TERADYNE, INC
Form DEF 14A
April 02, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240. 14a-12

Teradyne, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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TERADYNE, INC.

600 Riverpark Drive

North Reading, Massachusetts 01864

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS:

The Annual Meeting of Shareholders of Teradyne, Inc., a Massachusetts corporation, will be held on Tuesday, May 12, 2015 at 10:00 A.M. Eastern Time, at the offices of Teradyne, Inc. at 600 Riverpark Drive, North Reading, Massachusetts 01864, for the following purposes:

1. To elect the eight nominees named in the accompanying proxy statement to the Board of Directors to serve as directors for a one-year term.

2. To approve, in a non-binding, advisory vote, the compensation of the Company s named executive officers.

3. To approve an amendment to the 2006 Equity and Cash Compensation Incentive Plan.

4. To ratify the selection of the firm of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015.

5. To transact such other business as may properly come before the meeting and any postponements or adjournments thereof.

Shareholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on March 19, 2015, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,

Charles J. Gray, Secretary

April 2, 2015

Shareholders are requested to vote in one of the following three ways: (1) by completing, signing and dating the proxy card provided by Teradyne and returning it by return mail to Teradyne in the enclosed envelope or at the address indicated on the proxy card, (2) by completing a proxy using the toll-free telephone number listed on the proxy card, or (3) by completing a proxy on the Internet at the address listed on the proxy card.

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TERADYNE, INC.

600 Riverpark Drive

North Reading, Massachusetts 01864

PROXY STATEMENT

April 2, 2015

Proxies in the form provided by Teradyne, Inc. (Teradyne or the Company) are solicited by the Board of Directors (Board) of Teradyne for use at the Annual Meeting of Shareholders to be held on Tuesday, May 12, 2015, at 10:00 A.M. Eastern Time, at the offices of Teradyne, Inc. at 600 Riverpark Drive, North Reading, Massachusetts 01864.

Only shareholders of record as of the close of business on March 19, 2015 (the Record Date) will be entitled to vote at this annual meeting and any adjournments thereof. As of the Record Date, 216,794,073 shares of common stock were issued and outstanding. Each share outstanding as of the Record Date will be entitled to one vote, and shareholders may vote in person or by proxy. Delivery of a proxy will not in any way affect a shareholder s right to attend the annual meeting and vote in person. Any shareholder delivering a proxy has the right to revoke it only by written notice to the Secretary or Assistant Secretary delivered at any time before it is exercised, including at the annual meeting. All properly completed proxy forms returned in time to be cast at the annual meeting will be voted.

Important Notice Regarding the Availability of Proxy Materials for

the Shareholder Meeting to be Held on May 12, 2015

This Proxy Statement and the Accompanying Annual Report on Form 10-K, Letter to Shareholders, and Notice, are available at www.proxyvote.com

At the meeting, the shareholders will consider and vote upon the following proposals put forth by the Board:

1. To elect the eight nominees named in this proxy statement to the Board of Directors to serve as directors for a one-year term.

2. To approve, in a non-binding, advisory vote, the compensation of the Company s named executive officers.

3. To approve an amendment to the 2006 Equity and Cash Compensation Incentive Plan.

4. To ratify the selection of the firm of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015.

The Board recommends that you vote **FOR** the proposals listed above.

On or about April 2, 2015, the Company mailed to its shareholders of record as of March 19, 2015 a notice containing instructions on how to access this proxy statement and the Company s annual report online and to vote. Also on April 2, 2015, the Company began mailing printed copies of these proxy materials to shareholders that have requested printed copies.

If you received a notice by mail, you will not receive a printed copy of the proxy materials in the mail unless you request a copy. Instead, the notice instructs you on how to access and review all of the important information

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contained in the proxy statement and annual report. The notice also instructs you on how you may submit your proxy over the Internet. If you received a notice by mail and would like to receive a printed copy of the proxy materials, you should follow the instructions for requesting such materials included in the notice.

If a shareholder completes and submits a proxy, the shares represented by the proxy will be voted in accordance with the instructions for such proxy. If a shareholder submits a proxy card but does not fill out the voting instructions, shares represented by such proxy will be voted FOR the proposals listed above.

Shareholders may vote in one of the following three ways:

1. by completing a proxy on the Internet at the address listed on the proxy card or notice,

2. by completing a proxy using the toll-free telephone number listed on the proxy card or notice, or

3. by completing, signing and dating the proxy card provided by Teradyne and returning it in the enclosed envelope or by return mail to Teradyne at the address indicated on the proxy card.

A majority of the outstanding shares represented at the meeting in person or by proxy shall constitute a quorum for the transaction of business. Abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. For this annual meeting, on all matters being submitted to shareholders, an affirmative vote of at least a majority of the shares voting on the matter at the meeting is required for approval. The vote on each matter submitted to shareholders is tabulated separately. Abstentions are not included in the number of shares present, or represented, and voting on each separate matter. Broker non-votes are also not included. An automated system administered by Teradyne s transfer agent tabulates the votes.

The Board knows of no other matter to be presented at the annual meeting. If any other matter should be presented at the annual meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board will be voted in accordance with the judgment of those officers named as proxies and in accordance with the Securities and Exchange Commission s (SEC s) proxy rules. See the section entitled Shareholder Proposals for 2016 Annual Meeting of Shareholders for additional information.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

The Board presently consists of eight members, six of whom are independent directors. Each director is elected annually for a one-year term. The terms of the directors expire at the 2015 Annual Meeting of Shareholders. The Board, based on the recommendation of the Nominating and Corporate Governance Committee, has nominated all current directors for re-election. Teradyne has no reason to believe that any of the nominees will be unable to serve; however, if that should be the case, proxies will be voted for the election of some other person (nominated in accordance with Teradyne s bylaws) or the Board will decrease the number of directors that currently serve on the Board. If elected, each director will hold office until the 2016 Annual Meeting of Shareholders.

The Board recommends a vote FOR the election to the Board of Ms. Johnson and each of Messrs. Bradley, Christman, Gillis, Guertin, Jagiela, Tufano and Vallee.

The following table sets forth the nominees to be elected at this annual meeting, the year each person was first appointed or elected, the principal occupation of that person during at least the past five years, that person s age, any other public company boards on which the nominee serves or has served in the past five years, and the nominee s qualifications to serve on the Board. In addition to the information presented below regarding each nominee s specific experience, qualifications, attributes and skills that led the Board to the conclusion that he or she should serve as a director, Teradyne also believes that all of its director nominees have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise

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sound judgment, as well as a commitment of service to Teradyne and the Board. Additionally, Teradyne values the directors significant experience on other public company boards of directors and board committees.

Nominees for Directors

Name	Year Became Director	Background and Qualifications
Michael A. Bradley	2004	Mr. Bradley, 66, has served as a director since April 2004. He served as the Company s Chief Executive Officer from May 2004 until February 2014. He was President of Teradyne from May 2003 until January 2013, President of the Semiconductor Test Division from April 2001 until May 2003 and Chief Financial Officer from July 1999 until April 2001. From 1992 until 2001, he held various Vice President positions at Teradyne. Mr. Bradley has been a director of Entegris, Inc., and its predecessor company Mykrolis Corporation, since 2001 and of Avnet, Inc. since November 2012.
		Mr. Bradley contributes valuable institutional knowledge and executive experience from his 36 years with Teradyne, including 10 years as Chief Executive Officer.
Daniel W. Christman	2010	Mr. Christman, 71, has served as Senior Counselor to the President of the U.S. Chamber of Commerce since 2009 and as Senior Vice President of International Affairs at the Chamber from 2003 until 2009. In 2001, he retired in the grade of Lieutenant General after a career in the United States Army that spanned more than 36 years. Immediately prior to his retirement, Mr. Christman was the Superintendent of the United States Military Academy at West Point from 1996 to 2001. From 1994 to 1996, he served as Assistant to the Chairman of the Joint Chiefs of Staff of the United States. Mr. Christman has been a director of Entegris, Inc., and its predecessor company Mykrolis Corporation, since 2001. Mr. Christman was a director of the United Services Automobile Association from 1995 to November 2010 and a director of Ultralife Batteries, Inc. from 2001 to March 2010 where he also was the Chairman from September 2009 to March 2010.
		Mr. Christman contributes his considerable experience with international business issues as well as expertise in leadership and management gained from his 36 plus years as a military leader.
Edwin J. Gillis	2006	Mr. Gillis, 66, has worked as a business consultant and private investor since January 2006. From July 2005 to December 2005, he was the Senior Vice President of Administration and Integration of Symantec Corporation, following the merger of Veritas Software Corporation and Symantec Corporation. He served as Executive Vice President and Chief Financial Officer of Veritas Software Corporation from November 2002 to June 2005, as the Executive Vice President and Chief Financial Officer of Parametric Technology Corporation from September 1995 to November 2002, and as the Chief Financial Officer of Lotus Development Corporation from 1991 to September 1995. Prior to joining Lotus, Mr. Gillis was a Certified Public Accountant and partner at Coopers & Lybrand L.L.P. Mr. Gillis has been a director of LogMeIn, Inc. since November 2007, a director of Sophos Plc. since November 2009, a director of Responsys Inc. since March 2011 and a director of AppNexus, Inc. since November 2012.

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Name	Year Became Director	Background and Qualifications
		Mr. Gillis contributes extensive experience relating to the issues confronting global technology companies and financial reporting expertise as a former Chief Financial Officer of several publicly-traded technology companies.
Timothy E. Guertin	2011	Mr. Guertin, 65, has been the Vice Chairman of the Board of Directors of Varian Medical Systems, Inc. (Varian) since September 2012 and a director of Varian since 2005. He served as Chief Executive Officer of Varian from February 2006 to September 2012 and as President from August 2005 to September 2012. He served as Chief Operating Officer from October 2004 to February 2006 and as Corporate Executive Vice President from October 2002 to August 2006. Prior to that time, he was President of Varian s Oncology Systems business unit from 1992 to January 2005 and a Corporate Vice President from 1992 to 2002.
		Mr. Guertin contributes significant executive experience at a global technology and manufacturing company with issues similar to those confronting Teradyne.
Mark E. Jagiela	2014	Mr. Jagiela, 54, has served as a director and as the Company s Chief Executive Officer since February 2014. He has served as the President of Teradyne since January 2013 and the President of the Company s Semiconductor Test Division since 2003. Mr. Jagiela was appointed a Vice President of Teradyne in 2001. He has held a variety of senior management roles at the Company including General Manager of Teradyne s Japan Division.
		Mr. Jagiela contributes valuable executive experience from his 33 years in multiple management roles, including as President and Chief Executive Officer, within Teradyne.
Mercedes Johnson	2014	Ms. Johnson, 61, served as Interim Chief Financial Officers of Intersil Corporation from April 2013 to September 2013 and as the Senior Vice President and Chief Financial Officer of Avago Technologies Limited from December 2005 to August 2008. Prior to joining Avago, Ms. Johnson was Senior Vice President, Finance, of Lam Research Corporation from June 2004 to January 2005 and Chief Financial Officer of Lam from May 1997 to May 2004. Ms. Johnson has been a director of Micron Technology, Inc. since June 2005, a director of Intersil Corporation since August 2005, and a director of Juniper Networks, Inc. since May 2011.
		Ms. Johnson contributes valuable industry experience as a former senior financial executive at semiconductor and semiconductor equipment companies as well as a current member of the boards of directors of global technology companies.

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Name	Year Became Director	Background and Qualifications
Paul J. Tufano	2005	Mr. Tufano, 61, served as the Chief Financial Officer of Alcatel-Lucent from December 2008 to September 2013 and Chief Operating Officer of Alcatel-Lucent from January 2013 to September 2013. He was Executive Vice President of Alcatel-Lucent from December 2008 to January 2013. He also served as a consultant for Alcatel-Lucent from September 2013 to April 2014. Mr. Tufano was the Executive Vice President and Chief Financial Officer of Solectron Corporation from January 2006 to October 2007 and Interim Chief Executive Officer from February 2007 to October 2007. Prior to joining Solectron, Mr. Tufano worked at Maxtor Corporation where he was President and Chief Executive Officer from February 2003 to November 2004, Executive Vice President and Chief Operating Officer from April 2001 to February 2003 and Chief Financial Officer from July 1996 to April 2001. From 1979 until he joined Maxtor Corporation in 1996, Mr. Tufano held a variety of management positions in finance and operations at International Business Machines Corporation.
		Mr. Tufano contributes widespread knowledge of the issues confronting complex technology and manufacturing companies and extensive financial reporting expertise.
Roy A. Vallee	2000	Mr. Vallee, 62, served as Executive Chairman of the Board of Directors of Avnet, Inc. from July 2011 to November 2012 and as a director of Avnet, Inc. from 1991 to 2012. From July 1998 to July 2011, he was Chairman of the Board of Directors and Chief Executive Officer of Avnet, Inc. He also was Vice Chairman of the Board of Directors from November 1992 to July 1998 and President and Chief Operating Officer from March 1992 until July 1998. Since 2003, Mr. Vallee has been a director of Synopsys, Inc. He is currently the Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco.
		Mr. Vallee contributes valuable executive experience within the global technology industry as well as extensive knowledge of the issues affecting complex technology companies.

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PROPOSAL NO. 2

ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS

The Company is providing shareholders with the opportunity at the 2015 Annual Meeting to vote on the following advisory resolution, commonly known as Say-on-Pay :

RESOLVED, that the shareholders of the Company approve, in a non-binding, advisory vote, the compensation of the Company s named executive officers as disclosed in the Company s proxy statement under the headings Compensation Discussion and Analysis and Executive Compensation Tables pursuant to Item 402 of Regulation S-K.

The Company s Board of Directors has implemented an executive compensation program that rewards performance. The Board of Directors fosters a performance-oriented environment by tying a significant portion of each executive officer s cash and equity compensation to the achievement of short-term and long-term performance objectives that are important to the Company and its shareholders. The Board of Directors has designed the Company s executive compensation program to attract, motivate, reward and retain the senior management talent required to achieve the Company s corporate objectives and increase shareholder value. The Company believes that its compensation policies and practices reflect a pay-for-performance philosophy and are strongly aligned with the long-term interests of shareholders. The Company recommends shareholders read the sections of this proxy statement entitled Compensation Discussion and Analysis and Executive Compensation Tables before voting on this Say-on-Pay advisory proposal.

The performance-based executive compensation program resulted in compensation for the Company s named executive officers that reflects the Company s solid financial results for 2014. The Company increased revenues by 15% to $1.65 billion, generated significant free cash flow, and maintained its industry-leading profit rate before interest and taxes, or PBIT, percentage as described in the section of this proxy statement entitled Compensation Discussion and Analysis . The Company achieved market share gains in its system-on-a-chip and wireless test markets positioning the Company for sustained profitability through the business cycle. The Company s sustained profitability and free cash flow has allowed the Company to initiate a quarterly dividend program in 2014 and a significant share repurchase plan for 2015.

The Company s performance-based variable compensation for 2014 was tied both to the Company s rate of profitability and to the achievement of strategic business objectives, including market share gains, revenue goals, profit margin targets, strategic customer wins and new product launches the achievement of which positively impact the Company s long-term performance. Due to the Company s market-leading rate of profitability and achievement of market share and other strategic goals in 2014, executive officers received 142% of their target variable cash compensation payout with the exception of Mr. Robbins, who did not participate in the executive variable compensation plan in 2014 as he was promoted to President, Wireless Test Division in August 2014. In 2014, the Company adopted a relative total shareholder return formula for performance-based stock awards measured at the end of a three-year performance period. The determination of the final amount of equity to be received for these performance-based stock awards will not be determined until January 2017.

The Company s shareholders voted to approve the Say-on-Pay advisory proposal at the 2014 Annual Meeting of Shareholders with 96% of the votes cast approving the proposal. Notwithstanding this result, the Board of Directors continues to assess the Company s executive compensation program to ensure it remains aligned with both short-term and long-term performance. In January 2015, the Board of Directors changed the criteria for determining performance-based variable cash compensation to include financial metrics in each division s vital goals. The performance-based variable cash compensation is described in detail in the Compensation Discussion and Analysis section of this proxy statement.

The Company will report the results of the Say-on-Pay vote in a Form 8-K following the 2015 Annual Meeting of Shareholders. The Company also will disclose in subsequent proxy statements how the Company s compensation policies and decisions take into account the results of the shareholder advisory vote on executive compensation.

The Board recommends a vote FOR the advisory resolution approving the compensation of the Company s named executive officers as described in this proxy statement.

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PROPOSAL NO. 3

APPROVAL OF AN AMENDMENT TO 2006 EQUITY AND CASH COMPENSATION INCENTIVE PLAN

Proposed Amendment

On March 12, 2015, the Board adopted an amendment to the 2006 Equity and Cash Compensation Incentive Plan (the Plan) which is subject to the approval of the shareholders. The Board has approved and recommends the shareholders approve an amendment to the Plan that will: (1) extend the term of the Plan from May 24, 2016 to May 12, 2025; (2) modify certain Plan terms as described in detail below; and (3) reapprove the material performance criteria in the Plan for purposes of 162(m) of the Internal Revenue Code. The Plan, as amended including the proposed amendment for the shareholders to approve, is attached as Appendix A.

Our equity compensation program is a critical part of our compensation policy to attract, motivate and retain talented employees, align employee and stockholder interests, link employee compensation with company performance and maintain a culture based on employee stock ownership. If the extension of the Plan s term is not approved, Teradyne would have no ability to make equity-based grants following the current expiration of the Plan on May 24, 2016. The Board believes that without a continued ability to make grants of equity-based awards pursuant to the Plan, Teradyne would suffer a severe competitive disadvantage in the recruitment, retention and motivation of its employees.

As of March 1, 2015, approximately 10.7 million shares remained authorized for future issuance under the Plan. As of March 1, 2015, the Plan had 5,864,185 shares subject to currently outstanding equity awards including 3,860,632 shares subject to outstanding time-based restricted stock unit awards, 503,393 shares subject to outstanding performance-based restricted stock unit awards, and 1,500,160 outstanding options with a weighted average remaining option term of 4.58 years and a weighted average exercise price of $9.17. Teradyne is not requesting at this time to increase the number of shares authorized for issuance under the Plan. Assuming the current usage rate and stock price levels, we expect the Plan will have a sufficient number of shares for approximately four (4) to five (5) years. This estimate would be impacted by a significant decrease in participation in the equity program such as through an employee reduction or divestiture or a significant increase in participation such as through an acquisition or an increase in hiring. This estimate also is impacted by changes in Teradyne s share price which determines the number of shares issued to employees under the Plan.

Since initially adopted, shareholders have approved two increases in the number of shares originally approved for issuance under the Plan. At each of the 2009 and 2013 Annual Meetings, Teradyne s shareholders approved an amendment to the Plan of an increase in the number of shares of common stock authorized for issuance under the Plan by 10,000,000 shares. We have prudently managed our equity awards program to achieve significant reductions in Overhang and Burn Rate (each as defined below) since our shareholders approved share increases in 2009 and 2013. For example, the Company has reduced its gross annual burn rate from 2.9% in 2013 to 2.3% in 2014. For this purpose, gross annual burn rate is equal to the number of options and time-based and performance-based restricted stock units granted in each year (with time-based and performance-based restricted stock units converted to option equivalents using a 2.5:1 multiplier) as a percentage of our undiluted weighted average number of shares outstanding.

In offering equity as part of the Company s long-term incentive compensation program, the Compensation Committee assesses the impact of the equity on shareholders using standard metrics, including burn rate, overhang and dilution. Burn Rate is the number of shares granted during a calendar year divided by the undiluted weighted average number of common shares outstanding for that year. Overhang is the total number of equity awards outstanding plus shares available to be granted, divided by total common shares outstanding. The Compensation Committee retained Compensia, an independent compensation consultant, to provide an analysis of the Company s Plan, including its Burn Rate and Overhang. Based on Compensia s analysis, the Board believes that the Overhang and Burn Rate are reasonable in relation to those of the Company s peer group and reflect a judicious use of equity for compensation programs.

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Some of the key features of the Plan, as proposed to be amended, are set forth below:

Key Features To Be Retained from the Current Plan. Important aspects of the current version of the Plan to be retained, and our historical award practices, include:

- The Plan provides for administration by a committee of independent directors.
- The Plan covers options, stock appreciation rights (SARs), restricted stock, restricted stock units, phantom stock, and cash awards to employees and non-employee directors.
- The Plan prohibits repricing or other exchanges for cash or new awards of options and SARs.
- The vast majority (approximately 70%) of Awards granted to executive officers under the Plan are subject to performance criteria as described in the summary of material features of the Plan below.
- Performance-based Awards are subject to our general recoupment or clawback policy described on page 37 of this Proxy Statement.
- The Plan includes an annual grant dollar value limit for non-employee director awards.
- The maximum exercise period for options is ten (10) years.
- The Plan expires in ten (10) years unless extended by the shareholders.

Key New and Modified Features of the Amended Plan. Important new and modified features of the Plan, the majority of which both clarify the current Plan and document our historical award practices, include:

- The Plan prohibits liberal share recycling. For example, shares tendered to satisfy an exercise price or tax withholding cannot be added back to the number of shares available under the Plan. This prohibition documents Teradyne s practice of not recycling shares.
- The amendment clarifies the current Plan s prohibition on the repricing of any Awards made under the Plan, including SARs and options. This prohibition documents Teradyne s practice of not repricing Awards other than in the case of stock splits or similar change in capitalization.
- Awards to employees of options, SARs, restricted stock and restricted stock units have a minimum vesting period of one (1) year. Prior to this amendment, options and SARs did not have minimum vesting periods under the Plan, although historically the vesting period for these Awards has been four (4) years.
- Awards of equity may be accelerated in connection with death, disability or in connection with the acquisition of Teradyne.

The Plan includes an exception to the above minimum vesting periods and vesting acceleration limitations of up to a total of 5% of the maximum, aggregate shares of Common Stock authorized for issuance under the Plan.

Awards to non-employee directors have a minimum vesting period that extends until the earlier of one (1) year from grant or the date the next annual meeting of shareholders is held following the grant.

The amendment clarifies that, under the current Plan, options, SARs, and restricted stock units are not entitled to dividends. This also documents Teradyne s historical practice.

Stockholder approved performance criteria are expanded to include orders, product gross margins, including by customer, and customer wins or design-ins.

As part of the amendment, Teradyne is also seeking to have its stockholders reapprove the material performance criteria in the Plan. While the performance criteria of the Plan were previously approved at Teradyne s 2011 annual meeting of stockholders, Section 162(m) of the Internal Revenue Code requires stockholder reapproval of the material performance criteria every five years. Accordingly, as part of the amendment, we are seeking stockholder reapproval of these performance criteria.

The Board recommends a vote for approval of the amendment to the Plan. The following is a summary of the material features of the Plan. The complete text of the Plan, giving effect to the proposed amendment, is attached as Appendix A to this Proxy Statement.

General Description of the Plan, as amended

The purpose of the Plan is to provide equity ownership and compensation opportunities in Teradyne (each, an Award) to employees, officers and directors of Teradyne and its subsidiaries, all of whom are eligible to receive Awards under the Plan. Under present law, however, incentive stock options within the meaning of Section 422 of the Code, a type of stock-based Award that may be granted pursuant to the Plan, may be granted only to employees of Teradyne or subsidiaries of Teradyne. Any person to whom an Award is granted will be called a Participant. As of March 15, 2015, there are approximately 3,900 employees who are eligible to be Participants in the Plan.

The Plan is administered by the Compensation Committee (the Committee) composed solely of members of Teradyne s Board of Directors that are independent, as defined pursuant to Rule 10A-3(b)(1) of the Exchange Act and Rule 303A.02 of the NYSE Listed Company Manual. The Committee has the authority to grant Awards, to adopt, amend and repeal rules relating to the Plan, to interpret and correct the provisions of the Plan and any Award, and subject to the limitations of the Plan, to modify and amend any Award, except that the Committee may not reprice Awards without shareholder approval or accelerate the vesting of Awards that settle in shares of stock without shareholder approval other than in the event of death, disability or an acquisition of Teradyne by another entity. The Plan also provides that authority to grant Awards to employees may be delegated to one or more executive officers of Teradyne, with certain limitations.

Awards under the Plan may be either or both stock- and cash-based. Stock-based Awards may take the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock or any other stock-based interests as the Committee shall determine.

Awards may be granted subject to time-based vesting schedules and/or performance-based vesting measured by Performance Criteria. Performance Criteria means any one or more of the following performance criteria, applied to either Teradyne as a whole or to a division, business unit or subsidiary, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years results or to a designated comparison group, in each case as specified by the Committee in the Award: cash flow; earnings per share; earnings before interest, taxes and amortization; return on equity; total shareholder return; share price performance; return on capital; return on assets or net assets; revenue; orders; product gross margins, including by customer; income or net income; operating income or net operating income; operating profit or net operating profit; income from operations less restructuring and other, net, amortization of acquired intangible assets, acquisition and divestiture related charges or credits, pension actuarial gains and losses, and other non-recurring gains and charges; operating margin or profit margin; return on operating revenue; return on invested capital; market segment share; customer wins or design-ins; product release schedules; new product innovation; product cost reduction; brand recognition/acceptance; product ship targets; process improvement results; verification of business strategy and/or business plan; improvement of strategic position; adaptation to changes in the marketplace or environment; or customer satisfaction. If the Award is subject to Performance Criteria and the Award so provides, evaluation of achievement against Performance Criteria may take into account any of the following events that occur during a performance period: asset write-downs; litigation or claim judgments or settlements; the effect of changes in tax law; accounting principles or other such laws or provisions affecting reported results; accruals for reorganization and restructuring programs and any extraordinary non-recurring charges or other events.

Stock-Based Awards

Authorized Shares. The number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan was originally 12 million shares of Common Stock in May 2006, when the Plan was first approved by the shareholders. The shareholders approved an increase in the number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan to 22 million at the 2009 Annual Meeting. The shareholders approved a further increase in the number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan to 32 million at the 2013 Annual Meeting. As of March 1, 2015, the number of shares of Common Stock that remained available for issuance was approximately 10.7 million. If any stock-based Award expires, or is terminated, surrendered or forfeited, in whole or in part, the unissued shares covered by such Award shall again be available for the grant of Awards under the Plan. However, shares of Common Stock delivered to Teradyne by a Participant to purchase shares upon the exercise of an Award or to satisfy tax withholding obligations with respect to an Award shall not be added back into the number of shares available for the future grant of Awards under the Plan. The maximum number of shares of stock-based Awards that may be granted to any individual Participant under the Plan during any one fiscal year is 2 million.

Terms of Stock-Based Awards. The Committee shall determine the terms and conditions of each stock-based Award, including the number of shares subject to such Award or a formula for making this determination; the exercise or purchase price, as applicable, of such Award (subject to limitations discussed subsequently) and the means of payment for shares; the vesting schedule; the Performance Criteria, if any, that determine the number of shares or options granted, issued, retainable and/or vested; other terms and conditions on the grant, issuance and/or forfeiture of the shares or options; and such further terms and conditions as may be determined by the Committee.

Stock Options. Stock options represent the right to purchase shares of Common Stock within a specified period of time at a specified price. The exercise price for options will be not less than 100% (110% for an incentive stock option granted to a 10% or more shareholder) of the fair market value of Common Stock on the date of grant. The aggregate fair market value, determined on the date the option is granted, of the stock for which any person may be granted incentive stock options which become exercisable for the first time by such person in any calendar year cannot exceed the sum of $100,000 or such sum as is allowed by the Code (determined on the date such option is granted). No incentive stock option will be granted to a person who is not an employee as defined in the applicable provisions of the Code, and regulations issued thereunder. Options granted under the Plan will be subject to minimum vesting periods of no less than 1 year, unless the applicable Options fall under the exception to minimum vesting periods described below. Options shall expire in no more than ten years (five years in the case of an incentive stock option granted to a 10% or more shareholder) after the date of grant. A Participant holding an Option is not entitled to receive dividends or dividend equivalents declared and payable prior to the exercise of the Option.

Each option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable, by delivery of a properly signed written notice of exercise to Teradyne at its principal office address or to such transfer agent as Teradyne shall designate, or by notification to the Teradyne-designated third party commercial provider. Payment for the exercise of options under the Plan may be made by one or any combination of the following forms of payment:

- by cash or by check payable to the order of Teradyne, or by fund transfer from the holder s account maintained with the Teradyne-designated third party commercial provider, if any,

- at the discretion of the Committee, through delivery of shares of Common Stock having a fair market value equal as of the date of 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

- at the discretion of the Committee, by delivery of a sufficient amount of the proceeds from the sale of the Common Stock acquired upon exercise of the option by the optionee s broker or selling agent.

Stock Appreciation Rights. A stock appreciation right (an SAR) is an Award entitling the holder, upon exercise, to receive cash or shares of Common Stock, or a combination thereof, in an amount determined solely by reference to appreciation, from and after the date of grant, in the fair market value of a share of Common Stock. SARs may be granted separately from or expressly in tandem with an option. An SAR granted in tandem with an option will be exercisable only at such time or times, and to the extent, that the related option is

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exercisable, provided that the SAR will generally terminate upon exercise of the related option and the option will terminate and no longer be exercisable upon the exercise of the related SAR. SARs granted under the Plan will be subject to minimum vesting periods of no less than 1 year, unless the applicable SARs fall under the exception to minimum vesting periods described below. A Participant holding an SAR is not entitled to receive dividends or dividend equivalents.

Restricted Stock and Restricted Stock Units. Restricted stock is Common Stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Restricted stock units represent the right to receive shares of Common Stock in the future, with the right to future delivery of the shares subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Subject to any restrictions applicable to the Award, a Participant holding restricted stock, whether vested or unvested, will be entitled to enjoy all rights of a shareholder with respect to such restricted stock, including the right to vote the shares. A Participant holding restricted stock units may not vote the shares represented by those units or receive dividends on the shares represented by those units. Restricted stock and restricted stock units issued under the Plan will be subject to minimum vesting periods of no less than 1 year, unless the applicable restricted stock and restricted stock unit Awards fall under the exception to minimum vesting periods described below.

Phantom Stock. Phantom stock is an Award entitling recipients to receive, in cash or shares, the fair market value of shares of Common Stock upon the satisfaction of conditions specified by the Committee in connection with the grant of such Award. A Participant may not vote the shares represented by a phantom stock Award. Phantom stock granted under the Plan will be subject to minimum vesting periods of no less than 1 year, unless the applicable phantom stock fall under the exception to minimum vesting periods described below.

Other Stock-Based Awards. The Plan provides the flexibility to grant other forms of Awards based upon Common Stock, having the terms and conditions established at the time of grant by the Committee. A minimum vesting period of no less than 1 year for full-value stock-based Awards is required under the Plan, unless such Awards fall under the exception to minimum vesting periods described below.

Non-Employee Director Formula Grants. The Plan provides that each non-employee director of Teradyne will be automatically granted an Award, either in equity or cash, having a fair market value equal to (1) a dollar amount approved by the Board of Directors not to exceed $200,000 on the date first elected or appointed to the Board (other than pursuant to an election at an annual meeting of shareholders), prorated daily to reflect the period between the director s date of election or appointment and the date of the next annual grant, and (2) a dollar amount approved by the Board of Directors not to exceed $200,000 on the date in each year which is the earlier of the date of the annual meeting of shareholders and the last Thursday in May. At the discretion of the Board of Directors, such Award may include any of the following, individually or in combination: a restricted stock unit, restricted stock, nonstatutory stock option, SAR or cash. Awards granted to non-employee directors will have a minimum vesting period that extends until the earlier of (a) one year from the date of grant or (b) the date the next annual meeting of shareholders is held following the grant. Cash Awards issued to non-employee directors may, at the Committee s discretion, be immediately exercisable on the date of grant. Awards granted under the Plan shall be in addition to the annual Board and committee cash retainers paid by Teradyne to non-employee directors.

Exception to Minimum Vesting Periods and Acceleration Limitations. The Committee may grant or accelerate the vesting of Awards with respect to up to 5% of the shares of Common Stock authorized for issuance under the Plan in a manner that does not comply with the minimum vesting periods and vesting acceleration limitations set forth in the Plan.

Adjustment. In the event of any stock split, stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off, split-up, or other similar change in capitalization or event, the following shall be equitably adjusted:

- the number and class of securities available for Awards under the Plan and the per-Participant share limit,

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- the number and class of securities, vesting schedule and exercise price per share subject to each outstanding Award,

- the repurchase price per security subject to repurchase, and

- the terms of each other outstanding stock-based Award shall be adjusted by Teradyne (or substituted Awards may be made) to the extent the Committee shall determine, in good faith, that such an adjustment (or substitution) is appropriate.

Except as set forth above or if approved by the shareholders, Teradyne may not (i) amend any option or SAR granted pursuant to the Plan to provide for a lower exercise or measurement price per share, (ii) cancel any option or SAR (whether or not granted pursuant to the Plan) in exchange for a substitute Award (other than an Award granted in substitution for stock or stock-based awards issued by an entity acquired by Teradyne), (iii) cancel in exchange for cash any option or SAR granted pursuant to the Plan if the applicable exercise or measurement price per share is above the then-current fair market value of the Award, or (iv) take any action under the Plan that would constitute repricing within the meaning of the rules of the exchange on which Teradyne s Common Stock is traded.

Cash Awards

The Plan permits the granting of cash Awards either alone, in addition to, or in tandem with other Awards granted under the Plan to Participants. These cash Awards may be based on a predetermined variable compensation factor and performance criteria, and may not exceed $3 million per fiscal year. The variable compensation factor is a percentage of the Participant s base annual salary, starting at a minimum of 5% for new Participants. Variable compensation factors are reviewed annually and typically do not exceed 100%.

General Terms

Eligibility Under Section 162(m). In general, under Section 162(m) of the Code, Teradyne cannot deduct, for federal income tax purposes, compensation in excess of $1 million paid in a year to certain executive officers. This deduction limitation, however, does not apply to compensation that constitutes qualified performance-based compensation within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder. The regulations under Section 162(m) of the Code contain a safe harbor that treats stock options granted at fair market value as qualified performance-based compensation (assuming certain other requirements are satisfied). Teradyne considered the limitations on deduction imposed by Section 162(m) of the Code when preparing the Plan. If the shareholders approve of the proposed amendment to the Plan thereby reapproving the material terms of the performance goals under the Plan, Teradyne expects that the entire amount of qualified performance-based compensation may be deductible under Section 162(m) of the Code. Included at page 37 in Compensation Discussion and Analysis under the subheading Impact of Accounting and Tax Treatment on Executive Pay is a further discussion of Section 162(m) of the Code.

Transferability. Except as the Committee may otherwise determine or provide in an Award, Awards may be transferred only by will or by the laws of descent and distribution; provided, however, that nonstatutory stock options may be transferred to a grantor retained annuity trust or a similar estate planning vehicle under which the trust is bound by all provisions of the option which are applicable to the holder thereof.

Treatment upon Acquisition. Unless otherwise expressly provided in the applicable Award, upon the occurrence of an acquisition of Teradyne by another entity, appropriate provision must be made for the continuation or the assumption by the surviving or acquiring entity of all Awards. In addition to or in lieu of the foregoing, the Committee may provide that Awards granted under the Plan must be exercised by a certain date or shall be terminated, that Awards shall be terminated in exchange for a cash payment, or that Awards under the Plan may be substituted for stock and stock-based awards issued by an entity acquired by or merged into Teradyne. The Committee is also authorized in connection with an acquisition of Teradyne to accelerate in full or in part any Awards of options, restricted stock, other stock-based Awards or Awards then-outstanding under the Plan that may be settled in whole or in part in cash.

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Effect of Termination, Disability or Death. The Committee determines the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant s legal representative, conservator, guardian or designated beneficiary, may exercise rights under the Award, subject to applicable law and the provisions of the Code. The Committee is permitted to authorize in connection with the occurrence of such an event the acceleration of Awards that may be settled in cash. The Committee is permitted to authorize the acceleration of stock-based Awards only in the event of the Participant s disability, death or upon the acquisition in control of Teradyne by another entity.

Amendment of Awards. The Committee may, without shareholder approval, amend, modify or terminate any outstanding Award, except that: (1) the Committee may not materially and adversely change the terms of a Participant s Award without the Participant s consent; (2) previously-issued options may not be amended without shareholder approval to reduce the price at which such previously-issued options are exercisable or to extend the period of time beyond ten years for which such previously-issued options shall be exercisable; (3) previously issued Awards may not be amended or terminated in violation of the repricing restrictions of the Plan; and (4) previously-issued stock-based Awards may not be accelerated without shareholder approval, other than in the event of death, disability or an acquisition of Teradyne.

Termination of Plan; Amendments. Awards may be granted under the Plan at any time on or prior to May 12, 2025, but Awards granted before that date may be exercised thereafter. The Committee may amend, suspend or terminate the Plan or any portion thereof at any time; provided, however, that any material amendment to the Plan will not be effective unless approved by Teradyne s shareholders.

United States Federal Income Tax Consequences

Incentive Stock Options. The following general rules are applicable under current United States federal income tax law to incentive stock options (ISOs) granted under Teradyne s Plan.

1. In general, no taxable income results to the optionee upon the grant of an ISO or upon the issuance of shares to him or her upon the exercise of the ISO, and no corresponding federal tax deduction is allowed to Teradyne upon either grant or exercise of an ISO.

2. If shares acquired upon exercise of an ISO are not disposed of within (i) two years following the date the option was granted or (ii) one year following the date the shares are issued to the optionee pursuant to the ISO exercise (the Holding Periods), the difference between the amount realized on any subsequent disposition of the shares and the exercise price will generally be treated as long-term capital gain or loss to the optionee.

3. If shares acquired upon exercise of an ISO are disposed of before the Holding Periods are met (a Disqualifying Disposition), then in most cases the lesser of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the exercise price or (ii) the actual gain on disposition will be treated as compensation to the optionee and will be taxed as ordinary income in the year of such disposition.

4. In any year that an optionee recognizes ordinary income as the result of a Disqualifying Disposition, Teradyne generally should be entitled to a