
**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, 2013

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
(Address of Principal Executive Offices)

01864
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 28, 2013 was approximately \$3.0 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 21, 2014 was 193,977,544 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 2014 annual meeting of shareholders are incorporated by reference into Part III.

TERADYNE, INC.

FORM 10-K

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 and circuit boards in the consumer electronics, wireless, automotive, industrial, computing, communications and aerospace and defense industries. Our automatic test equipment products and services include:

- semiconductor test (“Semiconductor Test”) systems;
- wireless test (“Wireless Test”) systems; and
- military/aerospace (“Mil/Aero”) test instrumentation and systems, storage test (“Storage Test”) systems, and circuit-board test and inspection (“Commercial Board Test”) systems (collectively these products represent “System Test”).

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

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.

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

In 2009, we entered the High Speed dynamic random access memory (“DRAM”) testing market with our UltraFlex-M product. High speed DRAM memory devices are used for data storage and high-end graphics applications in personal computer and gaming consoles.

In 2009, we also entered the market for hard disk drive test systems with our Neptune product. The Neptune product line is used to test 2.5 inch hard disk drives for laptops, notebooks and consumer electronic storage devices. In 2013, we expanded our product line to include 3.5 inch hard disk drives which are used in cloud computing and other applications.

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. 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 and test houses 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 introduction of the UltraFLEX-M tester in 2009 extended the FLEX Test Platform into the High Speed DRAM testing market. The FLEX Test Platform has an installed base of more than 3,800 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 4,200 systems.

Our acquisition of Nextest Systems Corporation (“Nextest”) in January of 2008 expanded our product offerings to include the Magnum test platform. The Magnum products address 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 II is the newest member of the family. With test rates up to 800 megabits per second and a versatile architecture designed for maximal throughput, Magnum II tests flash and DRAM devices, an important advantage for large memory producers that manufacture both types of memory. The Magnum platform has an installed base of over 1,500 systems.

Our acquisition of Eagle Test Systems, Inc. (“Eagle Test”) in November of 2008 expanded our product offerings to include the ETS platform. The 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. Eagle Test’s 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 Eagle Test’s 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 3,200 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 development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi, Bluetooth and cellular enabled devices. LitePoint collaborates with developers, component manufacturers, and industry leaders to create agile systems capable of analyzing the entire wireless landscape. Using easy-to-deploy, innovative test methodologies running on software-controlled module designs, LitePoint’s IQ product line is designed for high-volume, low-cost production test. LitePoint’s products fall into two categories: cellular and connectivity. ZTEC is a supplier of modular wireless test instruments for the design verification test of wireless components and chipsets.

Cellular

The LitePoint IQxstream™ is an optimized solution for high-speed testing of GSM, EDGE, W-CDMA, HSPA+, CDMA2000, and LTE technologies—used for calibration and verification of smartphones, tablets, and embedded cellular modules. As the industry’s first “multi-DUT” test solution, it greatly increases production output through the implementation of parallel test methods of multiple devices. IQxstream is complemented by LitePoint’s 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.

Connectivity

LitePoint offers a comprehensive range of test equipment for connectivity testing. The IQxel™ test systems enable testing of the latest Wi-Fi standard—802.11ac—taking wireless data rates beyond the gigabit per second barrier. The IQxel supports multiple bandwidths and channel configurations, MIMO antenna arrangements, Bluetooth™ 1.0-4.0, as well as legacy 802.11 a/b/g/n/p modes. It is targeted at manufacturers of networking equipment, Internet access devices, and embedded modules used in smartphones, tablets, and PCs. The LitePoint IQ2015™ is a one-box solution for multi-connectivity needs, including Wi-Fi (a/b/g/n), Bluetooth (1.0-4.0), GPS/GLONASS, FM, WiMAX and ZigBee. It is a preferred choice by manufacturers of smartphones and tablets. LitePoint continues to deliver and support its legacy products, including IQflex™, IQnxn™, IQ2010™, IQnav™, and IQview™.

LitePoint IQfactPlus™ is a turnkey, chipset specific testing package, enabling rapid volume manufacturing with a minimum of engineering effort. IQfact solution can be customized for a specific end product and then deployed on LitePoint test equipment.

System Test

Our System Test segment is comprised of three business units: Mil/Aero, Storage Test and Commercial Board Test.

Mil/Aero

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.

Storage Test

The Storage Test business unit addresses the high throughput, automated manufacturing test requirement of hard disk drive (HDD) manufacturers. Our products address the 2.5 inch and 3.5 inch HDD markets. The 2.5 inch market is driven by the needs of laptop, ultrabook and enterprise storage products. The 3.5 inch HDD market is driven by the needs of data centers and cloud storage. Our products lead in addressing customer requirements related to factory density, thermal performance and vibration isolation.

Commercial Board Test

Our test systems are used by electronics manufacturers worldwide to verify that printed circuit boards are assembled correctly and operational. Fast, accurate and cost-effective test capabilities are hallmark features of our In-Circuit-Test (ICT) systems, including the TestStation™ and Spectrum™ product families. In 2013, we introduced new products to address the growing requirements to deliver increased throughput for high volume applications.

Discontinued Operations

On March 21, 2011, our Diagnostic Solutions business unit was sold to SPX Corporation for \$40.2 million in cash. This business provided electronic test and diagnostic systems to the automotive OEMs and their major subcontractors. This business unit was in our System Test segment. Diagnostic Solutions has been reflected as discontinued operations in the accompanying financial statements.

Summary of Net Revenues by Reportable Segment

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Semiconductor Test	71%	68%	77%
Wireless Test	18	17	2
System Test	11	15	21
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Sales and Distribution

In 2013 and 2012, revenues from Apple Inc. accounted for 12% and 10%, respectively, of our consolidated net revenues. Apple Inc. is a customer of our Semiconductor Test and Wireless Test segments. In 2011, no single customer accounted for 10% or more of our consolidated net revenues. In each of the years 2013, 2012 and 2011, our three largest customers in aggregate accounted for 26%, 29% and 19% of our consolidated net revenues, respectively.

Direct sales to United States government agencies accounted for 3%, 2% and 2% of our consolidated net revenues in 2013, 2012 and 2011, respectively. Approximately 32%, 15% and 8% of System Test's revenues in 2013, 2012 and 2011, respectively, were to United States government agencies and 24%, 20% and 17% of System Test's revenues in 2013, 2012 and 2011, 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 84%, 86% and 84% of our consolidated net revenues in 2013, 2012 and 2011, respectively. Sales are attributed to geographic areas based on the location of the customer site.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
China	23%	21%	13%
Taiwan	19	18	12
Korea	8	13	10
Japan	6	6	10
Malaysia	6	4	10

See also "Item 1A: Risk Factors" and Note R: "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 LTX-Credence Corporation. Competitors in the System Test segment include, among others, Agilent Technologies, Inc. and Xyratex Ltd, which announced on December 23, 2013 that it has agreed to be acquired by Seagate Technology plc.

Competitors in our Wireless Test segment include, among others, Agilent Technologies, Inc., 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. In particular, our largest competitor in the Semiconductor Test segment spends considerably more than us on research and development which may provide it with a competitive advantage. 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, 2013 and 2012, our backlog of unfilled orders in our three reportable segments was as follows:

	<u>2013</u>	<u>2012</u>
	(in millions)	
Semiconductor Test	\$233.8	\$204.2
Wireless Test	31.2	29.8
System Test	<u>96.6</u>	<u>120.0</u>
	<u>\$361.6</u>	<u>\$354.0</u>

Of the backlog at December 31, 2013, approximately 98% of the Semiconductor Test backlog, 94% of System Test backlog, and 65% of Wireless Test backlog, is expected to be delivered in 2014.

Customers may delay delivery of products or cancel orders suddenly and without significant 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, 2013, we employed approximately 3,800 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. Engineering and development expenditures for the years ended December 31, 2013, 2012 and 2011 were \$264.1 million, \$255.9 million, and \$201.0 million, respectively. These expenditures accounted for approximately 18.5%, 15.4%, and 14.1% of our consolidated net revenues in 2013, 2012, and 2011, 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.

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.

<u>Executive Officer</u>	<u>Age</u>	<u>Position</u>	<u>Business Experience For The Past 5 Years</u>
Mark E. Jagiela	53	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	56	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	52	Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary of Teradyne since April 2009; Vice President and General Counsel of Sonus Networks, Inc. from 2002 to 2008.
Walter G. Vahey	49	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 Commercial Board Test since April 2013; General Manager of Mil/Aero 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 cyclicality 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, revenue from our Storage Test business unit was significantly lower than 2012 due to lower hard disk drive demand from lower shipments of personal computers, a trend which is expected to continue. 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. In particular, our largest competitor in the Semiconductor Test segment spends considerably more than us on research and development which may provide it with a competitive advantage. 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 2013, 2012 and 2011, our three largest customers in aggregate accounted for 26%, 29% and 19% of consolidated net revenues, respectively. In any one reporting period, a single customer or several customers may contribute even a larger percentage of our consolidated net 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. We expect that the volume of leasing transactions and the value of equipment under leases to significantly increase in the near term. In connection with these equipment leases, the cost of the equipment is recorded as an asset on our balance sheet and depreciated over an estimated useful life of four years. Realization of the leased equipment's value depends on numerous factors including: the technological obsolescence of the leased equipment; 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 revenue 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;
- the leasing of our products to significant 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; and
- compliance with customs 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, Singapore, China 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.

The value of our common stock may be impacted by settlement of our convertible notes and exercise of the warrants issued to the convertible note hedge counterparty.

Upon maturity on March 15, 2014 of our 4.50% Convertible Senior Notes (the “Notes”), the Notes will be “net share settled,” meaning that holders will receive, for each \$1,000 in principal amount of Notes, \$1,000 in cash and a number of shares of our common stock equal to 182.65 (subject to anti-dilution adjustment under certain circumstances) less a number of shares having \$1,000 of value, as determined based on the average trading price of our common stock over a 25-day trading period from February 5, 2014 to March 12, 2014. We intend to satisfy this obligation through use of cash and by exercise of our call option agreement we entered into with Goldman, Sachs & Co. (the “hedge counterparty”) at the time of issuance of the Notes. The hedge counterparty will subsequently be able to exercise warrants with a strike price of \$7.67 (an amount 75% higher than the closing price of our common stock on March 31, 2009). These warrants will be net share settled, with approximately 534,000 warrants settled on a daily basis over a 65-day trading period from June 17, 2014 to September 17, 2014. However, we are not obligated to issue more than 34,526,500 shares of our common stock upon exercise of the warrants (which amount represented less than 19.99% of our outstanding shares of common stock as of March 31, 2009, without giving effect to any shares of common stock issuable pursuant to the warrant transaction). While the convertible note hedge is expected to reduce the potential dilution to our common stock upon settlement of the Notes, the warrant transaction will separately have a dilutive effect to the extent that the

market value per share of our common stock upon exercise of the warrants exceeds the applicable strike price of the warrants, which could impact the value of our stock. The value of our stock may be further impacted by actions of the hedge counterparty, including derivative transactions it may have entered into with respect to our common stock, purchases it may have made of shares of our common stock or other securities, including the Notes, the settlement of these derivative transactions with respect to our common stock, and/or by selling our common stock or other securities, including the Notes, in secondary market transactions.

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, 2013, 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 that could have an adverse effect on our business.

From time to time, we may be subject to litigation or other administrative and governmental proceedings that could require significant management time and resources and cause us to incur expenses and, in the event of an adverse decision, pay damages 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 or operating results and cash flows.

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 our failure to expand operations or earnings in certain countries, 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 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 K: “Commitments and Contingencies—Guarantees and Indemnification Obligations” in Notes to Consolidated Financial Statements.

We may discontinue or reduce our quarterly cash dividend.

In January 2014, our Board of Directors initiated a quarterly dividend program and declared an initial quarterly cash dividend of \$0.06 per share to be paid on June 2, 2014 to shareholders of record as of May 9, 2014. Holders of our Common Stock are only entitled to receive dividends when and if they are declared by our Board of Directors. Payment of future cash dividends will rest within the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition. While we have declared a quarterly cash dividend on our Common Stock, we are not required to do so and may reduce or eliminate our cash dividend in the future. The reduction or elimination of our cash dividend 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 new requirement could affect the pricing, sourcing and availability of minerals used in the manufacture of components we use in our products. In addition, there will be 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 metals 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.

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.

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:

<u>Location</u>	<u>Operating Segment</u>	<u>Major Activity+</u>	<u>Approximate Square Feet of Floor Space</u>
Properties Owned:			
North Reading, Massachusetts	Semiconductor Test, System Test & Corporate	1-2-3-4-5-6	422,000
Agoura Hills, California	Semiconductor Test	3-5	120,000
Kumamoto, Japan	Semiconductor Test	2-3-4-5	79,000
			<u>621,000</u>
Properties Leased:			
Cebu, Philippines	Semiconductor Test & Corporate	1-2-6	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	2-3-4-5-6	75,000
Shanghai, China	Semiconductor Test & System Test	2-5-6	44,000
Hsinchu, Taiwan	Semiconductor Test & System Test	5	43,000
Heredia, Costa Rica	Semiconductor Test	2-6	42,000
Seoul, Korea	Semiconductor Test	5	28,000
Singapore, Singapore	Semiconductor Test & Corporate	2-3-5	23,000
			<u>613,000</u>

+ Major activities have been separated into the following categories: 1. Corporate Administration, 2. Sales Support and Manufacturing, 3. Engineering and Development, 4. Marketing, 5. Sales and Administration, 6. 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, other than as set forth herein, the potential losses associated with all of these actions are unlikely to have a material adverse effect on our business, financial position or results of operations.

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

Item 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.

<u>Period</u>	<u>High</u>	<u>Low</u>
2012		
First Quarter	\$17.50	\$13.53
Second Quarter	18.01	13.18
Third Quarter	16.49	12.95
Fourth Quarter	16.90	13.40
2013		
First Quarter	\$17.66	\$15.44
Second Quarter	18.57	14.05
Third Quarter	18.73	15.22
Fourth Quarter	17.90	15.75

The number of record holders of our common stock at February 21, 2014 was 2,340.

In January 2014, our Board of Directors initiated a quarterly dividend program and declared an initial quarterly cash dividend of \$0.06 per share to be paid on June 2, 2014 to shareholders of record as of May 9, 2014.

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.

In November 2010, the Board of Directors authorized a stock repurchase program for up to \$200 million. The cumulative repurchases as of December 31, 2013 totaled 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84 per share.

The following table includes information with respect to repurchases we made of our common stock during the quarter ended December 31, 2013 (in thousands except per share price):

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
September 30, 2013 – October 27, 2013	—	\$—	—	\$168,825
October 28, 2013 – November 24, 2013	—	\$—	—	\$168,825
November 25, 2013 – December 31, 2013 . . .	—	\$—	—	\$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,				
	2013	2012	2011	2010	2009
(dollars in thousands, except per share amounts)					
Consolidated Statement of Operations					
Data (1)(2)(3)(4)(5):					
Net revenues	\$1,427,933	\$1,656,750	\$1,429,061	\$1,566,162	\$ 777,425
Income (loss) from continuing operations	164,947	217,049	343,957	379,692	(129,520)
Net income (loss)	\$ 164,947	\$ 217,049	\$ 369,873	\$ 384,820	\$ (127,994)
Income (loss) from continuing operations per common share—basic	\$ 0.86	\$ 1.16	\$ 1.86	\$ 2.11	\$ (0.75)
Income (loss) from continuing operations per common share—diluted	\$ 0.70	\$ 0.94	\$ 1.52	\$ 1.73	\$ (0.75)
Net income (loss) per common share—basic	\$ 0.86	\$ 1.16	\$ 2.00	\$ 2.14	\$ (0.74)
Net income (loss) per common share—diluted	\$ 0.70	\$ 0.94	\$ 1.63	\$ 1.75	\$ (0.74)
Consolidated Balance Sheet Data:					
Total assets	\$2,629,824	\$2,429,345	\$2,188,639	\$1,810,355	\$1,235,337
Short-term debt obligations	186,663	2,328	2,573	2,450	2,157
Long-term debt obligations	\$ —	\$ 171,059	\$ 159,956	\$ 150,182	\$ 141,100

- (1) The Consolidated Statement of Operations Data for the year ended December 31, 2013 includes \$34.2 million of a gain from the sale of an equity investment.
- (2) As a result of the divestiture of Diagnostic Test Solutions in 2011, we are reporting this business unit as discontinued operations for all periods presented.
- (3) The Consolidated Statement of Operations Data for the year ended December 31, 2011 includes the results of operations of LitePoint from October 5, 2011.
- (4) 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.
- (5) The Consolidated Statement of Operations Data for the year ended December 31, 2009 includes \$32.6 million of severance charges and \$3.7 million of facilities charges related to the early exit of leased facilities.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements in this Annual Report on Form 10-K which are not historical facts, so called "forward looking statements," are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Investors are cautioned that all forward looking statements involve risks and uncertainties, including those detailed in Teradyne's filings 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. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements, except as may be required by law.

Overview

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

- semiconductor test ("Semiconductor Test") systems;

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

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

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.

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

We believe our acquisitions of LitePoint and ZTEC have enhanced our opportunities for growth. We will continue to invest in our business to 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 2013, revenue from our Storage Test business unit was significantly lower than 2012 due to lower hard disk drive demand from lower shipments of personal computers, a trend which is expected to continue. 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.

On March 21, 2011, we completed the sale of our Diagnostic Solutions business unit, which was included in the System Test segment, to SPX Corporation for \$40.2 million in cash. We sold this business as its growth potential as a stand-alone business was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations.

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 ("BESP"). For a delivered item to be considered a separate unit, the delivered item must have value to the customer on a standalone basis and the delivery or performance of the undelivered item must be considered probable and substantially in our control.

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

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 sheets 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"). 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

On a quarterly basis, we evaluate the realizability of our deferred tax assets by jurisdiction and assess the need for a valuation allowance. We consider the probability of future taxable income and our historical profitability, among other factors, in assessing the amount of the realizability of our deferred tax assets. As a result of this review, undertaken at December 31, 2002, we concluded under applicable accounting criteria that it was more likely than not that our deferred tax assets would not be realized and established a valuation allowance in several jurisdictions, most notably the United States. At December 31, 2011, we reassessed this judgment and concluded that it is more likely than not that a substantial majority of our deferred tax assets will be realized through consideration of both the positive and negative evidence. The evidence consisted primarily of our three year U.S. historical cumulative profitability, projected future taxable income, forecasted utilization of the deferred tax assets and the fourth quarter of 2011 acquisition of LitePoint offset by the volatility of the industries we operate in, primarily the semiconductor industry. As such, we reduced the valuation allowance by \$190.2 million, which was recorded as a tax benefit in the year ended December 31, 2011. At December 31, 2013 and 2012, we maintained a valuation allowance for certain deferred tax assets of \$40.4 million and \$55.4 million, respectively, primarily related to state net operating losses and state tax credit carryforwards, due to uncertainty regarding their realization. Adjustments could be required in the future if we estimate that the amount of deferred tax assets to be realized is more or less than the net amount we have recorded.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which retrospectively reinstated the research and development tax credit for 2012 and extended it through December 31, 2013. As a result, in the first quarter of 2013, we recorded a discrete benefit related to 2012 U.S. federal research and development tax credit of approximately \$6.7 million.

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 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. There were no events or circumstances indicating that the carrying value may not be recoverable in 2013, 2012 or 2011. When we determine that the carrying value of intangibles 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. 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 loss is recorded in an amount equal to that excess. No goodwill impairment was identified in 2013, 2012 or 2011.

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

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Percentage of net revenues:			
Net revenues:			
Products	80.9%	83.5%	81.2%
Services	19.1	16.5	18.8
Total net revenues	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cost of revenues:			
Cost of products	34.9	38.8	40.5
Cost of services	8.4	7.7	9.7
Total cost of revenues	<u>43.4</u>	<u>46.5</u>	<u>50.2</u>
Gross profit	56.6	53.5	49.8
Operating expenses:			
Engineering and development	18.5	15.4	14.1
Selling and administrative	19.6	16.7	16.2
Acquired intangible assets amortization	5.1	4.4	2.8
Restructuring and other	0.1	(0.5)	0.5
Total operating expenses	<u>43.3</u>	<u>36.1</u>	<u>33.6</u>
Income from operations	13.4	17.3	16.2
Interest income	0.3	0.2	0.5
Interest expense and other	(0.5)	1.5	1.7
Income from continuing operations before income taxes	<u>14.1</u>	<u>16.1</u>	<u>15.0</u>
Provision (benefit) for income taxes	2.6	3.0	(9.1)
Income from continuing operations	<u>11.6</u>	<u>13.1</u>	<u>24.1</u>
Income from discontinued operations before income taxes	—	—	0.1
Benefit for income taxes	—	—	0.0
Income from discontinued operations	—	—	0.1
Gain on disposal of discontinued operations (net of tax)	—	—	1.7
Net income	<u>11.6%</u>	<u>13.1%</u>	<u>25.9%</u>

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:

	<u>Three months ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Semiconductor Test	1.0	1.0	1.2
Wireless Test	0.7	1.1	0.7
System Test	1.0	1.6	1.9
Total Company	1.0	1.1	1.3

Revenues

Net revenues for our three reportable segments were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Dollar Change</u>	<u>2011-2012 Dollar Change</u>
			(in millions)		
Semiconductor Test	\$1,023.0	\$1,127.7	\$1,106.2	\$(104.7)	\$ 21.5
Wireless Test	251.9	286.4	28.4	(34.5)	258.0
System Test	153.0	242.7	294.5	(89.7)	(51.8)
	<u>\$1,427.9</u>	<u>\$1,656.8</u>	<u>\$1,429.1</u>	<u>\$(228.9)</u>	<u>\$227.7</u>

The decrease in Semiconductor Test revenues of \$104.7 million or approximately 9% from 2012 to 2013 was primarily due to a decrease in system-on-a-chip (“SOC”) test product sales because of a lower application processor market, which is a key sector of the mobility applications market, in 2013 compared to 2012, partially offset by higher memory system sales.

The increase in Semiconductor Test revenues of \$21.5 million or approximately 2% from 2011 to 2012 was primarily due to an increase in SOC test product sales for mobility applications, partially offset by a decrease in memory system sales.

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

The acquisition of ZTEC, which was completed in October of 2013, added \$0.4 million of revenues in 2013. The acquisition of LitePoint, which was completed in October of 2011, added \$286.4 million and \$28.4 million of revenues in 2012 and 2011, respectively. LitePoint and ZTEC represent our Wireless Test segment.

The decrease in System Test revenues of \$89.7 million or approximately 37% from 2012 to 2013 was primarily due to lower product volume in Storage Test systems. The decrease in Storage Test system sales was due to lower hard disk drive demand primarily from lower shipments of personal computers, a trend which is expected to continue.

The decrease in System Test revenues of \$51.8 million or approximately 18% from 2011 to 2012 was primarily due to lower product volume in both Storage Test systems and Commercial Board Test systems, partially offset by an increase in Mil/Aero system and instrument sales.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Semiconductor Test	71%	68%	77%
Wireless Test	18	17	2
System Test	<u>11</u>	<u>15</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
China	23%	21%	13%
Taiwan	19	18	12
United States	16	14	16
Korea	8	13	10
Singapore	8	6	6
Europe	6	5	7
Malaysia	6	4	10
Japan	6	6	10
Philippines	4	7	9
Thailand	2	5	6
Rest of the World	2	1	1
	<u>100%</u>	<u>100%</u>	<u>100%</u>

(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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Dollar</u> <u>Change</u>	<u>2011-2012</u> <u>Dollar</u> <u>Change</u>
			(in millions)		
Product Revenues	\$1,154.9	\$1,383.6	\$1,160.2	\$(228.7)	\$223.4
Service Revenues	273.0	273.2	268.9	(0.2)	4.3
	<u>\$1,427.9</u>	<u>\$1,656.8</u>	<u>\$1,429.1</u>	<u>\$(228.9)</u>	<u>\$227.7</u>

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 lower application processor market and due to lower volume in Storage Test systems.

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, decreased \$0.2 million or 0.1%.

Our product revenues increased \$223.4 million or 19% in 2012 from 2011 primarily due to \$254.6 million of product revenues from the addition of LitePoint, an increase in SOC Semiconductor Test products for mobility applications and an increase in Mil/Aero systems and instruments. The increase was partially offset by a decrease in sales in our memory test and Storage Test systems. Service revenues increased \$4.3 million or 2%.

In 2013 and 2012, revenues from one customer accounted for 12% and 10%, respectively, of our consolidated net revenues. In 2011, no single customer accounted for 10% or more of our consolidated net revenues. In each of the years 2013, 2012 and 2011, our three largest customers in aggregate accounted for 26%, 29% and 19% of our consolidated net revenues, respectively.

Gross Profit

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Dollar /</u> <u>Point</u> <u>Change</u>	<u>2011-2012</u> <u>Dollar /</u> <u>Point</u> <u>Change</u>
			(dollars in millions)		
Gross Profit	\$808.8	\$886.0	\$711.8	\$(77.2)	\$174.2
Percent of Total Net Revenues	56.6%	53.5%	49.8%	3.1	3.7

Gross profit as a percent of revenue increased from 2012 to 2013 by 3.1 percentage points. This increase was a result of an increase of 1.7 points related to a 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.

Gross profit as a percentage of revenues increased from 2011 to 2012 by 3.7 percentage points. This increase was a result of an increase of 4.6 points primarily due to the addition of LitePoint, partially offset by a decrease of 1.2 points due to higher inventory provisions.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013 Dollar / Point Change</u>	<u>2011-2012 Dollar / Point Change</u>
	(dollars in millions)				
Product Gross Profit	\$655.9	\$740.7	\$581.2	\$(84.8)	\$159.5
Percent of Product Revenues	56.8%	53.5%	50.1%	3.3	3.4
Service Gross Profit	\$152.9	\$145.3	\$130.6	\$ 7.6	\$ 14.7
Percent of Service Revenues	56.0%	53.2%	48.6%	2.8	4.6

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, is written-down to estimated net realizable value.

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.

During the year ended December 31, 2012, we recorded an inventory provision of \$26.8 million included in cost of revenues, due to the following factors:

- A decline in demand compared to previously forecasted demand levels for prior generation Nextest Magnum testers resulted in an inventory provision of \$12.0 million in Semiconductor Test;
- A \$5.3 million inventory write-down as a result of product transition related to the Flex Test Platform in Semiconductor Test;
- A \$3.9 million inventory write-down as a result of product transition in Wireless Test.; and
- The remainder of the charge of \$5.6 million primarily reflects downward revisions to previously forecasted demand levels, of which \$4.3 million was in System Test, \$0.2 million in Wireless Test and \$1.1 million in Semiconductor Test.

During the year ended December 31, 2011, we recorded an inventory provision of \$11.6 million included in cost of revenues, due to the downward revisions to previously forecasted demand levels. Of the \$11.6 million of total excess and obsolete provisions recorded in 2011, \$10.4 million was related to Semiconductor Test primarily due to product transition, \$1.1 million was in System Test, and \$0.1 million was in Wireless Test.

During the years ended December 31, 2013, 2012 and 2011, we scrapped \$35.3 million, \$9.6 million and \$9.2 million of inventory, respectively, and sold \$9.8 million, \$4.3 million and \$8.1 million of previously written-down or written-off inventory, respectively. As of December 31, 2013, we had inventory related reserves for amounts which had been written-down or written-off totaling \$115.9 million. We have no pre-determined timeline to scrap the remaining inventory.

Engineering and Development

Engineering and development expenses were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>	<u>2011-2012</u> <u>Change</u>
	(dollars in millions)				
Engineering and Development	\$264.1	\$255.9	\$201.0	\$8.2	\$54.9
Percent of Total Net Revenues	18.5%	15.4%	14.1%		

The increase of \$8.2 million in engineering and development expenses from 2012 to 2013 was due primarily to increased spending in Semiconductor Test and Wireless Test, partially offset by pension income in 2013 compared to pension expense in 2012 and lower variable compensation in 2013.

The increase of \$54.9 million in engineering and development expenses from 2011 to 2012 was due primarily to additional costs of \$37.1 million related to LitePoint and increased spending in Semiconductor Test.

Selling and Administrative

Selling and administrative expenses were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>	<u>2011-2012</u> <u>Change</u>
	(dollars in millions)				
Selling and Administrative	\$279.6	\$277.0	\$232.1	\$2.6	\$44.9
Percent of Total Net Revenues	19.6%	16.7%	16.2%		

The increase of \$2.6 million in selling and administrative expenses from 2012 to 2013 was due primarily to increased sales and marketing spending in Semiconductor Test and Wireless Test, partially offset by pension income in 2013 compared to pension expense in 2012.

The increase of \$44.9 million in selling and administrative expenses from 2011 to 2012 was due primarily to additional costs of \$49.7 million related to LitePoint.

Acquired Intangible Assets Amortization

Acquired intangible assets amortization expense was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>	<u>2011-2012</u> <u>Change</u>
	(dollars in millions)				
Acquired Intangible Assets Amortization	\$72.4	\$73.5	\$40.5	\$(1.1)	\$33.0
Percent of Total Net Revenues	5.1%	4.4%	2.8%		

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. The increase of \$33.0 million from 2011 to 2012 was due to the LitePoint acquisition.

Restructuring and Other

Restructuring

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

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.

During the year ended December 31, 2011, we recorded \$1.2 million of charges related to headcount reductions of 7 people in Semiconductor Test and a \$(0.5) million credit primarily in System Test related to a change in the estimated exit costs related to leased facilities.

Other

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 fair value adjustment to decrease the LitePoint acquisition contingent consideration.

During the year ended December 31, 2011, we recorded \$5.8 million of other charges of which \$4.6 million related to LitePoint acquisition costs and \$1.2 million related to non-U.S. pension settlements.

Interest and Other

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>	<u>2011-2012</u> <u>Change</u>
			(in millions)		
Interest Income	\$ 4.1	\$ 4.1	\$ 6.6	\$ —	\$(2.5)
Interest Expense and Other	\$(7.1)	\$25.5	\$23.7	\$(32.6)	\$ 1.8

Interest income decreased by \$2.5 million, from \$6.6 million in 2011 to \$4.1 million in 2012, due to a decrease in marketable securities which were used to fund the LitePoint acquisition in 2011.

Interest expense and other decreased by \$32.6 million, from \$25.5 million in net expense in 2012 to \$(7.1) million in net other income in 2013, due primarily to a \$34.2 million gain from the sale of an equity investment, partially offset by higher interest expense from increased convertible debt discount amortization.

Interest expense and other increased by \$1.8 million, from \$23.7 million in 2011 to \$25.5 million in 2012, due primarily to higher interest expense from increased convertible debt discount amortization.

Income (Loss) from Continuing Operations before Income Taxes

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u> <u>Change</u>	<u>2011-2012</u> <u>Change</u>
			(in millions)		
Semiconductor Test	\$153.8	\$186.0	\$219.6	\$(32.2)	\$(33.6)
Wireless Test	23.1	83.1	(20.6)	(60.0)	103.7
System Test	3.1	34.2	53.3	(31.1)	(19.1)
Corporate	21.9	(37.3)	(37.9)	59.2	0.6
	<u>\$201.9</u>	<u>\$266.0</u>	<u>\$214.4</u>	<u>\$(64.1)</u>	<u>\$ 51.6</u>

The decrease in income from continuing operations before income taxes from 2012 to 2013 was primarily due to lower revenue 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.

The increase in income from continuing operations before income taxes from 2011 to 2012 was primarily due to higher revenue in 2012 compared to 2011 and a \$14.5 million decrease in restructuring and other costs, partially offset by a \$99.8 million increase in engineering and development and selling and administrative expenses and a \$33.0 million increase in intangible assets amortization.

Income Taxes

The income tax expense from continuing operations for 2013 totaled \$37.0 million compared to \$48.9 million for 2012. The effective tax rate for 2013 and 2012 was approximately 18%. 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, lower pre-tax income, partially offset by higher tax expense for uncertain tax positions and state taxes. U.S. research and development tax credits provided a 7.2% reduction to the 2013 U.S. statutory federal tax rate of 35.0%. The research and development tax credit expired at the end of 2013; therefore if the credit is not legislatively re-enacted there could be an unfavorable impact on Teradyne's 2014 effective income tax rate. The income tax benefit from continuing operations for 2011 totaled \$129.5 million primarily due to the reversal of our deferred tax asset valuation allowance. We considered the weight of both the positive and negative evidence as of December 31, 2011 and concluded that a substantial majority of the deferred tax assets will be realized.

Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2013:

	Payments Due by Period					
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
	(in thousands)					
Debt Obligations	\$190,953	\$190,953	\$ —	\$ —	\$ —	\$ —
Interest on Debt	4,279	4,279	—	—	—	—
Operating Lease Obligations	56,810	12,843	20,126	8,285	15,556	—
Purchase Obligations	181,037	170,559	10,478	—	—	—
Retirement Plan Contributions	95,488	5,048	9,092	9,006	72,342	—
Other Long-Term Liabilities Reflected on the Balance Sheet under GAAP (1)	77,581	—	13,306	—	—	64,275
Total	<u>\$606,148</u>	<u>\$383,682</u>	<u>\$53,002</u>	<u>\$17,291</u>	<u>\$87,898</u>	<u>\$64,275</u>

- (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 \$193.3 million from 2012 to 2013, to \$1.2 billion. Cash activity for 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2012-2013</u>	<u>2011-2012</u>
	(in millions)			Change	Change
Cash provided by operating activities:					
Income from continuing operations, adjusted for non cash items	\$ 317.0	\$ 444.9	\$ 372.6	\$(127.9)	\$ 72.3
Change in operating assets and liabilities, net of businesses sold and acquired	(49.7)	(41.8)	(92.9)	(7.9)	51.1
Cash used for discontinued operations	—	—	(4.8)	—	4.8
Total cash provided by operating activities	<u>\$ 267.3</u>	<u>\$ 403.1</u>	<u>\$ 274.9</u>	<u>\$(135.8)</u>	<u>\$ 128.2</u>
Cash used for investing activities from continuing operations					
Cash provided by investing activities from discontinued operations	(281.8)	(602.5)	(121.6)	320.7	(480.9)
Total cash used for investing activities	<u>\$(281.8)</u>	<u>\$(602.5)</u>	<u>\$ (82.5)</u>	<u>\$ 320.7</u>	<u>\$(520.0)</u>
Total cash provided by (used for) financing activities	<u>\$ 17.3</u>	<u>\$ (35.4)</u>	<u>\$ (16.3)</u>	<u>\$ 52.7</u>	<u>\$ (19.1)</u>
Total increase (decrease) of cash and cash equivalents	<u>\$ 2.7</u>	<u>\$(234.8)</u>	<u>\$ 176.0</u>	<u>\$ 237.5</u>	<u>\$(410.8)</u>

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 \$281.8 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 \$1,168.6 million, partially offset by proceeds from maturities and sales of marketable securities that provided cash of \$516.5 million and \$458.1 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 \$2.6 million from the tax benefit related to stock options and restricted stock units, partially offset by \$0.4 million of cash used for payments related to LitePoint acquisition contingent consideration and \$2.5 million of cash used for payments on long-term debt related to the Japan loan.

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 \$35.4 million, \$18.5 million was from the issuance of common stock under stock option and stock purchase plans, and \$8.4 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 the Japan loan.

In 2011, changes in operating assets and liabilities, net of businesses sold and acquired, used cash of \$92.9 million. This was due to a \$44.2 million decrease in operating assets and a \$137.1 million decrease in operating liabilities.

The decrease in operating assets was due to a \$66.4 million decrease in accounts receivable resulting from increased collections, partially offset by a \$21.5 million increase in prepayments due primarily to supplier prepayments and a \$0.6 million increase in inventories. The decrease in operating liabilities was due to a \$62.6 million decrease in customer advance payments due to shipments of systems prepaid by customers, a \$28.2 million decrease in accrued employee compensation due primarily to employee stock awards payroll taxes and variable compensation payments, a \$19.9 million decrease in accounts payable due to decreased sales volume, \$11.9 million of retirement plan contributions, an \$8.7 million decrease in accrued income taxes, and a \$5.8 million decrease in deferred revenue.

Investing activities during 2011 used cash of \$121.6 million. In October 2011, we completed the acquisition of LitePoint for an initial cash purchase price, net of cash acquired, of \$537.5 million. Purchases of property, plant and equipment were \$86.1 million. Proceeds from sales and maturities of marketable securities that provided cash of \$746.8 million and \$442.1 million, respectively, partially offset by \$685.8 million used for purchase of marketable securities. Purchases of life insurance policies used cash of \$1.1 million. The net proceeds were used to acquire LitePoint.

Financing activities during 2011 used cash of \$16.3 million, due to the repurchase of 2.6 million shares of common stock for \$31.2 million at an average price of \$11.84 per share and \$2.5 million for payments on long-term debt related to the Japan loan, partially offset by \$17.4 million from the issuance of common stock under stock option and stock purchase plans.

On April 6, 2009, we completed a registered public offering of \$190.0 million aggregate principal amount convertible senior notes ("Notes") and settled the related convertible bond hedge and warrant transaction and received approximately \$163.0 million as a result of these financing transactions. The Notes bear interest at a rate of 4.50% per annum, payable semi-annually in arrears on March 15 and September 15 of each year. The first interest payment was on September 15, 2009. The Notes will mature on March 15, 2014, unless earlier repurchased by us or converted. The Notes may be converted, under certain circumstances and during certain periods, at an initial conversion rate of approximately 182.65 shares of our common stock per \$1,000 principal

amount of Notes, which is equivalent to an initial conversion price of approximately \$5.48. The convertible note hedge and warrant transaction will generally have the effect of increasing the conversion price of the Notes to approximately \$7.67 per share of our common stock, representing a 75% conversion premium based upon the closing price of our common stock on March 31, 2009. We may not redeem the Notes prior to their maturity. Holders of the Notes may require us to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving Teradyne. The Notes are convertible during the last three months, prior to the March 15, 2014 maturity date. Upon conversion during the last three months prior to the March 15, 2014 maturity date, the Notes will “net share settle,” meaning that holders will receive, for each \$1,000 in principal amount of Notes, \$1,000 in cash and a number of shares of Teradyne common stock equal to 182.65 (subject to anti-dilution adjustment under certain circumstances) less number of shares having \$1,000 of value, as determined based on the average trading price of the common stock over a 25-day trading period from February 5, 2014 to March 12, 2014.

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

We believe our cash, cash equivalents and marketable securities balance will be sufficient to pay our quarterly dividend 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 \$340 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 practical 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 income, 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 \$6.0 million for the year ended December 31, 2013. The largest portion of our 2013 pension income was \$6.3 million for our U.S. Plan. Pension income 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 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 2013. The December 31, 2013 asset allocation for our U.S. Plan was 87% invested in fixed income securities, 12% 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 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.

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 4.5% at December 31, 2013, up from 3.6% at December 31, 2012. We estimate that in 2014 we will recognize approximately \$0.1 million of pension cost for the U.S. Plan. The U.S. Plan related pension cost estimate for 2014 is based on a 4.5% discount rate and 5.0% 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, 2013, our pension plans had unrecognized pension prior service cost of \$0.5 million.

We performed a sensitivity analysis, which expresses the potential U.S. Plan (income) expense for the year ending December 31, 2014, 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 2014 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.

<u>Return on Plan Assets</u>	<u>Discount Rate</u>		
	<u>4.0%</u>	<u>4.5%</u>	<u>5.0%</u>
	(in millions)		
4.5%	\$ 0.8	\$ 1.3	\$ 1.8
5.0%	(0.5)	0.1	0.5
5.5%	(1.7)	(1.2)	(0.7)

The assets of the U.S. Plan consist substantially of fixed income securities. U.S. Plan assets have decreased from \$278.9 million at December 31, 2012 to \$256.4 million at December 31, 2013.

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 2013, we made contributions of \$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. We expect to contribute approximately \$1.8 million to the U.S. supplemental executive defined benefit pension plan in 2014. Contributions that will be made in 2014 to certain qualified plans for non-U.S. subsidiaries are based on local statutory requirements and will be approximately \$2.2 million. We do not expect to make any contributions to the U.S. Plan in 2014.

Equity Compensation Plans

In addition to our 1996 Employee Stock Purchase Plan discussed in Note O: "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, 2013 (share numbers in thousands):

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column one)</u>
Equity plans approved by shareholders . . .	5,406(1)	\$13.72	21,017(2)
Equity plans not approved by shareholders (3,4,5)	1,936	\$ 3.33	—
Total	<u>7,342</u>	\$ 6.29	<u>21,017</u>

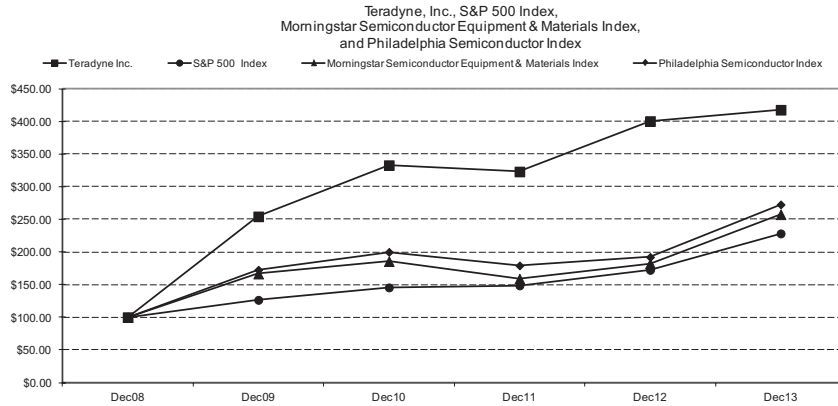
- (1) Includes 4,635,622 shares of restricted stock units that are not included in the calculation of the weighted average exercise price.
- (2) Consists of 14,212,944 securities available for issuance under the 2006 Equity Plan and 6,803,613 of securities available for issuance under the Employee Stock Purchase Plan.
- (3) In connection with the 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, 2013, there were outstanding options exercisable for an aggregate of 576,171 shares of our common stock pursuant to the Nextest Plans, with a weighted average exercise price of \$4.11 per share.
- (4) In connection with the 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, 2013, there were outstanding options exercisable for an aggregate of 177,359 shares of our common stock pursuant to the Eagle Plans, with a weighted average exercise price of \$3.92 per share.
- (5) In connection with the 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, 2013, there were outstanding options exercisable for an aggregate of 1,182,192 shares of our common stock pursuant to the LitePoint Plan, with a weighted average exercise price of \$2.86 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, 2013 was 14,212,944 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, 2013, 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, (ii) the Philadelphia Semiconductor Index, and (iii) the Morningstar Semiconductor Equipment & Materials Index. The comparison assumes \$100.00 was invested on December 31, 2008 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. This is the last year that we will compare ourselves to the Morningstar Semiconductor Equipment & Materials Index. Going forward, we will compare ourselves against the Philadelphia Semiconductor Index as this better aligns us with companies in the semiconductor industry.



Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” Under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by unrecognized tax benefits. The provisions of this ASU are effective for interim and annual periods beginning on or after December 15, 2013. Teradyne does not expect this ASU to have a material impact on its financial position or results of operations.

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, 2013, 2012 and 2011, 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, 2013 and 2012.

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, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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) present 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, 2013, based on criteria established in Internal Control—Integrated Framework (1992) 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 28, 2014

TERADYNE, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

	2013	2012
	(in thousands, except per share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 341,638	\$ 338,920
Marketable securities	586,882	431,516
Accounts receivable, less allowance for doubtful accounts of \$2,912 and \$4,118 in 2013 and 2012, respectively	157,642	153,423
Inventories:		
Parts	84,232	89,598
Assemblies in process	15,539	32,303
Finished goods	38,168	17,509
	137,939	139,410
Deferred tax assets	72,478	77,305
Prepayments	136,374	90,931
Other current assets	7,324	4,556
Total current assets	1,440,277	1,236,061
Net property, plant and equipment	275,236	265,782
Marketable securities	271,078	235,872
Deferred tax assets	5,217	5,372
Other assets	14,591	14,837
Retirement plans assets	9,342	3,282
Intangible assets, net	252,291	318,867
Goodwill	361,792	349,272
Total assets	\$2,629,824	\$2,429,345
LIABILITIES		
Current liabilities:		
Accounts payable	62,874	58,324
Accrued employees' compensation and withholdings	95,619	86,264
Deferred revenue and customer advances	55,404	81,357
Other accrued liabilities	63,712	57,249
Accrued income taxes	11,360	12,306
Current debt	186,663	2,328
Total current liabilities	475,632	297,828
Long-term deferred revenue and customer advances	13,306	16,227
Retirement plans liabilities	91,517	94,373
Deferred tax liabilities	40,686	50,201
Long-term other accrued liabilities	23,589	21,302
Long-term debt	—	171,059
Total liabilities	644,730	650,990
Commitments and contingencies (Note K)		
SHAREHOLDERS' EQUITY		
Common stock, \$0.125 par value, 1,000,000 shares authorized, 191,731 and 187,908 shares issued and outstanding at December 31, 2013 and 2012, respectively	23,966	23,488
Additional paid-in capital	1,390,896	1,347,762
Accumulated other comprehensive income	4,000	5,820
Retained earnings	566,232	401,285
Total shareholders' equity	1,985,094	1,778,355
Total liabilities and shareholders' equity	\$2,629,824	\$2,429,345

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

TERADYNE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2013	2012	2011
	(in thousands, except per share amounts)		
Net revenues:			
Products	\$1,154,922	\$1,383,569	\$1,160,191
Services	273,011	273,181	268,870
Total net revenues	1,427,933	1,656,750	1,429,061
Cost of revenues:			
Cost of products	499,030	642,881	578,936
Cost of services	120,102	127,832	138,302
Total cost of revenues	619,132	770,713	717,238
Gross profit	808,801	886,037	711,823
Operating expenses:			
Engineering and development	264,055	255,866	201,024
Selling and administrative	279,560	277,016	232,093
Acquired intangible assets amortization	72,447	73,508	40,465
Restructuring and other	2,080	(7,721)	6,743
Total operating expenses	618,142	598,669	480,325
Income from operations	190,659	287,368	231,498
Interest income	4,129	4,090	6,617
Interest expense and other	(7,134)	25,482	23,694
Income from continuing operations before income taxes	201,922	265,976	214,421
Provision (benefit) for income taxes	36,975	48,927	(129,536)
Income from continuing operations	164,947	217,049	343,957
Income from discontinued operations before income taxes	—	—	1,278
Benefit for income taxes	—	—	(267)
Income from discontinued operations	—	—	1,545
Gain on disposal of discontinued operations (net of tax \$4,578)	—	—	24,371
Net income	<u>\$ 164,947</u>	<u>\$ 217,049</u>	<u>\$ 369,873</u>
Income from continuing operations per common share:			
Basic	<u>\$ 0.86</u>	<u>\$ 1.16</u>	<u>\$ 1.86</u>
Diluted	<u>\$ 0.70</u>	<u>\$ 0.94</u>	<u>\$ 1.52</u>
Net income per common share:			
Basic	<u>\$ 0.86</u>	<u>\$ 1.16</u>	<u>\$ 2.00</u>
Diluted	<u>\$ 0.70</u>	<u>\$ 0.94</u>	<u>\$ 1.63</u>
Weighted average common shares—basic	<u>190,772</u>	<u>186,878</u>	<u>184,683</u>
Weighted average common shares—diluted	<u>235,599</u>	<u>230,246</u>	<u>226,820</u>

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

TERADYNE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Net income	\$164,947	\$217,049	\$369,873
Other comprehensive (loss) income, net of tax:			
Foreign currency translation reclassification adjustment included in net income	—	—	2,266
Unrealized (losses) gains on marketable securities:			
Unrealized (losses) gains on marketable securities arising during period, net of tax of \$216, \$370, \$1,247	(1,097)	2,009	1,409
Less: Reclassification adjustment for gains included in net income, net of tax of \$(257), \$(201), \$(581)	(447)	(702)	(1,412)
	(1,544)	1,307	(3)
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 \$(159), \$(134), \$9	(276)	(233)	14
Other comprehensive (loss) income	(1,820)	1,074	2,277
Comprehensive income	\$163,127	\$218,123	\$372,150

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

TERADYNE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2013, 2012 and 2011

	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
	(in thousands)					
Balance, December 31, 2010	182,035	\$22,755	\$1,269,525	\$ 2,469	\$(172,561)	\$1,122,188
Issuance of stock to employees under benefit plans, net of shares withheld for payroll tax of \$12,297	4,185	522	4,566			5,088
Stock-based compensation expense			32,337			32,337
Repurchase of common stock	(2,633)	(329)	(17,770)		(13,076)	(31,175)
Stock options issued in purchase acquisition			4,472			4,472
Net income					369,873	369,873
Unrealized gain on marketable securities:						
Unrealized gain on marketable securities, net of tax of \$1,247				1,409		1,409
Less: reclassification adjustment for gains included in net income, net of tax of \$(581)				(1,412)		(1,412)
Foreign currency translation adjustment				2,266		2,266
Amortization of prior service costs, net of tax of \$9				14		14
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 costs, 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 gain on marketable securities:						
Unrealized gain 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 costs, 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

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

TERADYNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash flows from operating activities:			
Net income	\$ 164,947	\$ 217,049	\$ 369,873
Less: Income from discontinued operations	—	—	1,545
Less: Gain on disposal of discontinued operations	—	—	24,371
Income from continuing operations	164,947	217,049	343,957
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	57,317	55,049	51,040
Amortization	93,370	90,465	55,641
Stock-based compensation	36,612	39,920	32,337
Provision for excess and obsolete inventory	16,592	26,849	11,601
Deferred taxes	(4,284)	5,556	(146,949)
Gain from the sale of an equity investment	(34,212)	—	—
Tax benefit related to stock options and restricted stock units	(2,596)	(8,358)	—
Non cash charge for the sale of inventories revalued at the date of acquisition	—	6,089	12,178
Retirement plans actuarial (gains) losses	(10,340)	23,320	13,564
Contingent consideration adjustment	—	(8,761)	—
Other	(407)	(2,250)	(794)
Changes in operating assets and liabilities, net of businesses sold and acquired:			
Accounts receivable	(3,656)	(24,093)	66,367
Inventories	21,170	17,652	(615)
Prepayments and other assets	(49,572)	(2,995)	(21,509)
Accounts payable and other accrued expenses	15,103	(32,810)	(48,222)
Deferred revenue and customer advances	(28,877)	(14,627)	(68,359)
Retirement plan contributions	(5,540)	(4,778)	(11,851)
Accrued income taxes	1,648	19,804	(8,727)
Net cash provided by continuing operations	267,275	403,081	279,659
Net cash used for discontinued operations	—	—	(4,804)
Net cash provided by operating activities	267,275	403,081	274,855
Cash flows from investing activities:			
Purchases of property, plant and equipment	(106,731)	(119,080)	(86,097)
Purchases of available-for-sale marketable securities	(1,168,621)	(748,229)	(685,823)
Acquisition of businesses, net of cash acquired	(14,999)	—	(537,489)
Proceeds from maturities of available-for-sale marketable securities	516,499	225,085	442,080
Proceeds from sales of available-for-sale marketable securities	458,120	38,284	746,810
Proceeds from the sale of an equity investment	34,212	—	—
(Purchases of) proceeds from life insurance	(307)	1,451	(1,091)
Net cash used for continuing operations	(281,827)	(602,489)	(121,610)
Net cash provided by discontinued operations	—	—	39,062
Net cash used for investing activities	(281,827)	(602,489)	(82,548)
Cash flows from financing activities:			
Issuance of common stock under stock option and stock purchase plans	17,596	18,477	17,385
Tax benefit related to stock options and restricted stock units	2,596	8,358	—
Payments of long-term debt	(2,534)	(2,533)	(2,518)
Payments of contingent consideration	(388)	(59,710)	—
Repurchase of common stock	—	—	(31,175)
Net cash provided by (used for) financing activities	17,270	(35,408)	(16,308)
Increase (decrease) in cash and cash equivalents	2,718	(234,816)	175,999
Cash and cash equivalents at beginning of year	338,920	573,736	397,737
Cash and cash equivalents at end of year	\$ 341,638	\$ 338,920	\$ 573,736
Supplementary disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 8,590	\$ 8,602	\$ 8,645
Income taxes	\$ 38,156	\$ 8,084	\$ 36,043

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

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

B. ACCOUNTING POLICIES

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 customers’ ability to use the product. Teradyne defers revenue for the selling price of installation and training. Extended warranties constitute warranty obligations beyond one year and Teradyne defers revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 605-20, “*Separately Priced Extended Warranty and Product Maintenance Contracts*” and ASC 605-25, “Revenue Recognition Multiple-Element Arrangements.” Service revenue is recognized over the contractual period or as services are performed.

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

As of December 31, 2013 and 2012, deferred revenue and customer advances consisted of the following and are included in the short and long-term deferred revenue and customer advances:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Customer advances	\$ 4,825	\$39,613
Equipment maintenance, training and extended warranty	56,914	51,198
Undelivered elements	<u>6,971</u>	<u>6,773</u>
Total deferred revenue and customer advances	<u>\$68,710</u>	<u>\$97,584</u>

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 sheets 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 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.

Product Warranty

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

	<u>Amount</u> (in thousands)
Balance at December 31, 2010	\$ 9,886
Acquisition	327
Accruals for warranties issued during the period	13,167
Accruals related to pre-existing warranties	(2,689)
Settlements made during the period	<u>(12,538)</u>
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	<u>(13,948)</u>
Balance at December 31, 2012	9,786
Accruals for warranties issued during the period	10,574
Accruals related to pre-existing warranties	(3,534)
Settlements made during the period	<u>(10,166)</u>
Balance at December 31, 2013	<u>\$ 6,660</u>

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.

	<u>Amount</u> (in thousands)
Balance at December 31, 2010	\$ 8,972
Acquisition	3,151
Deferral of new extended warranty revenue	8,659
Recognition of extended warranty deferred revenue	<u>(8,040)</u>
Balance at December 31, 2011	12,742
Deferral of new extended warranty revenue	22,344
Recognition of extended warranty deferred revenue	<u>(8,099)</u>
Balance at December 31, 2012	26,987
Deferral of new extended warranty revenue	20,191
Recognition of extended warranty deferred revenue	<u>(12,789)</u>
Balance at December 31, 2013	<u>\$ 34,389</u>

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, 2013, 2012 and 2011. 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 LitePoint 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.

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 may not be recoverable in 2013, 2012 or 2011.

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 and amortization 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 useful life
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. The net book value of internally manufactured test systems sold in the years ended December 31, 2013, 2012 and 2011 was \$9.0 million, \$6.0 million and \$7.8 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 and 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 installments over four years from the grant date and have a maximum term of seven years.

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. A portion of restricted stock unit awards granted to executive officers is subject to time-based vesting and a portion is subject to performance-based vesting. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting will be forfeited. Restricted stock units do not have common stock voting rights, and the shares underlying the restricted stock units are not considered issued and outstanding until they become vested. 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.

Under the ESPP, eligible employees may purchase shares of common stock through regular payroll deductions of up to 10% of their eligible compensation, to a maximum of shares with a fair market value of \$25,000 per calendar year, not to exceed 6,000 shares. The price paid for the common stock in 2013 is equal to 85% of the value of Teradyne’s common stock on the last business day of the purchase period. The price paid for the common stock in 2012 and 2011 was equal to 85% of the lower of the value of Teradyne’s common stock on the first business day or on the last business day of the purchase period. There are two six-month purchase periods in each fiscal year.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Cost of revenue	\$ 4,338	\$ 6,604	\$ 7,097
Engineering and development	12,452	13,589	10,001
Selling and administrative	<u>19,822</u>	<u>19,727</u>	<u>15,239</u>
Stock-based compensation	36,612	39,920	32,337
Income tax benefit	<u>(9,762)</u>	<u>(9,548)</u>	<u>(8,509)</u>
Total stock-based compensation expense after income taxes	<u>\$26,850</u>	<u>\$30,372</u>	<u>\$23,828</u>

Valuation Assumptions

The total number of stock options granted in 2013, 2012 and 2011 were 0.2 million, 0.2 million and 0.1 million, respectively, at the weighted average grant date fair value of \$6.09, \$6.85 and \$6.74, respectively. The fair value of the stock options at grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Expected life (years)	4.00	3.50	4.00
Interest rate	0.6%	0.4%	1.5%
Volatility-historical	46.8%	56.0%	52.1%
Dividend yield	0.0%	0.0%	0.0%

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.

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, and the first and last six months of 2011 was \$3.66 and \$4.01, respectively. The fair value of the employees' purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>2012</u>	<u>2011</u>
Expected life (years)	0.5	0.5
Interest rate	0.1%	0.1%
Volatility-historical	42.7%	41.0%
Dividend yield	0.0%	0.0%

As of December 31, 2013, there were 6.4 million shares available for grant under the ESPP.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases 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, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not 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.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which retrospectively reinstated the research and development tax credit for 2012 and extended it through December 31, 2013. As a result, in the first quarter of 2013, Teradyne recorded a discrete benefit related to 2012 U.S. federal research and development tax credit of approximately \$6.7 million.

Advertising Costs

Teradyne expenses all advertising costs as incurred. Advertising costs were \$1.7 million, \$1.6 million and \$1.0 million in 2013, 2012 and 2011, 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 interest expense and other and were a loss of \$6.9 million, a loss of \$4.5 million and a gain of \$0.9 million, respectively, for the years ended December 31, 2013, 2012 and 2011. These amounts do not reflect the corresponding gain (loss) from foreign exchange contracts. See Note G: "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 include incremental shares from assumed conversion of the convertible notes and the convertible notes hedge warrant shares. Incremental shares from assumed conversion of the convertible notes are calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing the total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period. Convertible notes hedge warrant shares are calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period. Teradyne's call option for 34.7 million shares at an exercise price of \$5.48 is not used in the GAAP earnings per share calculation as its effect would be anti-dilutive.

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

Comprehensive (Loss) Income

Comprehensive (loss) income includes net income, unrealized pension and postretirement prior service costs and benefits, unrealized gains and losses on investments in debt and equity marketable securities and for 2011 a foreign currency translation reclassification adjustment of \$2.3 million as a result of the sale of Teradyne's Diagnostics Solutions business unit.

C. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

D. DISCONTINUED OPERATIONS

On March 21, 2011, Teradyne completed the sale of its Diagnostic Solutions business unit, which was included in the System Test segment, to SPX Corporation for \$40.2 million in cash. Teradyne sold this business as its growth potential as a stand-alone business within Teradyne was significantly less than if it was part of a larger automotive supplier. The financial information for Diagnostic Solutions has been reclassified to discontinued operations for all periods presented. Net revenues and income from discontinued operations for the years ended December 31, 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Net revenues	\$—	\$—	\$ 9,086
Income from discontinued operation before income taxes	\$—	\$—	\$ 1,278
Gain from disposal of discontinued operation before income taxes	—	—	28,949
Income tax provision	—	—	4,311
Income from discontinued operations	<u>\$—</u>	<u>\$—</u>	<u>\$25,916</u>

E. ACQUISITIONS

Business

ZTEC Instruments, Inc.

On October 25, 2013, Teradyne completed its acquisition of ZTEC Instruments, Inc. (“ZTEC”) located in Albuquerque, New Mexico. 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 benchmark; (2) expected timing of meeting each benchmark; and (3) discount rate reflecting the risk associated with the expected payments. The probabilities and timing for each benchmark were estimated based on a review of the historical and projected results. A discount rate of 5.2 percent was selected based on the cost of debt for the business, as a significant portion of the risk in achieving the customer order contingent consideration was captured in the probabilities assigned to meeting each benchmark.

ZTEC is a supplier of modular wireless test instruments. The acquisition of ZTEC expands Teradyne’s wireless segment into the design verification test of wireless components and chipsets.

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 purchase price allocation is preliminary pending the final determination of the fair value of certain acquired assets and assumed liabilities. 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
	(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	<u>\$17,308</u>

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

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 continuing 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	
	December 31,	December 31,
	2013	2012
	(in thousands, except per share amounts)	
Revenue	\$1,431,270	\$1,660,758
Net income	\$ 163,394	\$ 215,654
Income per common share:		
Basic	<u>\$ 0.86</u>	<u>\$ 1.15</u>
Diluted	<u>\$ 0.69</u>	<u>\$ 0.94</u>

LitePoint Corporation

On October 5, 2011, Teradyne completed its acquisition of LitePoint Corporation (“LitePoint”) located in Sunnyvale, California. The total purchase price of \$646.0 million consisted of \$572.7 million of cash paid to acquire the outstanding common and preferred stock of LitePoint, \$68.9 million in fair value of contingent consideration payable upon achievement of certain revenue targets through 2012 and \$4.5 million in fair value of

assumed vested stock options, which were converted into stock options to purchase Teradyne's common stock. The fair value of stock options was estimated using the following weighted average assumptions:

Expected life (years)	6.2
Expected volatility	49.1%
Risk-free interest rate	1.3%
Dividend yield	0.0%

LitePoint designs, develops, and supports advanced wireless test equipment for the development and manufacturing of wireless devices, including smart phones, tablets, notebooks/laptops, personal computer peripherals, and other Wi-Fi, Bluetooth and cellular enabled devices. LitePoint's IQ product line consists of cellular and connectivity test equipment used by developers and manufacturers of wireless devices and consumer electronics. LitePoint and ZTEC represent Teradyne's Wireless Test operating and reportable segment.

The LitePoint 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 LitePoint 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 \$349.3 million was allocated to goodwill, which is not deductible for tax purposes. The following represents the allocation of the purchase price:

	Purchase Price Allocation
	(in thousands)
Goodwill	\$ 349,272
Intangible assets	310,500
Tangible assets acquired and liabilities assumed:	
Cash, cash equivalents and short term marketable securities	61,250
Other current assets	75,615
Non-current assets	5,838
Accounts payable and current liabilities	(37,177)
Long-term deferred tax liabilities	(115,463)
Other long-term liabilities	(3,788)
Total purchase price	<u>\$ 646,047</u>

Teradyne estimated the fair value of intangible assets using the income and cost 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	Estimated Useful
	(in thousands)	Life
		(in years)
Developed technology	\$237,100	6.4
Customer relationships	53,700	7.0
Tradenames	19,000	7.0
Customer backlog	700	0.3
Total intangible assets	<u>\$310,500</u>	6.5

For the period from October 5, 2011 to December 31, 2011, LitePoint contributed \$28.4 million of revenues and had a \$(20.6) million loss from continuing operations before income taxes.

The following unaudited pro forma information gives effect to the acquisition of LitePoint as if the acquisition occurred on January 1, 2011. 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, 2011
	(in thousands, except per share amounts)
Revenue	\$1,527,044
Income from continuing operations	\$ 357,060
Net income	\$ 382,976
Income from continuing operations per common share:	
Basic	<u>\$ 1.93</u>
Diluted	<u>\$ 1.56</u>
Net income per common share:	
Basic	<u>\$ 2.07</u>
Diluted	<u>\$ 1.67</u>

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Land	\$ 16,561	\$ 16,561
Buildings	107,632	106,706
Machinery and equipment	600,848	606,414
Furniture and fixtures, and software	81,994	93,683
Leasehold improvements	30,757	29,585
Construction in progress	<u>622</u>	<u>3,425</u>
	838,414	856,374
Less: accumulated depreciation and amortization	<u>563,178</u>	<u>590,592</u>
	<u>\$275,236</u>	<u>\$265,782</u>

Depreciation and amortization of property, plant and equipment for the years ended December 31, 2013, 2012 and 2011 was \$57.3 million, \$55.0 million and \$51.0 million, respectively.

G. FINANCIAL INSTRUMENTS

Cash Equivalents

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

Marketable Securities

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of 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.

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, 2013, 2012 and 2011. As defined in ASC 820-10 "*Fair Value Measurements and Disclosures*", fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

There were no realized losses recorded in 2013, 2012 and 2011. Realized gains recorded in 2013, 2012 and 2011 were \$1.0 million, \$1.4 million and \$2.7 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, 2013 and 2012, 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, 2013 and 2012.

	December 31, 2013			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets				
Cash	\$117,242	\$ —	\$ —	\$ 117,242
Cash equivalents	165,865	58,531	—	224,396
Available for sale securities:				
U.S. Treasury securities	467,895	—	—	467,895
U.S. government agency securities	—	202,588	—	202,588
Commercial paper	—	105,598	—	105,598
Corporate debt securities	—	65,387	—	65,387
Equity and debt mutual funds	13,156	—	—	13,156
Certificates of deposit and time deposits	—	3,258	—	3,258
Non-U.S. government securities	—	78	—	78
Total	<u>764,158</u>	<u>435,440</u>	<u>—</u>	<u>1,199,598</u>
Derivatives	—	153	—	153
Total	<u>\$764,158</u>	<u>\$435,593</u>	<u>\$ —</u>	<u>\$1,199,751</u>
Liabilities				
Contingent consideration	\$ —	\$ —	\$2,230	\$ 2,230
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,230</u>	<u>\$ 2,230</u>

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
	(in thousands)			
Assets				
Cash and cash equivalents	\$283,107	\$ 58,531	\$ —	\$ 341,638
Marketable securities	371,101	215,781	—	586,882
Long-term marketable securities	109,950	161,128	—	271,078
Other current assets	—	153	—	153
	<u>\$764,158</u>	<u>\$435,593</u>	<u>\$ —</u>	<u>\$1,199,751</u>
Liabilities				
Long-term other accrued liabilities	\$ —	\$ —	\$2,230	\$ 2,230
	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,230</u>	<u>\$ 2,230</u>

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

Reported as follows:

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

Changes in the fair value of Level 3 contingent consideration for the year ended December 31, 2013 and December 31, 2012 were as follows:

	Contingent Consideration (in thousands)
Balance at December 31, 2011	\$ 68,892
Fair value adjustment	(8,794)
Payments	(59,710)
Balance at December 31, 2012	388
Acquisition of ZTEC	2,230
Payments	(388)
Balance at December 31, 2013	<u>\$ 2,230</u>

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

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Cash and cash equivalents	\$341,638	\$341,638	\$338,920	\$338,920
Marketable securities	857,960	857,960	667,388	667,388
Convertible debt (1)	185,708	611,433	169,896	589,000
Japan loan	955	955	3,491	3,491

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

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

The following tables summarize the composition of available for sale marketable securities at December 31, 2013 and 2012:

	December 31, 2013				Fair Market Value of Investments with Unrealized Losses
	Cost	Unrealized Gain	Unrealized (Loss)	Fair Market Value	
	(in thousands)				
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	—
	<u>\$855,786</u>	<u>\$3,689</u>	<u>\$(1,515)</u>	<u>\$857,960</u>	<u>\$241,760</u>

Reported as follows:

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

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

Reported as follows:

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

As of December 31, 2013, the fair market value of investments with unrealized losses totaled \$241.8 million. Of this value, \$0.6 million had unrealized losses for greater than one year and \$241.2 million had unrealized losses for less than one year. As of December 31, 2012, the fair market value of investments with unrealized losses totaled \$59.1 million. As of December 31, 2012, there were no unrealized losses greater 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, 2013 and 2012, were temporary.

The contractual maturities of investments held at December 31, 2013 were as follows:

	Cost	Fair Value
(in thousands)		
Due within one year	\$586,818	\$586,882
Due after 1 year through 5 years	231,188	231,201
Due after 5 years through 10 years	3,924	3,941
Due after 10 years	23,393	22,780
Total	<u>\$845,323</u>	<u>\$844,804</u>

Contractual maturities of investments held at December 31, 2013, exclude equity and debt mutual funds as they do not have a contractual maturity date.

Derivatives

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

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

At December 31, 2013 and 2012, 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, 2013			December 31, 2012		
	Buy Position	Sell Position	Net Total	Buy Position	Sell Position	Net Total
	(in millions)					
Japanese Yen	\$ —	\$32.6	\$ 32.6	\$ —	\$36.3	\$ 36.3
Taiwan Dollar	—	4.0	4.0	—	4.2	4.2
British Pound Sterling	—	6.9	6.9	—	5.5	5.5
Korean Won	—	5.8	5.8	—	—	—
Euro	(24.8)	0.7	(24.1)	(16.8)	1.3	(15.5)
Total	<u>\$(24.8)</u>	<u>\$50.0</u>	<u>\$ 25.2</u>	<u>\$(16.8)</u>	<u>\$47.3</u>	<u>\$ 30.5</u>

The fair value of the outstanding contracts was a gain of \$0.2 million and \$0.1 million at December 31, 2013 and 2012, respectively.

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. In 2011, Teradyne recorded net realized losses of \$1.3 million related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in interest expense and other.

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

	Balance Sheet Location	December 31,	December 31,
		2013	2012
(in thousands)			
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	<u>\$153</u>	<u>\$121</u>
Total derivatives		<u>\$153</u>	<u>\$121</u>

The following table summarizes the effect of derivative instruments in the statement of operations recognized for the years ended December 31, 2013, 2012 and 2011. The table does not reflect the corresponding (losses) gains from the remeasurement of the monetary assets and liabilities denominated in currencies. For the years ended December 31, 2013, 2012, and 2011, (losses) gains from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$(6.9) million, \$(4.5) million, and \$0.9 million, respectively.

	Location of Gains (Losses) Recognized in Statement of Operations	December 31,	December 31,	December 31,
		2013	2012	2011
(in thousands)				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Interest expense and other	<u>\$5,933</u>	<u>\$3,974</u>	<u>\$(1,327)</u>
Total derivatives		<u>\$5,933</u>	<u>\$3,974</u>	<u>\$(1,327)</u>

See Note H: "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 proceeds of \$34.2 million. An additional \$5.2 million of proceeds will be held in escrow for 15 months, for potential indemnifications to the buyer. During the fourth quarter of 2013, Teradyne recorded a gain of \$34.2 million in interest expense and other.

H. DEBT

Debt at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Convertible senior notes	\$185,708	\$169,896
Japan loan	955	3,491
Total debt	186,663	173,387
Current portion of long-term debt	186,663	2,328
Long-term debt	<u>\$ —</u>	<u>\$171,059</u>

The debt principal payments for the next 5 years and thereafter are as follows:

<u>Payments Due by Period</u>	<u>Debt Principal Payment</u>
	(in thousands)
2014	\$190,953
2015	—
2016	—
2017	—
2018	—
Beyond 2018	—
Total	<u>\$190,953</u>

Loan Agreement

On March 31, 2009, Teradyne K.K., Teradyne's wholly-owned subsidiary in Japan, entered into a loan agreement with a local bank in Japan to borrow approximately \$10.0 million (the loan is denominated in Japanese Yen). The loan has a term of 5 years and a fixed interest rate of 0.8%. Approximately \$6.0 million of the loan was collateralized by a real estate mortgage on Teradyne K.K.'s building and land in Kumamoto, Japan (which had a net book value of \$10.8 million as of December 31, 2013) and approximately \$4.0 million was unsecured. Teradyne, Inc. has guaranteed payment of the loan obligation. The principal is 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. At December 31, 2013, approximately \$1.0 million of the outstanding loan principal is included in current debt.

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 bear 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 will mature on March 15, 2014, unless earlier repurchased by Teradyne or converted. The Notes are senior unsecured obligations and rank equally with all of Teradyne's existing and future senior debt and senior to any of Teradyne's subordinated debt.

The Notes may be converted, under certain circumstances and during certain periods, at an initial conversion rate of approximately 182.65 shares of Teradyne's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$5.48, a 25% conversion premium based on the last reported sale price of \$4.38 per share of Teradyne's common stock on March 31, 2009. The conversion rate is subject to adjustment in certain circumstances.

The Notes are convertible during the last three months prior to the March 15, 2014 maturity date. Upon conversion during the last three months prior to March 15, 2014, the Notes will "net share settle," meaning that holders will receive, for each \$1,000 in principal amount of Notes, \$1,000 in cash and a number of shares of Teradyne common stock equal to 182.65 (subject to anti-dilution adjustment under certain circumstances) less a number of shares having \$1,000 of value, as determined based on the average trading price of the common stock over a 25 day trading period from February 5, 2014 to March 12, 2014. Prior to December 15, 2013, holders could have converted their Notes at their option under the following circumstances: (1) during the five business-day period after any five consecutive trading day period (the "measurement period") in which the price per Note for each day of that measurement period was less than 98% of the product of the last reported sale price of Teradyne's common stock and the conversion rate for such date; (2) during any calendar quarter, if the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of certain specified events.

During each calendar quarter of 2013 and 2012, holders were able to convert their Notes at their option prior to December 15, 2013 because the last reported sale price of Teradyne's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeded 130% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter. As of February 27, 2014, one holder exercised the option to convert two thousand dollars worth of Notes.

Teradyne may not redeem the Notes prior to their maturity. Holders of the Notes may require Teradyne to purchase in cash all or a portion of their Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, upon the occurrence of certain fundamental changes involving Teradyne (which include, among others, the liquidation or dissolution of Teradyne, the acquisition of 50% or more of the total voting shares of Teradyne, certain mergers and consolidations, and the delisting of Teradyne's stock).

Concurrently with the offering of the Notes, Teradyne entered into a convertible note hedge transaction with a strike price equal to the initial conversion price of the Notes, or approximately \$5.48. The convertible note hedge allows Teradyne to receive shares of its common stock and/or cash related to the excess conversion value that it would pay to the holders of the Notes upon conversion. The convertible note hedges will cover, subject to customary antidilution adjustments, approximately 34,703,196 shares of Teradyne's common stock and will expire on March 13, 2014. Teradyne paid approximately \$64.6 million for the convertible note hedges.

Separately, Teradyne entered into a warrant transaction with a strike price of approximately \$7.67 per share, which was 75% higher than the closing price of Teradyne's common stock on March 31, 2009. The warrants will

be net share settled, with approximately 534,000 warrants settled on a daily basis over a 65 day trading period from June 17, 2014 to September 17, 2014. Teradyne received approximately \$43.0 million for the warrants.

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

On April 6, 2009, Teradyne completed its registered public offering of the \$190.0 million aggregate principal amount convertible senior notes and settled the related convertible bond hedge and warrant transaction and received approximately \$163.0 million as a result of these financing transactions.

Teradyne considered the guidance of ASC 815-40, "*Derivatives and Hedging—Contracts in Entity's Own Equity*" and concluded that the convertible note hedge is both indexed to Teradyne's stock and should be classified in stockholders' equity in its statement of financial position. The convertible note hedge is considered indexed to Teradyne's stock as the terms of the convertible note hedge do not contain an exercise contingency and the settlement amount equals the difference between the fair value of a fixed number of Teradyne's shares and a fixed strike price. Because the only variable that can affect the settlement amount is Teradyne's stock price, which is an input to the fair value of a fixed-for-fixed option contract, the convertible note hedge is considered indexed to Teradyne's stock.

Teradyne assessed whether the convertible note hedge should be classified as equity under ASC 815-40. In the convertible note hedge contract the settlement terms permit net cash settlement or net share settlement, at the option of Teradyne. Therefore, the criteria as set forth in ASC 815-40 were evaluated by Teradyne. In reviewing the criteria, Teradyne noted the following: (1) the convertible note hedge does not require Teradyne to issue shares; (2) there are no cash payments for failure to make timely filings with the SEC; (3) in the case of termination, the convertible note hedge is settled in the same consideration as the holders of the underlying stock; (4) the counterparty does not have rights that rank higher than those of a shareholder of the stock underlying the convertible note hedge; and (5) there is no requirement to post collateral. Based on its analysis of those criteria, Teradyne concluded that the convertible note hedge should be recorded in equity and no further adjustment should be made in future periods to adjust the value of the convertible note hedge.

Teradyne analyzed the warrant transaction under ASC 815-40, "*Derivatives and Hedging—Contracts in Entity's Own Equity*" and other relevant literature, and determined that it met the criteria for classification as an equity transaction and is considered indexed to Teradyne's stock. As a result, Teradyne recorded the proceeds from the warrants as an increase to additional paid-in capital. Teradyne does not recognize subsequent changes in fair value of the warrant in its financial statements.

The provisions of ASC 470-20, "*Debt with Conversion and Other Options*" are applicable to the Notes. ASC 470-20 requires Teradyne to separately account for the liability (debt) and equity (conversion feature) components of the Notes in a manner that reflects Teradyne's nonconvertible debt borrowing rate at the date of issuance when interest cost is recognized in subsequent periods. Teradyne allocated \$63.4 million of the \$190.0 million principal amount of the Notes to the equity component, which represents a discount to the debt and will be amortized into interest expense using the effective interest method through March 2014. Accordingly, Teradyne's effective annual interest rate on the Notes will be approximately 14.5%. The Notes are classified as current debt in the balance sheet based on their March 15, 2014 maturity date. Debt issuance costs of approximately \$4.1 million are being amortized to interest expense over the five year term of the Notes. As of December 31, 2013, debt issuance costs were approximately \$0.2 million.

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(in thousands)	
Debt principal	\$189,998	\$190,000
Unamortized discount	4,290	20,104
Net carrying amount of the convertible debt	<u>\$185,708</u>	<u>\$169,896</u>
	For the year ended	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(in thousands)	
Contractual interest expense on the coupon	\$ 8,550	\$ 8,550
Amortization of the discount component and debt issue fees recognized as interest expense	<u>16,628</u>	<u>14,612</u>
Total interest expense on the convertible debt	<u>\$25,178</u>	<u>\$23,162</u>

As of December 31, 2013, the unamortized discount was \$4.3 million, which will be amortized during the first quarter of 2014, and the carrying amount of the equity component was \$63.4 million. As of December 31, 2013, the conversion rate was equal to the initial conversion price of approximately \$5.48 per share and the if-converted value of the Notes was \$611.5 million.

I. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	<u>Unrealized Gains on Marketable Securities</u>	<u>Retirement Plans Prior Service Benefit</u>	<u>Total</u>
	(in thousands)		
Balance at December 31, 2011, net of tax of \$666, \$9	\$ 1,618	\$3,128	\$ 4,746
Other comprehensive income before reclassifications, net of tax of \$370	2,009	—	2,009
Amounts reclassified from accumulated other comprehensive income, net of tax of \$(201), \$(134)	<u>(702)</u>	<u>(233)</u>	<u>(935)</u>
Net current period other comprehensive income, net of tax of \$169, \$(134)	<u>1,307</u>	<u>(233)</u>	<u>1,074</u>
Balance at December 31, 2012, net of tax of \$835, \$(125) . .	<u>2,925</u>	<u>2,895</u>	<u>5,820</u>
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)	<u>(447)</u>	<u>(276)</u>	<u>(723)</u>
Net current period other comprehensive income, net of tax of \$(41), \$(159)	<u>(1,544)</u>	<u>(276)</u>	<u>(1,820)</u>
Balance at December 31, 2013, net of tax of \$794, \$(284) . .	<u>\$ 1,381</u>	<u>\$2,619</u>	<u>\$ 4,000</u>

Reclassifications out of accumulated other comprehensive income to the statement of operations for the years ended December 31, 2013, 2012 and 2011, were as follows:

Details about Accumulated Other Comprehensive Income Components	For the year ended			Affected Line Item in the Statements of Operations
	December 31, 2013	December 31, 2012	December 31, 2011	
	(in thousands)			
Available-for-sale marketable securities				
Unrealized gains, net of tax of \$257, \$201, \$581	<u>\$447</u>	<u>\$702</u>	<u>\$1,412</u>	Interest income
	\$447	\$702	\$1,412	
Amortization of defined benefit pension and postretirement plans				
Prior service benefit, net of tax of \$159, \$134, \$(9)	<u>\$276</u>	<u>\$233</u>	<u>\$ (14)</u>	(a)
	\$276	\$233	\$ (14)	
Total reclassifications, net of tax of \$416, \$335, \$572	<u>\$723</u>	<u>\$935</u>	<u>\$1,398</u>	Net income

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

J. 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. Fair values are estimated using a discounted cash flow methodology.

Teradyne performed step one of the two step impairment test for 2013 and 2012. Teradyne performed step zero impairment test for 2011. Annual goodwill impairment test is done at the Wireless Test reporting unit level which is an operating and reportable segment and the only operating and reportable segment that has goodwill. There was no impairment.

During 2012, Teradyne recorded a \$3.5 million decrease in goodwill and a \$3.5 million increase in income tax receivable.

The changes in the carrying amount of goodwill by reporting units for the years ended December 31, 2013 and 2012 are as follows:

	Semiconductor Test	System Test	Wireless Test	Total
	(in thousands)			
Balance at December 31, 2011:				
Goodwill	\$ 260,540	\$ 148,183	\$352,778	\$ 761,501
Accumulated impairment losses	(260,540)	(148,183)	—	(408,723)
	—	—	352,778	352,778
Activity during the year	—	—	(3,506)	(3,506)
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

Intangible Assets

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

	December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
	(in thousands)			
Developed technology	\$362,055	\$193,756	\$168,299	6.3 years
Customer relationships	146,341	81,742	64,599	8.0 years
Tradenames and trademarks	33,840	14,447	19,393	9.0 years
Customer backlog	1,000	1,000	—	0.4 years
Total intangible assets	\$543,236	\$290,945	\$252,291	7.0 years
	December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life
	(in thousands)			
Developed technology	\$357,555	\$143,126	\$214,429	6.3 years
Customer relationships	144,971	63,464	81,507	8.0 years
Tradenames and trademarks	33,840	10,909	22,931	9.0 years
Customer backlog	1,000	1,000	—	0.4 years
Total intangible assets	\$537,366	\$218,499	\$318,867	7.0 years

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

During the year ended December 31, 2012, Teradyne reduced the gross amount of intangible assets by \$0.6 million for the excess tax benefit realized due to the exercise of stock options vested as of the Nextest acquisition date.

Aggregate intangible assets amortization expense for the years ended December 31, 2013, 2012 and 2011 was \$72.4 million, \$73.5 million, and \$40.5 million, respectively. Estimated intangible assets amortization expense for each of the five succeeding fiscal years is as follows:

<u>Year</u>	<u>Amortization Expense</u> (in thousands)
2014	\$70,141
2015	53,391
2016	53,391
2017	47,232
2018	22,691

K. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of December 31, 2013, Teradyne had entered into non-cancelable purchase commitments for certain components and materials. The purchase commitments covered by the agreements aggregate to approximately \$181.0 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, 2013, 2012 and 2011 was \$16.5 million, \$15.5 million and \$13.4 million, respectively.

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

	<u>Non-cancelable Lease Commitments</u> (in thousands)
2014	\$12,843
2015	10,885
2016	9,241
2017	5,023
2018	3,262
Beyond 2018	15,556
Total	<u>\$56,810</u>

Legal Claims

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.

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

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’ bylaws 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, 2013 and 2012, Teradyne had a product warranty accrual of \$6.7 million and \$9.8 million, respectively, included in other accrued liabilities, and revenue deferrals related to extended warranties of \$34.4 million and \$27.0 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, 2013 and 2012, except for product warranty, Teradyne has not recorded any liabilities for these guarantees and obligations as of December 31, 2013 and 2012 because the amount would be immaterial.

L. NET INCOME PER COMMON SHARE

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands, except per share amounts)		
Income from continuing operations	\$164,947	\$217,049	\$343,957
Income from discontinued operations	—	—	1,545
Gain on disposal of discontinued operations	—	—	24,371
Net income for basic and diluted net income per share	<u>\$164,947</u>	<u>\$217,049</u>	<u>\$369,873</u>
Weighted average common shares-basic	190,772	186,878	184,683
Effect of dilutive potential common shares:			
Incremental shares from assumed conversion of convertible notes (1)	23,341	22,367	21,504
Convertible note hedge warrant shares (2)	18,795	17,433	16,224
Restricted stock units	1,127	2,291	3,773
Stock options	1,528	1,213	566
Employee stock purchase rights	36	64	70
Dilutive potential common shares	<u>44,827</u>	<u>43,368</u>	<u>42,137</u>
Weighted average common shares-diluted	<u>235,599</u>	<u>230,246</u>	<u>226,820</u>
Net income per common shares-basic:			
Continuing operations	\$ 0.86	\$ 1.16	\$ 1.86
Discontinued operations	—	—	0.14
	<u>\$ 0.86</u>	<u>\$ 1.16</u>	<u>\$ 2.00</u>
Net income per common shares-diluted:			
Continuing operations	\$ 0.70	\$ 0.94	\$ 1.52
Discontinued operations	—	—	0.11
	<u>\$ 0.70</u>	<u>\$ 0.94</u>	<u>\$ 1.63</u>

(1) Incremental shares from assumed conversion of the convertible notes are calculated using the difference between the average Teradyne stock price for the period and the conversion price of \$5.48, multiplied by the 34.7 million shares that will be issued upon conversion. The result of this calculation, representing the total intrinsic value of the convertible debt, is divided by the average Teradyne stock price for the period.

(2) Convertible notes hedge warrant shares are calculated using the difference between the average Teradyne stock price for the period and the warrant price of \$7.67, multiplied by the 34.7 million shares that will be issued upon exercise. The result of this calculation, representing the total intrinsic value of the warrant, is divided by the average Teradyne stock price for the period. Teradyne's call option on its common stock (convertible note hedge transaction) is excluded from the calculation of diluted shares because the effect would be anti-dilutive. See Note H: "Debt" regarding convertible note hedge transaction.

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.

The computation of diluted net income per common share for 2011 excludes the effect of the potential exercise of stock options to purchase approximately 0.7 million shares because the effect would have been anti-dilutive.

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

M. RESTRUCTURING AND OTHER

Restructuring

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

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.

During the year ended December 31, 2011, Teradyne recorded \$1.2 million of charges related to headcount reductions of 7 people in Semiconductor Test and a \$(0.5) million credit primarily in System Test related to a change in the estimated exit costs related to leased facilities.

	<u>Severance and Benefits</u>	<u>Facility Exit Costs</u>	<u>Total</u>
	(in thousands)		
Pre-2011 Activities			
Balance at December 31, 2010	\$ 712	\$3,263	\$ 3,975
Provision	117	—	117
Change in estimate	155	(485)	(330)
Cash payments	<u>(984)</u>	<u>(916)</u>	<u>(1,900)</u>
Balance at December 31, 2011	—	1,862	1,862
Cash payments	<u>—</u>	<u>(778)</u>	<u>(778)</u>
Balance at December 31, 2012	—	1,084	1,084
Change in estimate	<u>—</u>	<u>(553)</u>	<u>(553)</u>
Cash payments	<u>—</u>	<u>(531)</u>	<u>(531)</u>
Balance at December 31, 2013	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

	<u>Severance and Benefits</u>	<u>Facility Exit Costs</u>	<u>Total</u>
	(in thousands)		
2011 Activities			
<i>Q1 2011 Activity:</i>			
Provision	\$ 572	\$—	\$ 572
Cash payments	(476)	—	(476)
Balance at December 31, 2011	96	—	96
Cash payments	(96)	—	(96)
Balance at December 31, 2012	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
<i>Q2 2011 Activities:</i>			
Provision	\$ 344	\$—	\$ 344
Cash payments	(115)	—	(115)
Balance at December 31, 2011	229	—	229
Cash payments	(229)	—	(229)
Balance at December 31, 2012	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
2012 Activities			
<i>Q2 2012 Activities:</i>			
Provision	\$ 286	\$—	\$ 286
Change in estimate	(4)	—	(4)
Cash payments	(282)	—	(282)
Balance at December 31, 2012	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
<i>Q3 2012 Activity:</i>			
Provision	\$ 687	\$—	\$ 687
Cash payments	(444)	—	(444)
Balance at December 31, 2012	243	—	243
Cash payments	(243)	—	(243)
Balance at December 31, 2013	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>
2013 Activities			
<i>Q3 2013 Activity:</i>			
Provision	\$1,337	\$—	\$1,337
Cash payments	(966)	—	(966)
Balance at December 31, 2013	<u>\$ 371</u>	<u>\$—</u>	<u>\$ 371</u>
<i>Q4 2013 Activity:</i>			
Provision	\$ 600	\$—	\$ 600
Cash payments	(486)	—	(486)
Balance at December 31, 2013	<u>\$ 114</u>	<u>\$—</u>	<u>\$ 114</u>
Balance at December 31, 2013	<u>\$ 485</u>	<u>\$—</u>	<u>\$ 485</u>

Other

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.

During the year ended December 31, 2011, Teradyne recorded \$5.8 million of other charges in which \$4.6 million related to acquisition costs and \$1.2 million related to a non-U.S pension settlement.

N. RETIREMENT PLANS

ASC 715, “*Compensation—Retirement Benefits*” requires an employer with defined benefit plans or other postretirement benefit plans to recognize an asset or a liability on its balance sheet for the overfunded or underfunded status of the plans as defined by ASC 715. The pension asset or liability represents a difference between the fair value of the pension plan’s assets and the projected benefit obligation at December 31.

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.

Teradyne uses a December 31 measurement date for all of its plans. The December 31 balances of these defined benefit pension plans assets and obligations are shown below:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Assets and Obligations		
Change in benefit obligation:		
Projected benefit obligation:		
Beginning of year	\$376,498	\$390,278
Service cost	3,427	2,787
Interest cost	13,266	15,670
Actuarial (gain) loss	(32,279)	31,912
Benefits paid	(16,169)	(65,650)
Plan participants’ contributions	95	108
Non-U.S. currency movement	1,256	1,393
End of year	<u>346,094</u>	<u>376,498</u>
Change in plan assets:		
Fair value of plan assets:		
Beginning of year	302,899	339,580
Company contributions	4,260	3,306
Plan participants’ contributions	95	108
Actual return on plan assets	(9,373)	24,621
Benefits paid	(16,169)	(65,650)
Non-U.S. currency movement	417	934
End of year	<u>282,129</u>	<u>302,899</u>
Funded status	<u>\$ (63,965)</u>	<u>\$ (73,599)</u>

During the year ended December 31, 2012, Teradyne offered to certain former U.S. employees the option to receive their vested pension benefit as a one-time, lump sum payment. Approximately 2,000 former employees elected to receive a lump sum payment. Total lump sum payments were approximately \$52.0 million.

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

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Retirement plans assets	\$ 9,342	\$ 3,282
Accrued employees' compensation and withholdings	(2,924)	(2,810)
Retirement plans liabilities	<u>(70,383)</u>	<u>(74,071)</u>
Funded status	<u><u>\$(63,965)</u></u>	<u><u>\$(73,599)</u></u>

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

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Prior service cost	\$493	\$656
Deferred taxes	<u>380</u>	<u>321</u>
Total recognized in other comprehensive income, net of tax	<u><u>\$873</u></u>	<u><u>\$977</u></u>

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 2014 is \$0.1 million.

The accumulated benefit obligation for all defined benefit pension plans was \$331.2 million and \$360.4 million at December 31, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
	(in millions)	
Projected benefit obligation	\$74.2	\$75.6
Accumulated benefit obligation	65.5	65.7
Fair value of plan assets	0.9	0.8

Expense

For the years ended December 31, 2013, 2012 and 2011, Teradyne's net periodic pension (income) cost was comprised of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Components of Net Periodic Pension (Income) Cost:			
Service cost	\$ 3,427	\$ 2,787	\$ 2,735
Interest cost	13,266	15,670	17,466
Expected return on plan assets	(14,591)	(15,946)	(15,602)
Amortization of prior service cost	164	232	621
Net actuarial (gain) loss	(8,315)	23,237	12,583
Settlement loss	—	—	1,567
Total net periodic pension (income) cost	<u>\$ (6,049)</u>	<u>\$ 25,980</u>	<u>\$ 19,370</u>
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:			
Reversal of amortization items:			
Prior service cost	(164)	(232)	(621)
Total recognized in other comprehensive income	<u>(164)</u>	<u>(232)</u>	<u>(621)</u>
Total recognized in net periodic pension (income) cost and other comprehensive income	<u>\$ (6,213)</u>	<u>\$ 25,748</u>	<u>\$ 18,749</u>

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

	<u>United States Plans</u>			<u>Foreign Plans</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	3.6%	4.2%	5.3%	3.7%	4.9%	5.0%
Expected return on plan assets	5.0	5.0	5.5	3.7	3.1	3.5
Salary progression rate	3.0	3.0	4.0	3.5	3.4	4.0

Weighted Average Assumptions to Determine Pension Obligations at December 31

	<u>United States Plans</u>		<u>Foreign Plans</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Discount rate	4.5%	3.6%	3.8%	3.7%
Salary progression rate	3.0	3.0	3.5	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 2013 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 rereasurement 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.

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 4.5% at December 31, 2013, up from 3.6% at December 31, 2012.

Plan Assets

As of December 31, 2013, the fair value of Teradyne's pension plans' assets totaled \$282.1 million of which \$256.4 million was related to the U.S. Plan, \$24.8 million was related to the U.K. defined benefit pension plan, and \$0.9 million was related to the Taiwan defined benefit pension plan. Teradyne's pension plans' assets consisted primarily of investments in fixed-income and equity securities. Substantially all our pension plan 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, 2013 and 2012, by asset category is as follows:

	<u>United States Plan</u>		<u>Foreign Plans</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Fixed Income Securities	86.7%	85.8%	77.1%	49.2%
Equity Securities	12.1	13.0	21.6	49.6
Other	1.2	1.2	1.3	1.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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, is as follows:

<u>Asset Category:</u>	<u>Policy Index:</u>	<u>Target Allocation</u>
Passive and Active Fixed Income	Barclays U.S. Long Government/Credit Bond Index	90%
Equity (Large cap)	S&P 500 Stock Index	7
International Equity	MSCI EAFE Index	3

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. These investments are valued using significant observable inputs (Level 2). The fair market value of assets for the international pension plans was \$25.7 million as of December 31, 2013. There were no investments with significant unobservable inputs (Level 3) in the non-U.S. pension plans. During the years ended December 31, 2013 and 2012, there were no transfers of pension assets in or out of Level 1, Level 2 or Level 3.

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. Substantially all of these investments are valued using significant observable inputs (Level 2). The fair market value of assets for the U.S. Plan was \$256.4 million as of December 31, 2013. There were no investments with significant unobservable inputs (Level 3) in the U.S. Plan. During the years ended December 31, 2013 and 2012, 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, 2013 and December 31, 2012 were as follows:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Fixed income securities:				
Corporate debt securities	\$ —	\$156,860	\$ —	\$156,860
U.S. government securities	21,415	41,140	—	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	—	14,803	—	14,803
Guarantee annuity contract	—	2,985	—	2,985
Other	—	906	—	906
Cash and cash equivalents	146	36	—	182
Total	<u>\$21,561</u>	<u>\$260,568</u>	<u>\$ —</u>	<u>\$282,129</u>

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Fixed income securities:				
Corporate debt securities	\$ —	\$157,263	\$ —	\$157,263
U.S. government securities	23,712	58,962	—	82,674
U.K. government securities	—	8,593	—	8,593
Asset backed securities	—	2,042	—	2,042
U.S. equity (large cap)	—	23,832	—	23,832
International equity	—	23,990	—	23,990
Guarantee annuity contract	—	3,108	—	3,108
Other	—	839	—	839
Cash and cash equivalents	—	558	—	558
Total	<u>\$23,712</u>	<u>\$279,187</u>	<u>\$ —</u>	<u>\$302,899</u>

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 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. During 2012, Teradyne contributed \$1.7 million to the U.S. supplemental executive defined benefit pension plan and \$1.6 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:

	<u>United States</u>	<u>Foreign</u>
	(in thousands)	
2014	\$14,607	\$1,177
2015	16,124	1,085
2016	16,636	959
2017	17,370	1,085
2018	18,011	1,140
2019-2023	98,269	8,946

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, and medical and dental benefits up to age 65. Death benefits provide a fixed sum to retirees' survivors and are available to all retirees. Substantially all of Teradyne's current U.S. employees could become eligible for these benefits, and the existing benefit obligation relates primarily to those employees.

Teradyne uses a December 31 measurement date for its plan. The December 31 balances of the postretirement assets and obligations are shown below:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Assets and Obligations		
Change in benefit obligation:		
Projected benefit obligation:		
Beginning of year	\$11,907	\$ 12,793
Service cost	75	67
Interest cost	342	437
Actuarial (gain) loss	(2,025)	82
Benefits paid	(1,280)	(1,472)
End of year	<u>9,019</u>	<u>11,907</u>
Change in plan assets:		
Fair value of plan assets:		
Beginning of year	—	—
Company contributions	1,280	1,472
Benefits paid	(1,280)	(1,472)
End of year	<u>—</u>	<u>—</u>
Funded status	<u>\$ (9,019)</u>	<u>\$ (11,907)</u>

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

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Accrued employees' compensation and withholdings	\$(1,042)	\$ (1,322)
Retirement plans liability	<u>(7,977)</u>	<u>(10,585)</u>
Funded status	<u><u>\$(9,019)</u></u>	<u><u>\$(11,907)</u></u>

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

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Prior service credit	\$(2,829)	\$(3,427)
Total recognized in other comprehensive income before tax	<u>(2,829)</u>	<u>(3,427)</u>
Deferred taxes	<u>(664)</u>	<u>(445)</u>
Total recognized in other comprehensive income, net of tax	<u><u>\$(3,493)</u></u>	<u><u>\$(3,872)</u></u>

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 cost in 2014 is \$(0.6) million.

Expense

For the years ended December 31, 2013, 2012 and 2011, Teradyne's net periodic postretirement benefit (income) cost was comprised of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Components of Net Periodic Postretirement Benefit (Income) Cost:			
Service cost	\$ 75	\$ 67	\$ 59
Interest cost	342	437	539
Amortization of prior service cost	(598)	(599)	(598)
Net actuarial (gain) loss	<u>(2,025)</u>	<u>83</u>	<u>981</u>
Total net periodic postretirement benefit (income) cost	<u>(2,206)</u>	<u>(12)</u>	<u>981</u>
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:			
Reversal of amortization items:			
Prior service credit	<u>598</u>	<u>599</u>	<u>598</u>
Total recognized in other comprehensive income	<u>598</u>	<u>599</u>	<u>598</u>
Total recognized in net periodic postretirement benefit (income) cost and other comprehensive income	<u><u>\$(1,608)</u></u>	<u><u>\$ 587</u></u>	<u><u>\$1,579</u></u>

Weighted Average Assumptions to Determine Net Periodic Postretirement Benefit Cost as of January 1

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	3.1%	3.7%	4.5%
Initial Health Care Cost Trend Rate	8.5	9.0	8.5
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	2018

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	4.1%	3.1%	3.7%
Initial Medical Trend	8.0	8.5	9.0
Ultimate Health Care Trend	5.0	5.0	5.0
Medical cost trend rate decrease to ultimate rate in year	2020	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, 2013, would have the following effects:

	<u>1 Percentage Point Increase</u>	<u>1 Percentage Point Decrease</u>
	(in thousands)	
Effect on total service and interest cost components	\$ 13	\$ (12)
Effect on postretirement benefit obligations	244	(229)

Expected Future Benefit Payments

Future benefit payments are expected to be paid as follows:

	<u>Benefits Payments</u>
	(in thousands)
2014	\$1,042
2015	981
2016	969
2017	853
2018	818
2019-2023	3,051

O. 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.

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. A portion of the restricted stock unit awards granted to executive officers is subject to time-based vesting and a portion is subject to performance-based vesting. The percentage level of performance satisfied for performance-based grants is assessed on or near the anniversary of

the grant date and, in turn, that percentage level determines the number of performance-based restricted stock units available for vesting over the vesting period; portions of the performance-based grants not available for vesting will be forfeited.

In 2013, 2012 and 2011, Teradyne granted service-based stock options to executive officers. These stock options vest in equal installments over four years and have a term of seven years.

Stock compensation plan activity for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Restricted Stock Units:			
Non-vested at January 1	4,970	5,840	6,963
Awarded	2,110	1,844	1,936
Vested	(2,322)	(2,510)	(2,624)
Forfeited	(122)	(204)	(435)
Non-vested at December 31	<u>4,636</u>	<u>4,970</u>	<u>5,840</u>
Stock Options:			
Outstanding at January 1	3,841	5,335	7,194
Granted	213	151	145
Assumed from acquisition	—	—	2,828
Exercised	(1,220)	(1,396)	(965)
Forfeited	(104)	(203)	—
Cancelled	(24)	(46)	(3,867)
Outstanding at December 31	<u>2,706</u>	<u>3,841</u>	<u>5,335</u>
Vested and expected to vest at December 31	<u>2,694</u>	<u>3,785</u>	<u>4,904</u>
Exercisable at December 31	<u>1,814</u>	<u>2,004</u>	<u>1,844</u>

Total shares available for the years 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Shares available:			
Available for grant at January 1	6,414	8,205	9,851
Options granted	(213)	(151)	(145)
Restricted stock units granted	(2,110)	(1,844)	(1,936)
Restricted stock units forfeited	122	204	435
Additional shares reserved	10,000	—	—
Available for grant at December 31	<u>14,213</u>	<u>6,414</u>	<u>8,205</u>

Weighted-average restricted stock unit award date fair value information for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Non-vested at January 1	\$12.72	\$10.01	\$ 7.92
Awarded	16.53	16.67	15.77
Vested	10.40	9.29	8.56
Forfeited	15.48	13.32	9.24
Non-vested at December 31	\$15.56	\$12.72	\$10.01

Restricted stock unit awards aggregate intrinsic value information at December 31 for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Outstanding	\$81,680	\$83,949	\$79,598
Expected to vest	77,388	78,718	75,860

Restricted stock units weighted average contractual terms (in years) information at December 31, for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Outstanding	1.14	1.01	1.04
Expected to vest	1.13	1.00	1.03

Weighted average stock options exercise price information for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Outstanding at January 1	\$ 4.64	\$ 4.12	\$16.32
Options granted	16.56	16.95	16.23
Assumed from acquisition	—	—	2.69
Options exercised	3.28	3.87	4.38
Options forfeited	2.57	3.11	—
Options cancelled	8.05	16.21	26.38
Outstanding at December 31	6.29	4.64	4.12
Exercisable at December 31	4.55	3.70	4.10

Stock option aggregate intrinsic value information for the years ended December 31, 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Exercised	\$16,848	\$17,136	\$11,307
Outstanding	30,673	47,051	51,306
Vested and expected to vest	30,512	46,283	46,655
Exercisable	23,707	26,436	17,766

Stock options weighted average contractual terms (in years) information at December 31, for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Outstanding	4.9	5.7	6.4
Vested and Expected to vest	4.9	5.6	6.2
Exercisable	4.3	4.9	4.0

Significant option groups outstanding at December 31, 2013 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	Weighted-Average Exercise Price
		(shares in thousands)			
\$0.94 – \$2.58	5.97	485	\$ 1.83	436	\$ 1.79
\$2.67 – \$2.74	5.39	821	2.69	545	2.70
\$3.23 – \$7.71	3.80	674	5.15	590	5.00
\$9.34 – \$16.95	4.64	726	14.39	243	12.58
		<u>2,706</u>	\$ 6.29	<u>1,814</u>	\$ 4.55

As of December 31, 2013, 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.

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 2013, is equal to 85% of the stock price on the last business day of the six month purchase period. In 2012 and 2011, 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.

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.

In July 2011, 0.6 million shares of common stock were issued to employees who participated in the plan during the first half of 2011, at the price of \$11.65 per share. In January 2012, Teradyne issued 0.6 million shares of common stock to employees who participated in the plan during the second half of 2011, at the price of \$11.59 per share.

P. 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 2013, 2012 and 2011, 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 ERISA and the IRC. 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, 2013, 2012 and 2011 were \$12.0 million, \$10.6 million and \$11.3 million, respectively.

Q. INCOME TAXES

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Income from continuing operations before income taxes:			
U.S.	\$ 79,229	\$112,008	\$ 68,943
Non-U.S.	<u>122,693</u>	<u>153,968</u>	<u>145,478</u>
	<u>\$201,922</u>	<u>\$265,976</u>	<u>\$ 214,421</u>
Provision (benefit) for income taxes from continuing operations:			
Current:			
U.S. Federal	\$ 18,051	\$ 22,695	\$ 3,668
Non-U.S.	22,509	18,261	23,994
State	<u>(269)</u>	<u>(12)</u>	<u>760</u>
	<u>40,291</u>	<u>40,944</u>	<u>28,422</u>
Deferred:			
U.S. Federal	(1,692)	8,158	(139,929)
Non-U.S.	(1,386)	5,997	(10,549)
State	<u>(238)</u>	<u>(6,172)</u>	<u>(7,480)</u>
	<u>(3,316)</u>	<u>7,983</u>	<u>(157,958)</u>
Total provision (benefit) for income taxes from continuing operations:	<u>\$ 36,975</u>	<u>\$ 48,927</u>	<u>\$(129,536)</u>

The total income tax provision (benefit) for the years ended December 31, 2013, 2012 and 2011 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Continuing operations	\$36,975	\$48,927	\$(129,536)
Discontinued operations	<u>—</u>	<u>—</u>	<u>4,311</u>
Total income tax provision (benefit)	<u>\$36,975</u>	<u>\$48,927</u>	<u>\$(125,225)</u>

For the tax years ended December 31, 2013 and December 31, 2012, the income tax expense from continuing operations totaled \$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 2012 to 2013 was due to the reinstatement of the U.S. research and development tax credit in 2013 for fiscal years 2012 and 2013, lower pre-tax income, partially offset by higher tax expense for uncertain tax positions and state taxes.

For the tax year ended December 31, 2011, the income tax benefit from continuing operations totaled \$129.5 million, primarily attributable to the reduction of Teradyne's deferred income tax valuation allowance.

A reconciliation of the effective tax rate for the years 2013, 2012 and 2011 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
U.S. statutory federal tax rate	35.0%	35.0%	35.0%
Foreign taxes	(10.8)	(11.5)	(12.6)
U.S. research and development credit	(7.2)	—	(1.1)
Other U.S. permanent items	1.1	(2.8)	5.7
Valuation allowance	0.4	(0.5)	(86.6)
State income taxes, net of federal tax benefit	0.1	(1.7)	—
Other, net	<u>(0.3)</u>	<u>(0.1)</u>	<u>(0.8)</u>
	<u>18.3%</u>	<u>18.4%</u>	<u>(60.4)%</u>

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

Teradyne qualifies for a tax holiday in Singapore by fulfilling the requirements of an agreement with the Singapore Economic Development Board under which certain headcount and spending requirements must be met. The tax savings due to the tax holiday for the years ended December 31, 2013, 2012 and 2011 were \$4.7 million or \$0.02 per diluted share, \$10.9 million or \$0.05 per diluted share and \$0.2 million or \$0.00 per diluted share, respectively. The tax holiday is currently expected to expire on 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, 2013 were \$0.4 million.

Significant components of Teradyne's deferred tax assets (liabilities) as of December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 14,679	\$ 36,674
Tax credits	65,210	64,123
Inventory valuations	38,452	50,886
Pension liability	22,966	28,674
Research and development	—	284
Accruals	17,828	14,246
Equity compensation	10,498	9,355
Vacation accrual	7,291	6,452
Other	2,613	282
Deferred revenue	<u>12,379</u>	<u>15,118</u>
Gross deferred tax assets	<u>191,916</u>	<u>226,094</u>
Less: valuation allowance	<u>(40,386)</u>	<u>(55,446)</u>
Total deferred tax assets	<u>151,530</u>	<u>170,648</u>
Deferred tax liabilities:		
Marketable securities	(794)	(996)
Intangible assets	(89,268)	(114,730)
Excess of tax over book depreciation	<u>(24,458)</u>	<u>(22,446)</u>
Total deferred tax liabilities	<u>(114,520)</u>	<u>(138,172)</u>
Net deferred assets	<u>\$ 37,010</u>	<u>\$ 32,476</u>

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 option 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, 2013, these windfall stock option deductions will be tracked off balance sheet in accordance with ASC 718. During 2012, Teradyne's valuation allowance increased by \$4.4 million primarily due to the increase in the deferred tax assets related to state tax credits generated in 2012. During 2011, Teradyne's beginning of the year valuation allowance decreased by \$190.2 million due to a release of the valuation allowance.

As of December 31, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, Teradyne maintained a valuation allowance for certain deferred tax assets of \$40.4 million and \$55.4 million, respectively, primarily related to state net operating losses and state tax 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.

As of December 31, 2011, 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. The evidence consisted primarily of its three year U.S. historical cumulative profitability, projected future taxable income, forecasted utilization of the deferred tax assets and the fourth quarter of 2011 acquisition of LitePoint, offset by the volatility of the industries Teradyne operates in, primarily the semiconductor industry. As such, Teradyne reduced the valuation allowance by \$190.2 million, which was recorded as a tax benefit in the year ended December 31, 2011.

At December 31, 2013, Teradyne had operating loss carryforwards that expire in the following years:

	<u>U.S. Federal Operating Loss Carryforwards</u>	<u>State Net Operating Loss Carryforwards</u>	<u>Foreign Net Operating Loss Carryforwards</u>
	(in thousands)		
2014	\$ —	\$ 335	\$ —
2015	—	2	—
2016	—	843	—
2017	—	831	—
2018	—	706	—
2019-2024	16,600	2,791	—
2025-2027	300	52	—
Beyond 2027	2,454	3,673	—
Non-expiring	—	—	10,380
Total	<u>\$19,354</u>	<u>\$9,233</u>	<u>\$10,380</u>

Of the U.S. federal operating loss carryforwards, \$16.5 million relates to the acquisition of GenRad, Inc. ("GenRad") in 2001 and \$2.8 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 net 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 \$133.4 million of tax credit carry forwards. Federal business tax credits of approximately \$27.7 million expire in the years 2017 through 2033. Teradyne has foreign tax credits of approximately \$34.5 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 \$64.6 million which begin to expire in 2014. Teradyne has federal tax credits of \$41.1 million, that are attributable to stock option

exercises 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, 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Beginning balance, as of January 1	\$18,666	\$19,391	\$11,777
Additions:			
Tax positions for current year	4,586	459	6,131
Tax positions for prior years	2,112	2,259	1,065
Acquired tax positions	—	—	1,388
Reductions:			
Tax positions for prior years	(4,161)	(3,443)	(970)
Settlements with tax authorities	—	—	—
Ending Balance as of December 31	<u>\$21,203</u>	<u>\$18,666</u>	<u>\$19,391</u>

Current year and prior year additions include assessment of potential transfer pricing issues worldwide, federal tax credits, state tax credits, and domestic production activities deduction. Reductions for tax positions for prior years primarily relate to statute expiration and the effective settlement of a state tax audit. Of the \$21.2 million of unrecognized tax benefits as of December 31, 2013, \$16.0 million would impact the consolidated income tax rate if ultimately recognized. The remaining \$5.2 million would impact the valuation allowance if recognized.

As of December 31, 2013, Teradyne has open tax years beginning in 2007 for major jurisdictions including the U.S., Japan, Singapore, Germany and the United Kingdom. Teradyne estimates that it is reasonably possible that the balance of unrecognized tax benefits as of December 31, 2013 may decrease approximately \$1.0 million in the next twelve months, as a result of a lapse of statutes of limitation and the effective settlement of a tax audit.

As of December 31, 2013, a deferred tax liability has not been established for approximately \$320.0 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 practical 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.

R. 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 military/aerospace instrumentation test, storage test and circuit-board test. Each operating segment has a segment manager who is directly accountable to and maintains regular contact with Teradyne’s chief operating decision maker (Teradyne’s chief executive officer) to discuss operating activities, financial results, forecasts, and plans for the segment.

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

Segment information for the years ended December 31, 2013, 2012 and 2011 is as follows:

	<u>Semiconductor Test</u>	<u>Wireless Test</u>	<u>System Test</u>	<u>Corporate And Eliminations</u>	<u>Consolidated</u>
	(in thousands)				
2013					
Net revenue	\$1,023,041	\$251,871	\$153,021	\$ —	\$1,427,933
Income from continuing operations 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
2012					
Net revenue	\$1,127,726	\$286,355	\$242,669	\$ —	\$1,656,750
Income from continuing operations 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
2011					
Net revenue	\$1,106,191	\$ 28,390	\$294,480	\$ —	\$1,429,061
Income (loss) from continuing operations before taxes (1)(2)	219,651	(20,579)	53,298	(37,949)	214,421
Total assets (3)	581,026	725,940	77,277	804,396	2,188,639
Property additions	80,606	794	4,697	—	86,097
Depreciation and amortization expense	74,278	13,057	4,192	15,154	106,681

- (1) Interest income, interest expense and other, and pension and postretirement plans actuarial gains and losses are included in Corporate and Eliminations.
- (2) Included in income (loss) from continuing operations before taxes are charges and credits related to restructuring and other and inventory 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:

	<u>For the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Cost of revenues—inventory charge (1)	\$5,218	\$18,433	\$10,370
Restructuring and other	1,016	386	2,142

- (1) Included in the cost of revenues for the years ended December 31, 2012 and 2011 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:

	<u>For the Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands)		
Cost of revenues—inventory charge	\$4,168	\$4,271	\$1,090
Restructuring and other	1,431	451	(300)

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

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cost of revenues—inventory step-up (2)	\$ —	\$6,089	\$12,178
Cost of revenues—inventory charge	7,206	4,145	141
Restructuring and other	82	236	—

(2) Included in the cost of revenues for the years ended December 31, 2012 and 2011 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,		
	2013	2012	2011
	(in thousands)		
Restructuring and other	\$(449)	\$(8,794)	\$4,901

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

	2013	2012	2011
	(in thousands)		
Revenues from customers (1):			
China	\$ 323,564	\$ 351,335	\$ 180,441
Taiwan	272,919	299,359	172,700
United States	222,731	238,280	221,895
Korea	119,286	216,445	145,958
Singapore	114,765	101,502	90,622
Europe	90,797	77,099	101,208
Malaysia	86,900	69,064	138,107
Japan	81,806	100,807	148,699
Philippines	63,392	111,571	130,484
Thailand	32,209	80,518	80,539
Rest of the World	19,564	10,770	18,408
	<u>\$1,427,933</u>	<u>\$1,656,750</u>	<u>\$1,429,061</u>

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

In 2013 and 2012, one customer accounted for 12% and 10%, respectively, of total consolidated revenues. The customer is a customer of Teradyne's Wireless Test and Semiconductor Test segments. In 2011, no customer accounted for 10% or more of total consolidated revenues.

Long-lived assets by geographic area:

	United States	Foreign Countries	Total
	(in thousands)		
December 31, 2013	\$211,455	\$63,781	\$275,236
December 31, 2012	211,422	54,360	265,782

S. STOCK REPURCHASE PROGRAM

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

T. SUBSEQUENT EVENTS

In January 2014, the Board declared an initial quarterly cash dividend of \$0.06 per share to be paid on June 2, 2014 to shareholders of record as of May 9, 2014. Payments of future cash dividends will rest within the discretion of the Board and will depend, among other things, upon Teradyne's earnings, capital requirements and financial condition.

Michael A. Bradley retired as Chief Executive Officer of Teradyne effective January 31, 2014. Mr. Bradley will continue to serve on Teradyne's Board of Directors. In connection with his retirement, Teradyne entered into an agreement on January 22, 2014 with Mr. Bradley (the "Retirement Agreement"). 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. The Retirement Agreement also includes additional, standard terms and conditions relating to Mr. Bradley's separation from Teradyne. Teradyne will record a stock based compensation expense of approximately \$6.6 million in the first quarter of 2014 related to the Retirement Agreement.

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.

	2013			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter (1)(2)
	(in thousands, except per share amounts)			
Net revenues:				
Products	\$214,300	\$363,087	\$365,825	\$211,710
Services	<u>66,067</u>	<u>65,802</u>	<u>67,551</u>	<u>73,591</u>
Total net revenues	280,367	428,889	433,376	285,301
Cost of revenues:				
Cost of products	96,793	158,411	150,365	93,461
Cost of services	<u>30,157</u>	<u>29,245</u>	<u>28,717</u>	<u>31,983</u>
Total cost of revenues	126,950	187,656	179,082	125,444
Gross profit	<u>153,417</u>	<u>241,233</u>	<u>254,294</u>	<u>159,857</u>
Operating expenses:				
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	<u>332</u>	<u>259</u>	<u>889</u>	<u>600</u>
Total operating expenses	149,009	155,325	160,788	153,020
Income from operations	4,408	85,908	93,506	6,837
Interest income	1,072	903	948	1,206
Interest expense and other	<u>6,906</u>	<u>6,454</u>	<u>6,902</u>	<u>(27,396)</u>
(Loss) income from continuing operations before income taxes	(1,426)	80,357	87,552	35,439
(Benefit) provision for income taxes	<u>(8,015)</u>	<u>13,801</u>	<u>18,093</u>	<u>13,096</u>
Net income	<u>\$ 6,589</u>	<u>\$ 66,556</u>	<u>\$ 69,459</u>	<u>\$ 22,343</u>
Net income per common share—basic	<u>\$ 0.03</u>	<u>\$ 0.35</u>	<u>\$ 0.36</u>	<u>\$ 0.12</u>
Net income per common share—diluted	<u>\$ 0.03</u>	<u>\$ 0.28</u>	<u>\$ 0.29</u>	<u>\$ 0.09</u>

- (1) Interest expense and other includes a \$34.2 million gain from the sale of an equity investment.
- (2) In the fourth quarter ended December 31, 2013, pension and post retirement net actuarial gains increased gross profit and net income by \$2.7 million and \$9.1 million, respectively. See Note B: "Accounting Policies" for a discussion of our accounting policy.

	2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(1)	(2)	(3)	(4)
	(in thousands, except per share amounts)			
Net revenues:				
Products	\$330,891	\$480,578	\$393,037	\$179,063
Services	<u>65,777</u>	<u>67,706</u>	<u>70,357</u>	<u>69,341</u>
Total net revenues	396,668	548,284	463,394	248,404
Cost of revenues:				
Cost of products	174,001	206,498	169,782	92,599
Cost of services	<u>31,741</u>	<u>32,280</u>	<u>33,412</u>	<u>30,400</u>
Total cost of revenues	205,742	238,778	203,194	122,999
Gross profit	<u>190,926</u>	<u>309,506</u>	<u>260,200</u>	<u>125,405</u>
Operating expenses:				
Engineering and development	61,279	67,834	63,946	62,807
Selling and administrative	66,633	72,064	69,030	69,289
Acquired intangible assets amortization	18,429	18,429	18,429	18,221
Restructuring and other	<u>(1,825)</u>	<u>(6,262)</u>	<u>683</u>	<u>(317)</u>
Total operating expenses	144,516	152,065	152,088	150,000
Income (loss) from operations	46,410	157,441	108,112	(24,595)
Interest income	893	874	1,067	1,256
Interest expense and other	<u>6,059</u>	<u>6,323</u>	<u>6,154</u>	<u>6,946</u>
Income (loss) from continuing operations before income taxes	41,244	151,992	103,025	(30,285)
Provision (benefit) for income taxes	<u>7,680</u>	<u>40,605</u>	<u>14,384</u>	<u>(13,742)</u>
Net income (loss)	<u>\$ 33,564</u>	<u>\$111,387</u>	<u>\$ 88,641</u>	<u>\$ (16,543)</u>
Net income (loss) per common share—basic	<u>\$ 0.18</u>	<u>\$ 0.60</u>	<u>\$ 0.47</u>	<u>\$ (0.09)</u>
Net income (loss) per common share—diluted	<u>\$ 0.15</u>	<u>\$ 0.49</u>	<u>\$ 0.39</u>	<u>\$ (0.09)</u>

- (1) Restructuring and other includes a (\$1.8) million fair value adjustment to decrease the LitePoint acquisition contingent consideration.
- (2) Restructuring and other includes \$0.3 million of severance charges related to headcount reductions of 10 people in Semiconductor Test and (\$6.5) million fair value adjustment to decrease the LitePoint acquisition contingent consideration.
- (3) In the fourth quarter ended December 31, 2012, we corrected prior period income tax provision (benefit) errors that resulted in a \$0.2 million income tax provision. These errors were not individually or in aggregate material to the fourth quarter of 2012 or any prior period.
- (4) In the fourth quarter ended December 31, 2012, pension and postretirement actuarial losses decreased gross profit and net income by \$8.1 million and \$18.3 million, respectively. 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, 2013 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* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework* (1992), our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 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 20, 2014. 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 20, 2014. 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 20, 2014. 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 20, 2014. 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 20, 2014. 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.

PART IV

Item 15: Exhibits and Financial Statement Schedules.

15(a)(1) Financial Statements

The following consolidated financial statements are included in Item 8:

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Report of Independent Registered Public Accounting Firm	37
Consolidated Balance Sheets as of December 31, 2013 and 2012	38
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011	39
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011	40
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011	41
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	42

15(a)(2) Financial Statement Schedule

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

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Cost and Expenses</u>	<u>Other</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
	(in thousands)				
Valuation reserve deducted in the balance sheet from the asset to which it applies:					
Accounts receivable:					
2013 Allowance for doubtful accounts	<u>\$4,118</u>	<u>\$ 69</u>	<u>\$—</u>	<u>\$1,275(1)</u>	<u>\$2,912</u>
2012 Allowance for doubtful accounts	<u>\$4,102</u>	<u>\$ 78</u>	<u>\$—</u>	<u>\$ 62</u>	<u>\$4,118</u>
2011 Allowance for doubtful accounts	<u>\$3,752</u>	<u>\$—</u>	<u>\$429</u>	<u>\$ 79</u>	<u>\$4,102</u>

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

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Cost and Expenses</u>	<u>Other</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
	(in thousands)				
Valuation reserve deducted in the balance sheet from the asset to which it applies:					
Inventory:					
2013 Inventory reserve	<u>\$141,838</u>	<u>\$16,592</u>	<u>\$2,568</u>	<u>\$45,141</u>	<u>\$115,857</u>
2012 Inventory reserve	<u>\$123,512</u>	<u>\$26,849</u>	<u>\$5,353</u>	<u>\$13,876</u>	<u>\$141,838</u>
2011 Inventory reserve	<u>\$122,434</u>	<u>\$11,601</u>	<u>\$6,815</u>	<u>\$17,338</u>	<u>\$123,512</u>

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 No.	Description	SEC Document Reference
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.
4.1	Indenture dated as of April 6, 2009 between Teradyne and U.S. Bank National Association as trustee, together with form of Note.	Exhibit 4.1 to Teradyne's Current Report on Form 8-K filed April 6, 2009.
4.2	Form of Note.	Included in Exhibit 4.1 to Teradyne's Current Report on Form 8-K filed April 6, 2009.
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.

Exhibit No.	Description	SEC Document Reference
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.
10.11	Form of Time-Based Restricted Stock Unit Agreement for Executive Officers under 2006 Equity and Cash Compensation Incentive Plan.*	Filed herewith.
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	1997 Employee Stock Option Plan, as amended and restated.*	Exhibit 10.2 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and Exhibit 10.5 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
10.14	Form of Option Agreement under the 1997 Employee Stock Option Plan.*	Exhibit 10.47 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended October 3, 2004.
10.15	Form of Restricted Stock Unit Agreement for Executive Officers under the 1997 Employee Stock Option Plan.*	Exhibit 10.1 to Teradyne's Current Report on Form 8-K filed January 30, 2006.
10.16	Form of Restricted Stock Unit Agreement for Directors under the 1997 Employee Stock Option Plan.*	Exhibit 10.2 to Teradyne's Current Report on Form 8-K filed January 30, 2006.
10.17	1996 Non-Employee Director Stock Option Plan, as amended.*	Exhibit 10.34 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and Exhibit 10.4 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
10.18	Form of Option Agreement under 1996 Non-Employee director Stock Option Plan.*	Exhibit 10.48 to Teradyne's Quarterly Report on Form 10-Q for the quarter ended October 3, 2004.
10.19	1996 Employee Stock Purchase Plan, as amended.*	Appendix B to Teradyne's Notice and Proxy Statement on Schedule 14A filed April 11, 2013.
10.20	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.
10.21	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.

Exhibit No.	Description	SEC Document Reference
10.22	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.
10.23	Executive Officer Agreement dated January 22, 2014 between Teradyne and Michael A. Bradley.*	Filed herewith.
10.24	Agreement Regarding Termination Benefits dated January 22, 2014 between Teradyne and Mark Jagiela.*	Filed herewith.
10.25	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.
10.26	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.
10.27	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.
10.28	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.
10.29	Amended and Restated Executive Officer Change in Control Agreement dated January 22, 2014 between Teradyne and Mark Jagiela, as amended.*	Filed herewith.
10.30	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.
10.31	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.
10.32	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.
10.33	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.
10.34	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.

Exhibit No.	Description	SEC Document Reference
10.35	Form of Executive Officer Stock Option Agreement under 2006 Equity and Cash Compensation Incentive Plan, as amended.*	Filed herewith.
10.36	Form of Indemnification Agreement.*	Exhibit 10.24 to Teradyne's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
10.37	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.
10.38	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.
10.39	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.
10.40	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.
10.41	Convertible Note Hedge Transaction Confirmation dated as of March 31, 2009 between Teradyne and Goldman, Sachs & Co.	Exhibit 10.1 to Current Report on Form 8-K filed April 6, 2009.
10.42	Warrant Transaction Confirmation dated as of March 31, 2009 between Teradyne and Goldman, Sachs & Co.	Exhibit 10.2 to Current Report on Form 8-K filed April 6, 2009.
10.43	Amendment to Warrant Transaction Confirmation dated as of April 1, 2009 between Teradyne and Goldman, Sachs & Co.	Exhibit 10.3 to Current Report on Form 8-K filed April 6, 2009.
10.44	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.
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.

Exhibit No.	Description	SEC Document Reference
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 28th day of February, 2014.

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ ALBERT CARNESALE Albert Carnesale	Chair of the Board	February 28, 2014
/s/ MARK E. JAGIELA Mark E. Jagiela	Chief Executive Officer (Principal Executive Officer)	February 28, 2014
/s/ GREGORY R. BEECHER Gregory R. Beecher	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 28, 2014
/s/ JAMES W. BAGLEY James W. Bagley	Director	February 28, 2014
/s/ MICHAEL A. BRADLEY Michael A. Bradley	Director	February 28, 2014
/s/ DANIEL W. CHRISTMAN Daniel W. Christman	Director	February 28, 2014
/s/ EDWIN J. GILLIS Edwin J. Gillis	Director	February 28, 2014
/s/ TIMOTHY E. GUERTIN Timothy E. Guertin	Director	February 28, 2014
/s/ PAUL J. TUFANO Paul J. Tufano	Director	February 28, 2014
/s/ ROY A. VALLEE Roy A. Vallee	Director	February 28, 2014

TERADYNE, INC. 2006 EQUITY AND CASH COMPENSATION INCENTIVE PLAN
NOTICE OF PERFORMANCE-BASED RESTRICTED STOCK UNIT GRANT AND TERMS
FOR U.S. RECIPIENTS

Name:
Employee ID:

In granting restricted stock units, Teradyne, Inc. ("Teradyne") seeks to provide employees of Teradyne and its subsidiaries with incentive to help drive Teradyne's future success and to share in the economic benefits of that success. We all look forward to your contributions to that effort.

In recognition of your contributions to Teradyne, you have been granted an award consisting of the right to receive a target of xx shares of Teradyne common stock ("Target Performance-Based Shares"), which final number of shares shall be determined by the Committee or Teradyne's Board of Directors and based upon achieving certain Performance Criteria over time ("Actual Performance-Based Shares"). This grant was approved [●] (the "Effective Date").

This award is subject to the Restricted Stock Unit Terms attached hereto and the terms of the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the "Plan"). The shares covered by this award will be delivered upon attainment of certain Performance Criteria as described in and subject to the vesting conditions of the Restricted Stock Unit Terms.

The Plan prospectus, consisting of a "Participant Information" document that summarizes the Plan and the complete Plan, is available on "In-Site," Teradyne's internal Web site:

<http://cms.corp.teradyne.com/insite/FunctionsGroups/GeneralAdministrative/HumanResources/GLOBALPOLICY/EquityCompensationOptionsRSU%E2%80%99s/index.htm>.

Please note that printed versions of the Plan prospectus documents are available to you, at no charge, upon request to the HR Service Center, Teradyne, Inc., 600 Riverpark Drive, North Reading, MA 01864, (978) 370-3041.

TERADYNE, INC.



Charles J. Gray
V.P., General Counsel and Secretary

(2014 Performance-based RSU)
Grant #

PERFORMANCE-BASED RESTRICTED STOCK UNIT TERMS FOR U.S. RECIPIENTS

1. Award Grant, Vesting and Transfer

(a) **Award Grant.** Teradyne, Inc. hereby grants to the recipient an award (this “Award”) of performance-based restricted stock units (the “RSUs”) under the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the “Plan”). The RSUs represent the right of the recipient to receive that number of shares of Teradyne common stock set forth in the Notice of Performance-Based Restricted Stock Unit Grant and Terms (the “Notice of Grant”) attached hereto upon satisfaction of the terms set forth in this Agreement. This Award is governed by and subject to the terms of the Plan, the Notice of Grant and this Agreement.

Capitalized terms used but not otherwise defined herein will have the meaning set forth in the Notice of Grant or the Plan. In the event of any inconsistencies or differences between the Plan and these terms, the Plan shall prevail. The terms governing this Award are intended to comply with all applicable laws and regulations.

(b) **Vesting of Award.** None of this grant will be vested on the Effective Date. The number of Actual Performance-Based Shares that will be allowed to vest is uncertain at the time of the grant but is expected to be determined near the three-year anniversary of the grant, based on the determination by the Committee or Teradyne’s Board of Directors of the Performance Percentage. The “Performance Percentage” is a percentage ranging from 0-200% determined using Performance Criteria approved by the Committee or Teradyne’s Board of Directors for the grant. The Performance Percentage shall be multiplied against the Target Performance-Based Shares granted to derive the number of Actual Performance-Based Shares. Except as provided in (c) below, this Award shall vest with respect to 100% of the Actual Performance-Based Shares on the later of the third anniversary of the Effective Date or the date the Board determines the number of Actual Performance-Based Shares. The portion of the grant that is not allowed to vest will be forfeited. Subject to the terms of the Plan, the Committee shall have the right to accelerate the date that any installment of this Award becomes vested, including, but not limited to, events such as disability, death, retirement or upon the acquisition of control of Teradyne by another entity.

(c) **This Award will not vest further after termination of employment or other business relationship except in limited certain circumstances.** This Award will not vest after the recipient’s employment or other business relationship with Teradyne or its Subsidiaries ends, regardless of the reason, provided, however, that (a) if the recipient’s employment or other business relationship with Teradyne or one of its Subsidiaries ends on account of permanent disability or death, prior to the determination of the Performance Percentage, then a pro rated portion of the Actual Performance-Based Shares based on the number of days of employment or other business relationship during the relevant performance period shall automatically become vested in full on the date the Performance Percentage is determined by the Committee or the Board of Directors.

Employment or another business relationship shall be considered as continuing uninterrupted during any bona fide leave of absence (such as those attributable to illness or military obligations) provided that the period of such leave does not exceed 90 days or, in the case of an employee, if longer, any period during which the employee’s right to reemployment is guaranteed by statute. A bona fide leave of absence with the written approval of the Committee shall not be considered an interruption of employment or other business relationship, provided that such written approval contractually obligates Teradyne or a Subsidiary to continue the employment or other business relationship of the recipient after the approved period of absence.

(d) **No rights as stockholder; Issuance.** The recipient shall not have any rights as a stockholder in, to or with respect to any shares which may be covered by this Award (including but not limited to the right to vote or to receive dividends) until this Award is settled by issuance of shares to the recipient. All shares issued in respect of this Award will be transferred or issued to the recipient (or his or her estate, in the event of his or her death) as soon as is practicable after the date the Actual Performance-Based Shares vest but, in any event, within 2 ½ months following the calendar year in which the Actual Performance-Based Shares become vested (or any earlier date, after vesting, as required to avoid characterization as non-qualified deferred compensation under Section 409A of the Code). Teradyne will not be required to transfer or issue any shares upon vesting of the Actual Performance-Based Shares until arrangements satisfactory to it have been made by the recipient to address any Tax-Related Items (as defined in Section 4 below) which might arise by reason of the vesting of the Actual Performance-Based Shares and/or transfer or issuance of shares.

(e) **This Award may not be assigned or transferred.** Other than as provided in Section 11(a) of the Plan, this Award is not assignable or transferable (except by will or the laws of descent and distribution).

2. Capital Changes and Business Succession. Section 3(c) of the Plan contains provisions for adjusting (or substituting) the number and class of securities, vesting schedule, and other terms of outstanding stock-based awards granted under the Plan if a recapitalization, stock split, merger, or other specified event occurs, and the Committee determines that an adjustment (or substitution) is appropriate. In that event, the recipient of this Award will be notified of the adjustment (or substitution), if any, to this Award.

3. Employment or Business Relationship. Granting this Award does not imply any right of continued employment or business relationship with Teradyne or its Subsidiaries, and does not affect the right of the recipient, Teradyne or its Subsidiaries to terminate the recipient's employment or a business relationship at any time.

4. Tax Obligations.

(a) Responsibility for Taxes. The recipient acknowledges that, regardless of any action taken by Teradyne or, if different, the recipient's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the recipient's participation in the Plan and legally applicable to the recipient ("Tax-Related Items"), is and remains the recipient's responsibility and may exceed the amount actually withheld by Teradyne or the Employer. The recipient further acknowledges that Teradyne and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Award, including, but not limited to, the grant, vesting or settlement of the RSUs, the subsequent sale of shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Award to reduce or eliminate the recipient's liability for Tax-Related Items or achieve any particular tax result. Further, if the recipient is subject to Tax-Related Items in more than one jurisdiction between the Effective Date and the date of any relevant taxable or tax withholding event, as applicable, the recipient acknowledges that Teradyne and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Tax Withholding. Prior to any relevant taxable or tax withholding event, as applicable, the recipient agrees to make adequate arrangements satisfactory to Teradyne and/or the Employer to satisfy all Tax-Related Items. The recipient authorizes Teradyne or its respective agents to satisfy the obligations with regard to all Tax-Related Items by withholding in shares to be issued upon settlement of the RSUs; provided, however, that the total Tax-Related Items withholding where shares are being used to satisfy such tax obligations cannot exceed Teradyne's minimum statutory withholding obligations. If the obligation for Tax-Related Items is satisfied by withholding in shares, for tax purposes, the recipient is deemed to have been issued the full number of shares subject to the vested RSUs, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items. In the event that such withholding in shares is problematic under applicable tax or securities law or has materially adverse accounting consequences, by the recipient's acceptance of this Award, the recipient authorizes and directs Teradyne and any brokerage firm determined acceptable to Teradyne to sell on the recipient's behalf a whole number of shares from those shares issuable to the recipient as Teradyne determines to be appropriate to generate cash proceeds sufficient to satisfy the obligation for Tax-Related Items. If withholding is performed from proceeds from the sale of shares acquired upon vesting of the RSUs, Teradyne shall withhold for Tax-Related Items at minimum applicable rates. Alternatively, Teradyne, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require the recipient to satisfy his or her obligations for Tax-Related Items, in whole or in part (without limitation) by delivery of cash or check to Teradyne or the Employer, or Teradyne or the Employer may withhold from the recipient's wages or other compensation.

5. Retirement. Upon the recipient's attaining both at least age sixty, and at least ten years of service, the Award shall continue to vest in accordance with its existing vesting terms upon the recipient's retirement or termination, other than for cause, as if the recipient's employment had not been terminated.

6. Compliance with Laws. Shares to be issued under this Award are currently registered under the United States Securities Act of 1933, as amended. If such registration is not in effect at the time of vesting, the recipient will be required to represent to Teradyne that he or she is acquiring such shares as an investment and not with a view to the sale of those shares. Notwithstanding any other provision of the Plan or the Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the shares of common stock, Teradyne shall not be required to deliver any shares of common stock issuable upon settlement of the RSUs prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the United States Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval Teradyne shall, in its absolute

discretion, deem necessary or advisable. The recipient understands that Teradyne is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the recipient agrees that Teradyne shall have unilateral authority to amend the Plan and the Agreement without the recipient's consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.

7. Code Section 409A. This Award is intended to be exempt from the application of Section 409A of the Code, and any ambiguities herein will be interpreted to so comply. Teradyne reserves the right, to the extent Teradyne deems necessary or advisable in its sole discretion, to amend or modify the terms of this Award (or the Plan) or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take other actions, including any amendments or actions that would result in a reduction to the benefit payable under this Award, in each case, without the consent of the recipient of the Award, as may be necessary to ensure that all vesting or settlement provided under this Award are made in a manner that complies with Section 409A of the Code or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code if compliance is not practical; provided, however, that nothing in this Section 7 creates an obligation on the part of Teradyne to modify the terms of this Award or the Plan. In that light, Teradyne makes no representation that the terms of this Award will comply with Section 409A of the Code or that the settlement under Award will not be subject to taxes, interest and penalties or other adverse tax consequences under Section 409A of the Code. In no event whatsoever shall Teradyne or any of its affiliates be liable to the recipient of this Award or any other party for any additional tax, interest, penalties or other liability that may be imposed on the recipient of this Award by Section 409A of the Code or for any action taken by Teradyne with respect thereto.

8. Governing Law and Venue. The Award and the provisions of this Agreement are governed by, and subject to, the laws of the Commonwealth of Massachusetts, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Award or this Agreement, the parties hereby submit to and consent to the jurisdiction of the Commonwealth of Massachusetts, agree that such litigation shall be conducted in the courts of Middlesex County, or the federal courts for the United States for the District of Massachusetts, where this grant is made and/or to be performed.

9. Electronic Delivery and Acceptance. Teradyne may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The recipient hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Teradyne or a third party designated by Teradyne.

10. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

11. Imposition of Other Requirements. Teradyne reserves the right to impose other requirements on the recipient's participation in the Plan, on the RSUs and on any shares of common stock acquired under the Plan, to the extent Teradyne determines it is necessary or advisable for legal or administrative reasons, and to require the recipient to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

12. Waiver. The recipient acknowledges that a waiver by Teradyne of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by the recipient or any other recipient.

13. No Advice Regarding Grant. Teradyne is not providing any tax, legal or financial advice, nor is Teradyne making any recommendations regarding the recipient's participation in the Plan, or the recipient's acquisition or sale of the underlying shares of common stock. The recipient is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

TERADYNE, INC. 2006 EQUITY AND CASH COMPENSATION INCENTIVE PLAN
NOTICE OF RESTRICTED STOCK UNIT GRANT AND TERMS FOR U.S. RECIPIENTS

Name:
Employee ID:

Supervisor:

In granting restricted stock units, Teradyne, Inc. ("Teradyne") seeks to provide employees of Teradyne and its subsidiaries with incentive to help drive Teradyne's future success and to share in the economic benefits of that success. We all look forward to your contributions to that effort.

You have been granted a restricted stock unit award consisting of the right to receive up to xx shares of Teradyne common stock. This grant was approved effective [●] (the "Effective Date").

This award is subject to the Restricted Stock Unit Terms attached hereto and the terms of the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the "Plan"). The shares covered by this award will be delivered over time as described in and subject to the vesting conditions of the Restricted Stock Unit Terms.

The Plan prospectus, consisting of a "Participant Information" document that summarizes the Plan and the complete Plan, is available on "In-Site," Teradyne's internal Web site:

<http://cms.corp.teradyne.com/insite/FunctionsGroups/GeneralAdministrative/HumanResources/GLOBALPOLICY/EquityCompensationOptionsRSU%E2%80%99s/index.htm>

Please note that printed versions of the Plan prospectus documents are available to you, at no charge, upon request to the HR Service Center, Teradyne, Inc., 600 Riverpark Drive, North Reading, MA 01864, (978) 370-3041.

TERADYNE, INC



Charles J. Gray
V.P., General Counsel and Secretary

(2014 RSU)
Grant #

RESTRICTED STOCK UNIT TERMS FOR U.S. RECIPIENTS

1. Award Grant, Vesting and Transfer

(a) **Award Grant.** Teradyne, Inc. hereby grants to the recipient an award (this “Award”) of restricted stock units (the “RSUs”) under the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the “Plan”). The RSUs represent the right of the recipient to receive that number of shares of Teradyne common stock set forth in the Notice of Restricted Stock Unit Grant and Terms (the “Notice of Grant”) attached hereto upon satisfaction of the terms set forth in this Agreement. This Award is governed by and subject to the terms of the Plan, the Notice of Grant and this Agreement.

Capitalized terms used but not otherwise defined herein will have the meaning set forth in the Notice of Grant or the Plan. In the event of any inconsistencies or differences between the Plan and these terms, the Plan shall prevail. The terms governing this Award are intended to comply with all applicable laws and regulations.

(b) **This Award vests yearly on the anniversary of the Effective Date.** None of the RSUs subject to this Award will be vested on the Effective Date. Except as provided in (c) below, 25% of the RSUs granted will vest on the first and each of the three subsequent anniversaries of the Effective Date until the total grant is fully vested on the fourth anniversary of the Effective Date. The Committee shall have the right to accelerate the date that any installment of this Award becomes vested, including, but not limited to events such as disability, death, retirement or upon the acquisition of control of Teradyne by another entity.

(c) **This Award will not vest further after termination of employment or other business relationship except in limited certain circumstances.** This Award will not vest after the recipient’s employment or other business relationship ends, regardless of the reason, provided, however, that if the recipient’s employment or other business relationship with Teradyne or one of its Subsidiaries ends on account of permanent disability or death, the unvested portion of this Award which would have vested under the applicable rule stated in (b) above shall automatically become vested in full on the date of his or her termination of employment or business relationship on account of permanent disability or death.

Employment or another business relationship shall be considered as continuing uninterrupted during any bona fide leave of absence (such as those attributable to illness or military obligations) provided that the period of such leave does not exceed 90 days or, in the case of an employee, if longer, any period during which the employee’s right to reemployment is guaranteed by statute. A bona fide leave of absence with the written approval of the Committee shall not be considered an interruption of employment or other business relationship, provided that such written approval contractually obligates Teradyne or a Subsidiary to continue the employment or other business relationship of the recipient after the approved period of absence.

(d) **No rights as stockholder; Issuance.** The recipient shall not have any rights as a stockholder in, to or with respect to any shares which may be covered by this Award (including but not limited to the right to vote or to receive dividends) until this Award is settled by issuance of shares to the recipient. All shares issued in respect of this Award will be transferred or issued to the recipient (or his or her estate, in the event of his or her death) as soon as is practicable after the date the RSUs vest but, in any event, within 2 ½ months following the calendar year in which the RSUs become vested (or any earlier date, after vesting, as required to avoid characterization as non-qualified deferred compensation under Section 409A of the Code). Teradyne will not be required to transfer or issue any shares upon vesting of the RSUs until arrangements satisfactory to it have been made by the recipient to address any Tax-Related Items (as defined in Section 4 below) which might arise by reason of the vesting of the RSUs and/or transfer or issuance of shares.

(e) **This Award may not be assigned or transferred.** Other than as provided in Section 11(a) of the Plan, this Award is not assignable or transferable (except by will or the laws of descent and distribution).

2. Capital Changes and Business Succession. Section 3(c) of the Plan contains provisions for adjusting (or substituting) the number and class of securities, vesting schedule and other terms of outstanding stock-based awards granted under the Plan if a recapitalization, stock split, merger, or other specified event occurs and the Committee determines that an adjustment (or substitution) is appropriate. In that event, the recipient of this Award will be notified of the adjustment (or substitution), if any, to this Award.

3. Employment or Business Relationship. Granting this Award does not imply any right of continued employment or business relationship with Teradyne or its Subsidiaries, and does not affect the right of the recipient, Teradyne or its Subsidiaries to terminate the recipient's employment or a business relationship at any time.

4. Tax Obligations.

(a) Responsibility for Taxes. The recipient acknowledges that, regardless of any action taken by Teradyne or, if different, the recipient's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the recipient's participation in the Plan and legally applicable to the recipient ("Tax-Related Items"), is and remains the recipient's responsibility and may exceed the amount actually withheld by Teradyne or the Employer. The recipient further acknowledges that Teradyne and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Award, including, but not limited to, the grant, vesting or settlement of the RSUs, the subsequent sale of shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Award to reduce or eliminate the recipient's liability for Tax-Related Items or achieve any particular tax result. Further, if the recipient is subject to Tax-Related Items in more than one jurisdiction between the Effective Date and the date of any relevant taxable or tax withholding event, as applicable, the recipient acknowledges that Teradyne and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) Tax Withholding. Prior to any relevant taxable or tax withholding event, as applicable, the recipient agrees to make adequate arrangements satisfactory to Teradyne and/or the Employer to satisfy all Tax-Related Items. The recipient authorizes Teradyne or its respective agents to satisfy the obligations with regard to all Tax-Related Items by withholding in shares to be issued upon settlement of the RSUs; provided, however, that the total Tax-Related Items withholding where shares are being used to satisfy such tax obligations cannot exceed Teradyne's minimum statutory withholding obligations. If the obligation for Tax-Related Items is satisfied by withholding in shares, for tax purposes, the recipient is deemed to have been issued the full number of shares subject to the vested RSUs, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items. In the event that such withholding in shares is problematic under applicable tax or securities law or has materially adverse accounting consequences, by the recipient's acceptance of this Award, the recipient authorizes and directs Teradyne and any brokerage firm determined acceptable to Teradyne to sell on the recipient's behalf a whole number of shares from those shares issuable to the recipient as Teradyne determines to be appropriate to generate cash proceeds sufficient to satisfy the obligation for Tax-Related Items. If withholding is performed from proceeds from the sale of shares acquired upon vesting of the RSUs, Teradyne shall withhold for Tax-Related Items at minimum applicable rates. Alternatively, Teradyne, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require the recipient to satisfy his or her obligations for Tax-Related Items, in whole or in part (without limitation) by delivery of cash or check to Teradyne or the Employer, or Teradyne or the Employer may withhold from the recipient's wages or other compensation.

5. Compliance with Laws. Shares to be issued under this Award are currently registered under the United States Securities Act of 1933, as amended. If such registration is not in effect at the time of vesting, the recipient will be required to represent to Teradyne that he or she is acquiring such shares as an investment and not with a view to the sale of those shares. Notwithstanding any other provision of the Plan or the Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the shares of common stock, Teradyne shall not be required to deliver any shares of common stock issuable upon settlement of the RSUs prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the United States Securities and Exchange Commission ("SEC") or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval Teradyne shall, in its absolute discretion, deem necessary or advisable. The recipient understands that Teradyne is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the recipient agrees that Teradyne shall have unilateral authority to amend the Plan and the Agreement without the recipient's consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.

6. Code Section 409A. This Award is intended to be exempt from the application of Section 409A of the Code, and any ambiguities herein will be interpreted to so comply. Teradyne reserves the right, to the extent Teradyne deems necessary or advisable in its sole discretion, to amend or modify the terms of this Award (or the Plan) or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take other

actions, including any amendments or actions that would result in a reduction to the benefit payable under this Award, in each case, without the consent of the recipient of the Award, as may be necessary to ensure that all vesting or settlement provided under this Award are made in a manner that complies with Section 409A of the Code or to mitigate any additional tax, interest and/or penalties or other adverse tax consequences that may apply under Section 409A of the Code if compliance is not practical; provided, however, that nothing in this Section 6 creates an obligation on the part of Teradyne to modify the terms of this Award or the Plan. In that light, Teradyne makes no representation that the terms of this Award will comply with Section 409A of the Code or that the settlement under Award will not be subject to taxes, interest and penalties or other adverse tax consequences under Section 409A of the Code. In no event whatsoever shall Teradyne or any of its affiliates be liable to the recipient of this Award or any other party for any additional tax, interest, penalties or other liability that may be imposed on the recipient of this Award by Section 409A of the Code or for any action taken by Teradyne with respect thereto.

7. Governing Law and Venue. The Award and the provisions of this Agreement are governed by, and subject to, the laws of the Commonwealth of Massachusetts, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Award or this Agreement, the parties hereby submit to and consent to the jurisdiction of the Commonwealth of Massachusetts, agree that such litigation shall be conducted in the courts of Middlesex County, or the federal courts for the United States for the District of Massachusetts, where this grant is made and/or to be performed.

8. Electronic Delivery and Acceptance. Teradyne may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The recipient hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Teradyne or a third party designated by Teradyne.

9. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

10. Imposition of Other Requirements. Teradyne reserves the right to impose other requirements on the recipient's participation in the Plan, on the RSUs and on any shares of common stock acquired under the Plan, to the extent Teradyne determines it is necessary or advisable for legal or administrative reasons, and to require the recipient to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

11. Waiver. The recipient acknowledges that a waiver by Teradyne of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by the recipient or any other recipient.

12. No Advice Regarding Grant. Teradyne is not providing any tax, legal or financial advice, nor is Teradyne making any recommendations regarding the recipient's participation in the Plan, or the recipient's acquisition or sale of the underlying shares of common stock. The recipient is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

EXECUTIVE OFFICER AGREEMENT

This EXECUTIVE OFFICER AGREEMENT is entered into this 22nd day of January, 2014, by and between Teradyne, Inc., a Massachusetts corporation (“Teradyne” or the “Company”), and Michael A. Bradley, the Chief Executive Officer of Teradyne (“Executive”).

WHEREAS, the Executive and Teradyne are parties to an Amended and Restated Agreement Regarding Termination Benefits dated December 30, 2008 and amended as of December 17, 2012 (“Severance Agreement”) under which the Executive is entitled to severance compensation, continued benefits and continued vesting of equity for 24 months from the date of severance.

WHEREAS, the Executive and the Company’s Board of Directors have worked together on an orderly succession and transition plan.

WHEREAS, the Executive and the Company’s Board of Directors have agreed that the Executive will retire as Chief Executive Officer and resign as an employee effective January 31, 2014 (the “Retirement Date”).

WHEREAS, Teradyne recognizes the contributions the Executive has made to the success of the Company and wishes to ensure the Executive does not engage in any business competitive with the Company following his retirement for the period from the Retirement Date through three (3) years from the Retirement Date (the “Non-Competition Period”).\

WHEREAS, Teradyne and the Executive desire to set forth certain terms and conditions relating to the Executive’s retirement from Teradyne.

WHEREAS, Teradyne and the Executive agree that the terms of this agreement shall supersede the terms of the Severance Agreement between the parties.

NOW THEREFORE, in consideration of the promises and of the mutual covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

1. Consideration.

In consideration for Executive’s signing of the Release attached as Attachment A, including the release of his rights under the Severance Agreement, as well as the promises and covenants including the Non-Competition and Non-Solicitation provision set forth herein, the Company agrees to the following treatment of the portions of the Executive’s outstanding equity grants which remain unvested as of the Retirement Date; provided that such treatment shall be subject to compliance by the Executive with Sections 2 and 3 hereof:

- a) Any unvested, time-based restricted stock units granted before the Retirement Date shall continue to vest during the Non-Competition Period;
- b) Any unvested, performance-based restricted stock units as of the Retirement Date shall continue to vest during the Non-Competition Period;

- c) Any unvested stock options granted before the Retirement Date shall continue to vest during the Non-Competition Period; and
- d) Any vested stock options as of the Retirement Date or stock options that become vested during the Non-Competition Period may be exercised for the remainder of the generally applicable term of such option which in all cases is no later than seven (7) years from the respective dates of grant.

Schedule A attached hereto and incorporated herein is a complete list of the Executive's outstanding equity grants from the Company. The parties agree that, except as otherwise provided herein, the terms of the Executive's existing equity award agreements shall continue in effect and that any portion of the Executive's outstanding equity grants which are not vested by reason of the application of this Section 1 shall be forfeited as of the last day of the Non-Competition Period or on such earlier date pursuant to Sections 2 or 3. Notwithstanding the foregoing, upon the vesting of any restricted stock units during the Non-Competition Period, the Company shall issue to the Executive shares of its common stock in settlement of such vested stock units within thirty (30) days of each vesting date.

Executive acknowledges that he will not be entitled to the consideration described in this Section 1 absent his execution and non-revocation of this Agreement and the Release, in the form attached as Attachment A. The consideration described in this Section 1 is in addition to other retirement and/or pension benefits to which the Executive may be entitled associated with the Executive's retirement. The parties acknowledge that Executive shall not be entitled to any severance or separation payment or benefit associated with his retirement, including under the Severance Agreement, other than all accrued wages and unused vacation time as of the Retirement Date. The Executive acknowledges and agrees that his termination of employment with the Company shall not be considered a retirement for purposes of his unvested equity grants which are outstanding as of the Retirement Date and that the settlement or exercise of rights under such grants shall not be accelerated.

2. Conditions to Consideration.

The consideration and entitlements set forth above in Section 1 shall be conditioned on Executive's signing, and not revoking, the Release within twenty-one (21) days following the Retirement Date, plus any legally required revocation period. All rights, benefits, payments and other entitlements contemplated to be provided or paid to Executive under this Agreement shall be forfeited as of the 60th day following Executive's Retirement Date if the Executive has not provided Teradyne with a valid, irrevocable release of claims as of such 60th day.

3. Non-Competition and Non-Solicitation.

During the Non-Competition Period, Executive shall not directly or indirectly:

- a) Engage in any business or enterprise (whether as an owner, partner, officer, employee, executive, director, investor, lender, consultant, independent contractor or otherwise, except as the holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company) that is competitive with Teradyne (including but not limited to, any business

or enterprise that develops, designs, produces, markets, sells or renders any product or service competitive with any product or service developed, produced, marketed, sold or rendered by Teradyne while Executive was employed by Teradyne);

- b) Either alone or in association with others, recruit, solicit, hire or engage as an independent contractor, any person who was employed by Teradyne at any time during the period of Executive's employment with Teradyne, except for an individual whose employment with Teradyne has been terminated for a period of six months or longer; or
- c) Either alone or in association with others, solicit, divert or take away, or attempt to divert or to take away, the business or patronage of any client or customer or entity that was a prospective client or customer of Teradyne during the Executive's employment.

If any restriction set forth in this Section 3 is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, the parties agree that it shall be interpreted to extend only over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

Executive acknowledges that the restrictions contained in this Section 3 are necessary for the protection of the business and goodwill of Teradyne and are considered by Executive to be reasonable for such purpose. Executive agrees that any breach of this Section 3 will cause Teradyne irreparable harm and therefore, in the event of any such breach, in addition to such other remedies that may be available, Teradyne shall have the right to seek equitable and/or injunctive relief.

The geographic scope of this Section 3 shall extend to anywhere Teradyne or any of its subsidiaries is doing business, has done business or has plans to do business as of the Retirement Date.

Executive agrees that during the Non-Competition Period, he will make reasonable good faith efforts to give written notice to Teradyne of each new business activity he plans to undertake, at least (5) business days prior to beginning any such activity.

If Executive violates the provisions of this Section 3, Teradyne shall be entitled to discontinue any continued vesting per Section 1 above and Executive shall continue to be bound by the restrictions set forth in this Section 3 for an additional period of time equal to the duration of the violation, such additional period not to exceed 24 months.

4. Deferred Compensation/Section 409A.

Notwithstanding any other provision of this Agreement, if the Executive is a "specified employee" at the time of the Executive's "separation from service" as such terms are defined in Section 409A of the Code, all payments, benefits, or removal of restrictions on the transfer of equity under this Agreement with respect to the Executive's "separation from service" that

constitute compensation deferred under a nonqualified deferred compensation plan as defined in Section 409A of the Code and regulations thereunder for which an exemption does not apply and to which such the Executive as a "specified employee" would otherwise be entitled during the first six months following the date of "separation from service" shall be made on the first day of the seventh month after the date of "separation from service" (or, if earlier, the date of death of the Executive).

For purposes of this Agreement, each amount to be paid or benefit to be provided shall be construed as a separate identified payment for purposes of Section 409A, and any payments that are due within the "short term deferral period" as defined in Section 409A and regulations there under or payments that are made under separation pay plans as described in Treasury Regulation Section 1.409A-1(b)(9)(ii), (iii) or (iv), shall not be treated as deferred compensation unless applicable law requires otherwise. Neither Teradyne nor the Executive shall have the right to accelerate or defer the delivery of any payments or benefits under this Agreement except to the extent specifically permitted or required by Section 409A.

This Agreement is intended to comply with the provisions of Section 409A and regulations there under and the Agreement shall, to the extent practicable, be construed and administered in accordance therewith. Terms defined in the Agreement shall have the meanings given such terms under Section 409A if and to the extent required to comply with Section 409A. In any event, Teradyne makes no representations or warranty and shall have no liability to the Executive or any other person if any provisions of or payments under this Agreement are determined to constitute deferred compensation subject to Code Section 409A but not to satisfy the conditions of that section.

5. Governing Law and Dispute Resolution.

This Agreement shall be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts and this Agreement shall be deemed to be performable in Massachusetts. The Executive and the Company agree that any dispute, controversy or claim arising between the parties relating to this Agreement shall be resolved by final and binding arbitration before a single arbitrator, except that the parties may seek equitable relief in court to preserve the status quo pending final resolution in arbitration. The arbitrator shall be selected in accordance with the Employment Dispute Resolution rules of the American Arbitration Association ("AAA") pertaining at the time the dispute arises. The parties agree that such arbitration shall take place at the offices of the AAA in Boston, Massachusetts. In such arbitration proceedings, the arbitrator shall have the discretion, to be exercised in accordance with applicable law, to award any damages permitted by law, and to allocate among the parties the arbitrator's fees, tribunal and other administrative and litigation costs and, to the prevailing party, reasonable attorneys' fees. The award of the arbitrator may be confirmed before and entered as a judgment of any court having jurisdiction of the parties.

6. Severability.

In case any one or more of the provisions contained in this Agreement for any reason shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed to be enforceable to the maximum extent permitted by law.

7. Waivers and Modifications.

This Agreement may be modified, and the rights, remedies and obligations contained in any provision hereof may be waived, only in accordance with this Section 7. No waiver by either party of any breach by the other or any provision hereof shall be deemed to be a waiver of any later or other breach thereof or as a waiver of any other provision of this Agreement. This Agreement may not be waived, changed, discharged or terminated orally or by any course of dealing between the parties, but only by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

8. Assignment.

This Agreement, and Executive's and Teradyne's rights and obligations hereunder, may not be assigned by Executive or Teradyne; any purported assignment by Executive or Teradyne in violation hereof shall be null and void.

9. Entire Agreement.

This Agreement, including Schedule A and Attachment A, constitutes the entire understanding of the parties relating to the subject matter hereof and supersedes all agreements, written or oral, made prior to the date hereof between Executive and the Company relating to the subject matter hereof, including the Severance Agreement. Notwithstanding the foregoing, this Agreement does not supersede: (a) the attached Release once executed; and (b) the equity award agreements, as modified hereby, between the Company and the Executive.

10. Notices.

All notices hereunder shall be in writing and shall be delivered in person or mailed by certified or registered mail, return receipt requested, addressed as follows:

If to Teradyne, to: Teradyne, Inc.
 600 Riverpark Drive
 North Reading, MA 01864
 Attention: General Counsel

If to Executive, at Executive's address in his employment file on record with the Human Resources Department.

11. Cooperation.

Executive agrees to cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company. The Executive's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with Company counsel to

prepare for trial or discovery or an administrative hearing or alternative dispute resolution and to act as a witness when requested by the Company at reasonable times designated by the Company.

12. Return of Property.

No later than the Retirement Date, Executive shall return to the Company all Company property in his possession or control, including all electronic documents

13. Non-Disparagement.

The Executive understands and agrees that in consideration for the covenants, terms and conditions herein, he shall not make any false, disparaging or derogatory statements to any third person or entity, including any media outlet, in public or private regarding the Company's directors, officers, executives, agents, or representatives or the Company's business affairs and financial condition; provided the foregoing shall in no way affect the Executive's obligation to testify truthfully in any legal proceeding. The Company understands and agrees that in consideration for the covenants, terms and conditions herein, it shall direct its directors and executive officers to not make any false, disparaging or derogatory statements to any third party or entity, including any media outlet, in public or private, regarding the Executive.

14. Confidential Information

The Executive acknowledges that the information, observations and data (including trade secrets) obtained by him while employed by the Company concerning the Company or any affiliate are the property of the Company. The Executive agrees that he will not use, publish or disclose, at any time after the Retirement Date or in connection with his Board service, any secret or confidential information or data concerning any discovery, invention, opportunity, product, design, formula, algorithm or process, or any secret or confidential production, sales or other business information, relating to the Company or any client, subsidiary or affiliate of the Company which he may have acquired during any period of employment with the Company or any affiliate. The term "confidential information" shall not include information that is in the public domain at the time of the disclosure. The Executive further agrees to turn over at or prior to the expiration of his employment all tangible forms of such information in his possession or under his control, including drawings, specifications, models, customer lists and other documents and records as well as all copies and reproductions thereof. Prior to or concurrent with his resignation, the Executive shall reduce to writing and deliver to the Company such information as the Company may reasonably request to the extent that such information pertains to the business and operations of the Company and its subsidiaries and affiliates and any product or service offered by the Company or its affiliates.

15. Change in Control.

In the event of a Change in Control (as defined below) during the Non-Competition Period, all of Executive's outstanding equity grants which remain unvested as of the date of the Change in Control shall automatically become fully vested and exercisable, as applicable, as of the day immediately prior to the effective date of the Change in Control and all stock options shall remain exercisable for the remainder of the generally applicable term of such option which in all cases is no later than seven (7) years from the respective dates of grant.

A “Change in Control” shall be deemed to have occurred upon the occurrence of any of the following events: (i) any consolidation, cash tender offer, reorganization, recapitalization, merger or plan of share exchange following which the holders of capital stock of Teradyne outstanding immediately prior to such transaction hold less than a majority of the combined voting power of the then-outstanding securities of the combined corporation or ultimate parent thereof immediately after such transaction; (ii) any sale, lease, exchange or other transfer of all or substantially all of Teradyne’s assets; (iii) the date a majority of the Board of Directors of Teradyne is replaced during any 12-month period by directors whose appointment is not endorsed by a majority of the Board of Directors of Teradyne before the date of appointment or election; or (iv) any person (as that term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes beneficial owner of 30% or more of the combined voting power of Teradyne’s outstanding voting securities, other than (A) as a result of a consolidation, reorganization, recapitalization, merger or plan of share exchange following which the holders of capital stock of Teradyne outstanding immediately prior to such transaction hold at least a majority of combined voting power of the then-outstanding securities of the combined corporation or ultimate parent thereof immediately after such transaction, (B) by any trustee or other fiduciary holding securities under an employee benefit plan of Teradyne, or (C) by a person temporarily acquiring beneficial ownership in its capacity as an underwriter (as defined pursuant to Section 2(a)(11) of the Securities Act of 1933, as amended) in connection with a public offering of Teradyne securities.

16. Executive’s Death.

In the event of Executive’s death during the Non-Competition Period, all of Executive’s outstanding equity grants which remain unvested as of the date of his death shall automatically become fully vested and exercisable, as applicable, and all stock options shall remain exercisable for the remainder of the generally applicable term of such option which in all cases is no later than seven (7) years from the respective dates of grant.

17. Release of the Company’s Claims

In consideration for, among other terms, the Executive’s signing of the Release attached as Attachment A, the Company voluntarily releases and forever discharges the Executive generally from all claims that, as of the date when the Company signs this Agreement, the Company has, ever had, now claims to have or ever claimed to have had against the Executive, including, without limitation, all claims relating to the Executive’s employment by and retirement from the Company; provided that the Company does not release the Executive from: (a) any criminal offenses; (b) any claim for breach of fiduciary duty; (c) any claim related to violation of securities laws; and (d) any civil claim that is based on conduct that also satisfies the elements of a criminal offense, such as a civil claim for fraud (the “Excepted Claims”). The Company has no knowledge or reason to believe that the Company has any Excepted Claims against the Executive.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

TERADYNE, INC.

MICHAEL A. BRADLEY

By: /s/ Roy Vallee
Name: Roy Vallee
Title: Director

/s/ Michael A. Bradley

SCHEDULE A

(Outstanding Equity Grants as of Retirement Date)

<u>Product Type Name</u>	<u>Plan Name</u>	<u>Plan ID</u>	<u>Product ID</u>	<u>Grant Type</u>	<u>Grant Date</u>	<u>Grant Price</u>	<u>QTY - Granted</u>	<u>QTY - Vested</u>	<u>QTY - Unvested</u>	<u>QTY - Outstanding</u>
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USPF10	RSU	1/28/2011	0	102528	0	25632	25632
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USPF10	RSU	1/27/2012	0	104508	0	52254	52254
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USPF10	RSU	1/25/2013	0	130436	0	97827	97827
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USRU10	RSU	1/28/2011	0	51264	0	12816	12816
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USRU10	RSU	1/27/2012	0	52254	0	26127	26127
Restricted Units	TERADYNE RESTRICTED STOCK	TERRU	2006USRU10	RSU	1/25/2013	0	65218	0	48914	48914
Stock Options	TERADYNE STOCK OPTION PLN	TEROP	2006EESO10	NQ	1/28/2011	16.23	61721	46290	15431	61721
Stock Options	TERADYNE STOCK OPTION PLN	TEROP	2006EESO10	NQ	1/27/2012	16.95	64650	32325	32325	64650
Stock Options	TERADYNE STOCK OPTION PLN	TEROP	2006EESO10	NQ	1/25/2013	16.56	88670	22167	66503	88670
Stock Options	TERADYNE STOCK OPTION PLN	TEROP	2006EMPSO	NQ	1/30/2009	4.81	462500	57983	0	57983
Stock Options	TERADYNE STOCK OPTION PLN	TEROP	2006EMPSO	NQ	1/29/2010	9.34	139024	139024	0	139024

ATTACHMENT A

Release

In consideration of the payments and benefits described in the Executive Officer Agreement dated January , 2014 between me and Teradyne, Inc. (the "Company"), all of which I acknowledge I would not otherwise be entitled to receive, I hereby fully, forever, irrevocably and unconditionally release, remise and discharge the Company, its successors and assigns and their respective employees, officers, directors, stockholders, corporate affiliates, subsidiaries, parent companies and agents (each in their individual and corporate capacities) (collectively, all of the foregoing, the "Released Parties") from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, and expenses (including attorneys' fees and costs), of every kind and nature which I ever had or now have against the Released Parties arising out of my employment with and/or termination or separation from the Company or relating to my relationship as an officer or in any other capacity for the Company, including, but not limited to, all employment discrimination claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §2000e et seq., the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., the Americans With Disabilities Act of 1990, 42 U.S.C., §12101 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq., and the Massachusetts Fair Employment Practices Act., M.G.L. c.151B, §1 et seq., all as amended; all claims arising out of the Fair Credit Reporting Act, 15 U.S.C. §1681 et seq., the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. §1001 et seq., the Massachusetts Civil Rights Act, M.G.L. c.12 §§11H and 11I, the Massachusetts Equal Rights Act, M.G.L. c.93, §102 and M.G.L. c.214, §1C, the Massachusetts Labor and Industries Act, M.G.L. c.149, §1 et seq., the Massachusetts Privacy Act, M.G.L. c. 214, §1B, and the Massachusetts Maternity Leave Act, M.G.L. c. 149, §105(d), all as amended; all common law claims including, but not limited to, actions in tort (including fraud, misrepresentation and wrongful discharge), defamation and breach of contract; all claims to any non-vested ownership interest in the Company, contractual or otherwise, including but not limited to claims to stock or stock options; and any claim or damage arising out of my employment with, termination or separation from the Company (including a claim for retaliation) under any common law theory or any federal, state or local statute or ordinance not expressly referenced above; provided, however, that notwithstanding the foregoing, the Company agrees and hereby acknowledges that this Release is not intended to and does not (i) apply to any claims I may bring to enforce the terms of the Executive Officer Agreement, (ii) release the Company of any obligation it may have pursuant to a written agreement, the Company's articles of organization or bylaws, or as mandated by statute to indemnify me as an officer of the Company; and (iii) release the Company of any obligation to provide and/or pay benefits to me or my estate, conservator or designated beneficiary(ies) under and in accordance with the terms of any applicable Company benefit plan and/or program; provided further, that nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the EEOC or a state Fair Employment Practices Agency (except that I acknowledge and agree that I may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding).

Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967: Because I am 40 years of age or older, I have been informed that I have or may have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 ("ADEA") and I agree that:

in consideration for the payments and benefits described in the Executive Officer Agreement, which I am not otherwise entitled to receive, I specifically and voluntarily waive such rights and/or claims under the ADEA I might have against the Released Parties to the extent such rights and/or claims arose prior to the date this Release was executed;

I understand that rights or claims under the ADEA which may arise after the date this Release is executed are not waived by me;

I was advised that I have at least 21 days within which to consider the terms of this Release and to consult with or seek advice from an attorney of my choice or any other person of my choosing prior to executing this Release;

I have carefully read and fully understand all of the provisions of this Release, and I knowingly and voluntarily agree to all of the terms set forth in this Release; and

In entering into this Release, I am not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this document.

Period for Review and Consideration:

I acknowledge that I was informed and understand that I have twenty-one (21) days to review this Release and consider its terms before signing it.

The 21-day review period will not be affected or extended by any revisions, whether material or immaterial, that might be made to this Release.

Accord and Satisfaction

The amounts set forth in the Executive Officer Agreement shall be complete and unconditional payment, settlement, accord and/or satisfaction with respect to all obligations and liabilities of the Released Parties to me, including, without limitation, all claims for back wages, salary, vacation pay, draws, incentive pay, bonuses, cash awards, equity awards, commissions, severance pay, reimbursement of expenses, any and all other forms of compensation or benefits, attorney's fees, or other costs or sums.

Revocation Period

I may revoke this Release at any time during the seven-day period immediately following my execution hereof. As a result, this Release shall not become effective or enforceable and the Company shall have no obligation to make any payments or provide any benefits described herein until the seven-day revocation period has expired. In order to revoke the Release, you must submit a written notice of revocation to Charles Gray, General Counsel located at 600 Riverpark Drive, North Reading, MA 01864. This written notice may be sent by mail, email or hand-delivery, but must be received by Mr. Gray no later than the close of business on the seventh day.

Name: _____ Date _____

Witness _____ Date _____

IF YOU DO NOT WISH TO USE THE 21-DAY PERIOD,
PLEASE CAREFULLY REVIEW AND SIGN THIS DOCUMENT

I, _____, acknowledge that I was informed and understand that I have 21 days within which to consider the attached Release, have been advised of my right to consult with an attorney regarding such Release and have considered carefully every provision of the Release, and that after having engaged in those actions, I prefer to and have requested that I enter into the Release prior to the expiration of the 21 day period.

Dated: _____

Name:

Dated: _____

Witness

AGREEMENT REGARDING TERMINATION BENEFITS

This Agreement Regarding Termination Benefits (“Agreement”) is entered into as of January 22, 2014 (the “Effective Date”) by and between Teradyne, Inc., a Massachusetts corporation with a principal office at 600 Riverpark Drive, North Reading, MA 01864 (the “Company”) and Mark E. Jagiela, the Chief Executive Officer and President of the Company (“Executive”).

WHEREAS, the Company and Executive have agreed on certain Termination Benefits in the event the Executive’s employment with the Company terminates under the conditions described herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, the Company and the Executive agree as follows:

1. Effective Date and Term: This Agreement shall become effective as of the date set forth in the opening paragraph. Subject to the provisions of Sections 4 and 9 below and unless earlier terminated as permitted herein, this Agreement shall continue in effect for a period of three (3) years from the Effective Date (“Term”) and thereafter, the Term shall be extended for additional one-year periods unless, not later than sixty (60) days prior to the end of the then current Term, the Company shall have given notice to the Executive not to extend the then current Term.

2. Definitions: For purposes of this Agreement, capitalized terms shall be defined as follows:

“Model Compensation” shall mean the Executive’s annual “model compensation” as determined by the Company’s Compensation Committee or Board of Directors, which consists of (a) a fixed annual salary and (b) a target annual variable amount.

“Cause” shall mean conduct involving one or more of the following: (i) the substantial and continuing failure of the Executive, after notice thereof, to render services to Company in accordance with the terms or requirements of his employment, as established by the Company Board of Directors from time to time and communicated to the Executive; (ii) the Executive’s disloyalty, gross negligence, willful misconduct, dishonesty, fraud or breach of fiduciary duty to the Company each in connection with the Executive’s employment by the Company; (iii) the Executive’s deliberate disregard of the rules or policies of, or breach of an agreement with, Company which results in direct or indirect material loss, damage or injury to the Company; (iv) the intentional, unauthorized disclosure by the Executive of any trade secret or confidential information of the Company; (v) the commission by the Executive of an act which constitutes unfair competition with the Company or (vi) the conviction of, or the entry of a plea of guilty or nolo contendere by the Executive, to any crime involving moral turpitude or any felony. [In the event that the Company determines that Cause may exist pursuant to clauses (i), (iii) and (v) above, the Company shall give the Executive written notice of the facts constituting such Cause and the Executive shall have thirty (30) days following receipt of such notice to remedy such Cause.

“Change in Control” shall be deemed to have occurred upon the occurrence of any of the following events: (i) any consolidation, cash tender offer, reorganization, re-capitalization, merger or plan of share exchange following which the capital stock of the Company immediately prior to such transaction constitutes less than a majority of the combined voting power of the then-outstanding securities of the combined corporation or person immediately after such transaction; (ii) any sale, lease, exchange or other transfer of all or substantially all of the Company’s assets; (iii) the adoption by the Board of Directors of Company of any plan or proposal for the liquidation or dissolution of the Company; (iv) a change in the majority of the Board of Directors of the Company through one or more contested elections occurring within a three year period; or (v) any person (as that term is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act of 1934, as amended) becomes beneficial owner of 30% or more of the combined voting power of the Company’s outstanding voting securities other than (A) as a result of a consolidation, reorganization, recapitalization, merger or plan of share exchange following which the capital stock of the Company outstanding immediately prior to such transaction constitutes at least a majority of the combined voting power of the then-outstanding securities of the combined corporation or person immediately after such transaction, (B) by any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (C) by a person temporarily acquiring beneficial ownership in its capacity as an underwriter (as defined pursuant to Section 2(a)(11) of the Securities Act of 1933, as amended) in connection with a public offering of the Company’s securities.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Company” shall mean “Teradyne, Inc. and shall include its successors and assigns, and any corporation or other entity which is the surviving or continuing entity following a merger, consolidation, or sale of all or substantially all of the Company’s assets or stock.

“Competitor” includes, but is not limited to, any business or enterprise that develops, designs, produces, markets, sells, or renders any product or service developed, produced, marketed, sold or rendered by the Company, including actual or demonstrably anticipated research or development.

“Date of Termination” shall mean the last day of Executive’s employment with the Company.

“Disability” shall mean an illness, injury or other incapacitating condition as a result of which the Executive is absent from full time performance of his duties with the Company or is unable to perform his duties and responsibilities for a period of sixty (60) consecutive days during the Term or a period or periods aggregating to more than ninety (90) days in any consecutive six (6) month period but shall not include death.

“Equity Awards” shall mean the equity ownership, participation or appreciation opportunities provided by the Company to the Executive pursuant to incentive plans that the Company maintains, including but not limited to its 2006 Equity and Cash Compensation Incentive Plan, the Teradyne, Inc. 1991 Employee Stock Option Plan and the Teradyne, Inc. 1997 Employee Stock Option Plan, and any stock options, restricted stock units, restricted stock, stock appreciation rights, phantom stock and other stock-based awards granted thereunder.

“Restricted Activities” shall include the following:

- a) Recruiting, soliciting, hiring or engaging, as an employee or independent contractor, any employees or former employees (excluding any former employee whose employment with the Company or its subsidiaries has been terminated for a period of six months or longer) of the Company or its subsidiaries;
- b) Soliciting, enticing, or encouraging employees of the Company or its subsidiaries to leave employment with the Company or its subsidiaries;
- c) Soliciting (for the purpose of providing a product or service that is competitive with the Company) any customer or prospective customer of the Company or its subsidiaries;
- d) Soliciting, enticing, advising, encouraging, or inducing (i) customers of the Company or its subsidiaries to discontinue or alter their business relationship or (ii) customers or prospective customers to refrain from entering into a business relationship with the Company or its subsidiaries;
- e) Entering the employment, rendering any professional services or taking a position as an officer, director, partner, owner, consultant, independent contractor, advisory board or committee member, principal, agent, employee or 10% or more shareholder with or to any individual, partnership, association or corporation which is a Competitor of the Company or its subsidiaries; but this clause (e) shall not preclude the Executive from rendering services to an entity that competes with an entity that has acquired Teradyne, Inc. (an “Acquirer”) so long as (i) the Executive’s services do not involve products or services that are competitive to those that were produced, marketed, sold or rendered by Teradyne, Inc. or any of its subsidiaries (including actual or demonstratively anticipated research or development) before the acquisition (“Teradyne Product/Services”) and (ii) the Executive is not retained as an Officer of the Acquirer following the consummation of the acquisition to render services involving the Acquirer’s products and services which are not Teradyne Products/Services.
- f) Establishing, funding, purchasing or managing a business which is competitive with the business of the Company or its subsidiaries.

3. Employment & Agreement Consideration: In consideration of (a) the Executive's "at-will" employment with the Company and the compensation payments made to the Executive as CEO and President and (b) the Company's willingness to enter into an agreement regarding termination benefits, specifically this Agreement, the Executive covenants and agrees that during the Term of this Agreement and for three (3) years after the Executive's Date of Termination resulting from the Executive's resignation, retirement or a termination by the Company for Cause, the Executive will not directly or indirectly engage in any of the Restricted Activities.

4. Termination Benefits and Covenants:

4.1 For the Executive: In consideration of, and as condition to, the performance by the Executive of the covenants, undertakings and other agreements set forth in Section 4.3 below, and for so long as the Executive performs such obligations, the Company shall provide the Termination Benefits described in subsections (a)-(f) below to the Executive if his employment with the Company is terminated by the Company for any reason other than for death, Disability, or Cause, provided that such termination by the Company does not trigger or entitle the Executive to any payments or benefits under the Executive Officer Change in Control Agreement dated January 1, 2014 (the "Executive Officer Change in Control Agreement"). If the Executive's employment with the Company is terminated within twenty-four (24) months following a Change in Control or within three (3) months prior to an actual Change in Control, then the terms and conditions of the Executive Officer Change in Control Agreement shall govern such employment termination and the Executive shall not be entitled to the payments and benefits described below. Subject to Section 4.1(b)(i) of this Agreement but notwithstanding any other provision of this Agreement to the contrary, payment or provision of the Executive's Termination Benefits that are subject to Section 409A of the Code shall commence on the 60th day following the Date of Termination provided the Executive has complied with the requirements of Section 4.3 of this Agreement and the release of claims has become irrevocable under applicable law no later than on the 60th day following his Date of Termination. All Termination Benefits shall be forfeited as of the 60th day following the Executive's Date of Termination if the Executive has not provided the Company with a valid, irrevocable release of claims as of such 60th day.

(a) Continued Payments: Unless otherwise required under Section 4.1(b) below, the Company shall pay monthly to the Executive an amount equal to 1/12th of his current annual Model Compensation as of the Date of Termination for a period of twenty-four (24) months from the Date of Termination (the "Severance Period"). Except as otherwise expressly provided herein, under no circumstances shall the Executive receive more than a total of twenty-four (24) months of payments under this Agreement. All such continued payments shall be in accord with the Company's customary pay practices.

(b) Deferred Compensation/Section 409A.

(i) Notwithstanding any other provision of this Agreement, if the Executive is a “specified employee” at the time of Executive’s “separation from service,” as defined in Section 409A of the Code, all payments, benefits, or removal of restrictions on the transfer of equity under this Agreement with respect to Executive’s separation from service that constitute compensation deferred under a nonqualified deferred compensation plan as defined in Section 409A of the Code to which such specified employee would otherwise be entitled during the first six months following the date of separation from service shall be made on the first day of the seventh month after the date of separation from service (or, if earlier, the date of death of the Executive).

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided shall be construed as a separate identified payment for purposes of Section 409A, and any payments that are due within the “short term deferral period” as defined in Section 409A or payments that are made under separation pay plans as described in Treasury Regulation Section 1.409A-1(b)(ii), (iii) or (iv), shall not be treated as deferred compensation unless applicable law requires otherwise. Neither the Company nor the Executive shall have the right to accelerate or defer the delivery of any payments or benefits under this Agreement except to the extent specifically permitted or required by Section 409A.

(iii) This Agreement is intended to comply with the provisions of Section 409A and the Agreement shall, to the extent practicable, be construed in accordance therewith. Terms defined in the Agreement shall have the meanings given such terms under Section 409A if and to the extent required to comply with Section 409A. In any event, the Company makes no representations or warranty and shall have no liability to Executive or any other person if any provisions of or payments under this Agreement are determined to constitute deferred compensation subject to Code Section 409A but not to satisfy the conditions of that section.

(c) Benefits: During the Severance Period, the Company shall arrange or provide for continued health, dental and vision insurance plan coverage for the Executive at the same levels of coverage in existence prior to the Date of Termination subject to the Company and Executive each contributing to the applicable insurance premium payments on the same basis and in the same proportions as in existence at the Date of Termination. If the Executive is not eligible for continued health, dental and vision insurance plan coverage for any portion of the Severance Period, the Company shall provide or reimburse the Executive for comparable individual insurance and, if such provision or reimbursement constitutes taxable income to the Executive, such additional amount as is necessary to place the Executive in substantially the same after tax position as he was while an employee of the Company with respect to such insurance plan coverages. All other benefits, including but not limited to

flex/vacation time accrual, short and long term disability insurance, life insurance, contributions (including company matches) into savings plan and savings plan plus, profit sharing payments and participation in the employee stock purchase plan shall cease as of the Date of Termination.

To the extent that amounts paid by the Company to provide benefits under this paragraph (c), are deemed to be deferred compensation subject to Section 409A, then such payments shall be made monthly and to the extent any such benefits are reimbursements of expenses incurred by the Executive then the expenses eligible for reimbursement in one taxable year may not effect the expenses eligible for reimbursement in another taxable year; such reimbursement must be made on or before the last day of the year following the year in which the expenses are incurred; and the right to reimbursement is not subject to liquidation or exchange for another benefit.

(d) Equity Awards: All unvested, non performance-based Equity Awards held by the Executive as of the date of the Executive's termination by the Company shall continue to vest during the Severance Period as if the Executive's employment had not been terminated. Unvested performance-based Equity Awards shall continue to vest for thirty-six (36) months as if the Executive's employment had not been terminated. Except as modified in this Section 1(d), the terms of the applicable equity Plan(s) and Equity Award Agreements (including any successor plans and agreements) under which the Equity Awards were granted to the Executive shall continue to govern all of the Executive's Equity Awards.

(e) Taxes and Withholdings: All payments made by the Company to the Executive under this Agreement shall be net of any applicable taxes (whether local, state, federal, provincial or otherwise) or other required or voluntary withholdings or deductions.

(f) Notwithstanding anything to the contrary herein, in the event the Executive dies after (i) his employment with the Company has been terminated for any reason other than Death, Disability and Cause and (ii) his right to the Termination Benefits stated in Section 4.1 has attached, the Company agrees that the Executive's estate, conservator or designated beneficiary(ies), as the case may be, shall be entitled to the remainder of the Executive's Termination Benefits described in Section 4.1.

4.2 Notwithstanding the preceding Section 4.1 and in consideration of, and as condition to, the Executive providing to the Company the covenants and agreements set forth in Section 4.3 below, the Company agrees that if the Executive's employment with the Company is terminated by the Company for Disability, the Company shall, unless otherwise required under Section 4.1(b) above:

(a) provide the monthly payments described in Section 4.1(a) above, as reduced pursuant to 4.2(b) below, to the Executive for each month during the

two (2) year period following his termination during which the Executive does not receive or is no longer eligible to receive any Company disability insurance benefits under the applicable insurance policy or program(s), other than as a result of Executive's intentional malfeasance or death; and

(b) under this Section 4.2, reduce each monthly payment described in Section 4.1(a) above to the Executive by any compensation received by the Executive from other employment, consulting or the rendition of services outside the Restricted Activities.

The Executive agrees to use his best efforts to obtain and maintain any benefits from any disability policy or program under which he is an insured party or participant.

4.3 Executive's Covenants: In consideration of, and as a condition to, the Company providing to the Executive the Termination Benefits set forth in Sections 4.1 and 4.2, the Executive covenants and agrees:

(a) that during the Term of this Agreement and for three (3) years after the Executive's Date of Termination resulting from a termination by the Company for any reason other than for Death or Disability and so long as such termination does not trigger or entitle the Executive to any payments or benefits under the Executive Officer Change in Control Agreement, the Executive will not directly or indirectly engage in any of the Restricted Activities.

(b) to sign a valid, binding, irrevocable general release of any claims he has or may have against the Company, including its subsidiaries, in connection with or relating to his employment by and/or termination from employment with the Company in the form attached hereto as Attachment A, within twenty-one (21) days of his Date of Termination resulting from a termination by the Company. Notwithstanding the foregoing, the Company agrees and hereby acknowledges that the Release contained in Attachment A is not intended to and does not (i) apply to any claims the Executive may bring to enforce the terms of this Agreement, the Executive Officer Change in Control Agreement, or any outstanding Equity Award Agreement and applicable equity Plan; (ii) release the Company of any obligation it may have pursuant to a written agreement, the Company's articles or organization or bylaws or as mandated by statute to indemnify the Executive as an officer or director of the Company; and (iii) release the Company of any obligation to provide and/or pay benefits to the Executive or the Executive's estate, conservator or designated beneficiary (ies) under and in accordance with the terms of any applicable Company benefit plan and/or program.

(c) to continue to comply with any post-termination obligations he may have to the Company arising from this Agreement or any other agreement the Executive has with the Company, its subsidiaries, affiliates or divisions, including but not limited to the following:

- All Outstanding Equity Award Agreements
- Employment Agreement
- Executive Officer Change in Control Agreement

(d) to cooperate with and provide all reasonable assistance to the Company, with respect to any civil, criminal or administrative investigations, actions and/or proceedings involving the Company and relating in any way to Executive's positions, duties and responsibilities while at the Company or to any matters which the Executive handled, participated in or had knowledge of while employed by the Company.

(e) not to make any false or disparaging or derogatory statements or remarks to any person or entity about the Company's (including its subsidiaries') business affairs, financial condition, or about any Company or subsidiary directors, officers, employees, stockholders and agents.

4.4 Return of Property: Within sixty (60) days of the Executive's termination of employment, for any reason, or his resignation or retirement, the Executive shall (a) return to the Company all Company property in his possession or control, including all electronic documents; and (b) submit all documentation for any reimbursements owed to the Executive for business expenses incurred prior to the Date of Termination.

4.5 No Termination Benefits: Except as expressly stated otherwise in Section 4.2, the Executive shall not be eligible for or receive any of the Termination Benefits described in Section 4.1 above upon the occurrence of any one of the following: (a) the Executive's resignation or retirement from employment with the Company, or (b) the termination of Executive's employment with the Company resulting from Death or Disability, or (c) the termination of Executive's employment by the Company for Cause; or (d) the Executive's failure to perform or breach of any of the covenants, undertakings or other agreements set forth in Section 4.3; or (e) the Executive's entitlement to receive payments or benefits under the Executive Officer Change in Control Agreement.

5. Termination Notice: Any termination of the Executive's employment by the Company (other than by reason of Death) shall (a) be in writing; (b) indicate the basis for termination (such as with or without Cause, Disability, etc...) and with respect to a termination for Cause indicate the basis for termination in reasonable detail and (c) be delivered to the Executive in accordance with Section 17 below.

6. Resignation or Retirement Notice: Any resignation or retirement by Executive shall be (a) in writing, (b) explain the resignation or retirement and (c) be delivered to the Company at least ninety (90) days in advance of the resignation or retirement date and otherwise in accordance with Section 17 below.

7. Resignation as a Director: Upon termination of Executive's employment by the Company for any reason or the resignation of or retirement from employment by

the Executive, the Executive shall provide the Chairman of the Board with his written resignation from the Company's Board and all subsidiary Boards, and the Board may choose to accept or reject the Executive's resignation as a Company Board member.

8. No Third Party Beneficiaries: Except as otherwise provided in Section 4.1(f) above and in the Executive Officer Change in Control Agreement, nothing in this Agreement shall confer upon any person or entity not a party to this Agreement, or the legal representative, executor, administrator or heir of such person or entity, any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

9. No Obligation of Employment. Nothing in this Agreement shall be construed as an express or implied contract of employment between the Executive and the Company (or its subsidiaries, affiliate or divisions) or as a commitment on the part of the Company to retain Executive in any capacity for any period of time. Executive understands that the employment relationship between the Executive and the Company will be "at will" and the Executive understands that the Company may terminate Executive with or without "Cause" at any time (including prior to a Change in Control) or for any or no reason. Following any Change in Control, the Company may also terminate Executive with or without "Cause" at any time subject to the terms of this Agreement and the Executive's rights and the Company's obligations specified in the Executive Officer Change in Control Agreement.

10. Specific Performance: Executive acknowledges that (a) the services to be rendered under this Agreement and the obligations of the Executive assumed herein are of a special, unique and extraordinary character, (b) it would be difficult or impossible to replace such services and obligations, (c) the Company, its subsidiaries and affiliates will be irreparably harmed, and (d) the award of monetary damages will not adequately protect the Company, its subsidiaries and affiliates in the event of a breach hereof by the Executive. As a result, the Executive agrees and consents that if he violates any of the provisions of this Agreement, the Company shall, without any bond or other security, being required and without the necessity of proving monetary damages, be entitled to temporary and/or permanent injunctive relief to be issued by a court of competent jurisdiction restraining the Executive from committing or continuing any violation of this Agreement or any other appropriate decree of specific performance. Such remedies shall not be exclusive and shall be in addition to any other remedy the Company may have whether at law or in equity.

11. Dispute Resolution: Except for the equitable relief provisions set forth in Section 10, the Executive and the Company agree that any dispute, controversy or claim arising between the parties relating to this Agreement, otherwise relating in any way to Executive's employment with and/or termination from the Company, or relating to Executive's relationship as a director or in any other capacity for the Company (whether such dispute arises under any federal, state or local statute or regulation, or at common law), shall be resolved by final and binding arbitration before a single arbitrator. The arbitrator shall be selected in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association ("AAA") pertaining at the time the dispute

arises. The parties agree that such arbitration shall take place at the offices of the AAA in Boston, Massachusetts. In such arbitration proceedings, the arbitrator shall have the discretion, to be exercised in accordance with applicable law, to allocate among the parties the arbitrator's fees, tribunal and other administrative and litigation costs and, to the prevailing party, reasonable attorneys' fees. The award of the arbitrator may be confirmed before and entered as a judgment of any court having jurisdiction of the parties.

12. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts and this Agreement shall be deemed to be performable in Massachusetts.

13. Severability. In case any one or more of the provisions contained in this Agreement for any reason shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed to the maximum extent permitted by law.

14. Waivers and Modifications. This Agreement may be modified, and the rights, remedies and obligations contained in any provision hereof may be waived, only in accordance with this Section 14. No waiver by either party of any breach by the other or any provision hereof shall be deemed to be a waiver of any later or other breach thereof or as a waiver of any other provision of this Agreement. This Agreement may not be waived, changed, discharged or terminated orally or by any course of dealing between the parties, but only by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

15. Assignment. Executive may not assign any of his rights or delegate any of his duties or obligations under this Agreement. The rights and obligations of the Company under this Agreement shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.

16. Entire Agreement. This Agreement constitutes the entire understanding of the parties relating to the subject matter hereof and supersedes and cancels all agreements, written or oral, made prior to the date hereof between Executive and the Company relating to the subject matter hereof ; provided, however, that the following Executive Agreements, as may be modified herein, shall remain in effect in accordance with their terms.

- a) All Outstanding Equity Award Agreements
- b) Employment Agreement between the Company and the Executive
- c) Executive Officer Change in Control Agreement dated January , 2014
- d) Any written indemnification Agreements signed by the Company
- e) The Release, Attachment A hereto, once executed between the Company and the Executive.

17. Notices. All notices hereunder shall be in writing and shall be delivered (a) in person, (b) mailed by U.S. certified or registered mail, return receipt requested, postage prepaid, (c) sent via facsimile with a confirmed facsimile transmission receipt, or (d) sent via overnight delivery with a confirmed receipt of delivery; in each instance addressed, if to the Executive or the Company, as the case may be at the address noted below or to such other address as either party may furnish to the other in writing in accordance herewith, except that notice of a change of address shall be effective only upon actual receipt.

To the Company:

Teradyne, Inc.
600 Riverpark Drive
North Reading, MA 01864
Attention: General Counsel

To the Executive:

Executive's address in his employment file on record
with the Human Resources Department

18. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

19. Section Headings. The descriptive section headings herein have been inserted for convenience only and shall not be deemed to define, limit, or otherwise affect the construction of any provision hereof.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by a duly authorized director, and by the Executive.

TERADYNE, INC.

EXECUTIVE

/s/ Roy Vallee

Name: Roy A. Vallee

Title: Chair, Compensation Committee

/s/ Mark E. Jagiela

Mark E. Jagiela

President & Chief Executive Officer

ATTACHMENT A

Release

In consideration of the payment and receipt of the Termination Benefits described in the “Agreement Regarding Termination Benefits” dated January , 2014 between me and Teradyne, Inc. of 600 Riverpark Drive, North Reading, MA 01864 (the “Company”), all of which I acknowledge I would not otherwise be entitled to receive and except as otherwise expressly excluded under Section 4.3(b) of said Agreement, I hereby fully, forever, irrevocably and unconditionally release, remise and discharge the Company, its successors and assigns and their respective officers, directors, stockholders, corporate affiliates, subsidiaries, parent companies, agents and employees (each in their individual and corporate capacities) (hereinafter, the “Released Parties”) from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, and expenses (including attorneys’ fees and costs), of every kind and nature which I ever had or now have against the Released Parties arising out of my employment with and/or termination or separation from the Company or relating to my relationship as a Director, Officer or in any other capacity for the Company, including, but not limited to, all employment discrimination claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §2000e et seq., the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., the Americans With Disabilities Act of 1990, 42 U.S.C., §12101 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq., and the Massachusetts Fair Employment Practices Act., M.G.L. c.151B, §1 et seq., all as amended; all claims arising out of the Fair Credit Reporting Act, 15 U.S.C. §1681 et seq., the Employee Retirement Income Security Act of 1974 (“ERISA”), 29 U.S.C. §1001 et seq., the Massachusetts Civil Rights Act, M.G.L. c.12 §§11H and 11I, the Massachusetts Equal Rights Act, M.G.L. c.93, §102 and M.G.L. c.214, §1C, the Massachusetts Labor and Industries Act, M.G.L. c.149, §1 et seq., the Massachusetts Privacy Act, M.G.L. c. 214, §1B, and the Massachusetts Maternity Leave Act , M.G.L. c. 149, §105(d), all as amended; all common law claims including, but not limited to, actions in tort, defamation and breach of contract; all claims to any non-vested ownership interest in the Company, contractual or otherwise, including but not limited to claims to stock or stock options; and any claim or damage arising out of my employment with, termination or separation from the Company (including a claim for retaliation) under any common law theory or any federal, state or local statute or ordinance not expressly referenced above; provided, however, that notwithstanding the foregoing, the Company agrees and hereby acknowledges that this Release Agreement is not intended to and does not (i) apply to any claims I may bring to enforce the terms of this Agreement, the Executive Officer Change in Control Agreement, or any outstanding Equity Award Agreement and equity Plan; (ii) release the Company of any obligation it may have pursuant to a written agreement, the Company’s articles of organization or bylaws, or as mandated by statute to indemnify me as an officer or director of the Company; and (iii) release the Company of any obligation to provide and/or pay benefits to me or my estate, conservator or designated beneficiary(ies) under and in accordance with the terms of any applicable Company benefit plan and/or program; provided further, that nothing in this Release Agreement prevents me from filing, cooperating with, or participating in any proceeding before the EEOC or a state Fair Employment Practices Agency (except that I acknowledge that I may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding).

Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967:

Since I am 40 years of age or older, I have been informed that I have or may have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 (ADEA) and I agree that:

(a) in consideration for the severance payments and benefits described in Section 4.1 of the Agreement Regarding Termination Benefits, which I am not otherwise entitled to receive, I specifically and voluntarily waive such rights and/or claims under the ADEA I might have against the Released Parties to the extent such rights and/or claims arose prior to the date this Release Agreement was executed;

(b) I understand that rights or claims under the ADEA which may arise after the date this Release Agreement is executed are not waived by me;

(c) I was advised that I have at least 21 days within which to consider the terms of this Release Agreement and to consult with or seek advice from an attorney of my choice or any other person of your choosing prior to executing this Release Agreement;

(d) I have carefully read and fully understand all of the provisions of this Release Agreement, and I knowingly and voluntarily agree to all of the terms set forth in this Release Agreement; and

(e) in entering into this Release Agreement I am not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this document.

Period for Review and Consideration of Agreement:

I acknowledge that I was informed and understand that I have twenty-one (21) days to review this Release Agreement and consider its terms before signing it.

The 21-day review period will not be affected or extended by any revisions, whether material or immaterial, that might be made to this Agreement.

Accord and Satisfaction: The amounts set forth in the Agreement Regarding Termination Benefits shall be complete and unconditional payment, settlement, accord and/or satisfaction with respect to all obligations and liabilities of the Released Parties to me, including, without limitation, all claims for back wages, salary, vacation pay, draws, incentive pay, bonuses, cash awards, Equity Awards, commissions, severance pay, reimbursement of expenses, any and all other forms of compensation or benefits, attorney's fees, or other costs or sums.

Revocation Period: I may revoke this Release Agreement at any time during the seven-day period immediately following my execution hereof. As a result, this Release Agreement shall not become effective or enforceable and the Company shall have no obligation to make any payments or provide any benefits described herein until the seven-day revocation period has expired.

Mark E. Jagiela

Date

Witness

Date

**IF YOU DO NOT WISH TO USE THE 21-DAY PERIOD,
PLEASE CAREFULLY REVIEW AND SIGN THIS DOCUMENT**

I, Mark E. Jagiela, acknowledge that I was informed and understand that I have 21 days within which to consider the attached Release Agreement, have been advised of my right to consult with an attorney regarding such Agreement and have considered carefully every provision of the Agreement, and that after having engaged in those actions, I prefer to and have requested that I enter into the Agreement prior to the expiration of the 21 day period.

Dated: _____

Mark E. Jagiela

Dated: _____

Witness

EXECUTIVE OFFICER CHANGE IN CONTROL AGREEMENT

EXECUTIVE OFFICER CHANGE IN CONTROL AGREEMENT entered into this 22nd day of January, 2014 by and between Teradyne, Inc., a Massachusetts corporation (“Teradyne”), and the undersigned executive officer of Teradyne (“Employee”).

WITNESSETH:

WHEREAS, Teradyne and Employee desire to set forth certain terms and conditions relating to the termination of Employee’s employment upon the occurrence of a Change in Control (as hereinafter defined) of Teradyne.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

1. Entitlements Upon a Termination Event. If, within twenty-four (24) months following a Change in Control or in contemplation of a Change in Control, there is a Termination Event, and subject to the conditions set forth herein and the performance by Employee of the undertakings and duties set forth herein, Employee shall be entitled to the rights, payments and other benefits set forth below:

(a) Treatment of Awards. Equity Awards that are not subject to Performance Criteria shall be governed by Section 1(b) below, and Cash Awards and Equity Awards that are subject to Performance Criteria shall be governed by Section 1(c) below. The parties hereto acknowledge that, except as otherwise provided herein, the terms of this Agreement are intended to modify the terms of Employee’s existing Cash Award and Equity Award agreements and to be a supplement to Cash Award and Equity Award agreements granted on or subsequent to the date hereof.

(b) Acceleration of Equity Awards. All of Employee’s unvested or unexercisable Equity Awards or Equity Awards subject to restrictions on transfer imposed by Teradyne or repurchase rights in favor of Teradyne, as applicable, granted prior to, on, or after the date hereof (but only (I) such Equity Awards as have been granted to Employee by Teradyne as of the date of the Change in Control or (II) such Equity Awards as have been assumed by an acquiring company at the time of a Change in Control or such new cash and equity awards that have been substituted by an acquiring company for Equity Awards existing at the time of a Change in Control, each pursuant to the terms of any Teradyne incentive plan) shall automatically become fully vested, exercisable or free of restrictions on transfer imposed by Teradyne or repurchase rights in favor of Teradyne, as applicable, as of the date of such Termination Event, and all Equity Awards granted on or after the date hereof shall, to the extent applicable, remain exercisable for the remainder of the generally applicable term of such Equity Award.

(c) Satisfaction of Performance Criteria. All of Employee’s Cash Awards and Equity Awards that are subject to Performance Criteria shall be settled and paid in the following manner: Employee shall be deemed to have satisfied the necessary percentage of the Performance Criteria to which such Cash Awards and Equity Awards are subject as of the date

of the Termination Event, that will provide Employee with the target level of such Cash Awards and Equity Awards; and Employee shall be entitled to receive that portion of each Cash Award and Equity Award payable, at the target level. For purposes of the Cash Awards, the payment shall be multiplied by a fraction, the numerator of which shall be the number of calendar months that have passed during the period in which the Performance Criteria are to be measured (treating the month in which the Termination Event occurs as a full calendar month) and the denominator of which shall be the total number of calendar months in such period. For purposes of this Agreement, "target level" is that percentage of the Performance Criteria established at the beginning of each calendar year in order for the Employee to achieve Model Compensation. Unless otherwise required under Section 1(e) below, such Cash Awards and Equity Awards shall be paid to Employee or the restrictions on transfer removed not later than 10 days following the Termination Event.

(d) Salary Continuation. Unless otherwise required under Section 1 (e) below, Teradyne shall pay Employee monthly an amount equal to 1/12th of Employee's current annual Model Compensation as of the Termination Event for a period of 24 months following the date of the Termination Event (the "Salary Continuation Period"). In the event a Termination Event constitutes termination for Good Reason on account of a material reduction in Model Compensation, the payment obligation pursuant to this Section 1(d) shall be calculated without giving effect to any such reductions in Model Compensation. All such continued payments shall be made in accordance with Teradyne's customary pay practices. Subject to Section 1(e)(i) of this Agreement but notwithstanding any other provision of this Agreement to the contrary, the continued payments to Employee contemplated by this Section 1(d) and any benefits provided to Employee that are subject to Section 409A of the Code shall commence on the 60th day following the Termination Event provided Employee has complied with the requirements of Section 1(g) of this Agreement and the release of claims has become irrevocable under applicable law no later than on the 60th day following his Termination Event.

(e) Deferred Compensation/Section 409A.

(i) Notwithstanding any other provision of this Agreement, if the Employee is a "specified employee" at the time of the Employee's "separation from service" as defined in Section 409A of the Code, all payments, benefits, or removal of restrictions on the transfer of equity under this Agreement with respect to the Employee's "separation from service" that constitute compensation deferred under a nonqualified deferred compensation plan as defined in Section 409A of the Code to which such specified employee would otherwise be entitled during the first six months following the date of separation from service shall be made on the first day of the seventh month after the date of separation from service (or, if earlier, the date of death of the Employee).

(ii) For purposes of this Agreement, each amount to be paid or benefit to be provided shall be construed as a separate identified payment for purposes of Section 409A, and any payments that are due within the "short term deferral period" as defined in Section 409A or payments that are made under separation pay plans as described in Treasury Regulation Section 1.409A-1(b)(9)(ii), (iii) or (iv), shall not be treated as deferred compensation unless applicable law requires otherwise. Neither Teradyne nor the Employee shall have the right to accelerate or defer the delivery of any payments or benefits under this Agreement except to the extent specifically permitted or required by Section 409A.

(iii) This Agreement is intended to comply with the provisions of Section 409A and the Agreement shall, to the extent practicable, be construed in accordance therewith. Terms defined in the Agreement shall have the meanings given such terms under Section 409A if and to the extent required to comply with Section 409A. In any event, Teradyne makes no representations or warranty and shall have no liability to Employee or any other person if any provisions of or payments under this Agreement are determined to constitute deferred compensation subject to Code Section 409A but not to satisfy the conditions of that section.

(iv) If any amount is payable under the provisions of paragraph (f), below, as a reimbursement of Employee's expenses, under the provisions of Section 2 and 13, or any other provision of this Agreement that constitutes a reimbursement of expenses under Section 409A then, notwithstanding the other provisions of this Agreement with respect to the payment of such reimbursement, the following limitations shall apply; (A) the expenses eligible for reimbursement may not affect the expenses eligible for reimbursement in any other taxable year; (B) such reimbursement must be made on or before the last day of the year following the year in which the expenses are incurred; (C) the right to reimbursement is not subject to liquidation or exchange for another benefit; and (D) in connection with reimbursements under Section 13 the period during which such expenses can be incurred extends to the end of the period permitted for such claims under the applicable statute of limitations.

(f) Benefit Continuation. During the Salary Continuation Period, Teradyne shall arrange or provide for continued health, dental and vision insurance plan coverage for the Employee at the same levels of coverage in existence prior to the Termination Event subject to Teradyne and Employee each contributing to the applicable insurance premium payments on the same basis and in the same proportions as in existence at the date of the Termination Event. If the Employee is not eligible for continued health, dental and vision insurance plan coverage for any portion of the twenty-four (24) month period defined herein, Teradyne shall provide or reimburse Employee for comparable individual insurance and, if such provision or reimbursement constitutes taxable income to the Employee, such additional amount as is necessary to place the Employee in substantially the same after tax position as he was while an employee of Teradyne with respect to such insurance plan coverages. All other benefits, including but not limited to flex/vacation time accrual, short and long term disability insurance, life insurance, contributions (including company matches) into savings plan and "savings plan plus", profit sharing payments and participation in the Employee stock purchase plan shall cease as of the date of the Termination Event.

To the extent that amounts paid by Teradyne to provide the benefits under this paragraph (f) are deemed to be deferred compensation subject to Section 409A, then such payments shall be made monthly and any payment to preserve the Employee's after tax position shall be made within 60 days after the end of each calendar year in which the taxable provision or reimbursement occurs.

(g) Release. Notwithstanding any other provision of this Agreement to the contrary, no payment, benefit or removal of restriction on the transfer of equity provided for

under or by virtue of the provisions of this Agreement shall be paid or otherwise made available unless Teradyne shall have first received from Employee a valid, binding and irrevocable general release, in the form of Attachment A to this Agreement within twenty-one (21) days of the date of the Termination Event. Employee shall sign such release within twenty-one (21) days of a Termination Event subsequent to a Change in Control. Teradyne agrees to provide Employee an estimate relating to payments to be made under this Agreement upon Employee's written request. All rights, benefits, payments and other entitlements contemplated to be provided or paid to Employee under this Agreement shall be forfeited as of the 60th day following Employee's Termination Event if Employee has not provided Teradyne with a valid, irrevocable release of claims as of such 60th day.

(h) Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Cash Awards" shall mean any cash-based bonus, cash incentive or other cash awards provided by Teradyne to Employee pursuant to incentive plans that Teradyne maintains, including but not limited to its 2006 Equity and Cash Compensation Incentive Plan.

"Cause" shall mean conduct involving one or more of the following: (i) the substantial and continuing failure of Employee, after notice thereof, to render services to Teradyne in accordance with the terms or requirements of his or her employment as established by the Teradyne Board of Directors from time to time and communicated to the Employee; (ii) Employee's disloyalty, gross negligence, willful misconduct, dishonesty, fraud or breach of fiduciary duty to Teradyne, each in connection with Employee's employment by Teradyne; (iii) Employee's deliberate disregard of the rules or policies of, or breach of an agreement with, Teradyne which results in direct or indirect material loss, damage or injury to Teradyne; (iv) the intentional unauthorized disclosure by Employee of any trade secret or confidential information of Teradyne; (v) the commission by Employee of an act which constitutes unfair competition with Teradyne; or (vi) the conviction of, or the entry of a plea of guilty or nolo contendere by the Employee, to any crime involving moral turpitude or any felony. In the event that Teradyne determines that Cause may exist pursuant to clauses (i), (iii) and (v) above, Teradyne shall give Employee written notice of the facts constituting such Cause and Employee shall have 30 days following receipt of such notice to remedy such Cause.

A "Change in Control" shall be deemed to have occurred upon the occurrence of any of the following events: (i) any consolidation, cash tender offer, reorganization, recapitalization, merger or plan of share exchange following which the capital stock of Teradyne outstanding immediately prior to such transaction constitutes less than a majority of the combined voting power of the then-outstanding securities of the combined corporation or person immediately after such transaction; (ii) any sale, lease, exchange or other transfer of all or substantially all of Teradyne's assets; (iii) the adoption by the Board of Directors of Teradyne of any plan or proposal for the liquidation or dissolution of Teradyne; (iv) a change in the majority of the Board of Directors of Teradyne through one or more contested elections occurring within a three-year period; or (v) any person (as that term is used in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes beneficial owner of 30% or more of the combined voting power of Teradyne's outstanding voting securities, other

than (A) as a result of a consolidation, reorganization, recapitalization, merger or plan of share exchange following which the capital stock of Teradyne outstanding immediately prior to such transaction constitutes at least a majority of combined voting power of the then-outstanding securities of the combined corporation or person immediately after such transaction, (B) by any trustee or other fiduciary holding securities under an employee benefit plan of Teradyne, or (C) by a person temporarily acquiring beneficial ownership in its capacity as an underwriter (as defined pursuant to Section 2(a)(11) of the Securities Act of 1933, as amended) in connection with a public offering of Teradyne securities.

“Equity Awards” shall mean the equity ownership, participation or appreciation opportunities provided by Teradyne to Employee pursuant to incentive plans that Teradyne maintains, including but not limited to its 2006 Equity and Cash Compensation Incentive Plan, the Teradyne, Inc. 1991 Employee Stock Option Plan and the Teradyne, Inc. 1997 Employee Stock Option Plan, and any stock options, restricted stock units, restricted stock, stock appreciation rights, phantom stock and other stock-based awards granted thereunder.

“Good Reason” shall mean any one or more of the following: (i) any material reduction of Employee’s responsibilities (other than for Cause or as a result of death or disability) as they shall exist on the date of the consummation of the Change in Control; (ii) any material reduction in Employee’s Model Compensation as in effect on the date of the consummation of the Change in Control, or as the same may be increased from time to time, or any failure by Teradyne to pay to Employee any bonus accrued, but not yet paid, upon written notice by Employee to Teradyne, within 45 days; (iii) a material reduction in the value of Employee’s benefit package from the value of Employee’s benefit package on the date of the consummation of the Change in Control; or (iv) a requirement that Employee be based at an office that is greater than 50 miles from the location of Employee’s office immediately prior to the Change in Control except for required travel on Teradyne’s business to an extent substantially consistent with the business travel obligations which Employee undertook on behalf of Teradyne prior to the date of the consummation of the Change in Control. In the event of a Termination Event in contemplation of a Change in Control, the applicable baseline measurement date shall be six months prior to such Termination Event and not the date of the consummation of the Change in Control.

“Model Compensation” shall mean Employee’s annual “Model Compensation” as determined by Teradyne’s Compensation Committee or Board of Directors, which consists of (i) a fixed annual salary and (ii) a target annual variable amount.

“Performance Criteria” shall have the meaning ascribed to that term in the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan.

“Termination Event” shall mean (i) any termination of Employee by Teradyne without Cause or (ii) any voluntary termination by Employee for Good Reason; provided, that it shall not be a Termination Event merely because Employee ceases to be employed by Teradyne and becomes employed by a successor to Teradyne involved in the Change in Control that assumes or is otherwise bound by this Agreement as provided in Section 7(a). It is expressly understood that no Termination Event shall be deemed to have occurred merely because, upon

the occurrence of a Change in Control, Employee ceases to be employed by Teradyne and does not become employed by a successor to Teradyne after the Change in Control if the successor makes an offer to employ Employee on terms and conditions which, if imposed by Teradyne, would not give Employee a basis on which to terminate employment for Good Reason.

(i) Termination in Contemplation of a Change in Control. For purposes of this Agreement, including without limitation, this Section 1, a Termination Event occurring “in contemplation of a Change in Control” means a Termination Event occurring within 3 months prior to an actual Change in Control at the request or direction of a person who enters or has entered into an agreement the consummation of which would cause a Change in Control or who conditions the entry into such an agreement on the Employee’s termination whether or not such person actually enters into such an agreement. A termination by the Employee for Good Reason shall constitute a Termination Event in contemplation of a Change in Control if the actions constituting Good Reason were taken at the request or direction of a person who has entered into an agreement the consummation of which would cause a Change in Control.

2. Reduction of Payments

(a) Notwithstanding any other provision of this Agreement, in the event that the Company undergoes a Change in Ownership or Control (as defined below), the Company shall not be obligated to provide to the Executive a portion of any “Contingent Compensation Payments” (as defined below) that the Executive would otherwise be entitled to receive to the extent necessary to eliminate any “excess parachute payments” (as defined in Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended (the “Code”)) for the Executive. For purposes of this Section 2, the Contingent Compensation Payments so eliminated shall be referred to as the “Eliminated Payments” and the aggregate amount (determined in accordance with Treasury Regulation Section 1.280G-1, Q/A-30 or any successor provision) of the Contingent Compensation Payments so eliminated shall be referred to as the “Eliminated Amount.”

(b) For purposes of this Section 2, the following terms shall have the following respective meanings:

- (i) “Change in Ownership or Control” shall mean a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 280G(b)(2) of the Code.
- (ii) “Contingent Compensation Payment” shall mean any payment (or benefit) in the nature of compensation that is made or made available (under this Agreement or otherwise) to a “disqualified individual” (as defined in Section 280G(c) of the Code) and that is contingent (within the meaning of Section 280G(b)(2)(A)(i) of the Code) on a Change in Ownership or Control of the Company.

(c) If and to the extent that any Contingent Compensation Payments are required to be treated as Eliminated Payments pursuant to this Section 2, then the Payments shall be reduced or eliminated, as determined by the Company, in the following order (i) any cash payments, (ii) any taxable benefits, (iii) any nontaxable benefits and (iv) any vesting of equity awards, in each case in reverse order beginning with the payments or benefits that are to be paid the farthest in time from the date that triggers the applicability of the excise tax, to the extent necessary to maximize the Eliminated Payments.

3. (a) Non-Competition and Non-Solicitation. From the Termination Event through the end of the Salary Continuation Period, Employee shall not directly or indirectly:

- (i) Engage in any business or enterprise (whether as an owner, partner, officer, employee, director, investor, lender, consultant, independent contractor or otherwise, except as the holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company) that is competitive with Teradyne (including but not limited to, any business or enterprise that develops, designs, produces, markets, sells or renders any product or service competitive with any product or service developed, produced, marketed, sold or rendered by Teradyne while Employee was employed by Teradyne);
- (ii) Either alone or in association with others, recruit, solicit, hire or engage as an independent contractor, any person who was employed by Teradyne at any time during the period of Employee's employment with Teradyne, except for an individual whose employment with Teradyne has been terminated for a period of six months or longer; and
- (iii) Either alone or in association with others, solicit, divert or take away, or attempt to divert or to take away, the business or patronage of any client or customer or entity that was a prospective client or customer of Teradyne during the Employee's employment.

(b) If any restriction set forth in this Section 3 is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

(c) Employee acknowledges that the restrictions contained in this Section 3 are necessary for the protection of the business and goodwill of Teradyne and are considered by Employee to be reasonable for such purpose. Employee agrees that any breach of this Section 3 will cause Teradyne irreparable harm and therefore, in the event of any such breach, in addition to such other remedies that may be available, Teradyne shall have the right to seek equitable and/or injunctive relief.

(d) The geographic scope of this Section 3 shall extend to anywhere Teradyne or any of its subsidiaries is doing business, has done business or has plans to do business.

(e) Employee agrees that during the Salary Continuation Period, he/she will make reasonable good faith efforts to give verbal notice to Teradyne of each new business activity he/she plans to undertake, at least (5) business days prior to beginning any such activity.

(f) If Employee violates the provisions of this Section 3, Teradyne shall be entitled to suspend and recoup any salary continuation payment made per Section 1 (d) above and Employee shall continue to be bound by the restrictions set forth in this Section 3 for an additional period of time equal to the duration of the violation, such additional period not to exceed 24 months.

3A. No Obligation of Employment. Employee understands that the employment relationship between Employee and Teradyne will be “at will” and Employee understands that, prior to any Change in Control, Teradyne may terminate Employee with or without “Cause” at any time, including in contemplation of a Change in Control. Following any Change in Control, Teradyne may also terminate Employee with or without “Cause” at any time subject to Employee’s rights and Teradyne’s obligations specified in this Agreement.

4. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the Commonwealth of Massachusetts and this Agreement shall be deemed to be performable in Massachusetts.

5. Severability. In case any one or more of the provisions contained in this Agreement for any reason shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed to the maximum extent permitted by law.

6. Waivers and Modifications. This Agreement may be modified, and the rights, remedies and obligations contained in any provision hereof may be waived, only in accordance with this Section 6. No waiver by either party of any breach by the other or any provision hereof shall be deemed to be a waiver of any later or other breach thereof or as a waiver of any other provision of this Agreement. This Agreement may not be waived, changed, discharged or terminated orally or by any course of dealing between the parties, but only by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

7. Assignment. (a) Teradyne shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of Teradyne expressly to assume and agree to perform under the terms of this Agreement in the same manner and to the same extent that Teradyne and its affiliates would be required to perform it if no such succession had taken place (provided that such a requirement to perform which arises by operation of law shall be deemed to satisfy the requirements for such an express assumption and agreement), and in such event Teradyne (as constituted prior to such succession) shall have no further obligation under or with respect to this Agreement. Failure of Teradyne to obtain such assumption and agreement with respect to Employee prior to the effectiveness of any such succession shall be a breach of the terms of this Agreement with respect to Employee and shall entitle Employee to compensation from Teradyne (as constituted prior to such

succession) in the same amount and on the same terms as Employee would be entitled to hereunder were Employee's employment terminated for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of the Termination Event. As used in this Agreement, "Teradyne" shall mean Teradyne as hereinbefore defined and any successor to its business or assets as aforesaid which assumes and agrees (or is otherwise required) to perform this Agreement. Nothing in this Section 7(a) shall be deemed to cause any event or condition which would otherwise constitute a Change in Control not to constitute a Change in Control.

(b) Notwithstanding Section 7(a), Teradyne shall remain liable to Employee upon a Termination Event after a Change in Control if Employee is not offered continuing employment by a successor to Teradyne or is offered continuing employment by a successor to Teradyne only on a basis which would constitute Good Reason for termination of employment hereunder.

(c) This Agreement, and Employee's and Teradyne's rights and obligations hereunder, may not be assigned by Employee or, except as provided in Section 7(a), Teradyne, respectively; any purported assignment by Employee or Teradyne in violation hereof shall be null and void.

(d) The terms of this Agreement shall inure to the benefit of and be enforceable by the personal or legal representatives, executors, administrators, permitted successors, heirs, distributees, devisees and legatees of Employee. If Employee shall die while an amount would still be payable to Employee hereunder if they had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designee or, if there is no such designee, Employee's estate.

8. Entire Agreement. This Agreement constitutes the entire understanding of the parties relating to the subject matter hereof and supersedes and cancels all agreements, written or oral, made prior to the date hereof between Employee and Teradyne relating to the subject matter hereof; provided, however, that Employee's existing Cash Award and Equity Award agreements, as modified hereby, shall remain in effect. This Agreement shall not limit any right of Employee to receive any payments or benefits under an employee benefit or Employee compensation plan of Teradyne, initially adopted as of or after the date hereof, which are expressly contingent thereunder upon the occurrence of a Change in Control (including, but not limited to, the acceleration of any rights or benefits thereunder); provided that in no event shall Employee be entitled to any payment or benefit under this Agreement which duplicates a payment or benefit received or receivable by Employee under any severance or similar plan or policy of Teradyne, and in any such case Employee shall only be entitled to receive the greater of the two payments.

9. Notices. All notices hereunder shall be in writing and shall be delivered in person or mailed by certified or registered mail, return receipt requested, addressed as follows:

If to Teradyne, to: Teradyne, Inc.
600 Riverpark Drive
MS NR600-2-2 (Legal Department)
North Reading, MA 01864
Attention: General Counsel

If to Employee, at Employee's address in his employment file on record with the Human Resources Department.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

11. Section Headings. The descriptive section headings herein have been inserted for convenience only and shall not be deemed to define, limit, or otherwise affect the construction of any provision hereof.

12. Term. The term of this Agreement (the "Term") shall commence upon the Effective Date hereof and terminate upon the earlier of (i) twenty-four (24) months following any Change in Control of Teradyne, (ii) the date prior to any Change in Control of Teradyne that Employee for any reason ceases to be an employee of Teradyne (other than a Termination Event in contemplation of a Change in Control) and (iii) the date following any Change in Control of Teradyne that Employee is terminated for Cause or voluntarily terminates his employment (other than for Good Reason).

13. Expenses. All reasonable legal fees and expenses incurred in a legal proceeding by Employee in seeking to obtain or enforce any right or benefit provided by this Agreement against a successor to Teradyne shall be the responsibility of and paid for by the successor to Teradyne (but not Teradyne as constituted prior to such succession). Such payments are to be made within twenty (20) days after Employee's request for payment accompanied with such evidence of fees and expenses incurred as Teradyne's successor reasonably may require; provided that if Employee institutes a proceeding and the judge or other decision-maker presiding over the proceeding affirmatively finds that Employee has failed to prevail substantially, Employee shall pay Employee's own costs and expenses (and, if applicable, return any amounts theretofore paid on Employee's behalf under this Section 13).

14. Payments. Any payments hereunder shall be made out of the general assets of Teradyne. The Employee shall have the status of general unsecured creditor of Teradyne, and this Agreement constitutes a mere promise by Teradyne to make payments under this Agreement in the future as and to the extent provided herein. Unless otherwise determined by Teradyne in an applicable plan or arrangement, no amounts payable hereunder upon a Termination Event shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of Teradyne for the benefit of its employees. Teradyne shall be entitled to withhold from any payments or deemed payments any amount of tax withholding required by law.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

TERADYNE, INC.

By: /s/ Roy A. Vallee

Name: Roy A. Vallee

Title: Chair, Compensation Committee

EMPLOYEE

/s/ Mark E. Jagiela

Name: Mark E. Jagiela

ATTACHMENT A

Release

In consideration of the payments and benefits described in the Executive Officer Change in Control Agreement dated January , 2014 between me and Teradyne, Inc. (the "Company"), all of which I acknowledge I would not otherwise be entitled to receive, I hereby fully, forever, irrevocably and unconditionally release, remise and discharge the Company, its successors and assigns and their respective officers, directors, stockholders, corporate affiliates, subsidiaries, parent companies, agents and employees (each in their individual and corporate capacities) (hereinafter, the "Released Parties") from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, and expenses (including attorneys' fees and costs), of every kind and nature which I ever had or now have against the Released Parties arising out of my employment with and/or termination or separation from the Company or relating to my relationship as an officer or in any other capacity for the Company, including, but not limited to, all employment discrimination claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §2000e et seq., the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., the Americans With Disabilities Act of 1990, 42 U.S.C., §12101 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq., and the Massachusetts Fair Employment Practices Act., M.G.L. c.151B, §1 et seq., all as amended; all claims arising out of the Fair Credit Reporting Act, 15 U.S.C. §1681 et seq., the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. §1001 et seq., the Massachusetts Civil Rights Act, M.G.L. c.12 §§11H and 11I, the Massachusetts Equal Rights Act, M.G.L. c.93, §102 and M.G.L. c.214, §1C, the Massachusetts Labor and Industries Act, M.G.L. c.149, §1 et seq., the Massachusetts Privacy Act, M.G.L. c. 214, §1B, and the Massachusetts Maternity Leave Act, M.G.L. c. 149, §105(d), all as amended; all common law claims including, but not limited to, actions in tort, defamation and breach of contract; all claims to any non-vested ownership interest in the Company, contractual or otherwise, including but not limited to claims to stock or stock options; and any claim or damage arising out of my employment with, termination or separation from the Company (including a claim for retaliation) under any common law theory or any federal, state or local statute or ordinance not expressly referenced above; provided, however, that notwithstanding the foregoing, the Company agrees and hereby acknowledges that this Release Agreement is not intended to and does not (i) apply to any claims Executive may bring to enforce the terms of the Executive Officer Change in Control Agreement, (ii) release the Company of any obligation it may have pursuant to a written agreement, the Company's articles of organization or bylaws, or as mandated by statute to indemnify me as an officer of the Company; and (iii) release the Company of any obligation to provide and/or pay benefits to me or my estate, conservator or designated beneficiary(ies) under and in accordance with the terms of any applicable Company benefit plan and/or program; provided further, that nothing in this Release Agreement prevents me from filing, cooperating with, or participating in any proceeding before the EEOC or a state Fair Employment Practices Agency (except that I acknowledge that I may not be able to recover any monetary benefits in connection with any such claim, charge or proceeding).

Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967: Since I am 40 years of age or older, I have been informed that I have or may have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 (ADEA) and I agree that:

in consideration for the payments and benefits described in the Executive Officer Change in Control Agreement, which I am not otherwise entitled to receive, I specifically and voluntarily waive such rights and/or claims under the ADEA I might have against the Released Parties to the extent such rights and/or claims arose prior to the date this Release Agreement was executed;

I understand that rights or claims under the ADEA which may arise after the date this Release Agreement is executed are not waived by me;

I was advised that I have at least 21 days within which to consider the terms of this Release Agreement and to consult with or seek advice from an attorney of my choice or any other person of your choosing prior to executing this Release Agreement;

I have carefully read and fully understand all of the provisions of this Release Agreement, and I knowingly and voluntarily agree to all of the terms set forth in this Release Agreement; and in entering into this Release Agreement I am not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this document.

Period for Review and Consideration of Agreement:

I acknowledge that I was informed and understand that I have twenty-one (21) days to review this Release Agreement and consider its terms before signing it.

The 21-day review period will not be affected or extended by any revisions, whether material or immaterial, that might be made to this Agreement.

Accord and Satisfaction: The amounts set forth in the Executive Officer Change in Control Agreement shall be complete and unconditional payment, settlement, accord and/or satisfaction with respect to all obligations and liabilities of the Released Parties to me, including, without limitation, all claims for back wages, salary, vacation pay, draws, incentive pay, bonuses, cash awards, equity awards, commissions, severance pay, reimbursement of expenses, any and all other forms of compensation or benefits, attorney's fees, or other costs or sums.

Revocation Period: I may revoke this Release Agreement at any time during the seven-day period immediately following my execution hereof. As a result, this Release Agreement shall not become effective or enforceable and the Company shall have no obligation to make any payments or provide any benefits described herein until the seven-day revocation period has expired.

Name: Mark E. Jagiela

Date

Witness

Date

**IF YOU DO NOT WISH TO USE THE 21-DAY PERIOD,
PLEASE CAREFULLY REVIEW AND SIGN THIS DOCUMENT**

I, Mark E. Jagiela, acknowledge that I was informed and understand that I have 21 days within which to consider the attached Release Agreement, have been advised of my right to consult with an attorney regarding such Agreement and have considered carefully every provision of the Agreement, and that after having engaged in those actions, I prefer to and have requested that I enter into the Agreement prior to the expiration of the 21 day period.

Dated: _____

Name: Mark E. Jagiela

Dated: _____

Witness

TERADYNE, INC. 2006 EQUITY AND CASH COMPENSATION INCENTIVE PLAN
NOTICE OF STOCK OPTION GRANT AND TERMS FOR U.S. RECIPIENTS

Name:
Employee ID:

In granting stock options, Teradyne, Inc. ("Teradyne") seeks to provide employees with incentive to help drive Teradyne's future success and to share in the economic benefits of that success. We all look forward to your contributions to that effort.

In recognition of your contributions to Teradyne, you have been granted a stock option award consisting of the right to receive up to xx shares of Teradyne common stock upon exercise of this option in accordance with its terms. This stock option grant was approved effective [●] (the "Effective Date"). The Stock Option Grant Details applicable to this stock option grant are listed below.

This stock option grant is subject to the Stock Option Terms attached hereto and the terms of the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the "Plan"). Stock options covered by this award will be exercisable over time as described in and subject to the vesting conditions of the attached Stock Option Terms.

The Plan prospectus, consisting of a "Participant Information" document that summarizes the Plan and the complete Plan, is available on "In-Site," Teradyne's internal Web site. To access the information, go to <http://cms.corp.teradyne.com/insite/FunctionsGroups/GeneralAdministrative/HumanResources/GLOBALPOLICY/EquityCompensationOptionsRSU%E2%80%99s/index.htm>.

Please note that printed versions of the Plan prospectus documents are available to you, at no charge, upon request to HR Service Center, Teradyne, Inc., 600 Riverpark Drive, North Reading, MA 01864, (978) 370-3041.

TERADYNE, INC.

Stock Option Grant Details:
Grant Date/Effective Date: [●]
Number of Shares under Option: [xx]
Per Share Option Price/FMV on Grant Date: [\$●]



Charles J. Gray
V.P., General Counsel and Secretary

(2014 Stock Option)
Grant #

STOCK OPTION TERMS FOR U.S. RECIPIENTS

1. Option Grant, Exercise and Vesting.

(a) **Option Grant.** Teradyne, Inc. hereby grants to the recipient an award (this "Award") of nonstatutory stock options (the "Stock Options") under the Teradyne, Inc. 2006 Equity and Cash Compensation Incentive Plan (the "Plan"). The Stock Options represent the right of the recipient to purchase that number of shares of Teradyne common stock set forth in the Notice of Stock Option Grant and Terms (the "Notice of Grant") attached hereto upon satisfaction of the terms set forth in this Agreement. This Award is governed by and subject to the terms of the Plan, the Notice of Grant and this Agreement.

Capitalized terms used but not otherwise defined herein will have the meaning set forth in the Notice of Grant or the Plan. In the event of any inconsistencies or differences between the Plan and these terms, the Plan shall prevail. The terms governing this Award are intended to comply with all applicable laws and regulations.

(b) **These Stock Options vest and become exercisable yearly on the anniversary of the Effective Date.** None of the Stock Options subject to this Award will be vested or exercisable on the Effective Date. Except as provided in (d) below, 25% of the Stock Options granted will vest and become exercisable on the first and each of the three subsequent anniversaries of the Effective Date until the total grant is fully vested and exercisable on the fourth anniversary of the Effective Date. The Committee shall have the right to accelerate the date that any installment of this Award becomes vested and exercisable, including, but not limited to events such as disability, death, retirement or upon the acquisition of control of Teradyne by another entity.

(c) **After Stock Options become exercisable, they can be exercised at any time prior to and on the Option Expiration Date.** This Award expires at the close of business at Teradyne's headquarters on the date that is seven years from the Effective Date (the "Option Expiration Date"). This Award may expire earlier if the recipient's employment or other business relationship terminates, as described below.

(d) **This Award will not vest further after termination of employment or other business relationship except in limited certain circumstances.** If the recipient's employment or business relationship with Teradyne or any Subsidiary terminates for any reason except disability or death, then this Award will not vest after the recipient's employment or other business relationship ends and this Award will automatically expire at the close of business at Teradyne's headquarters on the date ninety (90) days after the recipient's termination date, or if earlier, the Option Expiration Date. If the recipient's employment or other business relationship with Teradyne or a Subsidiary ends on account of permanent disability or death, the unvested portion of this Award which would have vested under the applicable rule stated in (b) above shall automatically become vested in full on the date of the recipient's termination of employment or business relationship on account of permanent disability or death and the vested portion of this Award may be exercised in accordance with Section 11(a) of the Plan until the earlier of the close of business at Teradyne's headquarters on the date that is one year subsequent to the recipient's termination due to permanent disability or death or the Option Expiration Date.

Employment or another business relationship shall be considered as continuing uninterrupted during any bona fide leave of absence (such as those attributable to illness or military obligations) provided that the period of such leave does not exceed 90 days or, in the case of an employee, if longer, any period during which the employee's right to reemployment is guaranteed by statute. A bona fide leave of absence with the written approval of the Committee shall not be considered an interruption of employment or other business relationship, provided that such written approval contractually obligates Teradyne or a Subsidiary to continue the recipient's employment or other business relationship after the approved period of absence.

2. Procedure for Exercising Stock Options.

(a) Stock Options are exercised by giving written notice to Teradyne in the form (or by such other procedures as) specified by the Committee stating the election to exercise, specifying the number of shares as to which Stock Options are being exercised and paying Teradyne the full option price for such shares, plus any applicable Tax-Related Items (as defined in Section 6 below). Payment can be made to Teradyne by a combination of cash, certified or

bank check, or personal check (in each case in United States dollars), or by delivery of shares of Teradyne common stock having a Fair Market Value equal as of the date of the exercise to the cash exercise price of the Option, provided that such shares were not acquired by the Participant in the prior six months, or through a broker-dealer sale and remittance procedure pursuant to which the recipient shall provide written irrevocable instructions to a brokerage firm to effect the immediate sale of some or all of the purchased shares and remit to Teradyne sufficient funds to cover the aggregate exercise price payable for the purchased shares, plus any applicable Tax-Related Items designated by Teradyne, and shall provide written directives to Teradyne to deliver the purchased shares directly to such brokerage firm to complete the sale transaction, provided that such process is consistent with and permissible under applicable law.

(b) The recipient shall not have any rights as a stockholder in, to or with respect to any shares which may be covered by this Award (including but not limited to the right to vote or to receive dividends) until the issuance of shares to the recipient upon exercise of the Stock Options. All shares issuable upon exercise of the Stock Options will be transferred or issued to the recipient (or his or her estate, in the event of death) promptly upon exercise.

(c) With regard to any Stock Option exercises, Teradyne will not be required to transfer or issue any shares until arrangements satisfactory to it have been made to address any Tax-Related Items and withholding requirements which might arise by reason of the Stock Option exercise. Teradyne will pay any transfer or issue tax and deliver the shares purchased.

3. Assignment and Transferability. This Stock Option may not be assigned or transferred (except by will or the laws of descent and distribution) other than as provided in Section 11(a) of the Plan.

4. Capital Changes and Business Succession. Section 3(c) of the Plan contains provisions for adjusting (or substituting) the number and class of securities, vesting schedule, exercise price and other terms of outstanding stock-based awards granted under the Plan if a recapitalization, stock split, merger, or other specified event occurs and the Committee determines that an adjustment (or substitution) is appropriate. In that event, the recipient will be notified of the adjustment (or substitution), if any, to this Award.

5. Employment or Business Relationship. Granting this Award does not imply any right of continued employment or business relationship with Teradyne or its Subsidiaries, and does not affect the right of the recipient, Teradyne or its Subsidiaries to terminate the recipient's employment or a business relationship at any time.

6. Tax Obligations.

(a) **Responsibility for Taxes.** The recipient acknowledges that, regardless of any action taken by Teradyne or, if different, the recipient's employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the recipient's participation in the Plan and legally applicable to the recipient ("Tax-Related Items"), is and remains the recipient's responsibility and may exceed the amount actually withheld by Teradyne or the Employer. The recipient further acknowledges that Teradyne and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Stock Options, including, but not limited to, the grant, vesting or exercise of the Stock Options, the subsequent sale of shares acquired pursuant to such exercise and the receipt of any dividends or other distributions, and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Stock Option to reduce or eliminate the recipient's liability for Tax-Related Items or achieve any particular tax result. Further, if the recipient is subject to Tax-Related Items in more than one jurisdiction between the Effective Date and the date of any relevant taxable or tax withholding event, as applicable, the recipient acknowledges that Teradyne and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) **Tax Withholding.** Prior to the relevant taxable or tax withholding event, as applicable, the recipient agrees to make adequate arrangements satisfactory to Teradyne and/or the Employer to satisfy all Tax-Related Items. In this regard, the recipient authorizes Teradyne and/or the Employer, or their respective agents to satisfy the obligations with regard to all Tax-Related Items by withholding from proceeds of the sale of shares acquired at exercise of the Stock Options. Teradyne shall withhold or account for Tax-Related Items at minimum applicable rates. Alternatively, Teradyne, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require the recipient to satisfy the recipient's obligations for Tax-Related Items, in whole or in part (without limitation) by delivery of cash or check to Teradyne or the Employer.

7. Compliance with Laws. Shares to be issued under this Award are currently registered under the United States Securities Act of 1933, as amended. If such registration is not in effect at the time of vesting, the recipient will be required to represent to Teradyne that the recipient is acquiring such shares as an investment and not with a view to the sale of those shares. Notwithstanding any other provision of the Plan or the Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the shares of common stock, Teradyne shall not be required to deliver any shares of common stock issuable upon exercise of the Stock Options prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the United States Securities and Exchange Commission (“SEC”) or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval Teradyne shall, in its absolute discretion, deem necessary or advisable. The recipient understands that Teradyne is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the recipient agrees that Teradyne shall have unilateral authority to amend the Plan and the Agreement without the recipient’s consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.

8. Governing Law and Venue. The Award and the provisions of this Agreement are governed by, and subject to, the laws of the Commonwealth of Massachusetts, without regard to the conflict of law provisions, as provided in the Plan. For purposes of litigating any dispute that arises under this Award or this Agreement, the parties hereby submit to and consent to the jurisdiction of the Commonwealth of Massachusetts, agree that such litigation shall be conducted in the courts of Middlesex County, or the federal courts for the United States for the District of Massachusetts, where this grant is made and/or to be performed.

9. Electronic Delivery and Acceptance. Teradyne may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The recipient hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Teradyne or a third party designated by Teradyne.

10. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

11. Imposition of Other Requirements. Teradyne reserves the right to impose other requirements on the recipient’s participation in the Plan, on the Stock Options and on any shares of common stock acquired under the Plan, to the extent Teradyne determines it is necessary or advisable for legal or administrative reasons, and to require the recipient to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

12. Waiver. The recipient acknowledges that a waiver by Teradyne of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by the recipient or any other recipient.

13. No Advice Regarding Grant. Teradyne is not providing any tax, legal or financial advice, nor is Teradyne making any recommendations regarding the recipient’s participation in the Plan, or the recipient’s acquisition or sale of the underlying shares of common stock. The recipient is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

Present Subsidiaries

Entity Name:	State or Jurisdiction Of Incorporation	Percentage of Voting Securities Owned
Teradyne (Asia) Pte., Ltd.	Singapore	100%*
Teradyne Canada Limited	Canada	100%
Teradyne de Costa Rica S.A.	Costa Rica	100%
Teradyne Diagnostic Solutions Ltd.	United Kingdom	100%*
Teradyne GmbH	Germany	100%*
Teradyne (India) Engineering Private Ltd.	India	100%*
Teradyne International Holdings B.V.	The Netherlands	100%
Teradyne Italia SrL	Italy	100%*
Teradyne K.K.	Japan	100%
Teradyne Korea Ltd.	Korea	100%
Teradyne Limited	United Kingdom	100%*
Teradyne Malaysia Sdn. Bhd.	Malaysia	99%*
Teradyne Philippines Limited	Delaware	100%
Teradyne SAS	France	100%
Teradyne (Shanghai) Co., Ltd	Peoples Republic of China	100%*
Teradyne Taiwan Ltd.	Delaware	100%
Teradyne Thailand Ltd.	Delaware	100%
GenRad, LLC	Delaware	100%
Herco Technology Corp.	California	100%
P.L.S.T., Inc. (f/k/a Perception Laminates, Inc.)	California	100%
Eagle Test Systems, Inc.	Delaware	100%
Eagle Test Systems (Philippines) LLC	Delaware	100%*
Nextest Systems Corporation	Delaware	100%
Nextest Systems (Philippines) Corp.	Philippines	99.9%*
LitePoint Corporation	Delaware	100%
LitePoint Europe A/S	Denmark	100%*
LitePoint Technology Limited	Hong Kong	100%*
LitePoint Technology (Shanghai) Company Ltd.	Peoples Republic of China	100%*
LitePoint Japan K.K.	Japan	100%*
LitePoint Design Test, LLC	New Mexico	100%*

* Indirect subsidiaries whose voting securities are 100% controlled by Teradyne, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-158282) and Form S-8 (Nos. 333-188824; 333-177246; 333-159723; 333-155564; 333-149017; 333-143231; 333-134519; 333-116632; 333-101983; 333-68074; 333-56373; 333-32547; and 333-07177) of Teradyne, Inc. of our report dated February 28, 2014 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 28, 2014

EXHIBIT 31.2

I, Gregory R. Beecher, certify that:

1. I have reviewed this annual report on Form 10-K of Teradyne, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2014

By: /s/ GREGORY R. BEECHER
Gregory R. Beecher
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Teradyne, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark E. Jagiela, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARK E. JAGIELA

Mark E. Jagiela
Chief Executive Officer

February 28, 2014

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Teradyne, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gregory R. Beecher, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GREGORY R. BEECHER

Gregory R. Beecher
Chief Financial Officer

February 28, 2014