in common trust funds and fixed income securities. Units held in the common trust funds are valued at the unit price as reported by the investment managers based on the asset value of the underlying investments; underlying investments in equity securities are valued at the last reported sales price, and underlying investments in fixed-income securities are generally valued using methods based upon market transactions for comparable securities.

The assets of Teradyne's foreign pension plans are invested in funds which seek to combine long-term growth potential offered through equity exposure with the relative security provided by bonds, and are governed locally by local management in accordance with specific jurisdictional requirements. Investments in the non-U.S. plans consist primarily of fixed-income and equity securities. The target asset allocation for the U.K. defined benefit pension plan, per the investment policy, is 80% fixed-income securities and 20% equity securities.

During the years ended December 31, 2014 and 2013, there were no transfers of pension assets in or out of Level 1, Level 2 or Level 3.

The fair value of pension plan assets by asset category and by level at December 31, 2014 and December 31, 2013 were as follows:

|                            | United States   |                   |           | December 31, 2014       |               | Foreign          |           | Total            |
|----------------------------|-----------------|-------------------|-----------|-------------------------|---------------|------------------|-----------|------------------|
|                            | Level 1         | Level 2           | Level 3   | Total<br>(in thousands) | Level 1       | Level 2          | Level 3   |                  |
| Fixed income securities:   |                 |                   |           |                         |               |                  |           |                  |
| Corporate debt securities  | \$              | \$ 193,741        | \$        | \$ 193,741              | \$            | \$               | \$        | \$               |
| U.S. government securities |                 | 65,830            |           | 65,830                  |               |                  |           |                  |
| U.K. government securities |                 |                   |           |                         |               | 22,811           |           | 22,811           |
| Asset backed securities    |                 | 3,747             |           | 3,747                   |               |                  |           |                  |
| U.S. equity (large cap)    |                 | 33,970            |           | 33,970                  |               |                  |           |                  |
| International equity       |                 | 14,631            |           | 14,631                  |               | 5,610            |           | 5,610            |
| Guarantee annuity contract |                 | 2,990             |           | 2,990                   |               |                  |           |                  |
| Other                      |                 | 65                |           | 65                      |               | 957              |           | 957              |
| Cash and cash equivalents  | 1,098           |                   |           | 1,098                   | 133           |                  |           | 133              |
| <b>Total</b>               | <b>\$ 1,098</b> | <b>\$ 314,974</b> | <b>\$</b> | <b>\$ 316,072</b>       | <b>\$ 133</b> | <b>\$ 29,378</b> | <b>\$</b> | <b>\$ 29,511</b> |

|                            | United States |                   |           | December 31, 2013       |           | Foreign          |           | Total            |
|----------------------------|---------------|-------------------|-----------|-------------------------|-----------|------------------|-----------|------------------|
|                            | Level 1       | Level 2           | Level 3   | Total<br>(in thousands) | Level 1   | Level 2          | Level 3   |                  |
| Fixed income securities:   |               |                   |           |                         |           |                  |           |                  |
| Corporate debt securities  | \$            | \$ 156,860        | \$        | \$ 156,860              | \$        | \$               | \$        | \$               |
| U.S. government securities |               | 62,555            |           | 62,555                  |           |                  |           |                  |
| U.K. government securities |               |                   |           |                         |           | 19,610           |           | 19,610           |
| Asset backed securities    |               | 2,919             |           | 2,919                   |           |                  |           |                  |
| U.S. equity (large cap)    |               | 21,309            |           | 21,309                  |           |                  |           |                  |
| International equity       |               | 9,599             |           | 9,599                   |           | 5,204            |           | 5,204            |
| Guarantee annuity contract |               | 2,985             |           | 2,985                   |           |                  |           |                  |
| Other                      |               |                   |           |                         |           | 906              |           | 906              |
| Cash and cash equivalents  | 146           |                   |           | 146                     |           | 36               |           | 36               |
| <b>Total</b>               | <b>\$ 146</b> | <b>\$ 256,227</b> | <b>\$</b> | <b>\$ 256,373</b>       | <b>\$</b> | <b>\$ 25,756</b> | <b>\$</b> | <b>\$ 25,756</b> |

**Contributions**

Teradyne's funding policy is to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. During 2014, Teradyne contributed \$30.0 million to the U.S Plan, \$1.8 million to the U.S. supplemental executive defined benefit pension plan and \$1.2 million to certain qualified plans for non-U.S. subsidiaries. During 2013, Teradyne contributed \$1.7 million to the U.S. supplemental executive defined benefit pension plan and \$2.5 million to certain qualified plans for non-U.S. subsidiaries.

**Expected Future Pension Benefit Payments**

Future benefit payments are expected to be paid as follows:

|           | United States  | Foreign  |
|-----------|----------------|----------|
|           | (in thousands) |          |
| 2015      | \$ 24,407      | \$ 1,018 |
| 2016      | 23,399         | 862      |
| 2017      | 23,129         | 1,069    |
| 2018      | 22,455         | 1,076    |
| 2019      | 21,826         | 1,230    |
| 2020-2024 | 112,546        | 9,349    |

**Postretirement Benefit Plans**

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

The December 31 balances of the postretirement assets and obligations are shown below:

|                               | 2014           | 2013       |
|-------------------------------|----------------|------------|
|                               | (in thousands) |            |
| <b>Assets and Obligations</b> |                |            |
| Change in benefit obligation: |                |            |
| Projected benefit obligation: |                |            |
| Beginning of year             | \$ 9,019       | \$ 11,907  |
| Service cost                  | 59             | 75         |
| Interest cost                 | 335            | 342        |
| Actuarial (gain) loss         | (1,255)        | (2,025)    |
| Benefits paid                 | (996)          | (1,280)    |
| End of year                   | 7,162          | 9,019      |
| Change in plan assets:        |                |            |
| Fair value of plan assets:    |                |            |
| Beginning of year             |                |            |
| Company contributions         | 996            | 1,280      |
| Benefits paid                 | (996)          | (1,280)    |
| End of year                   |                |            |
| Funded status                 | \$ (7,162)     | \$ (9,019) |



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The following table provides amounts recorded within the account line items of financial position as of December 31:

|   | 2014           | 2013       |
|---|----------------|------------|
|   | (in thousands) |            |
| Accrued employees compensation and withholdings | \$ (780)       | \$ (1,042) |
| Retirement plans liability                      | (6,382)        | (7,977)    |
| Funded status                                   | \$ (7,162)     | \$ (9,019) |

The following table provides amounts recognized in accumulated other comprehensive income as of December 31:

|  | 2014           | 2013       |
|--|----------------|------------|
|  | (in thousands) |            |
| Prior service credit, before tax                           | \$ (2,230)     | \$ (2,829) |
| Deferred taxes   | (882)          | (664)      |
| Total recognized in other comprehensive income, net of tax | \$ (3,112)     | \$ (3,493) |

The estimated portion of prior service credit remaining in accumulated other comprehensive income that is expected to be recognized as a component of net periodic postretirement benefit (income) expense in 2015 is \$(0.6) million.

*Expense*

For the years ended December 31, 2014, 2013 and 2012, Teradyne's net periodic postretirement benefit income was comprised of the following:

|  | 2014           | 2013    | 2012  |
|--|----------------|---------|-------|
|  | (in thousands) |         |       |
| <b>Components of Net Periodic Postretirement Benefit Income:</b> |                |         |       |
| Service cost   | \$ 59          | \$ 75   | \$ 67 |
| Interest cost  | 335            | 342     | 437   |
| Amortization of prior service cost                               | (598)          | (598)   | (599) |
| Net actuarial (gain) loss  | (1,255)        | (2,025) | 83    |
| Total net periodic postretirement benefit income                 | (1,459)        | (2,206) | (12)  |

**Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:**

|   |          |            |        |
|---|----------|------------|--------|
| Reversal of amortization items:   |          |            |        |
| Prior service credit  | 598      | 598        | 599    |
| Total recognized in other comprehensive income  | 598      | 598        | 599    |
| Total recognized in net periodic postretirement benefit income and other comprehensive income | \$ (861) | \$ (1,608) | \$ 587 |

*Weighted Average Assumptions to Determine Net Periodic Postretirement Benefit Income as of January 1:*

|                                     | 2014 | 2013 | 2012 |
|-------------------------------------|------|------|------|
| Discount rate                       | 4.1% | 3.1% | 3.7% |
| Initial Health Care Cost Trend Rate | 8.0  | 8.5  | 9.0  |



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|   |      |      |      |
|---|------|------|------|
| Ultimate Health Care Cost Trend Rate                          | 5.0  | 5.0  | 5.0  |
| Year in which Ultimate Health Care Cost Trend Rate is reached | 2020 | 2020 | 2020 |

**Weighted Average Assumptions to Determine Postretirement Benefit Obligation as of December 31:**

|   | 2014 | 2013 | 2012 |
|---|------|------|------|
| Discount rate   | 3.5% | 4.1% | 3.1% |
| Initial Medical Trend                                     | 7.5  | 8.0  | 8.5  |
| Ultimate Health Care Trend                                | 5.0  | 5.0  | 5.0  |
| Medical cost trend rate decrease to ultimate rate in year | 2022 | 2020 | 2020 |

Assumed health care trend rates could have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rates for the year ended December 31, 2014, would have the following effects:

|  | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|--|-----------------------------|-----------------------------|
|  | (in thousands)              |                             |
| Effect on total service and interest cost components | \$ 6                        | \$ (6)                      |
| Effect on postretirement benefit obligations         | 87                          | (83)                        |

**Expected Future Benefit Payments**

Future benefit payments are expected to be paid as follows:

|           | Benefits Payments (in thousands) |
|-----------|----------------------------------|
| 2015      | \$ 780                           |
| 2016      | 738                              |
| 2017      | 657                              |
| 2018      | 599                              |
| 2019      | 535                              |
| 2020-2024 | 2,045                            |

**N. STOCK BASED COMPENSATION**

**Stock Compensation Plans**

At Teradyne's annual meeting of stockholders held May 21, 2013, Teradyne's stockholders approved an amendment to Teradyne's 2006 Equity and Cash Compensation Incentive Plan to increase the number of shares issuable by 10.0 million for an aggregate of 32.0 million shares issuable thereunder. Teradyne's stockholders also approved an amendment to Teradyne's 1996 Employee Stock Purchase Plan to increase the number of shares issuable by 5.0 million, for an aggregate of 30.4 million shares issuable thereunder.

Under its stock compensation plans, Teradyne has granted stock options, restricted stock units and performance-based restricted stock units, and employees are eligible to purchase Teradyne's common stock through its Employee Stock Purchase Plan ( ESPP ).

Stock options to purchase Teradyne's common stock at 100% of the fair market value on the grant date vest in equal annual installments over four years from the grant date and have a maximum term of seven years.

Time-based restricted stock unit awards granted to employees vest in equal annual installments over four years. Restricted stock unit awards granted to non-employee directors vest after a one year period, with 100% of the award vesting on the first anniversary of the grant date. Teradyne expenses the cost of the restricted stock unit awards subject to time-based vesting, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse.

For grants prior to January 2014, performance-based restricted stock units ( PRSUs ) granted to executive officers were subject to time-based vesting and performance-based vesting. The percentage level of performance satisfied for performance-based grants was assessed on or near the anniversary of the grant date and, in turn, that percentage level determined the number of performance-based restricted stock units available for vesting over a four-year vesting period; portions of the performance-based grants not available for vesting were forfeited.

Commencing in January 2014, Teradyne granted PRSUs to its executive officers with a performance metric based on relative total shareholder return ( TSR ). Teradyne s three-year TSR performance will be measured against the Philadelphia Semiconductor Index, which consists of thirty companies in the semiconductor device and capital equipment industries. The final number of TSR PRSUs that vest will vary based upon the level of performance achieved from 200% of the target shares to 0% of the target shares. The TSR PRSUs will vest upon the three-year anniversary of the grant date. No TSR PRSUs will vest if the executive officer is no longer an employee at the end of the three-year period. Beginning with PRSUs granted in January 2014, if the recipient s employment ends prior to the determination of the performance percentage due to (1) permanent disability or death or (2) retirement or termination other than for cause, after attaining both at least age sixty and at least ten years of service, then the recipient s PRSUs (based on the actual performance percentage achieved on the determination date) will vest on the date the performance percentage is determined.

The TSR PRSUs are valued using a Monte Carlo simulation model. The number of units expected to be earned, based upon the achievement of the TSR market condition, is factored into the grant date Monte Carlo valuation. Compensation expense is recognized on a straight-line basis over the three-year service period. Compensation expense is recognized regardless of the eventual number of units that are earned based upon the market condition, provided the executive officer remains an employee at the end of the three-year period. Compensation expense is reversed if at any time during the three-year service period the executive officer is no longer an employee, subject to the retirement and termination eligibility provisions noted above. During the year ended December 31, 2014, Teradyne granted 0.1 million TSR PRSUs with a grant date fair value of \$22.06 per unit. The fair value was estimated using the Monte Carlo simulation model with the following assumptions:

|  | <b>2014</b> |
|--|-------------|
| Risk-free interest rate                                | 0.75%       |
| Teradyne volatility-historical                         | 36.1%       |
| Philadelphia Semiconductor Index volatility-historical | 24.6%       |
| Dividend yield   | 1.25%       |

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

*Stock Options Valuation Assumptions:*

The total number of stock options granted in 2014, 2013 and 2012 were 0.1 million, 0.2 million and 0.2 million, respectively, at the weighted average grant date fair value of \$5.49, \$6.09 and \$6.85 per share, respectively. The fair value of the stock options at grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

|                         | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|-------------------------|-------------|-------------|-------------|
| Expected life (years)   | 4.00        | 4.00        | 3.50        |
| Risk-free interest rate | 1.2%        | 0.6%        | 0.4%        |
| Volatility-historical   | 38.8%       | 46.8%       | 56.0%       |
| Dividend yield          | 1.25%       | 0.0%        | 0.0%        |

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Teradyne determined the stock option's expected life based upon historical exercise data for executive officers, the age of executives and the terms of the stock option award. Volatility was determined using historical volatility for a period equal to the expected life. The interest rate was determined using the U.S. Treasury yield curve in effect at the time of grant.

Stock compensation plan activity for the years 2014, 2013 and 2012 follows:

|  | 2014           | 2013    | 2012    |
|--|----------------|---------|---------|
|  | (in thousands) |         |         |
| <b>Restricted Stock Units:</b>             |                |         |         |
| Non-vested at January 1                    | 4,636          | 4,970   | 5,840   |
| Awarded                                    | 1,870          | 2,110   | 1,844   |
| Vested                                     | (1,965)        | (2,322) | (2,510) |
| Forfeited                                  | (190)          | (122)   | (204)   |
| Non-vested at December 31                  | 4,351          | 4,636   | 4,970   |
| <b>Stock Options:</b>                      |                |         |         |
| Outstanding at January 1                   | 2,706          | 3,841   | 5,335   |
| Granted                                    | 89             | 213     | 151     |
| Exercised                                  | (1,248)        | (1,220) | (1,396) |
| Forfeited                                  | (38)           | (104)   | (203)   |
| Cancelled                                  | (2)            | (24)    | (46)    |
| Outstanding at December 31                 | 1,507          | 2,706   | 3,841   |
| Vested and expected to vest at December 31 | 1,507          | 2,694   | 3,785   |
| Exercisable at December 31                 | 1,089          | 1,814   | 2,004   |

Total shares available for the years 2014, 2013 and 2012:

|                                    | 2014           | 2013    | 2012    |
|------------------------------------|----------------|---------|---------|
|                                    | (in thousands) |         |         |
| <b>Shares available:</b>           |                |         |         |
| Available for grant at January 1   | 14,213         | 6,414   | 8,205   |
| Options granted                    | (89)           | (213)   | (151)   |
| Restricted stock units awarded     | (1,870)        | (2,110) | (1,844) |
| Restricted stock units forfeited   | 189            | 122     | 204     |
| Additional shares reserved         |                | 10,000  |         |
| Available for grant at December 31 | 12,443         | 14,213  | 6,414   |

Weighted-average restricted stock unit award date fair value information for the years 2014, 2013 and 2012 follows:

|                           | 2014     | 2013     | 2012     |
|---------------------------|----------|----------|----------|
| Non-vested at January 1   | \$ 15.56 | \$ 12.72 | \$ 10.01 |
| Awarded                   | 19.30    | 16.53    | 16.67    |
| Vested                    | 14.38    | 10.40    | 9.29     |
| Forfeited                 | 17.21    | 15.48    | 13.32    |
| Non-vested at December 31 | \$ 17.58 | \$ 15.56 | \$ 12.72 |



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Restricted stock unit awards aggregate intrinsic value information at December 31 for the years 2014, 2013 and 2012 follows:

|                  | 2014      | 2013<br>(in thousands) | 2012      |
|------------------|-----------|------------------------|-----------|
| Outstanding      | \$ 86,113 | \$ 81,680              | \$ 83,949 |
| Expected to vest | 81,582    | 77,388                 | 78,718    |

Restricted stock units weighted average remaining contractual terms (in years) information at December 31, for the years 2014, 2013 and 2012 follows:

|                  | 2014 | 2013 | 2012 |
|------------------|------|------|------|
| Outstanding      | 1.11 | 1.14 | 1.01 |
| Expected to vest | 1.10 | 1.13 | 1.00 |

Weighted average stock options exercise price information for the years 2014, 2013 and 2012 follows:

|                            | 2014    | 2013    | 2012    |
|----------------------------|---------|---------|---------|
| Outstanding at January 1   | \$ 6.29 | \$ 4.64 | \$ 4.12 |
| Options granted            | 19.16   | 16.56   | 16.95   |
| Options exercised          | 5.34    | 3.28    | 3.87    |
| Options forfeited          | 3.59    | 2.57    | 3.11    |
| Options cancelled          | 2.21    | 8.05    | 16.21   |
| Outstanding at December 31 | 7.89    | 6.29    | 4.64    |
| Exercisable at December 31 | 5.00    | 4.55    | 3.70    |

Stock option aggregate intrinsic value information for the years ended December 31, 2014, 2013 and 2012 follows:

|                             | 2014      | 2013<br>(in thousands) | 2012      |
|-----------------------------|-----------|------------------------|-----------|
| Exercised                   | \$ 17,847 | \$ 16,848              | \$ 17,136 |
| Outstanding                 | 17,936    | 30,673                 | 47,051    |
| Vested and expected to vest | 17,936    | 30,512                 | 46,283    |
| Exercisable                 | 16,101    | 23,707                 | 26,436    |

Stock options weighted average remaining contractual terms (in years) information at December 31, for the years 2014, 2013 and 2012 follows:

|                             | 2014 | 2013 | 2012 |
|-----------------------------|------|------|------|
| Outstanding                 | 4.5  | 4.9  | 5.7  |
| Vested and Expected to vest | 4.5  | 4.9  | 5.6  |
| Exercisable                 | 4.2  | 4.3  | 4.9  |

Significant option groups outstanding at December 31, 2014 and related weighted average price and remaining contractual life information follow:

| Range Of Exercise Prices | Options Outstanding                                 |        | Options Exercisable                                   |        |                                 |
|--------------------------|---|--------|---|--------|---------------------------------|
|                          | Weighted-Average Remaining Contractual Life (Years) | Shares | Weighted-Average Exercise Price (shares in thousands) | Shares | Weighted-Average Exercise Price |
| \$1.48 \$2.58            | 5.07  | 269    | \$ 1.91   | 269    | \$ 1.91                         |
| \$2.67 \$2.74            | 4.40  | 462    | 2.69  | 429    | 2.69                            |
| \$3.23 \$16.23           | 3.61  | 370    | 8.47  | 306    | 7.69                            |
| \$16.56 \$19.16          | 4.99  | 406    | 17.25   | 85     | 16.79                           |
|                          |   | 1,507  | \$ 7.89   | 1,089  | \$ 5.00                         |

As of December 31, 2014, total unrecognized expense related to non-vested restricted stock unit awards and stock options was \$51.3 million, and is expected to be recognized over a weighted average period of 2.4 years.

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

#### Employee Stock Purchase Plan

Under the Teradyne 1996 Employee Stock Purchase Plan, eligible employees may purchase shares of common stock through regular payroll deductions of up to 10% of their compensation, to a maximum of shares with a fair market value of \$25,000 per calendar year, not to exceed 6,000 shares. Under the plan, the price paid for the common stock, in 2014 and 2013, is equal to 85% of the stock price on the last business day of the six month purchase period. In 2012, the price paid for the common stock was equal to 85% of the lower of the fair market value of Teradyne's common stock on the first business day and the last business day of each six month purchase period within each year.

#### Employee Stock Purchase Rights Valuation Assumptions:

The weighted-average fair value of employee stock purchase rights granted pursuant to the ESPP in the first and last six months of 2012 was \$4.09 and \$3.42, respectively. The fair value of the employees' purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions:

|                         | 2012  |
|-------------------------|-------|
| Expected life (years)   | 0.5   |
| Risk-free interest rate | 0.1%  |
| Volatility-historical   | 42.7% |
| Dividend yield          | 0.0%  |

In July 2014, 0.5 million shares of common stock were issued to employees who participated in the plan during the first half of 2014, at the price of \$16.66 per share. In January 2015, Teradyne issued 0.5 million shares of common stock to employees who participated in the plan during the second half of 2014, at the price of \$16.82 per share.

In July 2013, 0.4 million shares of common stock were issued to employees who participated in the plan during the first half of 2013, at the price of \$14.94 per share. In January 2014, Teradyne issued 0.4 million shares of common stock to employees who participated in the plan during the second half of 2013, at the price of \$14.98 per share.

In July 2012, 0.6 million shares of common stock were issued to employees who participated in the plan during the first half of 2012, at the price of \$11.69 per share. In January 2013, Teradyne issued 0.6 million shares of common stock to employees who participated in the plan during the second half of 2012, at the price of \$11.91 per share.

As of December 31, 2014, there were 5.3 million shares available for grant under the ESPP.

The effect to income from operations for recording stock-based compensation for the years ended December 31 was as follows:

|   | 2014           | 2013      | 2012      |
|---|----------------|-----------|-----------|
|   | (in thousands) |           |           |
| Cost of revenues  | \$ 3,675       | \$ 4,338  | \$ 6,604  |
| Engineering and development                               | 10,146         | 12,452    | 13,589    |
| Selling and administrative                                | 26,486         | 19,822    | 19,727    |
| Stock-based compensation                                  | 40,307         | 36,612    | 39,920    |
| Income tax benefit  | (11,537)       | (9,762)   | (9,548)   |
| Total stock-based compensation expense after income taxes | \$ 28,771      | \$ 26,850 | \$ 30,372 |

#### O. SAVINGS PLAN

Teradyne sponsors a defined contribution employee retirement savings plan ( Savings Plan ) covering substantially all U.S. employees. Under the Savings Plan, employees may contribute up to 20% of their compensation (subject to Internal Revenue Service limitations). In January 2009, Teradyne amended the Savings Plan to eliminate a fixed formula used to calculate the match and provide for a variable discretionary match to be determined each year. In 2014, 2013 and 2012, Teradyne matched 100% of eligible employee contributions up to 4% of their compensation for employees not accruing benefits in the U.S. Qualified Pension Plan. There was no match for employees still actively accruing benefits in the U.S. Qualified Pension Plan. Teradyne's contributions vest 25% per year for the first four years of employment, and contributions for those employees with four years of service vest immediately.

In addition Teradyne established an unfunded U.S. Supplemental Savings Plan to provide savings benefits in excess of those allowed by Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The provisions of this plan are the same as the Savings Plan. Teradyne also established defined contribution savings plans for its foreign employees. Under Teradyne's savings plans, amounts charged to the statement of operations for the years ended December 31, 2014, 2013 and 2012 were \$12.8 million, \$12.0 million and \$10.6 million, respectively.



**P. INCOME TAXES**

The components of income (loss) before income taxes and the provision for income taxes as shown in the consolidated statements of operations were as follows:

|                                       | 2014         | 2013<br>(in thousands) | 2012       |
|---------------------------------------|--------------|------------------------|------------|
| Income (loss) before income taxes:    |              |                        |            |
| U.S.                                  | \$ (151,889) | \$ 79,229              | \$ 112,008 |
| Non-U.S.                              | 247,265      | 122,693                | 153,968    |
|                                       | \$ 95,376    | \$ 201,922             | \$ 265,976 |
| Provision (benefit) for income taxes: |              |                        |            |
| Current:                              |              |                        |            |
| U.S. Federal                          | \$ 5,197     | \$ 18,051              | \$ 22,695  |
| Non-U.S.                              | 28,157       | 22,509                 | 18,261     |
| State                                 | 678          | (269)                  | (12)       |
|                                       | 34,032       | 40,291                 | 40,944     |
| Deferred:                             |              |                        |            |
| U.S. Federal                          | (20,449)     | (1,692)                | 8,158      |
| Non-U.S.                              | (404)        | (1,386)                | 5,997      |
| State                                 | 925          | (238)                  | (6,172)    |
|                                       | (19,928)     | (3,316)                | 7,983      |
| Total provision for income taxes:     | \$ 14,104    | \$ 36,975              | \$ 48,927  |

For the years ended December 31, 2014, 2013 and 2012, income tax expense totaled \$14.1 million, \$37.0 million and \$48.9 million, respectively, primarily attributable to a U.S. federal tax provision and tax provisions for foreign taxes. The decrease in income tax expense from 2013 to 2014 was primarily attributable to a shift in the geographic distribution of income which decreased income subject to taxation in the United States relative to lower tax rate jurisdictions partially offset by an increase in income tax expense associated with uncertain tax positions and a reduction in the benefit from U.S. research and development tax credits. The decrease in income tax expense from 2012 to 2013 resulted from the reinstatement of the U.S. research and development tax credit in 2013 for fiscal years 2012 and 2013 and lower pre-tax income, partially offset by higher tax expense for uncertain tax positions and state taxes.

A reconciliation of the effective tax rate for the years 2014, 2013 and 2012 follows:

|  | 2014   | 2013   | 2012   |
|--|--------|--------|--------|
| U.S. statutory federal tax rate                | 35.0%  | 35.0%  | 35.0%  |
| Foreign taxes                                  | (58.1) | (11.4) | (10.5) |
| Goodwill impairment                            | 36.3   |        |        |
| U.S. research and development credit           | (7.9)  | (7.2)  |        |
| Uncertain tax positions                        | 7.9    | 4.2    | (1.2)  |
| Other permanent items                          | 3.4    | (0.1)  | (2.8)  |
| Valuation allowance                            |        | 0.4    | (0.5)  |
| State income taxes, net of federal tax benefit | (0.1)  | 0.1    | (1.7)  |
| Other, net                                     | (1.7)  | (2.7)  | 0.1    |
|  | 14.8%  | 18.3%  | 18.4%  |

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U.S. research and development tax credits provided a 7.9% and 7.2% reduction to the 2014 and 2013 U.S. statutory federal tax rate of 35.0%, respectively. The research and development tax credit expired at the end of 2014.

Teradyne qualifies for a tax holiday in Singapore by fulfilling the requirements of an agreement with the Singapore Economic Development Board under which certain headcount and spending requirements must be

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met. The tax savings attributable to the tax holiday for the years ended December 31, 2014, 2013 and 2012 were \$13.2 million or \$0.06 per diluted share, \$4.7 million or \$0.02 per diluted share and \$10.9 million or \$0.05 per diluted share, respectively. The tax holiday is currently expected to expire on December 31, 2015. Teradyne is in discussions with the Singapore Economic Development Board with respect to extension of the tax holiday for periods after December 31, 2015.

Teradyne records all interest and penalties related to income taxes as a component of income tax expense. Accrued interest and penalties related to income tax items at December 31, 2014 and 2013 amounted to \$0.6 million and \$0.4 million respectively. For the years ended December 31, 2014, 2013 and 2012 expense of \$0.2 million, \$0.2 million and \$0.1 million respectively, was recorded for interest and penalties related to income tax items.

Significant components of Teradyne's deferred tax assets (liabilities) as of December 31, 2014 and 2013 were as follows:

|                                       | 2014             | 2013             |
|---------------------------------------|------------------|------------------|
|                                       | (in thousands)   |                  |
| Deferred tax assets:                  |                  |                  |
| Net operating loss carryforwards      | \$ 10,989        | \$ 14,679        |
| Tax credits                           | 50,554           | 65,210           |
| Pension liability                     | 30,036           | 22,966           |
| Inventory valuations                  | 29,105           | 38,452           |
| Accruals                              | 23,323           | 17,828           |
| Equity compensation                   | 11,131           | 10,498           |
| Deferred revenue                      | 10,242           | 12,379           |
| Vacation accrual                      | 7,425            | 7,291            |
| Other                                 | 1,725            | 2,613            |
| <b>Gross deferred tax assets</b>      | <b>174,530</b>   | <b>191,916</b>   |
| Less: valuation allowance             | (41,737)         | (40,386)         |
| <b>Total deferred tax assets</b>      | <b>132,793</b>   | <b>151,530</b>   |
| Deferred tax liabilities:             |                  |                  |
| Marketable securities                 | (1,599)          | (794)            |
| Intangible assets                     | (64,871)         | (89,268)         |
| Excess of tax over book depreciation  | (24,905)         | (24,458)         |
| <b>Total deferred tax liabilities</b> | <b>(91,375)</b>  | <b>(114,520)</b> |
| <b>Net deferred assets</b>            | <b>\$ 41,418</b> | <b>\$ 37,010</b> |

During 2014, Teradyne's valuation allowance increased by \$1.3 million primarily due to the increase in the deferred tax assets related to state tax credits generated in 2014. During 2013, Teradyne reduced both its net operating loss deferred tax asset and related valuation allowance by approximately \$19.5 million which was attributable to pre-2006 windfall stock based compensation deductions, the benefit of which will be credited to additional paid-in capital if and when realized through a reduction in Teradyne's income tax payable. As of December 31, 2014 and 2013, these windfall stock option deductions were tracked off balance sheet in accordance with ASC 718, *Compensation - Stock Compensation*.

As of December 31, 2014 and 2013, Teradyne evaluated the likelihood that it would realize the deferred income taxes to offset future taxable income and concluded that it is more likely than not that a substantial majority of its deferred tax assets will be realized through consideration of both the positive and negative evidence. At December 31, 2014 and 2013, Teradyne maintained a valuation allowance for certain deferred tax assets of \$41.7 million and \$40.4 million, respectively, primarily related to state net operating losses and state tax

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credit carryforwards, due to the uncertainty regarding their realization. Adjustments could be required in the future if Teradyne estimates that the amount of deferred tax assets to be realized is more or less than the net amount recorded.

At December 31, 2014, Teradyne had operating loss carryforwards that expire in the following years:

|              | U.S. Federal<br>Operating Loss<br>Carryforwards | State<br>Operating Loss<br>Carryforwards<br>(in thousands) | Foreign<br>Operating Loss<br>Carryforwards |
|--------------|---|--|--|
| 2015         | \$  | \$ 1   | \$   |
| 2016         |   | 56   |  |
| 2017         |   | 738  |  |
| 2018         |   | 679  |  |
| 2019         |   | 133  |  |
| 2020-2025    | 10,698  | 2,686  |  |
| 2026-2028    |   | 676  |  |
| Beyond 2028  | 806   | 3,055  | 115  |
| Non-expiring |   |  | 8,460                                      |
| Total        | \$ 11,504                                       | \$ 8,024   | \$ 8,575                                   |

Of the U.S. federal operating loss carryforwards, \$10.7 million relates to the acquisition of GenRad, Inc. ( GenRad ) in 2001 and \$0.8 million relates to the acquisition of ZTEC in 2013. Both GenRad and ZTEC losses are limited in the annual amount that can be used as a result of change in ownership rules as defined in the Internal Revenue Code of 1986. The operating loss carryforward does not include any excess tax deduction related to stock based compensation which has not been recognized for financial statement purposes.

Teradyne has approximately \$140.8 million of tax credit carry forwards. Federal business tax credits of approximately \$37.0 million expire in the years 2017 through 2034. Teradyne has foreign tax credits of approximately \$27.5 million expiring in the years 2018 through 2022 and alternative minimum tax credits of approximately \$6.6 million, which do not expire. In addition, there are state tax credits of \$69.7 million which begin to expire in 2015. Teradyne has federal tax credits of \$46.6 million, that are attributable to stock based compensation deductions which will be recorded as an increase in additional paid in capital on the consolidated balance sheet if and when they are realized in accordance with ASC 718-10, *Compensation Stock Compensation*.

Teradyne's gross unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012 were as follows:

|                                    | 2014           | 2013      | 2012      |
|------------------------------------|----------------|-----------|-----------|
|                                    | (in thousands) |           |           |
| Beginning balance, as of January 1 | \$ 21,203      | \$ 18,666 | \$ 19,391 |
| Additions:                         |                |           |           |
| Tax positions for current year     | 8,414          | 4,586     | 459       |
| Tax positions for prior years      | 3,781          | 2,112     | 2,259     |
| Reductions:                        |                |           |           |
| Tax positions for prior years      | (2,480)        | (4,161)   | (3,443)   |
| Settlements with tax authorities   | (500)          |           |           |
| Ending Balance as of December 31   | \$ 30,418      | \$ 21,203 | \$ 18,666 |

Current year and prior year additions include assessment of potential transfer pricing issues worldwide, federal and state tax credits and incentives, capitalization rules, and domestic production activities deductions.

Reductions for tax positions for prior years primarily relate to statute expiration, stock-based compensation deduction in a foreign jurisdiction, and the settlement of a foreign tax audit. Of the \$30.4 million of unrecognized tax benefits as of December 31, 2014, \$24.1 million would impact the consolidated income tax rate if ultimately recognized. The remaining \$6.3 million would impact the valuation allowance if recognized. Teradyne estimates that it is reasonably possible that the balance of unrecognized tax benefits as of December 31, 2014 may decrease approximately \$0.8 million in the next twelve months, as a result of a lapse of statutes of limitation and the settlement of a tax audit. The estimated decrease is composed primarily of reserves relating to state tax credits and transfer pricing.

Teradyne is subject to U.S. federal income tax, as well as income tax in multiple state, local and foreign jurisdictions. As of December 31, 2014, all material state and local income tax matters have been concluded through 2009, all material federal income tax matters have been concluded through 2010 and all material foreign income tax matters have been concluded through 2008. However, in some jurisdictions, including the United States, operating losses and tax credits may be subject to adjustment until such time as they are utilized and the year of utilization is closed to adjustment.

As of December 31, 2014, a deferred tax liability has not been established for approximately \$556.9 million of cumulative undistributed earnings of non-U.S. subsidiaries, which are expected to be reinvested indefinitely in operations outside the U.S. Determination of the unrecognized deferred tax liability on unremitted earnings is not practicable due to uncertainty regarding the remittance structure, the mix of earnings and earnings and profit pools in the year of remittance, and overall complexity of the calculation.

#### **Q. OPERATING SEGMENT, GEOGRAPHIC AND SIGNIFICANT CUSTOMER 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 the design, manufacturing and marketing of wireless test products and services. The System Test segment includes operations related to the design, manufacturing and marketing of products and services for defense/aerospace instrumentation test, storage test and circuit-board test. Each operating segment has a segment manager who is directly accountable to and maintains regular contact with Teradyne's chief operating decision maker (Teradyne's chief executive officer) to discuss operating activities, financial results, forecasts, and plans for the segment.

Teradyne evaluates performance using several factors, of which the primary financial measure is business segment income from operations before taxes. The accounting policies of the business segments are the same as those described in Note B: Accounting Policies.

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Segment information for the years ended December 31, 2014, 2013 and 2012 is as follows:

|                                       | Semiconductor<br>Test | Wireless<br>Test | System Test<br>(in thousands) | Corporate<br>And<br>Eliminations | Consolidated |
|---------------------------------------|-----------------------|------------------|-------------------------------|----------------------------------|--------------|
| <b>2014</b>                           |                       |                  |                               |                                  |              |
| Revenues                              | \$ 1,300,790          | \$ 184,535       | \$ 162,499                    | \$                               | \$ 1,647,824 |
| Income (Loss) before taxes (1)(2)     | 255,803               | (116,196)        | 12,116                        | (56,347)                         | 95,376       |
| Total assets (3)                      | 580,501               | 478,974          | 95,105                        | 1,383,940                        | 2,538,520    |
| Property additions                    | 159,783               | 3,730            | 5,469                         |                                  | 168,982      |
| Depreciation and amortization expense | 84,990                | 53,308           | 5,399                         | 8,847                            | 152,544      |
| <b>2013</b>                           |                       |                  |                               |                                  |              |
| Revenues                              | \$ 1,023,041          | \$ 251,871       | \$ 153,021                    | \$                               | \$ 1,427,933 |
| Income before taxes (1)(2)            | 153,797               | 23,153           | 3,115                         | 21,857                           | 201,922      |
| Total assets (3)                      | 632,840               | 645,001          | 79,983                        | 1,272,000                        | 2,629,824    |
| Property additions                    | 94,303                | 5,358            | 7,070                         |                                  | 106,731      |
| Depreciation and amortization expense | 72,472                | 51,675           | 5,180                         | 21,360                           | 150,687      |
| <b>2012</b>                           |                       |                  |                               |                                  |              |
| Revenues                              | \$ 1,127,726          | \$ 286,355       | \$ 242,669                    | \$                               | \$ 1,656,750 |
| Income (Loss) before taxes (1)(2)     | 185,985               | 83,077           | 34,164                        | (37,250)                         | 265,976      |
| Total assets (3)                      | 604,127               | 672,048          | 71,116                        | 1,082,054                        | 2,429,345    |
| Property additions                    | 105,074               | 7,608            | 6,398                         |                                  | 119,080      |
| Depreciation and amortization expense | 73,537                | 50,362           | 4,549                         | 17,066                           | 145,514      |

- (1) Interest income, interest expense, other (income) expense, net and pension and postretirement plans actuarial gains and losses are included in Corporate and Eliminations.
- (2) Included in income (loss) before taxes are charges and credits related to restructuring and other, inventory charges and goodwill impairment charges.
- (3) Total business assets are directly attributable to each business. Corporate assets consist of cash and cash equivalents, marketable securities and certain other assets.

Included in the Semiconductor Test segment are charges and credits in the following accounts:

|                                       | For the Year Ended December 31, |          |           |
|---------------------------------------|---------------------------------|----------|-----------|
|                                       | 2014                            | 2013     | 2012      |
|                                       | (in thousands)                  |          |           |
| Cost of revenues inventory charge (1) | \$ 14,389                       | \$ 5,218 | \$ 18,433 |
| Restructuring and other               | 490                             | 1,016    | 386       |

- (1) Included in the cost of revenues for the years ended December 31, 2014 and 2012 are charges for excess inventory provisions recorded primarily as a result of product transition.

Included in the System Test segment are charges and credits in the following accounts:

|                                   | For the Year Ended December 31, |          |          |
|-----------------------------------|---------------------------------|----------|----------|
|                                   | 2014                            | 2013     | 2012     |
|                                   | (in thousands)                  |          |          |
| Cost of revenues inventory charge | \$ 2,125                        | \$ 4,168 | \$ 4,271 |
| Restructuring and other           | 742                             | 1,431    | 451      |

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Included in the Wireless Test segment are charges and credits in the following accounts:

|  | For the Year Ended December 31, |       |          |
|--|---------------------------------|-------|----------|
|  | 2014                            | 2013  | 2012     |
|  | (in thousands)                  |       |          |
| Cost of revenues inventory step-up (2) | \$                              | \$    | \$ 6,089 |
| Cost of revenues inventory charge      | 5,679                           | 7,206 | 4,145    |
| Restructuring and other                | 565                             | 82    | 236      |
| Goodwill impairment charge             | 98,897                          |       |          |

(2) Included in the cost of revenues for the years ended December 31, 2012 is the cost for purchase accounting inventory step-up. Included in the Corporate and Eliminations segment are charges and credits in the following accounts:

|                         | For the Year Ended December 31, |          |            |
|-------------------------|---------------------------------|----------|------------|
|                         | 2014                            | 2013     | 2012       |
|                         | (in thousands)                  |          |            |
| Restructuring and other | \$ (432)                        | \$ (449) | \$ (8,794) |

Information as to Teradyne's revenues by country is as follows:

|                              | 2014           | 2013         | 2012         |
|------------------------------|----------------|--------------|--------------|
|                              | (in thousands) |              |              |
| Revenues from customers (1): |                |              |              |
| Taiwan                       | \$ 495,942     | \$ 265,472   | \$ 299,359   |
| China                        | 292,145        | 323,564      | 351,335      |
| United States                | 213,104        | 230,178      | 238,280      |
| Korea                        | 145,608        | 119,286      | 216,445      |
| Singapore                    | 119,421        | 114,765      | 101,502      |
| Europe                       | 111,043        | 90,797       | 77,099       |
| Malaysia                     | 83,910         | 86,900       | 69,064       |
| Philippines                  | 68,662         | 63,392       | 111,571      |
| Japan                        | 63,761         | 81,806       | 100,807      |
| Thailand                     | 44,117         | 32,209       | 80,518       |
| Rest of the World            | 10,111         | 19,564       | 10,770       |
|                              | \$ 1,647,824   | \$ 1,427,933 | \$ 1,656,750 |

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

In 2014, no single customer accounted for more than 10% of total consolidated revenues. In 2013 and 2012, one customer of Teradyne's Wireless Test and Semiconductor Test segments, accounted for 12% and 10%, respectively, of total consolidated revenues.

Long-lived assets by geographic area:

|                   | United States  | Foreign(1) | Total      |
|-------------------|----------------|------------|------------|
|                   | (in thousands) |            |            |
| December 31, 2014 | \$ 206,334     | \$ 122,704 | \$ 329,038 |

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December 31, 2013

\$ 211,455    \$ 63,781    \$ 275,236

(1) As of December 31, 2014 and 2013, long-lived assets attributable to Singapore were \$99.2 million and \$42.5 million, respectively.



**R. STOCK REPURCHASE PROGRAM**

In November 2010, the Board authorized a stock repurchase program for up to \$200 million. In the years ended December 31, 2014, 2013 and 2012, Teradyne did not repurchase any shares. The cumulative repurchases under the 2010 program as of December 31, 2014 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84. In January 2015, the Board of Directors cancelled the 2010 stock repurchase program.

**S. SUBSEQUENT EVENTS**

In January 2015, Teradyne's Board of Directors declared a quarterly dividend of \$0.06 per share to be paid on March 24, 2015 to shareholders of record as of February 27, 2015.

In January 2015, Teradyne's Board of Directors authorized Teradyne to repurchase up to \$500 million of common stock, \$300 million of which Teradyne intends to repurchase in 2015. The cumulative repurchases under the 2015 program as of February 25, 2015 totaled 0.9 million shares of common stock for \$16.9 million at an average price of \$19.44.

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

## SUPPLEMENTARY INFORMATION

(Unaudited)

The following sets forth certain unaudited consolidated quarterly statements of operations data for each of Teradyne's last eight quarters. In management's opinion, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement for the periods presented. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited consolidated financial statements of Teradyne and the notes thereto included elsewhere herein.

|   | 2014                                     |                    |                       |                          |
|---|--|--------------------|-----------------------|--------------------------|
|   | 1st Quarter                              | 2nd Quarter<br>(1) | 3rd Quarter<br>(1)(2) | 4th Quarter<br>(1)(3)(4) |
|   | (in thousands, except per share amounts) |                    |                       |                          |
| <b>Revenues:</b>  |  |                    |                       |                          |
| Products  | \$ 255,386                               | \$ 452,488         | \$ 402,987            | \$ 253,162               |
| Services  | 65,624                                   | 73,079             | 75,023                | 70,074                   |
| <b>Total revenues</b>   | <b>321,010</b>                           | <b>525,567</b>     | <b>478,010</b>        | <b>323,236</b>           |
| <b>Cost of revenues:</b>  |  |                    |                       |                          |
| Cost of products  | 124,448                                  | 202,411            | 182,591               | 131,337                  |
| Cost of services  | 29,515                                   | 32,743             | 34,298                | 31,673                   |
| <b>Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)</b> | <b>153,963</b>                           | <b>235,154</b>     | <b>216,889</b>        | <b>163,010</b>           |
| <b>Gross profit</b>   | <b>167,047</b>                           | <b>290,413</b>     | <b>261,121</b>        | <b>160,226</b>           |
| <b>Operating expenses:</b>  |  |                    |                       |                          |
| Engineering and development   | 67,085                                   | 73,414             | 71,953                | 79,188                   |
| Selling and administrative  | 78,003                                   | 77,489             | 73,064                | 91,157                   |
| Goodwill impairment   |  |                    |                       | 98,897                   |
| Acquired intangible assets amortization   | 18,271                                   | 18,271             | 18,271                | 15,957                   |
| Restructuring and other   |  | 572                | (405)                 | 1,198                    |
| <b>Total operating expenses</b>   | <b>163,359</b>                           | <b>169,746</b>     | <b>162,883</b>        | <b>286,397</b>           |
| <b>Income (loss) from operations</b>  | <b>3,688</b>                             | <b>120,667</b>     | <b>98,238</b>         | <b>(126,171)</b>         |
| <b>Non-operating (income) expenses:</b>   |  |                    |                       |                          |
| Interest income   | (1,036)                                  | (1,266)            | (1,922)               | (2,035)                  |
| Interest expense  | 6,417                                    | 159                | 144                   | 214                      |
| Other (income) expense, net   | 180                                      | 382                | (654)                 | 463                      |
| <b>(Loss) income before income taxes</b>  | <b>(1,873)</b>                           | <b>121,392</b>     | <b>100,670</b>        | <b>(124,813)</b>         |
| <b>(Benefit) provision for income taxes</b>   | <b>(2,802)</b>                           | <b>20,187</b>      | <b>17,721</b>         | <b>(21,002)</b>          |
| <b>Net income (loss)</b>  | <b>\$ 929</b>                            | <b>\$ 101,205</b>  | <b>\$ 82,949</b>      | <b>\$ (103,811)</b>      |
| <b>Net income (loss) per common share - basic</b>   | <b>\$ 0.00</b>                           | <b>\$ 0.52</b>     | <b>\$ 0.40</b>        | <b>\$ (0.48)</b>         |
| <b>Net income (loss) per common share - diluted</b>   | <b>\$ 0.00</b>                           | <b>\$ 0.47</b>     | <b>\$ 0.38</b>        | <b>\$ (0.48)</b>         |
| <b>Cash dividend declared per common share</b>  | <b>\$ 0.00</b>                           | <b>\$ 0.06</b>     | <b>\$ 0.06</b>        | <b>\$ 0.06</b>           |

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- (1) Dividends declared by Teradyne's Board of Directors were paid in each of the second, third and fourth quarters of 2014.
- (2) Restructuring and other includes a \$(0.6) million fair value adjustment to decrease the ZTEC acquisition contingent consideration.

- (3) In the fourth quarter ended December 31, 2014, Teradyne recorded pension and post retirement net actuarial losses of \$46.6 million. See Note B: Accounting Policies for a discussion of our accounting policy.
- (4) In the fourth quarter ended December 31, 2014, Teradyne recorded a goodwill impairment charge of \$98.9 million in its Wireless Test segment.

|   | 2013                                     |                  |                  |                       |
|---|--|------------------|------------------|-----------------------|
|   | 1st Quarter                              | 2nd Quarter      | 3rd Quarter      | 4th Quarter<br>(1)(2) |
|   | (in thousands, except per share amounts) |                  |                  |                       |
| <b>Revenues:</b>  |  |                  |                  |                       |
| Products  | \$ 214,300                               | \$ 363,087       | \$ 365,825       | \$ 211,710            |
| Services  | 66,067                                   | 65,802           | 67,551           | 73,591                |
| <b>Total revenues</b>   | <b>280,367</b>                           | <b>428,889</b>   | <b>433,376</b>   | <b>285,301</b>        |
| <b>Cost of revenues:</b>  |  |                  |                  |                       |
| Cost of products  | 96,793                                   | 158,411          | 150,365          | 93,461                |
| Cost of services  | 30,157                                   | 29,245           | 28,717           | 31,983                |
| <b>Total cost of revenues (exclusive of acquired intangible assets amortization shown separately below)</b> | <b>126,950</b>                           | <b>187,656</b>   | <b>179,082</b>   | <b>125,444</b>        |
| <b>Gross profit</b>   | <b>153,417</b>                           | <b>241,233</b>   | <b>254,294</b>   | <b>159,857</b>        |
| <b>Operating expenses:</b>  |  |                  |                  |                       |
| Engineering and development   | 62,751                                   | 67,773           | 68,918           | 64,613                |
| Selling and administrative  | 67,890                                   | 69,230           | 72,917           | 69,523                |
| Acquired intangible assets amortization   | 18,036                                   | 18,063           | 18,064           | 18,284                |
| Restructuring and other   | 332                                      | 259              | 889              | 600                   |
| <b>Total operating expenses</b>   | <b>149,009</b>                           | <b>155,325</b>   | <b>160,788</b>   | <b>153,020</b>        |
| <b>Income from operations</b>   | <b>4,408</b>                             | <b>85,908</b>    | <b>93,506</b>    | <b>6,837</b>          |
| <b>Non-operating (income) expenses:</b>   |  |                  |                  |                       |
| Interest income   | (1,072)                                  | (903)            | (948)            | (1,206)               |
| Interest expense  | 6,403                                    | 6,435            | 6,488            | 6,771                 |
| Other (income) expense, net   | 503                                      | 19               | 414              | (34,168)              |
| <b>(Loss) income from operations before income taxes</b>  | <b>(1,426)</b>                           | <b>80,357</b>    | <b>87,552</b>    | <b>35,439</b>         |
| <b>(Benefit) provision for income taxes</b>   | <b>(8,015)</b>                           | <b>13,801</b>    | <b>18,093</b>    | <b>13,096</b>         |
| <b>Net income</b>   | <b>\$ 6,589</b>                          | <b>\$ 66,556</b> | <b>\$ 69,459</b> | <b>\$ 22,343</b>      |
| <b>Net income per common share basic</b>  | <b>\$ 0.03</b>                           | <b>\$ 0.35</b>   | <b>\$ 0.36</b>   | <b>\$ 0.12</b>        |
| <b>Net income per common share diluted</b>  | <b>\$ 0.03</b>                           | <b>\$ 0.28</b>   | <b>\$ 0.29</b>   | <b>\$ 0.09</b>        |
| <b>Cash dividend declared per common share</b>  | <b>\$ 0.0</b>                            | <b>\$ 0.0</b>    | <b>\$ 0.0</b>    | <b>\$ 0.0</b>         |

(1) Other (income) expense, net includes a \$34.2 million gain from the sale of an equity investment.

(2) In the fourth quarter ended December 31, 2013, Teradyne recorded pension and post retirement net actuarial gains of \$9.0 million. See Note B: Accounting Policies for a discussion of our accounting policy.

**Item 9: Changes in and disagreements with accountants on accounting and financial disclosure**

None.

**Item 9A: Controls and procedures**

**Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management, with the participation of our CEO and CFO, 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 CEO and CFO 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 by us 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 CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during the fourth fiscal quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework* (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report which is included under Item 8 of this Annual Report.

**Inherent Limitations on Effectiveness of Controls**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Item 9B: Other Information**

None.

**PART III**

**Item 10: *Directors, Executive Officers and Corporate Governance.***

Certain information relating to our directors and executive officers, committee information, reports and charters, executive compensation, security ownership of certain beneficial owners and management and related stockholder matters, and certain relationships and related transactions is incorporated by reference herein from our definitive proxy statement in connection with our Annual Meeting of Shareholders to be held on May 12, 2015. The proxy statement will be filed with the SEC not later than 120 days after the close of the fiscal year. For this purpose, the Compensation Committee Report included in such proxy statement is specifically not incorporated herein. Also see Item 1: Business Our Executive Officers.

**Item 11: *Executive Compensation.***

Certain information relating to our directors and executive officers, executive compensation, security ownership of certain beneficial owners and management and related stockholder matters, and certain relationships and related transactions is incorporated by reference herein from our definitive proxy statement in connection with our Annual Meeting of Shareholders to be held on May 12, 2015. The proxy statement will be filed with the SEC not later than 120 days after the close of the fiscal year. For this purpose, the Compensation Committee Report included in such proxy statement is specifically not incorporated herein.

**Item 12: *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Certain information relating to our directors and executive officers, executive compensation, security ownership of certain beneficial owners and management and related stockholder matters, and certain relationships and related transactions is incorporated by reference herein from our definitive proxy statement in connection with our Annual Meeting of Shareholders to be held on May 12, 2015. The proxy statement will be filed with the SEC not later than 120 days after the close of the fiscal year. For this purpose, the Compensation Committee Report included in such proxy statement is specifically not incorporated herein. Also see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Equity Compensation Plans.

**Item 13: *Certain Relationships and Related Transactions, and Director Independence.***

Certain information relating to our directors and executive officers, executive compensation, security ownership of certain beneficial owners and management and related stockholder matters, and certain relationships and related transactions is incorporated by reference herein from our definitive proxy statement in connection with our Annual Meeting of Shareholders to be held on May 12, 2015. The proxy statement will be filed with the SEC not later than 120 days after the close of the fiscal year. For this purpose, the Compensation Committee Report included in such proxy statement is specifically not incorporated herein.

**Item 14: *Principal Accountant Fees and Services.***

Certain information relating to audit fees and other of Teradyne's independent registered public accounting firm is incorporated by reference herein from our definitive proxy statement in connection with our Annual Meeting of Shareholders to be held on May 12, 2015. The proxy statement will be filed with the SEC not later than 120 days after the close of the fiscal year. For this purpose, the Audit Committee Report included in such proxy statement is specifically not incorporated herein.

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**PART IV**

**Item 15: Exhibits and Financial Statement Schedules.**

**15(a)(1) Financial Statements**

The following consolidated financial statements are included in Item 8:

|   | <b>Page</b> |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | 38          |
| <u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>   | 39          |
| <u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>           | 40          |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012</u> | 41          |
| <u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012</u> | 42          |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>           | 43          |
| <b>15(a)(2) Financial Statement Schedule</b>  |             |

The following consolidated financial statement schedule is included in Item 15(c):

Schedule II Valuation and Qualifying Accounts

Schedules other than those listed above have been omitted since they are either not required or information is otherwise included.

**15(a)(3) Listing of Exhibits**

The Exhibits which are filed with this report or which are incorporated by reference herein are set forth in the Exhibit Index.

**15(c) Financial Statement Schedules**



## TERADYNE, INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

| Column A<br>Description   | Column B<br>Balance at<br>Beginning of<br>Period | Column C<br>Additions<br>Charged to<br>Cost and Expenses | Column D<br>Other<br>(in thousands) | Column E<br>Deductions | Column F<br>Balance at<br>End of Period |
|---|--|--|-------------------------------------|------------------------|---|
| Valuation reserve deducted in the balance sheet from the asset to which it applies: |  |  |                                     |                        |   |
| Accounts receivable:  |  |  |                                     |                        |   |
| 2014 Allowance for doubtful accounts  | \$ 2,912   | \$ 55  | \$                                  | \$ 476                 | \$ 2,491                                |
| 2013 Allowance for doubtful accounts  | \$ 4,118   | \$ 69  | \$                                  | \$ 1,275(1)            | \$ 2,912                                |
| 2012 Allowance for doubtful accounts  | \$ 4,102   | \$ 78  | \$                                  | \$ 62                  | \$ 4,118                                |

- (1) Based upon an improvement in the aging of accounts receivables in 2013, Teradyne reduced its allowance for doubtful accounts by approximately \$1 million.

| Column A<br>Description   | Column B<br>Balance at<br>Beginning of Period | Column C<br>Additions<br>Charged to<br>Cost and Expenses | Column D<br>Other<br>(in thousands) | Column E<br>Deductions | Column F<br>Balance at<br>End of Period |
|---|---|--|-------------------------------------|------------------------|---|
| Valuation reserve deducted in the balance sheet from the asset to which it applies: |   |  |                                     |                        |   |
| Inventory:  |   |  |                                     |                        |   |
| 2014 Inventory reserve  | \$ 115,857                                    | \$ 22,193  | \$ 6,918                            | \$ 33,716              | \$ 111,252                              |
| 2013 Inventory reserve  | \$ 141,838                                    | \$ 16,592  | \$ 2,568                            | \$ 45,141              | \$ 115,857                              |
| 2012 Inventory reserve  | \$ 123,512                                    | \$ 26,849  | \$ 5,353                            | \$ 13,876              | \$ 141,838                              |

| Column A<br>Description   | Column B<br>Balance at<br>Beginning of Period | Column C<br>Additions<br>Charged to<br>Cost and Expenses | Column D<br>Other<br>(in thousands) | Column E<br>Deductions | Column F<br>Balance at<br>End of Period |
|---|---|--|-------------------------------------|------------------------|---|
| Valuation reserve deducted in the balance sheet from the asset to which it applies: |   |  |                                     |                        |   |
| Deferred taxes:   |   |  |                                     |                        |   |
| 2014 Valuation allowance  | \$ 40,386                                     | \$ 1,380   | \$                                  | \$ 29                  | \$ 41,737                               |
| 2013 Valuation allowance  | \$ 55,446                                     | \$ 4,546   | \$                                  | \$ 19,606              | \$ 40,386                               |
| 2012 Valuation allowance  | \$ 51,066                                     | \$ 4,626   | \$                                  | \$ 246                 | \$ 55,446                               |



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**EXHIBIT INDEX**

The following designated exhibits are, as indicated below, either filed herewith or have heretofore been filed with the Securities and Exchange Commission and are referred to and incorporated by reference to such filings.

**Exhibit**

| <b>No.</b> | <b>Description</b>   | <b>SEC Document Reference</b>  |
|------------|--|--|
| 3.1        | Restated Articles of Organization, as amended.   | Exhibit 3.01 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended July 2, 2000.       |
| 3.2        | Amended and Restated By-laws, as amended.  | Exhibit 3.1 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.  |
| 10.1       | Standard Manufacturing Agreement entered into as of November 24, 2003 by and between Teradyne and Solectron.   | Exhibit 10.1 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. |
| 10.2       | Amendment 1 to Standard Manufacturing Agreement, dated as of January 18, 2007, by and between Teradyne and Solectron.  | Exhibit 10.2 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. |
| 10.3       | Second Amendment to Standard Manufacturing Agreement, dated as of August 27, 2007, by and between Teradyne and Solectron.  | Exhibit 10.3 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. |
| 10.4       | Fifth Amendment to Standard Manufacturing Agreement, dated as of July 17, 2009, by and between Teradyne and Flextronics Corporation.                               | Exhibit 10.4 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. |
| 10.5       | Sixth Amendment to Standard Manufacturing Agreement, dated as of July 27, 2009, by and between Teradyne and Flextronics Corporation.                               | Exhibit 10.5 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. |
| 10.6       | Addendum to Standard Manufacturing Agreement (Authorized Purchase Agreement) Revised July 1, 2010.   | Exhibit 10.6 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |
| 10.7       | Eighth Amendment to Standard Manufacturing Agreement, dated as of April 13, 2012, by and between Teradyne and Flextronics Sales & Marketing North Asia (L) LTD.    | Exhibit 10.7 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| 10.8       | Ninth Amendment to Standard Manufacturing Agreement, dated as of September 17, 2012, by and between Teradyne and Flextronics Sales & Marketing North Asia (L) LTD. | Exhibit 10.8 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| 10.9       | 2006 Equity and Cash Compensation Incentive Plan, as amended.*   | Appendix A to Teradyne's Notice and Proxy Statement on Schedule 14A filed April 11, 2013.          |
| 10.10      | Form of Performance-Based Restricted Stock Unit Agreement for Executive Officers under 2006 Equity and Cash Compensation Incentive Plan.*                          | Filed herewith.  |

**Exhibit**

| <b>No.</b> | <b>Description</b>   | <b>SEC Document Reference</b>   |
|------------|--|---|
| 10.11      | Form of Time-Based Restricted Stock Unit Agreement for Executive Officers under 2006 Equity and Cash Compensation Incentive Plan.*               | Exhibit 10.11 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. |
| 10.12      | Form of Restricted Stock Unit Agreement for Directors under 2006 Equity and Cash Compensation Incentive Plan.*                                   | Exhibit 10.10 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. |
| 10.13      | 1996 Employee Stock Purchase Plan, as amended.*  | Appendix B to Teradyne's Notice and Proxy Statement on Schedule 14A filed April 11, 2013.           |
| 10.14      | Deferral Plan for Non-Employee Directors, as amended.*   | Exhibit 10.2 to Teradyne's Quarterly Report on form 10-Q for the quarter ended September 28, 2008.  |
| 10.15      | Supplemental Savings Plan, as amended and restated.*   | Exhibit 10.18 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.16      | Supplemental Executive Retirement Plan, as restated.*  | Exhibit 10.19 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.17      | Executive Officer Agreement dated January 22, 2014 between Teradyne and Michael A. Bradley.*   | Exhibit 10.23 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. |
| 10.18      | Agreement Regarding Termination Benefits dated January 22, 2014 between Teradyne and Mark Jagiela.*  | Exhibit 10.24 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. |
| 10.19      | Employment Agreement dated July 30, 2004 between Teradyne and Michael A. Bradley.*   | Exhibit 10.38 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended July 4, 2004.       |
| 10.20      | Employment Agreement dated August 9, 2004 between Teradyne and Gregory R. Beecher.*  | Exhibit 10.40 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended July 4, 2004.       |
| 10.21      | Employment Agreement dated May 7, 2004 between Teradyne and Mark Jagiela.*   | Exhibit 10.37 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended July 4, 2004.       |
| 10.22      | Amended and Restated Executive Officer Change in Control Agreement dated December 30, 2008 between Teradyne and Gregory R. Beecher, as amended.* | Exhibit 10.28 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| 10.23      | Executive Officer Change in Control Agreement dated January 22, 2014 between Teradyne and Mark Jagiela, as amended.*                             | Exhibit 10.29 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. |
| 10.24      | Amended and Restated Executive Officer Change in Control Agreement dated May 26, 2009 between Teradyne and Charles J. Gray, as amended.*         | Exhibit 10.30 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |

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**Exhibit**

| No.   | Description   | SEC Document Reference  |
|-------|---|---|
| 10.25 | Employment Agreement dated July 24, 2009 between Teradyne and Charles J. Gray.*   | Exhibit 10.1 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended April 4, 2010.       |
| 10.26 | Amended and Restated Executive Officer Change in Control Agreement dated June 30, 2012 between Teradyne and Walter G. Vahey, as amended.* | Exhibit 10.32 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| 10.27 | Employment Agreement dated February 6, 2013 between Teradyne and Walter G. Vahey.*  | Exhibit 10.33 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. |
| 10.28 | Executive Officer Agreement dated June 29, 2012 between Teradyne and Jeffrey Hotchkiss.*  | Exhibit 10.1 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.        |
| 10.29 | Form of Executive Officer Stock Option Agreement under 2006 Equity and Cash Compensation Incentive Plan, as amended.*                     | Exhibit 10.35 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. |
| 10.30 | Executive Officer Change in Control Agreement dated September 1, 2014 between Teradyne, Inc. and Bradford Robbins.*                       | Exhibit 10.1 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 28, 2014.  |
| 10.31 | Employment Agreement dated September 1, 2014 between Teradyne, Inc. and Bradford Robbins.*  | Exhibit 10.2 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended September 28, 2014.  |
| 10.32 | Form of Indemnification Agreement.*   | Exhibit 10.24 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. |
| 10.33 | Nextest Systems Corporation 1998 Equity Incentive Plan, as amended.   | Exhibit 10.33 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.34 | Nextest Systems Corporation 2006 Equity Incentive Plan.   | Exhibit 10.34 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.35 | Eagle Test Systems, Inc. 2003 Stock Option and Grant Plan.  | Exhibit 10.35 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.36 | Eagle Test Systems, Inc. 2006 Stock Option and Incentive Plan.  | Exhibit 10.36 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. |
| 10.37 | LitePoint Corporation 2002 Stock Plan   | Exhibit 10.42 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. |
| 21.1  | Subsidiaries of Teradyne.   | Filed herewith.   |
| 23.1  | Consent of PricewaterhouseCoopers LLP.  | Filed herewith.   |
| 31.1  | Rule 13a-14(a) Certification of Principal Executive Officer.  | Filed herewith.   |

**Exhibit**

| No.     | Description  | SEC Document Reference |
|---------|--|------------------------|
| 31.2    | Rule 13a-14(a) Certification of Principal Financial Officer. | Filed herewith.        |
| 32.1    | Section 1350 Certification of Principal Executive Officer.   | Furnished herewith.    |
| 32.2    | Section 1350 Certification of Principal Financial Officer.   | 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       |                        |

-Confidential treatment granted.

\* -Management contract or compensatory plan.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 this 27th day of February, 2015.

TERADYNE, INC.

By: /s/ GREGORY R. BEECHER  
**Gregory R. Beecher,**  
 Vice President, Chief Financial Officer and  
 Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title   | Date              |
|---|---|-------------------|
| /s/ ROY A. VALLEE<br><br><b>Roy A. Vallee</b>             | Chair of the Board  | February 27, 2015 |
| /s/ MARK E. JAGIELA<br><br><b>Mark E. Jagiela</b>         | Chief Executive Officer (Principal Executive Officer)   | February 27, 2015 |
| /s/ GREGORY R. BEECHER<br><br><b>Gregory R. Beecher</b>   | Vice President, Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer) | February 27, 2015 |
| /s/ MICHAEL A. BRADLEY<br><br><b>Michael A. Bradley</b>   | Director  | February 27, 2015 |
| /s/ DANIEL W. CHRISTMAN<br><br><b>Daniel W. Christman</b> | Director  | February 27, 2015 |
| /s/ EDWIN J. GILLIS<br><br><b>Edwin J. Gillis</b>         | Director  | February 27, 2015 |
| /s/ TIMOTHY E. GUERTIN<br><br><b>Timothy E. Guertin</b>   | Director  | February 27, 2015 |
| /s/ MERCEDES JOHNSON<br><br><b>Mercedes Johnson</b>       | Director  | February 27, 2015 |
| /s/ PAUL J. TUFANO<br><br><b>Paul J. Tufano</b>           | Director  | February 27, 2015 |

