

TERADYNE, INC  
Form 10-Q  
May 07, 2014

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 30, 2014

OR

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

For the transition period from        to

Commission File No. 001-06462

**TERADYNE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: TERADYNE, INC - Form 10-Q

**Massachusetts**  
(State or Other Jurisdiction of

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

Incorporation or Organization)

Identification No.)

**600 Riverpark Drive, North Reading,**

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

**01864**  
(Zip Code)

**978-370-2700**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

The number of shares outstanding of the registrant's only class of Common Stock as of May 2, 2014 was 194,252,893 shares.

TERADYNE, INC.

INDEX

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1.	
<u>Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of March 30, 2014 and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 30, 2014 and March 31, 2013</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 30, 2014 and March 31, 2013</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 30, 2014 and March 31, 2013</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4.	
<u>Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1.	
<u>Legal Proceedings</u>	31
Item 1A.	
<u>Risk Factors</u>	31
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 4.	
<u>Mine Safety Disclosures</u>	31
Item 6.	
<u>Exhibits</u>	32

## PART I

## Item 1: Financial Statements

## TERADYNE, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 30, 2014	December 31, 2013
	(in thousands,	
	except per share information)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 232,626	\$ 341,638
Marketable securities	462,150	586,882
Accounts receivable, less allowance for doubtful accounts of \$2,454 and \$2,912 at March 30, 2014 and December 31, 2013, respectively	216,524	157,642
Inventories:		
Parts	77,072	84,232
Assemblies in process	15,131	15,539
Finished goods	45,231	38,168
	137,434	137,939
Deferred tax assets	68,780	72,478
Prepayments	131,484	136,374
Other current assets	12,249	7,324
Total current assets	1,261,247	1,440,277
Net property, plant and equipment	278,727	275,236
Marketable securities	272,068	271,078
Deferred tax assets	5,551	5,217
Other assets	10,574	14,591
Retirement plans assets	9,443	9,342
Intangible assets, net	234,020	252,291
Goodwill	361,819	361,792
Total assets	\$ 2,433,449	\$ 2,629,824
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 70,597	\$ 62,874
Accrued employees compensation and withholdings	58,687	95,619
Deferred revenue and customer advances	64,811	55,404
Other accrued liabilities	65,561	63,712
Dividend payable	11,648	
Accrued income taxes	1,749	11,360
Current debt		186,663
Total current liabilities	273,053	475,632
Long-term deferred revenue and customer advances	13,981	13,756
Retirement plans liabilities	92,530	91,517
Deferred tax liabilities	50,532	40,686
Long-term other accrued liabilities	13,523	23,139
Total liabilities	443,619	644,730

Edgar Filing: TERADYNE, INC - Form 10-Q

Commitments and contingencies (Note O)

<b>SHAREHOLDERS EQUITY</b>		
Common stock, \$0.125 par value, 1,000,000 shares authorized, 194,019 shares and 191,731 shares issued and outstanding at March 30, 2014 and December 31, 2013, respectively	24,253	23,966
Additional paid-in capital	1,405,175	1,390,896
Accumulated other comprehensive income	4,890	4,000
Retained earnings	555,512	566,232
Total shareholders equity	1,989,830	1,985,094
Total liabilities and shareholders equity	\$ 2,433,449	\$ 2,629,824

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

## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended	
	March 30, 2014	March 31, 2013
	(in thousands, except per share amount)	
Net revenues:		
Products	\$ 255,386	\$ 214,300
Services	65,624	66,067
Total net revenues	321,010	280,367
Cost of revenues:		
Cost of products	124,448	96,793
Cost of services	29,515	30,157
Total cost of revenues	153,963	126,950
Gross profit	167,047	153,417
Operating expenses:		
Engineering and development	67,085	62,751
Selling and administrative	78,003	67,890
Acquired intangible assets amortization	18,271	18,036
Restructuring and other		332
Total operating expenses	163,359	149,009
Income from operations	3,688	4,408
Interest income	1,036	1,072
Interest expense and other	6,597	6,906
Loss before income taxes	(1,873)	(1,426)
Income tax benefit	(2,802)	(8,015)
Net income	\$ 929	\$ 6,589
Net income per common share:		
Basic	\$ 0.00	\$ 0.03
Diluted	\$ 0.00	\$ 0.03
Weighted average common shares basic	193,311	189,686
Weighted average common shares diluted	236,484	234,757
Cash dividend declared per common share	\$ 0.06	\$

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

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

Edgar Filing: TERADYNE, INC - Form 10-Q

consolidated financial statements.

## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended	
	March 30, 2014	March 31, 2013
	(in thousands)	
Net income	\$ 929	\$ 6,589
Other comprehensive income (loss):		
Available-for-sale marketable securities:		
Net unrealized gains on marketable securities arising during period, net of tax of \$654, \$115	1,139	200
Less: Reclassification adjustment for net gains included in net income, net of tax of \$(102), \$(83)	(176)	(144)
	963	56
Defined benefit pension and post-retirement plans:		
Amortization of prior service benefit included in net periodic pension and post-retirement expense/income, net of tax of \$(42), \$(40)	(73)	(69)
Other comprehensive income (loss)	890	(13)
Comprehensive income	\$ 1,819	\$ 6,576

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

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

consolidated financial statements.



## TERADYNE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended	
	March 30, 2014	March 31, 2013
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 929	\$ 6,589
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation	15,259	14,115
Amortization	23,925	23,002
Stock-based compensation	15,233	9,023
Provision for excess and obsolete inventory	10,039	3,800
Deferred taxes	12,699	(6,183)
Other	(141)	(987)
Changes in operating assets and liabilities:		
Accounts receivable	(58,882)	(13,191)
Inventories	2,635	(4,040)
Prepayments and other assets	(628)	(1,070)
Accounts payable and other accrued expenses	(45,487)	(47,404)
Deferred revenue and customer advances	9,632	(10,000)
Retirement plans contributions	(1,425)	(1,063)
Accrued income taxes	(9,609)	(9,085)
Net cash used for operating activities	(25,821)	(36,494)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(31,197)	(22,547)
Purchases of marketable securities	(257,260)	(124,514)
Proceeds from maturities of marketable securities	280,322	119,552
Proceeds from sales of marketable securities	101,363	21,694
Proceeds from life insurance	4,391	
Net cash provided by (used for) investing activities	97,619	(5,815)
Cash flows from financing activities:		
Issuance of common stock under employee stock purchase and stock option plans	10,165	8,921
Payments of long-term debt	(190,975)	
Payments of contingent consideration		(313)
Net cash (used for) provided by financing activities	(180,810)	8,608
Decrease in cash and cash equivalents	(109,012)	(33,701)
Cash and cash equivalents at beginning of period	341,638	338,920
Cash and cash equivalents at end of period	\$ 232,626	\$ 305,219

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

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

consolidated financial statements.



---

TERADYNE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**A. The Company**

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

semiconductor test ( Semiconductor Test ) systems;

wireless test ( Wireless Test ) systems; and

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

**B. Accounting Policies**

*Basis of Presentation*

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

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

*Preparation of Financial Statements and Use of Estimates*

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

**C. Recently Issued Accounting Pronouncements**

On July 18, 2013, 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's implementation during the three months ended March 30, 2014 of this ASU did not have a material impact on Teradyne's financial position or results of operations.

**D. Financial Instruments and Derivatives**

**Cash Equivalents**

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



## Financial Instruments

Teradyne accounts for its investments in debt and equity securities in accordance with the provisions of ASC 320-10, *Investments Debt and Equity Securities*. ASC 320-10 requires that certain debt and equity securities be classified into one of three categories; trading, available-for-sale or held-to-maturity securities. As of March 30, 2014, Teradyne's investments in debt and equity securities were classified as available-for-sale and recorded at their fair market value.

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

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

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

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

Teradyne uses the market and income approach techniques to value its financial instruments and there were no changes in valuation techniques during the three months ended March 30, 2014. 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 the three months ended March 30, 2014 and March 31, 2013. Realized gains recorded in the three months ended March 30, 2014 and March 31, 2013, were \$0.3 million and \$0.3 million, respectively. Realized gains are included in interest income.

During the three months ended March 30, 2014 and March 31, 2013, there were no transfers in or out of Level 1, Level 2 or Level 3 financial instruments.

Edgar Filing: TERADYNE, INC - Form 10-Q

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 March 30, 2014 and December 31, 2013.

	March 30, 2014			Total
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
<b>Assets</b>				
Cash	\$ 131,722	\$	\$	\$ 131,722
Cash equivalents	87,894	13,010		100,904
Available-for-sale securities:				
U.S. Treasury securities	321,296			321,296
U.S. government agency securities		191,863		191,863
Commercial paper		116,767		116,767
Corporate debt securities		82,787		82,787
Equity and debt mutual funds	14,171			14,171
Certificates of deposit and time deposits		7,257		7,257
Non-U.S. government securities		77		77
<b>Total</b>	<b>555,083</b>	<b>411,761</b>		<b>966,844</b>
Derivatives		209		209
<b>Total</b>	<b>\$ 555,083</b>	<b>\$ 411,970</b>	<b>\$</b>	<b>\$ 967,053</b>
<b>Liabilities</b>				
Contingent consideration	\$	\$	\$ 2,230	\$ 2,230
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,230</b>	<b>\$ 2,230</b>

Reported as follows:

	(Level 1)	(Level 2)	(Level 3)	Total
(in thousands)				
<b>Assets</b>				
Cash and cash equivalents	\$ 219,616	\$ 13,010	\$	\$ 232,626
Marketable securities	214,230	247,920		462,150
Long-term marketable securities	121,237	150,831		272,068
Other current assets		209		209
<b>Total</b>	<b>\$ 555,083</b>	<b>\$ 411,970</b>	<b>\$</b>	<b>\$ 967,053</b>
<b>Liabilities</b>				
Long-term other accrued liabilities	\$	\$	\$ 2,230	\$ 2,230
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,230</b>	<b>\$ 2,230</b>

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

Reported as follows:

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

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

The 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





Edgar Filing: TERADYNE, INC - Form 10-Q

customer order contingent consideration was captured in the probabilities assigned to meeting each benchmark. There were no changes to the fair value of the contingent consideration during the three months ended March 30, 2014.

Changes in the fair value of Level 3 contingent consideration for the three months ended March 30, 2014 and March 31, 2013 were as follows:

	<b>For the Three Months Ended March 30, 2014 (in thousands)</b>
Balance at December 31, 2013	\$ 2,230
Contingent consideration payments	
<b>Balance at March 30, 2014</b>	<b>\$ 2,230</b>

	<b>For the Three Months Ended March 31, 2013 (in thousands)</b>
Balance at December 31, 2012	\$ 388
Contingent consideration payments	(313)
<b>Balance at March 31, 2013</b>	<b>\$ 75</b>

The carrying amounts and fair values of Teradyne's financial instruments at March 30, 2014 and December 31, 2013 were as follows:

	<b>March 30, 2014</b>		<b>December 31, 2013</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
Cash and cash equivalents	\$ 232,626	\$ 232,626	\$ 341,638	\$ 341,638
Marketable securities	734,218	734,218	857,960	857,960
Convertible debt(1)			185,708	611,433
Japan loan			955	955

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

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

Edgar Filing: TERADYNE, INC - Form 10-Q

The following tables summarize the composition of available-for-sale marketable securities at March 30, 2014 and December 31, 2013:

	March 30, 2014				Fair Market Value of Investment with Unrealized Losses
	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	
U.S. Treasury securities	\$ 321,184	\$ 236	\$ (124)	\$ 321,296	\$ 23,205
U.S. government agency securities	191,856	92	(85)	191,863	91,951
Commercial paper	116,758	13	(4)	116,767	38,906
Corporate debt securities	81,913	1,337	(463)	82,787	49,413
Equity and debt mutual funds	11,483	2,725	(37)	14,171	810
Certificates of deposit and time deposits	7,257			7,257	
Non-U.S. government securities	77			77	
	\$ 730,528	\$ 4,403	\$ (713)	\$ 734,218	\$ 204,285

Reported as follows:

	Cost	Unrealized Gain	Unrealized (Loss) (in thousands)	Fair Market Value	Fair Market Value of Investments with Unrealized Losses
	Marketable securities	\$ 462,031	\$ 146	\$ (27)	\$ 462,150
Long-term marketable securities	268,497	4,257	(686)	272,068	104,982
	\$ 730,528	\$ 4,403	\$ (713)	\$ 734,218	\$ 204,285

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

Reported as follows:

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

As of March 30, 2014, the fair market value of investments with unrealized losses was \$204.3 million. Of this value, \$0.9 million had unrealized losses greater than one year and \$203.4 million had unrealized losses less than one year. As of December 31, 2013, the fair market value of investments with unrealized losses was \$241.8 million. Of this value, \$0.9 million had unrealized losses greater than one year and \$240.9 million had unrealized losses less than one year.

The contractual maturities of investments held at March 30, 2014 were as follows:

	March 30, 2014	
	Cost	Fair Market Value
	(in thousands)	
Due within one year	\$ 462,031	\$ 462,150
Due after 1 year through 5 years	226,558	226,607
Due after 5 years through 10 years	5,854	5,954
Due after 10 years	24,602	25,336
Total	\$ 719,045	\$ 720,047

Contractual maturities of investments held at March 30, 2014 exclude equity and debt mutual funds as they do not have a contractual maturity date.

### Derivatives

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

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

The notional amount of foreign currency forward contracts was \$66.8 million and \$74.8 million at March 30, 2014 and December 31, 2013, respectively.

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

The fair value of the outstanding contracts was a gain of \$0.2 million and \$0.2 million at March 30, 2014 and December 31, 2013, respectively. The following table summarizes the fair value of derivative instruments at March 30, 2014 and December 31, 2013:

	Balance Sheet Location	March 30, 2014	December 31, 2013
(in thousands)			
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Other current assets	\$ 209	\$ 153
		\$ 209	\$ 153

Teradyne had no offsetting foreign exchange contracts at March 30, 2014 and December 31, 2013.

In the three months ended March 30, 2014 and March 31, 2013, Teradyne recorded net realized losses of \$0.7 million and net realized gains of \$2.2 million, respectively, related to foreign currency forward contracts hedging net monetary positions. Gains and losses on foreign currency forward contracts and foreign currency remeasurement gains and losses on monetary assets and liabilities are included in interest expense and other.

The following table summarizes the effect of derivative instruments recognized in the statement of operations during the three months ended March 30, 2014 and March 31, 2013. The table does not reflect the corresponding gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies. For the three months ended March 30, 2014 and March 31, 2013, gains (losses) from the remeasurement of the monetary assets and liabilities denominated in foreign currencies were \$0.6 million and \$(2.8) million, respectively.

	Location of (Losses) Gains Recognized in Statement of Operations	For the Three Months Ended	
		March 30, 2014	March 31, 2013
(in thousands)			
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Interest expense and other	\$ (747)	\$ 2,248
		\$ (747)	\$ 2,248

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

### E. Debt

#### Loan Agreement

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

#### Convertible Senior Notes

In April 2009, Teradyne issued 4.50% convertible senior notes (the Notes) at an aggregate principal amount of \$190 million and a conversion price of \$5.4750 or 182.65 shares of Teradyne's common stock per



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

\$1,000 principal amount of Notes. The Notes had a maturity date of March 15, 2014. Substantially all of the Notes were converted prior to March 15, 2014 and were net share settled, meaning that the holders received, for each \$1,000 in principal amount of Notes, \$1,000 in cash and approximately 131.95 shares of Teradyne common stock (calculated by taking 182.65 shares less 50.7 shares). The 50.7 shares were determined by dividing the \$1,000 principal amount by the \$19.74 average trading price of Teradyne's common stock over the 25 day trading period from February 5, 2014 to March 12, 2014.

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

The hedge counterparty will subsequently be able to exercise warrants with a strike price of \$7.6650. 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, Teradyne is not obligated to issue more than 34,526,500 shares of its common stock upon exercise of the warrants (which amount represented less than 19.99% of Teradyne's 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).

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

	March 30, 2014	December 31, 2013
	(in thousands)	
Debt principal	\$	\$ 189,998
Unamortized debt discount		4,290
<b>Net carrying amount of the convertible debt</b>	<b>\$</b>	<b>\$ 185,708</b>

The interest expense on Teradyne's convertible senior notes for the three months ended March 30, 2014 and March 31, 2013 was as follows:

	For the Three Months Ended	
	March 30, 2014	March 31, 2013
	(in thousands)	
Contractual interest expense	\$ 1,757	\$ 2,137
Amortization of the discount component and debt issue fees	4,493	3,957
<b>Total interest expense on the convertible debt</b>	<b>\$ 6,250</b>	<b>\$ 6,094</b>

### F. Prepayments

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

	March 30, 2014	December 31, 2013
	(in thousands)	
Contract manufacturer prepayments	\$ 108,048	\$ 115,388
Prepaid taxes	9,979	3,281
Prepaid professional services	6,134	6,538
Other prepayments	7,323	11,167