TERADYNE, INC
Form DEF 14A
March 30, 2017
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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 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))

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):

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:

(2) Aggregate number of securities to which transaction applies:

(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):

(4) Proposed maximum aggregate value of transaction:

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(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 9, 2017 at 10:30 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, in a non-binding, advisory vote, the frequency of an advisory vote on the compensation of the Company s named executive officers.

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, 2017.

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 16, 2017, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of Directors,

Charles J. Gray, Secretary

March 30, 2017

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

March 30, 2017

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 9, 2017, at 10:30 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 16, 2017 (the   Record Date) will be entitled to vote at this annual meeting and any adjournments thereof. As of the Record Date, 200,181,081 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 9, 2017

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, in a non-binding, advisory vote, the frequency of an advisory vote on the compensation of the Company s named executive officers.

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, 2017.

The Board recommends that you vote **FOR** the Proposal Nos. 1, 2 and 4 and for **ONE** year on Proposal No. 3.

On or about March 30, 2017, the Company mailed to its shareholders of record as of March 16, 2017 a notice containing instructions on how to access this proxy statement and the Company s annual report online and to vote. Also on March 30, 2017, 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 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.

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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 2018 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 2017 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 2018 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 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.

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Nominees for Directors

Name	Year Became Director	Background and Qualifications
Michael A. Bradley	2004	Mr. Bradley, 68, 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 38 years with Teradyne, including 10 years as Chief Executive Officer.
Daniel W. Christman	2010	Mr. Christman, 73, 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, 68, 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 and a director of Sophos Plc. since November 2009. Mr. Gillis was a director of Responsys Inc. from March 2011 to January 2014.

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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, 67, 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, 56, 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 from 2003 to February 2016. 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 34 years in multiple management roles, including as President and Chief Executive Officer, within Teradyne.
Mercedes Johnson	2014	Ms. Johnson, 63, served as Interim Chief Financial Officer 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 Juniper Networks, Inc. since May 2011, and a director of Synopsys, Inc. since February 2017. Ms. Johnson was a director of Intersil Corporation from August 2005 to February 2017.
		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, 63, has served as President and Chief Executive Officer of Benchmark Electronics, Inc. since September 2016. He 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 February 2003. 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 has been a director of EnerSys since April 2015 and of Benchmark Electronics, Inc. since February 2016.
		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, 64, 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 a former 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 2017 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 challenging performance goals for 2016 and performance in achieving those goals. The Company increased revenues by 7% to $1.75 billion, generated significant free cash flow and maintained its profit rate before interest and taxes, or PBIT, as described in the section of this proxy statement entitled Compensation Discussion and Analysis . The Company achieved market share gains in its semiconductor test business, sustained model profitability in its system test business, restructured its wireless test business and grew its industrial automation business by over 60% year over year.

The Company s sustained profitability and free cash flow allowed the Company in 2016 to return $195 million to shareholders through payment of quarterly dividends and share repurchases. Additionally, in December 2016, the Company successfully completed a convertible debt offering of $460 million and approved a new $500 million share repurchase authorization commencing on January 1, 2017. The Company has announced it plans to repurchase a minimum of $200 million of shares in 2017 and has announced a 17% increase to its quarterly dividend to $0.07 per share.

The Company s performance-based variable compensation for 2016 was tied to the Company s rate of profitability, revenue growth and the achievement of strategic business objectives, including market share gains, revenue and bookings goals, profit margin targets, strategic customer wins and new product launches the achievement of which positively impact the Company s long-term performance. In 2016, after multiple years of achieving profitability goals at sustained revenue levels, the Company added a two-year rolling revenue growth rate metric as an element of the variable cash compensation plan to reinforce the importance of achieving short- and long-term revenue growth as well as achieving its profitability goals. Due to the Company s rate of profitability, revenue growth and achievement of market share and other strategic goals in 2016, executive officers received variable cash compensation payouts ranging from 79% to 116% of target. Due to the more challenging performance metrics for 2016, the executive officers received lower variable cash compensation payouts than they received for comparable Company performance in prior years.

In 2016, the Company s long-term performance criteria for performance-based stock awards was expanded to include both the prior relative total shareholder return component and a new cumulative PBIT component, each measured at the end of a three-year performance period, consistent with the Company s long-term goal to

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deliver profitability and superior return to shareholders. The determination of the final number of shares to be received for these performance-based stock awards will not be determined until January 2019.

In January 2017, the executive officers achieved 30.6% of their target performance-based stock awards granted in 2014 based on Teradyne s relative total shareholder return performance measured against the Philadelphia Semiconductor Index during the three-year performance period from January 2014 to January 2017.

The Company s shareholders voted to approve the Say-on-Pay advisory proposal at the 2016 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. For example, in 2016, the Company added a revenue growth rate metric as an element of the variable cash compensation plan to reinforce the importance of achieving short- and long-term revenue growth as well as achieving profitability goals and modified the long-term performance criteria for performance-based stock awards to include both a three-year relative total shareholder return component and a three-year cumulative PBIT component.

The performance-based variable cash compensation and equity awards are 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 2017 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

ADVISORY VOTE ON WHETHER THE ADVISORY VOTE ON APPROVAL OF COMPENSATION OF NAMED EXECUTIVE OFFICERS SHOULD OCCUR EVERY ONE, TWO OR THREE YEARS

The Company is providing shareholders with the opportunity at the 2017 Annual Meeting to vote on the following advisory resolution, commonly known as Say-on-Frequency :

RESOLVED, that the shareholders of the Company approve, in a non-binding, advisory vote, that the frequency of an advisory vote on the compensation of the Company s named executive officers set forth in the Company s proxy statement is:

Choice 1 Every year;

Choice 2 Every two years;

Choice 3 Every three years; or

Choice 4 Abstain.

The Board of Directors believes that shareholders should continue to have the opportunity to vote on the compensation of the Company s named executive officers every year consistent with the Company s current practice. The Compensation Committee and the Board regularly review the Company s executive compensation program to ensure it remains aligned with both short-term and long-term performance.

Shareholders may vote for one year, two years or three years or may abstain from voting on the proposal. The Company will report the results of the vote, as well as the decision by the Company as to the frequency of shareholder votes on executive compensation in light of the results of this advisory vote, in a Form 8-K following the 2017 Annual Meeting of Shareholders.

The Board recommends a vote FOR having the advisory vote to approve the compensation of the Company s named executive officers every ONE year.

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PROPOSAL NO. 4

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected (and the Board of Directors has approved) PricewaterhouseCoopers LLP to serve as Teradyne s independent registered public accounting firm for the fiscal year ending December 31, 2017. PricewaterhouseCoopers LLP, or its predecessor Coopers & Lybrand L.L.P., has served as Teradyne s independent registered public accounting firm since 1968. The appointment of PricewaterhouseCoopers LLP is in the best interest of Teradyne s shareholders. Teradyne expects that a representative from PricewaterhouseCoopers LLP will be at the annual meeting, will have the opportunity to make a statement if so desired and will be available to respond to appropriate questions. The ratification of this selection is not required by the laws of The Commonwealth of Massachusetts, where Teradyne is incorporated, but the results of this vote will be considered by the Audit Committee in selecting an independent registered public accounting firm for future fiscal years.

The Board recommends a vote FOR ratification of the selection of PricewaterhouseCoopers LLP.

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CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

Corporate Governance and Board Policies

Teradyne is committed to good, transparent corporate governance to ensure that the Company is managed for the long-term benefit of its shareholders. The Board of Directors has adopted Corporate Governance Guidelines (Guidelines) to provide a framework for the effective governance of Teradyne. The Nominating and Corporate Governance Committee periodically reviews the Guidelines and recommends changes, as appropriate, to the Board of Directors for approval. The Board of Directors has also adopted written charters for its standing committees (Audit, Compensation, and Nominating and Corporate Governance), and the Company has a Code of Conduct applicable to all directors, officers and employees. Copies of the Guidelines, committee charters, and Code of Conduct are available on the Company s web site at *www.teradyne.com* under the Corporate Governance section of the Investors link. Teradyne posts additional information on its web site from time to time as the Board makes changes to Teradyne s corporate governance policies.

Teradyne has instituted a variety of policies and practices to foster and maintain good corporate governance. The Board reviews these practices on a regular basis. Teradyne s current policies and practices include the following:

- Independent directors constitute majority of Board and all members of the Board Committees;
- Independent Board Chair;
- All directors elected annually for one-year term with majority voting for uncontested Board elections;
- Adoption of Poison Pill requires shareholder approval;
- Recoupment of incentive compensation from executives for fraud resulting in financial restatement;
- Director and executive officer stock ownership guidelines;
- Annual Board and Committee self-assessments;
- Executive sessions of independent directors at Board meetings;
- Board access to management and independent advisors;
- Independent registered public accounting firm and internal auditor meet regularly with Audit Committee without management present;
- Review by Nominating and Corporate Governance Committee of director s change in position;
- Annual Board review of executive succession plan; and

Policy prohibiting executives and directors from hedging Teradyne stock (through short selling or the use of financial instruments such as exchange funds, equity swaps, puts, calls, collars or other derivative instruments) and pledging Teradyne stock as collateral for loans (including through the use of margin accounts).

Board Nomination Policies and Procedures

The Nominating and Corporate Governance Committee is responsible for identifying, evaluating and recommending candidates for election to the Board and does not distinguish between nominees recommended by shareholders and other nominees. All nominees must meet, at a minimum, the Board membership criteria described below.

Director nominees are evaluated on the basis of a range of criteria, including (but not limited to): integrity, honesty and adherence to high ethical standards; business acumen, experience and ability to exercise sound judgments and contribute positively to a decision-making process; commitment to understanding Teradyne and

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its industry, and to regularly attend and participate in Board and Committee meetings; ability to ensure that outside commitments do not materially interfere with duties as a Board member; absence of a conflict of interest or appearance of a conflict of interest; and other appropriate considerations. Nominees shall be 74 years or younger as of the date of election or appointment. No director may serve on more than four other public company boards.

The Board seeks nominees with a broad diversity of viewpoints, professional experience, education, geographic representation, backgrounds and skills. The backgrounds and qualifications of directors, considered as a group, should provide a significant composite mix of backgrounds, expertise and experience that will allow the Board to fulfill its responsibilities. The Board values ethnic, cultural, gender, economic, professional and educational diversity in evaluating new candidates and seeks to incorporate a wide range of those attributes in Teradyne s Board of Directors. Board composition is reviewed regularly to ensure that Teradyne s directors reflect the knowledge, experience, skills and diversity required for the needs of the Board.

Shareholders wishing to suggest candidates to the Nominating and Corporate Governance Committee for consideration as potential director nominees may do so by submitting the candidate s name, experience, and other relevant information to the Nominating and Corporate Governance Committee, 600 Riverpark Drive, North Reading, MA 01864. Shareholders wishing to nominate directors may do so by submitting a written notice to the Secretary at the same address in accordance with the nomination procedures set forth in Teradyne s bylaws. Additional information regarding the nomination procedure is provided in the section below captioned Shareholder Proposals for 2018 Annual Meeting of Shareholders .

Director Independence

Teradyne s Corporate Governance Guidelines require that at least a majority of the Board shall be independent. To be considered independent, a director must satisfy the definitions pursuant to the SEC rules and the listing standards of the New York Stock Exchange (NYSE), meet the standards regarding director independence adopted by Teradyne, and, in the Board s judgment, not have a material relationship with Teradyne. The standards for determining independence are available on Teradyne s web site at *www.teradyne.com* under the Corporate Governance section of the Investors link.

The Board has determined that the following directors are independent using the criteria identified above: Daniel W. Christman, Edwin J. Gillis, Timothy E. Guertin, Mercedes Johnson, Paul J. Tufano and Roy A. Vallee. In determining the independence of Teradyne s directors, the Board reviewed and determined that the following did not preclude a determination of independence under Teradyne s standards: Ms. Johnson s position as a director of Micron Technology, Inc., Juniper Networks, Inc., and, until its acquisition by Renesas Electronics Corporation in February 2014, Intersil Corporation, each a Teradyne customer; Mr. Tufano s position as President, Chief Executive Officer and director of Benchmark Electronics, Inc., one of Teradyne s customers; and each of Ms. Johnson s and Mr. Vallee s position as a director of Synopsys, Inc., one of Teradyne s suppliers. Teradyne s business with Micron Technology, Intersil, Juniper Networks, Benchmark Electronics and Synopsys during 2016 was immaterial to Teradyne and to the other companies. Teradyne will continue to monitor its business relationships to ensure they have no impact on the independence of its directors. The Board has determined that Mark E. Jagiela is not independent because he is Teradyne s Chief Executive Officer and Michael A. Bradley is not independent because he received compensation from Teradyne related to his employment as the Company s Chief Executive Officer during a twelve-month period within the last three years. The Company expects Mr. Bradley will meet the NYSE and SEC standards for independence in February 2018.

All members of the Company s three standing committees the Audit, Compensation and Nominating and Corporate Governance Committee are required to be independent and have been determined by the Board to be independent pursuant to the SEC rules and the listing standards of the NYSE, as well as Teradyne s standards.

The independent directors of the Board and its standing committees periodically meet without management present.

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Board Leadership Structure and Self-Assessment

Since May 2014, Mr. Vallee has served as an independent Chair of the Board. The Board believes that having an independent Chair is the preferred corporate governance structure for the Company because it strikes an effective balance between management and independent leadership participation in the Board process.

The Board and each of its committees annually undertake a self-assessment, including an evaluation of its composition, mandate and function.

Code of Ethics

The Code of Conduct is Teradyne s ethics policy. The Board has established a means for anyone to report violations of the ethics policy on a confidential or anonymous basis. Teradyne s Code of Conduct is available on Teradyne s web site at *www.teradyne.com* under the Corporate Governance section of the Investors link.

Teradyne maintains an insider trading policy as part of its Code of Conduct. Among other things, the insider trading policy prohibits trading on material non-public information and provides that directors, executive officers and certain other employees are prohibited from buying or selling Teradyne securities during the Company s non-trading periods, also called blackout periods , except pursuant to an approved trading plan.

Teradyne shall disclose any change to or waiver from the Code of Conduct granted to an executive officer or director within four business days of such determination by disclosing the required information on its web site at *www.teradyne.com* under the Corporate Governance section of the Investors link.

Board Oversight of Risk

Management is responsible for the day-to-day management of risks to the Company, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. Management attends regular Board and committee meetings and discusses with the Board and committees various risks confronting the Company, including operational, legal, market and competitive risks. Management and the Board have not identified any risks arising from Teradyne s compensation plans, policies and practices for the executives or employees that are reasonably likely to have a material adverse effect on the Company.

Related Party Transactions

Under Teradyne s written Conflict of Interest Policy, which is part of Teradyne s Code of Conduct, the General Counsel notifies the Audit Committee of any investment or other arrangement to be entered into by Teradyne that could or would be perceived to represent a conflict of interest with any of the executive officers or directors. Every year Teradyne makes an affirmative inquiry of each of the executive officers and directors as to their existing relationships. Teradyne reports any potential conflicts identified through these inquiries to the Audit Committee.

Shareholder Communications with Board of Directors

Shareholders and other interested parties may communicate with one or more members of the Board, including the Chair, or the non-management directors as a group by writing to the Non-Management Directors, Board of Directors, 600 Riverpark Drive, North Reading, MA 01864 or by electronic mail at nonmanagementdirectors@teradyne.com. Any communications that relate to ordinary business matters that are not within the scope of the Board s responsibilities, such as customer complaints, will be sent to the appropriate executive. Solicitations, junk mail, computer viruses, and obviously frivolous or inappropriate communications will not be forwarded, but will be made available to any director who wishes to review them.

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Under Teradyne s Corporate Governance Guidelines, each director is expected to attend each annual meeting of shareholders. All directors attended the 2016 Annual Meeting of Shareholders held on May 10, 2016, except for Michael A. Bradley, who could not attend.

Board Meetings

The Board met four times during the year ended December 31, 2016. The non-employee directors, all of whom are independent, held executive sessions in which they met without management after its regularly scheduled meetings during 2016. The Chair of the Board presides over all Board meetings and each executive session. During 2016, each director attended at least 75% of the total number of meetings of the Board and committee meetings held while such person served as a director. Teradyne s Corporate Governance Guidelines, which are available at *www.teradyne.com* under the Corporate Governance section of the Investors link, provide a framework for the conduct of the Board s business.

Board Committees

The Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. In accordance with the listing standards of the NYSE, all of the committees are comprised of independent directors. The members of each committee are appointed by the Board based on the recommendation of the Nominating and Corporate Governance Committee. Each committee performs a self-evaluation and reviews its charter annually. Actions taken by any committee are reported to the Board, usually at the next Board meeting following the action. The table below shows the current membership of each of the standing committees:

Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Edwin J. Gillis*	Daniel W. Christman	Daniel W. Christman*
Mercedes Johnson	Timothy E. Guertin*	Timothy E. Guertin
Paul J. Tufano	Roy A. Vallee	Roy A. Vallee

* Committee Chair

The Board will appoint committee members for the 2017-2018 term following the election of directors at the 2017 Annual Meeting of Shareholders.

Audit Committee

The Audit Committee has three members, all of whom have been determined by the Board to be independent pursuant to SEC rules and the listing standards of the NYSE, as well as Teradyne s independence standards. In addition, the Board determined that each member of the Audit Committee is financially literate and an audit committee financial expert as defined in the rules and regulations promulgated by the SEC. Mercedes Johnson serves on three public company audit committees in addition to Teradyne s Audit Committee. The Board has determined that Ms. Johnson s simultaneous service on three additional audit committees does not impair her ability to effectively serve on Teradyne s Audit Committee. The Audit Committee s oversight responsibilities, described in greater detail in its charter, include, among other things:

- overseeing matters relating to the financial disclosure and reporting process, including the system of internal controls;
- reviewing the internal audit function and annual internal audit plan;
- supervising compliance with legal and regulatory requirements;

reviewing and approving the appointment, compensation, activities, and independence of the independent registered public accounting firm including the selection of the lead audit partner who is rotated every 5 years; and

conducting a financial risk assessment.

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The Audit Committee met twelve times during 2016. The responsibilities of the Audit Committee and its activities during 2016 are more fully described in the Audit Committee Report contained in this proxy statement.

Compensation Committee

The Compensation Committee has three members, all of whom have been determined by the Board to be independent pursuant to SEC rules and the listing standards of the NYSE, as well as Teradyne s independence standards. The Compensation Committee s primary responsibilities, discussed in greater detail in its charter, include, among other things:

- oversight of and assessment of the risks associated with Teradyne s compensation programs, policies and practices;
- recommending changes and/or recommending the adoption of new compensation plans to the Board, as appropriate;
- reviewing and recommending to the Board each year the compensation for non-employee directors;
- evaluating and recommending to the independent directors of the Board the annual cash and equity compensation and benefits to be provided for the Chief Executive Officer; and
- reviewing and approving of the cash and equity compensation and benefit packages of the other executive officers.

The Compensation Committee has the authority to and does engage the services of independent advisors, experts and others to assist it from time to time. Teradyne s compensation and benefits group in the Human Resources Department supports the Compensation Committee in its work and assists in administering the compensation plans and programs.

The Compensation Committee met six times during 2016.

The Compensation Committee has retained Compensia, Inc. (Compensia), an executive compensation consulting firm, to assist it in carrying out its duties and responsibilities regarding executive and non-employee director compensation. In 2016, this engagement involved preparing (1) an executive officer compensation competitive analysis; (2) a director compensation competitive analysis; (3) a peer group analysis; and (4) a tally sheet analysis for executive officers. To maintain the independence of its advice, Compensia has provided no services to Teradyne other than the services provided to the Compensation Committee. In addition, the Compensation Committee conducts annually a conflict of interest assessment for Compensia and any other independent advisors engaged during the year using the factors applicable to compensation consultations under SEC rules and the listing standards of the NYSE, and, for 2016, no conflict of interest was identified.

The Compensation Committee also uses proprietary compensation surveys prepared by Radford, a global compensation consultant focused on technology companies.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised entirely of independent directors in accordance with SEC rules and the listing standards of the NYSE, as well as Teradyne s independence standards. None of Teradyne s executive officers serves on the Compensation Committee of any of the companies in which the directors are officers.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has three members, all of whom have been determined by the Board to be independent pursuant to SEC rules and the listing standards of the NYSE, as well

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as Teradyne s independence standards. The Nominating and Corporate Governance Committee s primary responsibilities, discussed in greater detail in its charter, include, among other things:

- identify individuals qualified to become Board members;
- recommend to the Board the nominees for election or re-election as directors at the annual meeting of shareholders;
- develop and recommend to the Board a set of corporate governance principles;
- oversee and advise the Board with respect to corporate governance matters; and
- oversee the evaluation of the Board.

The Nominating and Corporate Governance Committee identifies director candidates through numerous sources, including recommendations from existing Board members, executive officers, and shareholders and through engagements with executive search firms.

Non-employee directors must notify the Nominating and Corporate Governance Committee if the director experiences a change of position from that held upon first becoming a member of the Board. Upon any such notification, the Nominating and Corporate Governance Committee will review the appropriateness of the director s continued membership under the circumstances. Teradyne s Corporate Governance Guidelines also provide that the continuation of a former Chief Executive Officer of the Company on the Board is a matter to be decided by the Board, upon recommendation of the Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee met four times during 2016.

Director Compensation

Teradyne uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. Non-employee directors compensation is determined by the Board at the recommendation of the Compensation Committee. Directors who are employees of Teradyne receive no compensation for their service as a director.

Cash Compensation

In 2016, the non-employee directors were compensated at the rate of $70,000 per year. Additional fees paid to certain non-employee directors in 2016 were as follows:

- The Board Chair received an additional $55,000 per year;
- The Chair of the Audit Committee received an additional $25,000 per year;
- The Chair of the Compensation Committee received an additional $20,000 per year; and
- The Chair of the Nominating and Corporate Governance Committee received an additional $15,000 per year.

Stock-Based Compensation

Each non-employee director receives an annual equity award having a fair market value equal to $175,000 on the earlier of (i) the date of the Annual Meeting of Shareholders or (ii) the last Thursday in May. This annual equity award, which is delivered in the form of restricted stock units, vests in full on the earlier of (i) the first anniversary of the date of grant or (ii) the date of the following year s Annual Meeting of Shareholders.

Each new non-employee director is granted an equity award on the date first elected or appointed to the Board having a fair market value equal to $175,000 pro-rated daily to reflect the period between the director s

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date of election or appointment and the date of the next annual board grant. This equity award, which is also delivered in the form of restricted stock units, vests in full on the date of the next annual equity award grant. The equity award is granted under the shareholder-approved 2006 Equity and Cash Compensation Incentive Plan which limits annual equity awards for non-employee directors to an amount not to exceed $200,000.

Director Deferral Program

The non-employee directors may elect to defer receipt of their cash and/or equity awards and have the compensation invested into (1) an interest bearing account (based on ten-year Treasury note interest rates) or (2) a deferred stock unit (DSU) account. If a non-employee director elects to participate in this deferral program, he or she will receive either the cash value of the interest bearing account or the shares of the Company s common stock underlying the DSU s within 90 days following the end of his or her board service.

Director Stock Ownership Guidelines

The Company maintains stock retention and stock ownership guidelines to align the interests of the non-employee directors with those of the Company s shareholders and ensure that the directors have an ongoing financial stake in the Company s success. Pursuant to the guidelines, the non-employee directors are expected to attain (within five years from the date of initial election to the Board) and maintain an investment level in shares of the Company s common stock equal to four times their annual cash retainer. All of the non-employee directors met the ownership guidelines as of year-end.

Director Compensation Table for 2016

The table below summarizes the compensation Teradyne paid to the non-employee directors for the fiscal year ended December 31, 2016.

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)(3)	All Other Compensation	Total
Michael A. Bradley	$ 70,000	$ 175,003	$ 0	$ 245,003
Daniel W. Christman	$ 85,000	$ 175,003	$ 0	$ 260,003
Edwin J. Gillis	$ 95,000	$ 175,003	$ 0	$ 270,003
Timothy E. Guertin	$ 90,000	$ 175,003	$ 0	$ 265,003
Mercedes Johnson	$ 70,000	$ 175,003	$ 0	$ 245,003
Paul J. Tufano	$ 70,000	$ 175,003	$ 0	$ 245,003
Roy A. Vallee	$ 125,000	$ 175,003	$ 0	$ 300,003

(1) The non-employee directors were compensated at the rate of $70,000 per year. Mr. Christman received an additional $15,000 as Chair of the Nominating and Corporate Governance Committee. Mr. Gillis received an additional $25,000 as Chair of the Audit Committee. Mr. Guertin received an additional $20,000 as Chair of the Compensation Committee. Mr. Vallee received an additional $55,000 as Chair of the Board.

(2) The amounts reported in the Stock Awards column represent the grant date fair value of the annual 2016 RSU awards calculated in accordance with FASB ASC Topic 718. For a discussion of the assumptions underlying this valuation, please see Note O to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for fiscal year 2016.

(3) As of December 31, 2016, each then serving non-employee director held 9,235 restricted stock units with an expected vesting date of May 9, 2017 and, other than Mr. Bradley, no options to purchase shares of the Company s common stock. Including the annual 2016 RSU award for non-employee directors, as of December 31, 2016, Mr. Bradley held an aggregate of 58,150 restricted stock units, an aggregate of 0 exercisable options, and an aggregate of 22,168 unexercisable options.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires Teradyne s directors, executive officers and any person who owns more than 10% of Teradyne s common stock to file reports of initial common stock ownership and changes in common stock ownership with the SEC and the NYSE. Based solely on a review of these forms and written representations received from the directors and executive officers, Teradyne believes that all Section 16 filing requirements were met during the year January 1, 2016 through December 31, 2016.

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AUDIT AND FINANCIAL ACCOUNTING OVERSIGHT

Audit Committee Report

In 2017, the Audit Committee reviewed Teradyne s audited financial statements for the fiscal year ended December 31, 2016 and met with both management and PricewaterhouseCoopers LLP (PwC), Teradyne s independent registered public accounting firm, to discuss those financial statements.

The Audit Committee also reviewed the report of management contained in Teradyne s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC, as well as PwC s report included in Teradyne s Annual Report on Form 10-K related to its audit of (i) the consolidated financial statements and financial statement schedule and (ii) the effectiveness of internal control over financial reporting.

The Audit Committee has discussed with PwC the matters required to be discussed under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). The Audit Committee has received the written disclosures and the letter from PwC required by the PCAOB regarding PwC s communications with the Audit Committee concerning independence, and has discussed with PwC their independence.

Based on these reviews and discussions with management and PwC, the Audit Committee recommended to the Board (and the Board has approved) that Teradyne s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

AUDIT COMMITTEE

Edwin J. Gillis (Chair)

Mercedes Johnson

Paul J. Tufano

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act, except to the extent that Teradyne specifically incorporates it by reference in any such filing.

Principal Accountant Fees and Services

Fees for Services Provided by PricewaterhouseCoopers LLP

The following table sets forth the aggregate fees for services provided by PricewaterhouseCoopers LLP, Teradyne s independent registered public accounting firm, for the fiscal years ended December 31, 2016 and December 31, 2015.

	2016	2015
Audit Fees	$ 2,817,035	$ 2,874,757
Audit-Related Fees	235,600	404,778
Tax Fees	160,083	98,380
All Other Fees	1,800	170,983
Total:	$ 3,241,518	$ 3,548,898

Audit Fees

Audit Fees are fees related to professional services rendered for the audit of Teradyne s annual financial statements and internal control over financial reporting for fiscal years 2016 and 2015. These fees include the review of Teradyne s interim financial statements included in its quarterly reports on Form 10-Q and services that are normally provided by PricewaterhouseCoopers LLP in connection with other statutory and regulatory filings or engagements.

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Audit-Related Fees

Audit-Related Fees in 2016 were for professional services associated with Teradyne s convertible debt issuance. In 2015, fees were for professional services related to acquisition due diligence and information technology security.

Tax Fees

Tax Fees in 2016 and 2015 were for professional services related to global tax planning and compliance matters.

All Other Fees

All Other Fees are fees for services other than audit fees, audit-related fees and tax fees. In 2016, the fees were related to a technical accounting software license. In 2015, the fees include an industry market study and a technical accounting software license.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

During 2016 and 2015, the Audit Committee pre-approved all audit and other services performed by PricewaterhouseCoopers LLP.

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm in order to ensure that the provision of such services does not impair the independent registered public accounting firm s independence. These services may include audit services, audit-related services, tax services and other services. In addition to generally pre-approving, on a case-by-case basis, services provided by the independent registered public accounting firm, the Audit Committee adopted a policy for the pre-approval of certain specified services that may be provided by the independent registered public accounting firm. Under this policy, the Audit Committee has pre-approved the independent registered public accounting firm s engagement for the provision of certain services set forth in a detailed list subject to a dollar limit of either $50,000 or $100,000, depending on the service. The services set forth on the list have been identified in a sufficient level of detail so that management will not be called upon to make a judgment as to whether a proposed service fits within the pre-approved service list. Pursuant to the policy, management informs the Audit Committee, at least annually or more frequently upon its request, if the Company uses any pre-approved service and the fees incurred in connection with that service.

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OWNERSHIP OF SECURITIES

The following table sets forth as of March 16, 2017 information relating to the beneficial ownership of Teradyne s common stock by each director and executive officer, individually and as a group.

Name	Amount and Nature of Ownership (1)(2)	Percent of Class
Gregory R. Beecher	110,065	*
Michael A. Bradley (3)	218,173	*
Daniel W. Christman	30,163	*
Edwin J. Gillis	107,017	*
Charles J. Gray	53,161	*
Timothy E. Guertin	51,459	*
Mark E. Jagiela	317,997	*
Mercedes Johnson	22,773	*
Bradford B. Robbins	54,366	*
Paul J. Tufano	100,860	*
Walter G. Vahey	33,805	*
Roy A. Vallee (4)	138,923	*
All executive officers and directors as a group (12 people consisting of 5 executive officers and 7 non-employee directors) (5)	1,238,762	0.62%

* less than 1%

(1) Unless otherwise indicated, the named person possesses sole voting and dispositive power with respect to the shares. The address for each named person is: c/o Teradyne, Inc., 600 Riverpark Drive, North Reading, Massachusetts 01864.

(2) Includes shares of common stock which have not been issued but which either (i) are subject to options which either are presently exercisable or will become exercisable within 60 days of March 16, 2017, (ii) are subject to restricted stock units which vest within 60 days of March 16, 2017, or (iii) with respect to certain non-employee directors, are issuable pursuant to the Teradyne Deferral Plan for Non-Employee Directors (the Deferral Plan) within 90 days of the date the non-employee director ceases to serve as such, as follows: Mr. Beecher, 0 shares; Mr. Bradley, 31,403 shares; Mr. Christman, 9,235 shares; Mr. Gillis, 25,614 shares (including 16,379 shares issuable pursuant to the Deferral Plan); Mr. Gray, 0 shares; Mr. Guertin, 41,138 shares (including 31,903 shares issuable pursuant to the Deferral Plan); Mr. Jagiela, 0 shares; Ms. Johnson, 9,235 shares; Mr. Robbins, 7,719 shares; Mr. Tufano, 16,570 (including 7,335 shares issuable pursuant to the Deferral Plan); Mr. Vahey, 0 shares; Mr. Vallee, 51,873 shares (including 42,638 shares issuable pursuant to the Deferral Plan); all directors and executive officers as a group, 192,787 shares (including 98,255 shares issuable pursuant to the Deferral Plan).

(3) Includes 186,770 shares of common stock over which Mr. Bradley shares voting and dispositive power with his wife.

(4) Includes 87,050 shares of common stock held in a family trust for the benefit of Mr. Vallee and his wife.

(5) The group is comprised of Teradyne s executive officers and directors on March 16, 2017. Includes (i) an aggregate of 29,887 shares of common stock which the directors and executive officers as a group have the right to acquire by exercise of stock options within 60 days of March 16, 2017 granted under the stock plans, (ii) an aggregate of 64,645 shares of common stock which the directors and executive officers as a group will acquire by the vesting of restricted stock units within 60 days of March 16, 2017, and (iii) an aggregate of 98,255 shares of common stock issuable to non-employee directors pursuant to the Deferral Plan.

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The following table sets forth certain persons who, based upon Schedule 13G filings made since December 31, 2016, own beneficially more than five percent of Teradyne s common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (5)
BlackRock, Inc. (1) 55 East 52nd Street New York, New York 10022	17,239,313	8.60%
Baillie Gifford & Co. (2) Calton Square 1 Greenside Row Edinburgh EH1 3AN Scotland, UK	16,622,390	8.26%
The Vanguard Group, Inc. (3) 100 Vanguard Blvd. Malvern, Pennsylvania 19355	15,941,214	7.92%
Ameriprise Financial, Inc. (4) 145 Ameriprise Financial Center Minneapolis, MN 55474	10,706,341	5.32%

(1) As set forth in Amendment No. 4 to a Schedule 13G, filed on January 26, 2017, BlackRock, Inc. had, as of December 31, 2016, sole dispositive power with respect to all of the shares and sole voting power with respect to 16,496,648 shares.

(2) As set forth in Amendment No. 2 to a Schedule 13G, filed on February 10, 2017, Baillie Gifford & Co. had, as of December 31, 2016, sole dispositive power with respect to all of the shares and sole voting power with respect to 14,835,555 shares.

(3) As set forth in Amendment No. 7 to a Schedule 13G, filed on February 10, 2017, The Vanguard Group, Inc. (Vanguard) had, as of December 31, 2016, sole dispositive power with respect to 15,808,711 shares, shared dispositive power with respect to 132,503 shares, sole voting power with respect to 119,903 shares, and shared voting power with respect to 22,700 shares. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 109,803 shares as a result of its serving as an investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 32,800 shares as a result of its serving as investment manager of Australian investment offerings.

(4) As set forth in Amendment No. 4 to a Schedule 13G, filed on February 10, 2017, Ameriprise Financial, Inc. (Ameriprise) had, as of December 31, 2016, shared dispositive power with respect to all of the shares and shared voting with respect to 14,282,265 shares. Ameriprise is the parent holding company of Columbia Management Investment Advisers, LLC (CMIA), which has shared dispositive power with respect to all of the shares and shared voting power with respect to 10,586,567 shares.

(5) Ownership percentages were obtained from Schedule 13G filings and reflect the number of shares of common stock held as of December 31, 2016.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides information regarding the 2016 compensation of Teradyne s principal executive officer, our principal financial officer, and the three executive officers (other than Teradyne s principal executive officer and principal financial officer) who were the Company s most highly-compensated executive officers as of the end of 2016. These individuals were:

- Mark E. Jagiela, Chief Executive Officer;
- Gregory R. Beecher, Vice President, Chief Financial Officer, and Treasurer;
- Charles J. Gray, Vice President, General Counsel and Secretary;
- Bradford B. Robbins, President, Wireless Test Division; and
- Walter G. Vahey, President, System Test Group.

These executive officers were our named executive officers for 2016.

This Compensation Discussion and Analysis describes the material elements of Teradyne s executive compensation program during the fiscal year ended December 31, 2016. It also provides an overview of the Company s executive compensation philosophy, as well as the Company s principal compensation policies and practices. Finally, it analyzes how and why the Compensation Committee of the Board of Directors (the Compensation Committee) arrived at the specific compensation decisions for the Company s executive officers, including the named executive officers, in 2016, and discusses the key factors that the Compensation Committee considered in determining the compensation of these executive officers.

2016 Executive Compensation Summary

Teradyne is a leading global supplier of automation equipment for test and industrial applications. The Company designs, develops, manufactures and sells automatic test systems used to test semiconductors, wireless products, data storage and complex electronics systems in the consumer electronics, wireless, automotive, industrial, computing, communications and aerospace and defense industries. Teradyne s industrial automation products include collaborative robots used by global manufacturing and light industrial customers to improve quality, increase manufacturing efficiency and decrease manufacturing costs. The automatic test equipment and industrial automation markets are highly competitive and are characterized by rapid changes in demand that necessitate adjusting operations and managing spending prudently across business cycles.

In 2016, the Company increased its revenue by 7% from 2015 to $1.75 billion while generating significant free cash flow and maintaining its profit rate before interest and taxes (PBIT[1]). The Company achieved market share gains in its semiconductor test business, maintained model profitability in its system test business, restructured its wireless test business, and grew the industrial automation business by over 60% year over year, positioning the Company for sustained profitability and growth. During 2016, the Company continued to invest for long-term, future growth while maintaining financial discipline.

In 2016, the Company returned $195 million to shareholders through its dividend and share repurchase programs. In January 2017, the Company announced it planned to repurchase a minimum of $200 million in shares in 2017 pursuant to a $500 million repurchase program approved by the Board in December 2016.

[1] PBIT is a non-GAAP financial measure equal to GAAP 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; non-cash convertible debt interest expense; and other non-recurring gains and charges.

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Additionally, the Company announced a 17% increase to its quarterly dividend to $0.07 per share. The dividend and repurchase programs reflect the Company s confidence in the business and ability to return capital to its shareholders while retaining sufficient financial flexibility to pursue growth opportunities through internal investments and acquisitions such as Universal Robots. Additionally, in 2016, the Company raised $460 million through a convertible notes offering. The Company intends to use the proceeds from the offering for general corporate purposes including funding its share repurchase and dividend programs rather than using cash from international operations which is subject to additional tax if repatriated.

The Company s 2016 performance-based variable cash compensation was tied to its rate of profitability, a new two-year rolling revenue growth rate metric, and the achievement of strategic business objectives, including market share gains, revenue and bookings goals, profit margin targets, strategic customer wins and new product launches. Teradyne s performance-based executive compensation program resulted in compensation for the Company s named executive officers that reflects the Company s challenging performance goals for 2016 and performance in achieving those goals. Due to the Company s rate of profitability, revenue growth and achievement of market share and other strategic goals in 2016, executive officers received variable cash compensation payouts ranging from 79% to 116% of target.

The Board of Directors believes that the executive compensation for 2016 is reasonable and appropriate and is justified by the performance of the Company and its achievement of its financial and strategic goals.

The compensation of the named executive officers over the last ten years demonstrates the alignment between pay and performance. The variable cash compensation for the named executive officers from 2010 to 2016 has varied from 79% to 200% of target based on the strength of Company performance and contrasts to compensation received from 2007 to 2009 where executive officers received variable cash compensation well below target in a range from 39% to 74% based on Company performance as compared to target objectives.

From 2007 to 2009, the executive officers received payouts well below their target variable cash compensation (74%, 45% and 39% of target in 2007, 2008 and 2009, respectively) due to the severe industry downturn. Further, in 2009, the executive officers received base salary cuts as high as 20%, which were only restored late in the year when business improved.

In 2010 and 2011, due to the Company s record profitability and achievement of strategic business goals, the executive officers received at or close to the maximum 200% of their target variable cash compensation payout.

From 2012 to 2014, despite challenging market conditions, the Company maintained its PBIT rate and continued to make investments in long-term growth. As a result, the variable cash compensation payout for the executive officers decreased to 153% in 2012, 142% in 2013, and 142% in 2014 reflecting strong results, but not as strong as in 2010 or 2011.

In 2015, the Company increased its PBIT rate to the highest level in 3 years, generated revenues of over $1.6 billion in a down-cycle year for the semiconductor test market and increased market share in its system-on-a-chip, memory and wireless test businesses, while continuing to make investments in long-term growth. As a result, the variable cash compensation payouts for the executive officers increased with a range between 154% and 195%.

In 2016, after multiple years of achieving PBIT goals at sustained revenue levels, the Company established even more challenging performance goals and added a two-year rolling revenue growth rate metric as an element of the variable cash compensation plan to reinforce the importance of achieving short- and long-term revenue growth as well as achieving its profitability goals. In 2016, the Company grew revenue by 7% to $1.75 billion while generating significant free cash flow, maintaining its rate of profitability and achieving market share and other strategic goals. Due to the more challenging performance metrics for 2016, the executive officers received lower variable cash compensation payouts than they received for comparable Company performance in prior years. As a result, the variable cash

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compensation payout for Messrs. Jagiela, Beecher and Gray, which is calculated by applying a weighted averaging formula of the performance of all divisions, was 112% in 2016. The variable cash compensation payouts in 2016 for Messrs. Vahey and Robbins were 116% and 79%, respectively, as the formula for their payouts is divided equally between (a) the weighted average formula of the performance of all divisions (112%) and (b) the performance of their respective divisions (System Test for Mr. Vahey (120%) and Wireless Test for Mr. Robbins (46%)).

While the past ten years indicate that the program effectively rewards the executive officers when there is superior performance by the Company and appropriately adjusts compensation downward in the case of less-than-superior performance, the Board continues to review the executive compensation program and its mix of short- and long-term incentives to ensure it reflects the correct balance between short-term financial performance and long-term shareholder return. The Board also continues to establish challenging performance metrics reflecting the Company s business objectives and strategy.

In January 2016, the Board approved changes to the performance-based variable cash compensation program. For 2016, a two-year rolling revenue growth rate metric was added to the current PBIT rate metric and vital goals for the variable cash compensation program to reinforce the importance of achieving short- and long-term revenue growth, as well as achieving profitability goals. Additionally, in 2016, the Board modified the long-term performance criteria for performance-based restricted stock units to include both the prior three-year relative total shareholder return component and a new three-year cumulative PBIT component consistent with the Company s long-term goal to deliver profitability and superior return to shareholders.

Teradyne has instituted a variety of compensation policies and practices to foster and maintain best practices for executive compensation. The Compensation Committee reviews these practices on a regular basis. Teradyne s current policies and practices include the following:

- Significant director and executive officer stock ownership guidelines;
- Appropriate balance between short-term and long-term compensation to discourage short-term risk taking at the expense of long-term results;
- Multiple performance objectives used in the determination of variable cash compensation and performance-based stock awards removing incentives to focus solely on one performance goal;
- Engagement of an independent compensation consultant to advise the Compensation Committee on executive compensation matters;
- Executive officers change-in-control agreements contain a double trigger for acceleration of equity awards requiring a qualifying termination following a change-in-control;
- Recoupment of incentive compensation from executives for fraud resulting in financial restatement;
- Policy prohibiting executives and directors from pledging Teradyne common stock; and
- Policy prohibiting executives and directors from hedging Teradyne stock (through short selling or the use of financial instruments such as exchange funds, equity swaps, puts, calls, collars or other derivative instruments).

Executive Compensation Objectives

The objective of the executive compensation program is to provide a competitive level of compensation that:

1) aligns the interests of the executive officers with the shareholders;

2) links executive officer compensation closely to corporate performance;

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3) motivates the executive officers to achieve the Company s short-term and long-term operating and financial goals without encouraging excessive or inappropriate risk; and

4) assists in attracting and retaining qualified executive officers.

In setting compensation levels for the executive officers (or in the case of the Chief Executive Officer, in making recommendations to the independent members of the Board), the Compensation Committee takes into account such factors as internal equity, competitive market data (drawn from peer company and survey information), benefits, individual and corporate performance and the general and industry-specific business environment, as well as the roles and responsibilities of each executive officer.

Role of the Compensation Committee

The Compensation Committee s role is to fulfill certain responsibilities of the Board relating to compensation for the executive officers, and to review and oversee the administration of equity-based incentives, profit sharing, deferred compensation, retirement and pension plans, and other compensatory plans. The Compensation Committee recommends to the independent members of the Board all aspects of the Chief Executive Officer s compensation and is also responsible for approving all aspects of the other executive officers compensation. The Compensation Committee has the authority to select, retain and terminate compensation consultants, independent counsel and such other advisors as it determines necessary to carry out its responsibilities and approve the fees and other terms of retention of any such advisors.

Role of Executive Officers in Determining Executive Pay

The Chief Executive Officer makes individual compensation recommendations for the other executive officers to the Compensation Committee for its review, consideration and determination. The Compensation Committee s compensation consultant and members of the human resources department provide competitive market information for comparative purposes. The executive officers do not determine any element of their own compensation or their total compensation amount.

Competitive Positioning

To assure its compensation is competitive, Teradyne makes extensive use of comparative data for its worldwide employee programs and its executive officer compensation. This includes data gathered from surveys, compensation consultants and public filings.

For 2017, the Compensation Committee engaged the independent compensation consulting firm, Compensia, to develop a competitive analysis of Teradyne s peer companies as well as analyze executive pay packages and advise on the relationship of the Company s short-term and long-term performance on the pay packages. Compensia recommended to the Compensation Committee a peer group that reflects organizations of comparable size (revenue and market capitalization) and operations (product type and geographic scope) to Teradyne and that provides an appropriate sample size for comparisons. Compensia proposed, and the Compensation Committee reviewed and approved, a peer group that included the 16 companies listed below:

Teradyne Peer	Revenue Latest 4 Quarters (as of 10/14/16) ($MM)		Market Capitalization (30-day average as of 10/14/16) ($MM)	
Ciena	$	2,576	$	3,036
Entegris	$	1,107	$	2,383
Fairchild Semiconductor	$	1,336		Acquired 9/2016
FEI	$	973		Acquired 9/2016
FLIR Systems	$	1,602	$	4,238
Itron	$	1,977	$	2,102
Keysight Technologies	$	2,923	$	5,239
KLA-Tencor	$	2,984	$	10,989
Lam Research	$	5,886	$	15,160
National Instruments	$	1,227	$	3,586
Polycom	$	1,198		Acquired 9/2016
Skyworks Solutions	$	3,334	$	14,088
Trimble Navigation	$	2,315	$	6,893
Verifone Holdings	$	2,042	$	1,782
Viavi Solutions	$	906	$	1,728
Zebra Technologies	$	3,608	$	3,600
Median	$	2,009	$	3,600
Teradyne	$	1,747	$	4,292

Compensia recommended that the Compensation Committee (1) remove from the peer group Altera and Atmel, which were both acquired, and Plantronics, whose revenue fell below the scoping requirements, and (2) add to the peer group Entegris and Keysight Technologies. At the time the peer group was approved, Teradyne remained close to the median of the peer group in terms of both revenue and market capitalization (43^{rd} and 59^{th} percentiles, respectively).

The Company augmented the peer group with data from the Radford Global Survey. From this survey, the Company used reported data for all semiconductor/semiconductor equipment companies as well as all technology companies between $750 million and $3 billion in annual revenue.

Executive Compensation Program

The Board has implemented an executive compensation program that 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 targets that are important to the Company and its shareholders. The approach is designed to focus the executive officers on creating shareholder value over the long-term and on delivering exceptional performance throughout fluctuations in business cycles.

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The following charts illustrate performance-based target compensation for the Chief Executive Officer and the other named executive officers (as a group) as a percentage of total target compensation for 2016.

Target Cash Compensation

Target cash compensation includes base salary and performance-based variable cash compensation. Base salary is designed to attract and retain talented executives and to provide a stable source of income. Variable cash compensation links the executive officer s cash compensation with the Company s annual and strategic performance objectives and motivates the executive officers to achieve Teradyne s financial, operating, and long-term growth goals.

Each January, the Compensation Committee sets target cash compensation for each executive officer, other than the Chief Executive Officer. The independent members of the Board set the target cash compensation for the Chief Executive Officer. The goal is that the target total cash compensation for each individual should be competitive with cash compensation of individuals holding similar roles and responsibilities as reflected by the peer group and survey data. The Committee and the Board also consider the performance of the Company relative to its peers, individual performance and the role and responsibilities of the executive officer.

For 2017, the Compensation Committee set performance-based variable cash compensation for executive officers as a percentage of base salary with a range, at target, of 70% to 85% of base salary and the independent members of the Board set the target level for the Chief Executive Officer at 110% of base salary as set forth in the following table.

Executive Officer	2017 Variable Cash Compensation Target Percentage of Base
Mark E. Jagiela	110%
Gregory R. Beecher	85%
Charles J. Gray	70%
Bradford B. Robbins	75%
Walter G. Vahey	75%

Executive variable cash compensation is capped at 200% of target to limit actual executive compensation for periods of exceptionally strong performance.

In January, the Compensation Committee also establishes the specific performance measures and formulas for the year s variable cash compensation program. For 2016, the Board approved changes to the performance-based variable cash compensation program to reinforce the importance of achieving short- and long-term revenue growth as well as achieving its profitability goals. For 2016, the performance-based variable cash compensation goals were determined by operating division and were based on: 1) a baseline formula for non-GAAP profit rate before interest and taxes or PBIT[2] percentage; 2) two-year rolling revenue growth rate; and 3) measurable operating, financial and strategic goals. These components are aggregated in the variable cash compensation payout calculation and capped at 200% of target. The performance-based variable cash compensation for the named executive officers is determined by a formula comprised of Company-wide PBIT percentage, Company-wide revenue growth and the performance against key operating, financial and strategic goals by the Company s business divisions. The variable cash compensation for Messrs. Jagiela, Beecher and Gray is calculated by applying a weighted average formula of the performance of all divisions. The variable cash compensation formula for Messrs. Vahey and Robbins is divided equally between (a) the weighted average formula of the performance of all divisions and (b) the performance of their respective divisions (System Test for Mr. Vahey and Wireless Test for Mr. Robbins). In establishing the performance target levels for the financial performance measures, the Compensation Committee sets the PBIT percentage rate and the revenue growth rate at a level it believes to be appropriate for the businesses in which the Company operates, and sets other operating and financial goals based on the specific objectives of the Company for the year, as well as certain strategic objectives.

These operating, financial and strategic goals may include strategic customer wins, market share gains, gross margin and profitability goals, new product introductions, engineering project milestones, cost controls and growth targets the achievement of which positively impact the Company s long-term performance. Teradyne is not disclosing the specific performance target levels for these goals because they represent confidential, commercially sensitive information that Teradyne does not disclose to the public and it believes, if disclosed, would cause competitive harm. The target levels for such performance measures such as product development, market share, new product introductions, and margin goals for new and existing products are inherently competitive and, if disclosed, would provide valuable insight into specific customers, markets, and areas where Teradyne is focusing.

The Compensation Committee sets operating, financial and strategic goals for the variable cash compensation program to align executive compensation with both the Company s short-term financial and operating strategy and its long-term profitable growth strategy. In developing the variable cash compensation program, the Compensation Committee takes into account that these goals are difficult to achieve because they are heavily contingent upon multiple factors, including technological innovations, customer demand and the actions of competitors. The target levels for the measures to improve competitive positioning are challenging due to the strong competition within the Company s markets, while technical and engineering innovations make product development goals difficult to achieve in a fixed time frame. In 2015 and prior years, the operating, financial and strategic target levels increased or decreased the variable cash compensation payout up to 60%. For 2016 and 2017, the Compensation Committee modified the program so that the revenue growth metric contributes 30% towards the target variable cash compensation payout with the PBIT metric contributing 40% and the operating, financial and strategic goals contributing 30%.

Following the close of each fiscal year, the variable cash pay-out is calculated and presented to the Compensation Committee for review. Based on the performance of the divisions, the Compensation Committee, or the independent members of the Board for the Chief Executive Officer, then determines the variable cash compensation for the named executive officers.

[2] PBIT is a non-GAAP financial measure equal to GAAP 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; non-cash convertible debt interest expense; and other non-recurring gains and charges. This PBIT percentage metric used by the Compensation Committee in the variable cash compensation calculation is the same as the PBIT percentage reported by the Company in the financial statements accompanying its quarterly earnings releases.

Equity Compensation

Equity compensation is designed to align executive compensation with shareholder return, motivate and reward individual and Company performance, and attract and retain talented individuals. Teradyne s equity compensation program provides three types of equity incentives: (1) time-based awards which vest in equal amounts annually over four years conditioned upon continued service, supporting the Company s employee retention efforts; (2) performance-based awards which reward equally at target the achievement of relative total shareholder return and cumulative PBIT percentage, in each case, measured at the end of a three-year performance period; (3) stock options granted at market value which vest in equal amounts annually over four years conditioned upon continued service, where executives benefit from stock appreciation. These equity compensation components are consistent with the Company s long-term goals to deliver profitability, revenue growth, and superior return to shareholders.

Equity awards are made under the shareholder approved 2006 Equity and Cash Compensation Incentive Plan. The awards granted to the executive officers are based upon each individual s relative contribution, performance, and responsibility within the organization. The Compensation Committee assesses these factors each year for each executive officer.

At the beginning of each year, the Compensation Committee approves an overall equity budget to be used for awards to the executive officers, employees and directors. Various factors are used in determining the annual equity award budget, including the total projected compensation expense to be incurred as a result of the equity awards, overhang from previously issued and outstanding awards, burn rates and competitive market data from the peer group and compensation surveys. The independent members of the Board determine the award type and level for the Chief Executive Officer and the Compensation Committee determines the award type and level for all other executive officers. Management approves equity awards for all other employees within the overall equity budget pursuant to a delegation of authority from the Compensation Committee.

Since 2006, the equity awards granted to the executive officers have been made in January in order to align the evaluation and award of the equity compensation to the end of the fiscal year. The fair market value for these awards is determined using the closing price on the date of grant as provided by the terms of Teradyne s equity plans. No employee equity awards are granted during blackout periods, except for new hire grants. New hire grants are automatically issued on the first trading day of the month following the employee s start date, in accordance with guidelines approved by the Compensation Committee.

Retirement Benefits

Retirement benefits are designed to attract and retain talented employees and reward long-term service to the Company. Retirement benefits provide a long-term savings opportunity for employees on a tax-efficient basis. In the U.S., the Company offers the Teradyne, Inc. Savings Plan (the 401k Plan). The 401k Plan is available to all employees and provides a discretionary employer matching contribution. Executive officers may participate in the 401k Plan on the same terms as those available for other eligible U.S. employees. For 2016, the Company matched $1 for every $1 contributed by the employee to the Company s 401k Plan and Supplemental Savings Plan (as defined below) up to 4% of the employee s compensation (subject to Internal Revenue Service limits) for employees not accruing benefits in the Retirement Plan or SERP (each as defined below), and no match for employees continuing to accrue benefits in the Retirement Plan or SERP.

The Company also maintains a non-qualified Teradyne, Inc. Supplemental Savings Plan (the Supplemental Savings Plan) for certain employees whose benefits would otherwise be capped at limits based on restrictions imposed by the Internal Revenue Service. For additional information regarding the Supplemental Savings Plan, see the Nonqualified Deferred Compensation Table.

Teradyne also provides a separate retirement plan, the Retirement Plan for Employees of Teradyne, Inc. (the Retirement Plan). In 1999, this plan was discontinued for new employees, but participating employees were given the option to elect to continue in the plan or opt out of the plan in order to receive a higher employer match in the 401k Plan. Commencing in 2009, employees who continued in the separate Retirement Plan have received no 401k employer match. No named executive officer is currently earning benefits under the Retirement Plan.

The Company also maintains a defined benefit Supplemental Executive Retirement Plan (SERP) for certain senior employees. For additional information, see the Pension Benefits Table. Mr. Robbins is the only named executive officer earning benefits under the SERP.

The Compensation Committee considers the expense of the executive officers retirement benefits in determining their overall compensation.

Chief Executive Officer Separation Agreement

Upon his appointment as Chief Executive Officer, Mr. Jagiela entered into an Agreement Regarding Termination Benefits (Separation Agreement). The term of this Separation Agreement, entered into on January 22, 2014, is three years, and extends for additional one-year periods unless Teradyne gives notice of non-renewal to Mr. Jagiela. The Separation Agreement contains a three-year, post-employment customer and employee non-hire and non-solicitation restriction and a three-year, post-employment non-competition restriction. In consideration of these restrictions, Mr. Jagiela is eligible to receive severance payments for two years at his annual target compensation rate and continued vesting of non-performance based equity awards for two years and of performance-based equity awards for three years following his termination by Teradyne for any reason other than death, disability or cause, each as defined in the Separation Agreement, or in a circumstance in which Mr. Jagiela would be eligible to payments pursuant to his Change in Control Agreement. During the two-year post-employment period, Mr. Jagiela is also eligible for ongoing health, dental and vision insurance plan coverage, provided on the same terms as those in effect at the date of his termination. If Teradyne terminates Mr. Jagiela s employment due to his disability and Mr. Jagiela is not eligible to receive payments pursuant to his Change in Control Agreement, he is eligible for a two-year severance payment to the extent he is not eligible to receive disability insurance, which payment is reduced by any compensation Mr. Jagiela receives from other employment.

Change in Control Agreements

The Compensation Committee and the Board have approved a change in control agreement for each executive officer similar to those offered by most peer companies. The independent members of the Board also have approved an Agreement Regarding Termination Benefits with the Chief Executive Officer. The structure and design of these agreements, including the level of payments and benefits provided to the executive officers under the agreements, are intended to be similar to those provided by peer companies.

The change in control agreements provide a retention tool for the executive officers to remain with the Company both during and following the change in control transaction and enable the executive officers to focus on the continuing business operations and the success of a potential business combination that the Board has determined to be in the best interests of the shareholders. This results in stability and continuity of operations during a potentially uncertain time.

Other Benefits

To attract and retain highly qualified employees, the Company offers benefit programs designed to be competitive in each country in which the Company operates. All U.S. employees and executive officers participate in similar healthcare, life and disability insurance, and other welfare programs.

To offer most employees an opportunity to acquire an equity interest in Teradyne, the Company offers an Employee Stock Purchase Plan. This plan allows participating employees to purchase shares of common stock

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through regular payroll deductions of up to 10% of their annual compensation, to a maximum of $25,000 per calendar year, not to exceed 6,000 shares. The purchase price is an amount equal to 85% of the fair market value of the common stock at market close on the last trading day of the purchase period. Each purchase period is a six month period beginning in January or July and ending in June or December, respectively. Over fifty percent of world-wide employees, including certain executive officers, currently participate in the plan.

Teradyne s Cash Profit Sharing Plan distributes 10% of Teradyne s GAAP pre-tax profit (excluding its Wireless Test Division acquired in 2011, the Avionics Interface Technologies business acquired in 2014, and its Industrial Automation Division acquired in 2015) to all eligible employees, as determined by the Compensation Committee, including executive officers. Plan payments are distributed as a consistent percentage of target cash compensation for all participants twice per year subject to any restrictions or exceptions approved by the Compensation Committee.

Stock Ownership Guidelines

The Company maintains stock retention and stock ownership guidelines to align the interests of the executive officers with those of the shareholders and ensure that the executive officers responsible for overseeing operations have an ongoing financial stake in the Company s success.

Pursuant to these guidelines, the Chief Executive Officer is expected to attain and maintain an investment level in shares of the Company s common stock equal to three times his annual base salary and all other executive officers are expected to attain and maintain an investment level equal to two times their annual base salary. In each case, such investment levels are expected to be attained within five years from the date upon which the individual becomes subject to the guidelines. Until this ownership guideline is met, the executive officers are expected to retain at least 50% of the shares issued pursuant to an equity award, after taxes.

Shares subject to the stock ownership guidelines do not include any pledged Company stock. The Company maintains a policy prohibiting executives and directors from pledging Teradyne stock.

During the year, the executive officers complied with the stock ownership guidelines, and at year end, all named executive officers were at or above the stock ownership guideline levels.

Compensation Recoupment Policy

A compensation recoupment policy is applicable to all the executive officers. Under this policy, the Company may recover incentive compensation that was based on achievement of financial results that were subsequently restated if an executive officer was found to be personally responsible for any fraud or intentional misconduct that caused the restatement. This policy covers variable cash compensation and performance-based equity awards. The Board will review the Company s compensation recoupment policy following the adoption of regulations by the Securities and Exchange Commission implementing Section 954 of the Dodd-Frank Act.

Impact of Accounting and Tax Treatment on Executive Compensation

In general, under Section 162(m) of the Internal Revenue Code of 1986 (the Code), companies cannot deduct, for federal income tax purposes, compensation in excess of $1 million paid to certain executive officers (the Chief Executive Officer and each of the three other most highly-compensated executive officers (other than its chief financial officer)). This deduction limitation does not apply, however, to compensation that constitutes qualified performance-based compensation within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder. Teradyne received shareholder approval on May 25, 2006 for the 2006 Equity and Cash Compensation Incentive Plan to grant equity awards that may satisfy the requirements for qualified performance-based compensation. In May 2008, the shareholders approved an amendment to the plan that limits the amount of variable cash compensation to be paid to any plan participant in any fiscal year to

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$3 million, allowing compliant cash awards made under the plan to be qualified performance-based compensation, and for such cash awards in excess of $1 million in any fiscal year to be deductible for tax purposes under Section 162(m) of the Code. In each of May 2011 and May 2015, the shareholders re-approved the material terms of the performance goals under the plan to enable the entire amount of qualified performance-based compensation paid to certain executive officers to be exempt from the $1 million deduction limit that would otherwise apply. While the Compensation Committee monitors compensation paid to our executive officers in light of the provisions of Section 162(m) of the Code, the Compensation Committee does not believe that compensation decisions should be constrained necessarily by how much compensation is deductible for federal tax purposes, and the Compensation Committee is not limited to paying compensation that is qualified performance-based compensation under Section 162(m) of the Code.

2016 Executive Compensation

In January 2016, the Compensation Committee reviewed the performance of the named executive officers during 2015 and conducted its annual assessment of executive compensation. In addition to the executive officer s performance during 2015, the Compensation Committee considered competitive market data provided by Compensia, its independent executive compensation consultant, in setting executive compensation for 2016.

2016 Target Cash Compensation

To align cash compensation with the industry and the competitive market, the Compensation Committee, and the independent members of the Board in the case of the Chief Executive Officer, approved increases in the 2016 base salaries and target cash compensation for certain of the named executive officers. The 2015 and 2016 base salaries and target cash compensation for the named executive officers are set forth below:

	Base Salary		Target Cash Compensation	
	2015	**2016**	**2015**	**2016**
Mark E. Jagiela	$ 730,660	$ 821,000	$ 1,461,321	$ 1,642,000
Gregory R. Beecher	485,000	485,000	873,000	897,250
Charles J. Gray	365,000	370,000	620,500	629,000
Bradford B. Robbins	322,400	330,000	564,200	577,500
Walter G. Vahey	310,000	310,000	542,500	542,500

In January 2016, the Board approved changes to the performance-based variable cash compensation program to reinforce the importance of achieving short- and long-term revenue growth as well as achieving profitability goals. For 2016, the performance-based variable cash compensation was determined by operating division and based on the following:

1) a target of 15% for company-wide PBIT measured as a percentage of annual revenue; and

2) a target of 3% company-wide two-year rolling revenue growth rate measured annually; and

3) performance against key operating, financial and strategic goals by each business division (other than the Industrial Automation Division).

These components were aggregated in the variable cash compensation payout calculation with the revenue growth metric contributing 30%, the PBIT metric contributing 40% and the strategic goals contributing 30%, based upon target performance of each metric. Achievement of a PBIT rate above 15% and of a revenue growth rate above 3% were necessary to result in payments above target for those metrics. Achievement of a 25% PBIT rate and a 10% revenue growth rate would have resulted in maximum payout of 200% of target for those metrics. The operating, financial and strategic goals for 2016 included market share gains, profit margin targets, revenue and bookings targets, market penetration with new products and product development milestones in the Company s various business units. The maximum variable cash compensation payout for the named executive officers was 200% of the target amount.

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The variable cash compensation for Messrs. Jagiela, Beecher and Gray is calculated by applying a revenue-weighted average formula of the performance of all divisions. The variable cash compensation formula for Messrs. Vahey and Robbins is split equally between (a) the weighted average formula of the performance of all divisions and (b) the performance of their respective divisions (System Test for Mr. Vahey and Wireless Test for Mr. Robbins).

In January 2017, the Compensation Committee reviewed the Company s performance against its 2016 performance-based variable cash compensation targets. The divisions performances varied from 46% to 157% of target. The variable cash compensation payout for the Semiconductor Test Division, which historically accounts for approximately 70-80% of Teradyne s revenue and a commensurate portion of the variable cash compensation calculation for the executive officers, exceeded its revenue and PBIT percentage targets which positively impacted the calculation. Once the performance of the divisions was determined, the payout for the named executive officers was calculated by applying a weighted averaging formula of the performance of all divisions.

The Compensation Committee, and the independent members of the Board in the case of the Chief Executive Officer, approved for 2016 (1) a 112% payout of target variable cash compensation for Messrs. Jagiela, Beecher and Gray, (2) a 79% payout of target for Mr. Robbins, and (3) a 116% payout of target for Mr. Vahey. Due to the different variable compensation factors for each executive officer, total cash compensation paid was between 21% below target and 16% above target, depending on the named executive officer. The payout amounts of 2016 performance-based variable cash compensation for each named executive officer can be found under the column Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

2016 Equity Awards

In January 2016, the Compensation Committee, and the independent members of the Board in the case of the Chief Executive Officer, approved the 2016 equity awards for the named executive officers. The Compensation Committee and the independent members of the Board continued to award RSUs and stock options for the 2016 equity grant with the same mix of time-based RSUs (40%), performance-based RSUs (50%), and non-qualified stock options (10%) as in 2015.

For the 2016 performance-based RSUs, the Compensation Committee approved performance metrics for the performance-based RSUs split equally between (1) the prior relative total shareholder return (TSR) formula measured at the end of a three-year performance period (using a 45-day price averaging method at both the beginning and the end of the three-year performance period) and (2) a new three-year cumulative PBIT rate. The Compensation Committee chose the Company s relative TSR performance and a cumulative PBIT rate as the equal measures for performance-based RSUs consistent with the Company s long-term goal to deliver profitability and superior return to shareholders. The TSR-based metric will continue to align the interests of executive officers with the interests of shareholders and provide a significant incentive for the executive officers to focus on increasing long-term shareholder value, while the PBIT-based metric will provide an incentive to maintain a high level of profitability over the long-term.

For the 2016 performance-based RSUs, Teradyne s TSR performance is measured against the NYSE Composite Index (ticker symbol: NYA) which consists of over 1,900 companies listed on the New York Stock Exchange. Following a review of alternative comparator indices and peer groups, and with input from Compensia, the Compensation Committee changed the TSR index from the Philadelphia Semiconductor Index (ticker symbol: SOX) used for the 2014 and 2015 performance-based RSU awards to the NYA Index because the Committee determined that a comparison against the NYA Index provides a better indicator of Teradyne s performance than the SOX Index. The NYA Index represents a broad, diverse group of high quality investment alternatives, while the SOX Index is a weighted, specialized index dominated by semiconductor device manufacturers. Teradyne has become an increasingly diverse company expanding beyond its traditional

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semiconductor test business with the additions of storage and wireless test businesses as well as the 2015 acquisition of Universal Robots which established Teradyne s industrial automation business. The Compensation Committee concluded that the more diverse NYA Index is a more appropriate benchmark for Teradyne than the narrower SOX Index. Teradyne s TSR percentage point gain minus that of the NYA Index at the end of the three-year period will determine the number of performance-based RSUs earned based on the TSR-based performance metric. With respect to the portion of the performance-based RSUs subject to vesting based on TSR performance, the TSR measurement allows for payment from 0% to 200% based on underperforming or exceeding the NYA Index s three-year return.

The PBIT performance has a three-year cumulative target of 15% with a maximum of 25%. With respect to the portion of the performance-based RSUs subject to vesting based on PBIT, the PBIT measurement allows for payment from 0% to 200% based on cumulative three-year PBIT rate.

The number of performance-based RSUs that may be paid out based on relative TSR performance and PBIT rate are each illustrated below:

The final number of performance-based RSUs earned will be determined by the Compensation Committee and the independent members of the Board, as applicable, upon the completion of the three-year performance period. All of the performance-based RSUs earned will vest at the end of the three-year performance period. No performance-based RSUs will vest if the named executive officer is no longer an employee at the end of the three-year period; provided, however, if the named executive officer s employment ends prior to the determination of the performance percentage due to (1) permanent disability or death or (2) retirement or termination other than for cause, after attaining both at least age sixty and at least ten years of service, then the named executive officer s performance-based RSUs (based on the actual performance percentage achieved on the determination date) will vest on the date the performance percentage is determined.

To maintain a competitive equity compensation level relative to the competitive market, the 2016 equity award values at target for the named executive officers were increased from the 2015 equity award values at target. Mr. Jagiela s 2016 equity award at target increased 12.4%, and the awards at target for Messrs. Beecher, Gray, Robbins, and Vahey were increased 5.1%, 8.5%, 5.3%, and 7.4%, respectively.

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The specific number of RSUs was calculated based upon the closing market price of the Company s common stock on the grant date and the specific number of options was calculated based upon the Black-Scholes grant date fair value. The table below sets forth the grant date equity values of the 2016 time-based RSUs, performance-based RSUs and stock options for each named executive officer.

Name of Executive Officer	Number of Time-based RSUs (#)	Number of Performance-based RSUs at Target (#)	Number of Stock Options (#)	Value of Time-based RSUs ($)	Value of Performance-based RSUs at Target (1)($)	Value of Stock Options ($)	Total Equity Value ($)
Mark E. Jagiela	67,628	84,535	61,982	$ 1,314,012	$ 1,678,865	$ 328,505	$ 3,321,382
Gregory R. Beecher	29,645	37,057	27,170	$ 576,002	$ 735,952	$ 144,001	$ 1,455,955
Charles J. Gray	14,411	18,014	13,208	$ 280,006	$ 357,758	$ 70,002	$ 707,766
Bradford B. Robbins	10,294	12,867	9,434	$ 200,012	$ 255,538	$ 50,000	$ 505,550
Walter G. Vahey	10,500	13,125	9,623	$ 204,015	$ 260,662	$ 51,002	$ 515,679

(1) The values shown for the performance-based RSUs are based on (i) the stochastic Monte Carlo simulation method for 50% of the performance-based RSUs with a three-year TSR performance metric and (ii) the stock price on the date of grant for 50% of the performance-based RSUs with a three-year PBIT rate metric. However, the Compensation Committee decided to continue to use the stock price on the date of grant methodology as its calculation of the value of the awards for purposes of comparison with the equity values for peer companies and with prior year equity values for the named executive officers. The methodology used by the Compensation Committee creates a 4% lower valuation for the performance-based RSUs with a three-year TSR target and less than a 1% lower valuation for all equity.

The grant date for the 2016 equity awards approved by the Compensation Committee was January 29, 2016. The 2016 time-based RSU grants for all employees, including named executive officers, vest in equal amounts annually over four years, commencing on the first anniversary of the grant. The performance-based RSUs for 2016 vest on the third anniversary of the grant date with (a) the number of performance-based RSUs that vest based upon the determination of Teradyne s TSR performance relative to the NYA Index and (b) the number of performance-based RSUs that vest based on three-year cumulative PBIT, in each case, as described above. The stock option grants vest in equal amounts annually over four years, commencing on the first anniversary of the grant date, and have a term of seven years from the date of grant.

The number of performance-based RSUs granted is disclosed in the Grants of Plan Based Awards Table and the value of the performance-based shares granted for each named executive officer is disclosed in the footnotes to the column Stock Awards in the Summary Compensation Table.

2017 Executive Compensation

From November 2016 to January 2017, the Compensation Committee conducted its annual assessment of executive compensation. The Compensation Committee evaluated the performance of the named executive officers during 2016 and concluded that the Company had:

- Increased revenue to $1.75 billion;
- Increased its profits from 2015;
- Achieved market share gains in its principal markets, including semiconductor test;
- Performed significantly better than its semiconductor test competitors while continuing to invest for long-term future growth;
- Returned $195 million to shareholders through its quarterly dividend and share repurchase programs;

Grew its industrial automation business by over 60% year over year in the first full year after acquiring Universal Robots; and

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Completed a convertible debt offering of $460 million to provide the Company with additional cash in the United States for general corporate purposes including funding its capital allocation programs rather than using cash from international operations which is subject to additional tax if repatriated.

In addition to evaluating the Company s performance during 2016, the Compensation Committee directed its independent executive compensation consultant, Compensia, to assess executive compensation for 2017 using the compensation peer group and the Radford survey data. The Compensation Committee also took into account the positive results of the shareholder advisory vote on executive compensation by continuing to focus on performance-based compensation.

2017 Target Cash Compensation

The Compensation Committee, and the independent members of the Board in the case of the Chief Executive Officer, approved increases in the 2017 base salaries and target cash compensation for certain of the named executive officers to align cash compensation with the industry and the competitive market. The 2016 and 2017 base salaries and target cash compensation for the named executive officers are set forth below:

	Base Salary		**Target Cash Compensation**	
	2016	**2017**	**2016**	**2017**
Mark E. Jagiela	$ 821,000	$ 860,000	$ 1,642,000	$ 1,806,000
Gregory R. Beecher	485,000	500,000	897,250	925,000
Charles J. Gray	370,000	370,000	629,000	629,000
Bradford B. Robbins	330,000	330,000	577,500	577,500
Walter G. Vahey	310,000	310,000	542,500	542,500

The independent members of the Board increased Mr. Jagiela s base salary by 4.8% and increased his performance-based variable cash compensation target from 100% to 110% of his annual base salary. The Compensation Committee increased the base salary of Mr. Beecher by 3.1% and did not increase the base salaries of Messrs. Gray, Robbins, or Vahey. Mr. Beecher retained his performance-based variable cash compensation target at 85% of his annual base salary, Mr. Gray retained his performance-based variable cash compensation target at 70% of his annual base salary, and Messrs. Vahey and Robbins retained their performance-based variable cash compensation target at 75% of their respective annual base salaries.

The Board continued to use the same structure for determining performance-based variable cash compensation as in 2016, but added revenue growth of the industrial automation business as a vital goal. The variable cash compensation for Messrs. Jagiela, Beecher and Gray is calculated by applying a weighted averaging formula of the performance of all divisions. The variable cash compensation formula for Messrs. Vahey and Robbins is split equally between (a) the weighted average formula of the performance of all divisions and (b) the performance of their respective divisions (System Test for Mr. Vahey and Wireless Test for Mr. Robbins).

The operating, financial and strategic goals for 2017 include market share gains, gross margin targets, profit margin targets, revenue and bookings targets, market penetration with new products and product development milestones in the Company s various business units. The Compensation Committee believes these business and financial objectives effectively balance short-term profitability with long-term investment and growth. The maximum variable cash compensation payout for the name executive officers remains 200% of the target amount.

2017 Equity Award

In January 2017, the Compensation Committee, and the independent members of the Board in the case of the Chief Executive Officer, approved equity awards for the named executive officers. The Compensation

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Committee and independent members of the Board retained the same mix of time-based RSUs (40%), performance-based RSUs (50%) and non-qualified stock options (10%) as used in the 2016 equity awards for the 2017 equity awards.

As in 2016, the 2017 performance-based RSUs are calculated using an equal split between (1) a relative total shareholder return (TSR) formula measured at the end of a three-year performance period (using a 45-day price averaging method at both the beginning and the end of the three-year performance period) and (2) a three-year cumulative PBIT rate. For the 2017 performance-based RSU grant, Teradyne s TSR performance will continue to be measured against the NYA Index and PBIT performance will have a three-year cumulative target of 15% with a maximum of 25%.

The final number of performance-based RSUs earned will be determined by the Compensation Committee and the independent members of the Board, as applicable, upon the completion of the three-year performance period. All of the performance-based RSUs earned will vest at the end of the three-year performance period. No performance-based RSUs will vest if the named executive officer is no longer an employee at the end of the three-year period; provided, however, if the named executive officer s employment ends prior to the determination of the performance percentage due to (1) permanent disability or death or (2) retirement or termination other than for cause, after attaining both at least age sixty and at least ten years of service, then the named executive officer s performance-based RSUs (based on the actual performance percentage achieved on the determination date) will vest on the date the performance percentage is determined.

To maintain a competitive equity compensation level relative to the competitive market, the 2017 equity award values at target for certain of the named executive officers were increased from the 2016 equity award values at target. Mr. Jagiela s 2017 equity award increased 21.8% and the awards for Messrs. Beecher and Gray were increased 4.2% and 7.1% (in each case, for purposes of restricted stock units, value is based on the stock price on the date of grant), respectively. The 2017 equity awards for Messrs. Vahey and Robbins were not increased from their 2016 equity award value at target.

The specific number of RSUs was calculated based upon the closing market price of the Company s common stock on the grant date and the specific number of options was calculated based upon the Black-Scholes grant date fair value. The table below sets forth the grant date equity values of the 2017 time-based RSUs, performance-based RSUs and stock options for each named executive officer.

Name of Executive Officer	**Number of Time-based RSUs (#)**	**Number of Performance-based RSUs at Target (#)**	**Number of Stock Options (#)**	**Value of Time-based RSUs ($)**	**Value of Performance-based RSUs at Target (1)($)**	**Value of Stock Options ($)**	**Total Equity Value ($)**
Mark E. Jagiela	56,023	70,029	56,101	$ 1,600,017	$ 2,248,628	$ 400,000	$ 4,248,645
Gregory R. Beecher	21,009	26,261	21,038	$ 600,017	$ 843,237	$ 150,001	$ 1,593,255
Charles J. Gray	10,505	13,131	10,519	$ 300,023	$ 421,633	$ 75,000	$ 796,656
Bradford B. Robbins	7,003	8,754	7,013	$ 200,006	$ 281,091	$ 50,003	$ 531,099
Walter G. Vahey	7,143	8,929	7,153	$ 204,004	$ 286,707	$ 51,001	$ 541,712

(1) The values shown for the performance-based RSUs are based on (i) the stochastic Monte Carlo simulation method for 50% of the performance-based RSUs with a three-year TSR performance metric and (ii) the stock price on the date of grant for 50% of the performance-based RSUs with a three-year PBIT rate metric. However, the Compensation Committee decided to continue to use the stock price on the date of grant methodology as its calculation of the value of the awards for purposes of comparison with the equity values for peer companies and with prior year equity values for the named executive officers. The methodology used by the Compensation Committee creates a 25% lower valuation for the performance-based RSUs with a three-year TSR target and less than a 10% lower valuation for all equity.

The grant date for the 2017 equity grants approved by the Compensation Committee was January 27, 2017. The time-based RSU awards for all employees, including named executive officers, vest in equal amounts

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annually over four years, commencing on the first anniversary of the date of grant. The performance-based RSUs for 2017 vest on the third anniversary of the grant date with (a) the number of performance-based RSUs that vest based upon the determination of Teradyne s three-year TSR performance relative to the NYA Index and (b) the number of performance-based RSUs that vest based on three-year cumulative PBIT, in each case, as described above. The stock options vest in equal amounts annually over four years, commencing on the first anniversary of the date of grant, and have a term of seven years from the date of grant.

2017 Determination of Performance Achievement for 2014 Performance-Based RSU Grant

In January 2017, the Compensation Committee reviewed performance against the 2014 performance-based RSU target: a TSR formula measured against the SOX at the end of the three-year performance period (using a 45-day price averaging method at both the beginning and the end of the three-year performance period). On this basis, the Compensation Committee, and independent directors in the case of the Chief Executive Officer, approved the number of the 2014 performance-based RSUs at 30.6% of target which vested in full on January 24, 2017.

Compensation Committee Report

The Compensation Discussion and Analysis has been reviewed with management. Based on the review and discussion with management, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Teradyne s Annual Report on Form 10-K for the year ended December 31, 2016.

COMPENSATION COMMITTEE

Timothy E. Guertin (Chair)

Daniel W. Christman

Roy A. Vallee

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act, except to the extent that Teradyne specifically incorporates it by reference in any such filing.

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Executive Compensation Tables

Summary Compensation Table for 2016

The table below summarizes the total compensation paid or earned by each of the named executive officers during the fiscal years ended December 31, 2016, 2015, and 2014.

ame and Principal Position Year Salary Bonus Stock Option Non-Equity (1) (2) Awards Awards Incentive (3) (4) Plan Compensation (5)

Summary Compensation Table

The following table sets forth information regarding compensation earned by our Named Executive Officers during 2006:

Name and Principle Position	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5)	All Other Compensation	Tota
		($)	($)	($)	($)	($)	($)	($)	($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Timothy M. Manganello	2006	900,000	-	315,529	494,516	624,118	-	293,431	2,627,
Chairman and CEO									
Robin J. Adams	2006	466,000	-	167,811	295,042	215,686	-	150,336	1,294,
VP, CFO, and CAO									
Roger J. Wood	2006	395,000	-	117,169	123,333	329,835	-	249,738	1,215,
President and GM, Turbo / Emission Systems									
Alfred Weber	2006	375,000	-	117,169	66,278	202,655	3,598	276,508	1,041,
President and GM, MT / Thermal Systems									

Cynthia A. Niekamp	2006	365,000	85,000	117,169	119,341	43,448	-	90,256	820,2
President and GM, TorqTransfer Systems									

(1) $85,000 sign-on bonus paid in 2006 per 2004 employment offer.

(2) 2006 compensation expense of the 2004 ESPP, 2005 performance share, and 2006 performance share awards. Assumptions used in the calculations of these amounts are included in the Company's audited financial statements for the fiscal year ended December 31, 2006, included in the Company's Annual Report filed with the Securities and Exchange Commission (See Note 13 on pages 55-58).

(3) 2006 compensation expense of aggregate grant date fair value of the 2004, 2005, 2006 Stock Option awards, excluding forfeitures. Assumptions used in the calculations of these amounts are included in the Company's audited financial statements for the fiscal year ended December 31, 2006, included in the Company's Annual Report filed with the Securities and Exchange Commission (See Note 13 on pages 55-58).

(4) Reflects the 2006 plan year payout under the MIP, including Carryover Bonus payments of $2,582 fo Mr. Manganello, $1,141 for Mr. Adams, $713 for Mr. Wood and $22,190 for Mr. Weber.

(5) Converted from Euro to US Dollar using an exchange rate of 1 Euro = 1.2564 US Dollar.

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All Other Compensation Table

The following table details, by category, the amounts reported above in the “All Other Compensation” column of the Summary Compensation Table for each of our Named Executive Officers. All of our Named Executive Officers exceeded the aggregate threshold of $10,000 for perquisites and personal benefits. The chart below indicates the amount in each category for each of our Named Executive Officers:

Name	Personal Use of Leased Vehicle ($)	Financial Counseling ($)	Personal Use of Company Aircraft ($)	Relocation Costs ($) (1)	Tax Reimbursement ($)	Registrant Contributions to Defined Contribution Plans ($) (2)	TOTAL of "A Other Compensation ($)
(a)	(b)	(c)	(d)	(e)	(g)	(h)	(i)
Timothy M. Manganello	6,031	10,000	680	-	9,688	267,032	293,431
CEO							
Robin J. Adams	10,280	10,000	-	-	7,155	122,901	150,336
CFO							
Roger J. Wood	8,654	10,000	2,726	88,213	41,972	98,173	249,738
President, TBS/E							
Alfred Weber	10,837	10,000	-	94,294	65,980	95,397	276,508
President, MT/T							
Cynthia A. Niekamp	5,333	10,000	-	-	6,535	68,388	90,256
President, TTS							

(1) Amounts relating to relocation from Michigan to New York for Mr. Weber; from New York to North Carolina and North Carolina to Michigan for Mr. Wood.

(2) Amounts contributed by the Company on behalf of its Named Executive officers during 2006 pursuan to the provisions of the RSP and the Excess Plan.

The following table details the tax reimbursement amounts listed in Column (g) of the above table:

Name	Tax Reimbursement for Personal Use of Leased Vehicle ($)	Tax Reimbursement for Financial Counseling Services ($)	Tax Reimbursement for Personal Use of Company Aircraft ($)	Tax Reimbursement for Relocation Costs ($)	Total Tax Reimbursement ($)
(a)	(b)	(c)	(d)	(e)	(g)
	2,464	6,764	460	-	9,688

Timothy M. Manganello					
CEO					
Robin J. Adams	2,798	4,357	-	-	7,155
CFO					
Roger J. Wood	2,798	4,357	1,188	33,629	41,972
President, TBS/E					
Alfred Weber	2,784	5,106	-	58,090	65,980
President, MT/T					
Cynthia A. Niekamp	2,178	4,357	-	-	6,535
President, TTS					

Grants of Plan Based Awards

The following table summarizes the grants of equity and non-equity plan awards to our Named Executive Officers in 2006:

		Estimated Possible Payout Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payout Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Stock Units	All Other Option Awards: Number o Securities Underlyin Option
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	(#) (i)	(#) (j)
Timothy M. Manganello		540,000	1,080,000	2,160,000				-	
CEO	2/8/2006(2)				11,250	45,000	78,750		
	7/26/2006(3)								50,000
Robin J. Adams		186,400	372,800	745,600				-	
CFO	2/8/2006 (2)				3,000	12,000	21,000		
	7/26/2006 (3)								20,000
Roger J. Wood		138,300	276,500	553,000				-	
President, TBS/E	2/8/2006 (2)				2,750	11,000	19,250		
	7/26/2006 (3)								14,000
Alfred Weber		131,300	262,500	525,000				-	
President, MT/T	2/8/2006 (2)				2,300	9,200	16,100		
	7/26/2006 (3)								11,000
Cynthia A. Niekamp		127,800	255,500	511,000				-	
President, TTS	2/8/2006 (2)				2,025	8,100	14,175		
	7/26/2006 (3)								10,500

Grants of Plan Based Awards (continued)

Name (a)	Grant Date (b)	Closing Market Price on Date of Option Grant ($/Share) (l)	Grant Date Fair Value of Stock and Option Awards ($) (m)
Timothy M. Manganello			
CEO	2/8/2006(2)		2,445,750
	7/26/2006(3)	58.40	890,500
Robin J. Adams			
CFO	2/8/2006(2)		652,200
	7/26/2006(3)	58.40	356,200
Roger J. Wood			
President, TBS/E	2/8/2006(2)		597,850
	7/26/2006(3)	58.40	249,340
Alfred Weber			
President, MT/T	2/8/2006(2)		500,020
	7/26/2006(3)	58.40	195,910
Cynthia A. Niekamp			
President, TTS	2/8/2006(2)		440,235
	7/26/2006(3)	58.40	187,005

(1) 2006 bonus opportunity under the Management Incentive Plan.
(2) 2006 Performance Share Grant: Value of grant = number of target shares times the stock price on grant date of $54.35.
(3) 2006 Stock Option Grant: Stock options granted same day as approved by Compensation Committee of the Board of Directors. FMV at grant date = number of shares times $17.81, excluding forfeitures.
(4) Exercise Price is the average of the high ($58.97) and the low ($57.39) stock price on day of grant.

The awards reflected in the Grants of Plan-Based Awards table are granted under the SIP. Further details regarding BorgWarner's incentive plans can be found in our Compensation Discussion and Analysis on pages 15-16.

The Peer Group for the Performance Share Plan includes publicly traded companies in the automotive supplier industry with at least $1 billion in sales that compete for stockholder investment dollars. For the performance period from January 1, 2006 to December 31, 2008, the Peer Group includes the following companies:

ArvinMeritor Inc.	Johnson Controls Inc.	Tenneco Automotive Inc.
American Axle	Lear Corporation	TRW Automotive Inc.
Autoliv Inc.	Magna International Inc.	Visteon Corporation
Gentex Corporation	Modine Manufacturing Co.	

Our Board of Directors reserves the right to modify the list at any time in order to ensure that the Peer Group remains relevant as a measure for TSR performance in the automotive supply industry due to changes in a peer company's performance.

To the extent a stock option is exercisable in the event of death of the option holder, the option may be exercised for a period of one year from the date of such death or until the expiration of the stock option, whichever period is shorter. To the extent a stock option is exercisable in the event of disability or retirement, the option may be exercised for a period of three years from the date of such disability or retirement or until the expiration of the stock option, whichever period is shorter. Our Compensation Committee may elect to accelerate the exercise date of a stock option in the event of employment termination, such as due to death, disability, or retirement. Stock options granted in 2005 and 2006 provided for immediate vesting in the event of retirement as defined under the Plan. Stock options grante in 2007 provided for immediate vesting in the event of death or disability. Our Compensation Committee decided to incorporate these provisions into these award agreements in order to provide for consistency i the acceleration of options in the event of retirement, death or disability. Our Compensation Committee took competitive practice into consideration.

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If an option-holder incurs a termination of employment due to Cause, any stock options held by the option-holder will terminate. If termination of employment is voluntary and without cause, any vested and unexercised stock options may be exercised for a period of five business days from the date of termination or until expiration of the stock option, whichever period is shorter. If termination of employment is involuntary and without cause, any vested and unexercised stock options may be exercised for one year or until the expiration of the stock option, whichever period is shorter.

In the event of a Change of Control, during the sixty day period from and after a Change of Control, our Compensation Committee may allow the option-holder to surrender all or part of his or her options to the Company and receive a cash payment equal to the difference between the Change of Control price and the exercise price of the option, less appropriate tax withholdings. However, if the Change of Control is within six months of the date of grant to an officer or director subject to Section 16(b) of the Exchange Act, then the election cannot be made prior to six months from the date of grant.

Regarding adjustments to shares, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, extraordinary distribution with respect to the stock or other change in corporate structure affecting the stock, our Compensation Committee or our Board of Directors may make such substitution or adjustments in the aggregate number, kind and option price of shares or adjustments in the consideration receivable upon exercise as it may determine to be appropriate in its sole discretion.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes all equity awards to our Named Executive Officers that remain either unexercised and/or unvested as of December 31, 2006:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date (1)	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (2)	I A M P U U T V
	(#)	(#)	(#)	($)		(#)	($)	(#)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Timothy M. Manganello	-	50,000	-	58.18	07/26/2016	-	-		
CEO	-	62,000	-	58.08	07/27/2015				
	6,268	6,268	-	44.56	07/28/2014				
	11,532	-	-	25.33	07/24/2012				
	1,152	-	-	24.14	07/25/2011				
								111,038	6

Robin J. Adams	-	20,000	-	58.18	07/26/2016	-	-		
CFO	-	15,000	-	58.08	07/27/2015				
	6,482	6,481	-	44.56	07/28/2014				
	10,000	10,000	-	44.30	04/26/2014				
								37,144	2
Roger J. Wood	-	14,000	-	58.18	07/26/2016	-	-		
President, TBS/E	-	10,000	-	58.08	07/27/2015				
	3,672	3,671	-	44.56	07/28/2014				
	7,366	-	-	33.04	07/23/2013				
								31,238	1
Alfred Weber	-	11,000	-	58.18	07/26/2016	-	-		
President, MT/T	-	8,000	-	58.08	07/27/2015				
								28,088	1
Cynthia A. Niekamp	-	10,500	-	58.18	07/26/2016	-	-		
President, TTS	-	8,000	-	58.08	07/27/2015				
	5,000	5,000	-	44.56	07/28/2014				
								26,163	1

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(1) The stock options noted with expiration dates of 2011, 2012 and 2013 are fully vested. Stock options with an expiration date of April 26, 2014 are 50% vested, with the other 50% due to vest on April 26, 2007. Stock options with an expiration date of July 28, 2014 are 50% vested, with the other 50% due to vest on July 28, 2007. Stock options with an expiration date of 2015 will vest 50% on July 27, 2007 and 50% on July 27, 2008. Stock options with an expiration date of 2016 will vest 50% on July 26, 2008 and 50% on July 26, 2009.
(2) The values of columns (i) and (j) are comprised of performance share grants made under the SIP, issued for the performance periods of 2005-2007 and 2006-2008. Column (i) represents the number of all outstanding unearned performance shares that would be paid out at the end of each performance period if maximum TSR performance is achieved. The maximum value was assumed based on actual performance over the most recent period falling between the target and maximum levels. Column (j) represents the number of performance shares in column (i) times the closing stock price of $59.02 on December 29, 2006. Actual future payouts will depend on several factors, including (i) the number of performance shares that are earned, as determined after the end of the performance period based on the level at which the applicable performance goals have been achieved, as described on pages 14 -16; and (ii) the fair market value of stock, as defined in the Plan.

Option Exercises and Stock Vested

The following table summarizes all option exercises and stock vestings by our Named Executive Officers during 2006:

	Option Awards(1)		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized On Exercise ($)	Number of Shares Acquired on Vesting (2) (#)	Value Realized On Vesting (3) ($)
(a)	(b)	(c)	(d)	(e)
Timothy M. Manganello	-	-	700	788,200
CEO				
Robin J. Adams	-	-	400	450,400
CFO				
Roger J. Wood	-	-	260	292,760
President, TBS/E				
Alfred Weber	-	-	260	292,760
President, MT/T				
Cynthia A. Niekamp	-	-	260	292,760
President, TTS				
(1) No Named Executive Officer exercised vested stock options during the 2006 fiscal year.				
(2) Number of "shares" disclosed in column (d) represents the total number of units earned for the 2004-2006 performance period of the ESPP and paid in 2007.				
(3) Amount in column (e) is equal to the number of units vested multiplied by $1,126.				

As previously stated in the Compensation Discussion and Analysis, the ESPP is a long-term incentive pla designed to provide competitive payouts at the end of a three-year period relative to how well the Company performs against its Peer Group Companies in TSR.

At the end of the 2004 to 2006 performance period, the Company's TSR was at the 73rd percentile relativ to the Peer Group TSR. As a result, the value realized upon vesting for the Named Executive Officers wa calculated at $1,126 per unit. See page 15 for a detailed explanation of how this amount is calculated. The gross value of the payouts, before taxes, is reflected above in column (e) of the table.

The payout from the ESPP is paid 60% in shares of stock and 40% in cash. The cash portion of the payou
is used to pay all applicable taxes associated with the stock awards.

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (1) ($)	Payment During Last Fiscal Year ($)
(a)	(b)	(c)	(d)	(e)
Timothy M. Manganello	-	-	-	-
CEO				
Robin J. Adams	-	-	-	-
CFO				
Roger J. Wood	-	-	-	-
President, TBS/E				
Alfred Weber	Richtlinien fur einzelvertragliche Pensionszusagen	13	85,392	-
President, MT/T	"Guidelines for single contractual pension promises"			
Cynthia A. Niekamp	-	-	-	-
President, TTS				
(1) Converted from Euro to US Dollar using an exchange rate of 1 Euro = 1.3201 US Dollar for SFAS 87/158 disclosure purposes.				

Mr. Weber, formerly an employee of BorgWarner Turbo Systems GmbH ("Turbo Systems GmbH") in Germany and now a U.S.-based employee, was vested in a defined benefit pension plan while an employee in Germany and is therefore entitled to receive an annual retirement benefit from the Turbo Systems GmbH plan based on 13 years of credited service for the time he was employed in Germany.

The Present Value of the Accumulated Pension Benefits as of December 31, 2006 for Mr. Weber is calculated using the following assumptions:

. Mortality Tables: 50% Heubeck 98, 50% Heubeck 2005G
. Discount Rate: 4.50%
. Retirement Age: 65
. Annual Pension Increase: 1.75%

The discount rate of 4.50% is based on the iboxx EUR AA 10+ index of 4.60% as of December 31, 2006. A "pension increase" of 1.75% is applied annually, beginning at retirement age. The Heubeck 2005G tables are generational tables introduced in 2005 and allow for improved longevity. They are used for German statutory purposes. The Heubeck 1998 tables are the tables previously used. At the recommendation of our actuarial consultant, a three-year phase-in from the Heubeck 98 to the Heubeck 2005G tables was made for FAS purposes.

Non-Qualified Deferred Compensation

The following table shows the non-qualified deferred compensation activity for our Named Executive Officers during 2006:

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
(a)	(b)	(c)	(d)	(e)	(f)
Timothy M. Manganello					
(1)	-	-	-	-	-
(2)	-	243,142	133,248	-	1,333,930
Robin J. Adams					
(1)	-	-	-	-	-
(2)	-	99,011	7,662	-	213,556
Roger J. Wood					
(1)	-	-	38,562	-	252,238
(2)	-	71,454	34,133	-	353,425
Alfred Weber					
(1)	-	-	-	-	-
(2)	-	71,007	37,786	-	238,117
Cynthia A. Niekamp					
(1)	-	-	-	-	-
(2) (3)	-	47,652	9,969	-	86,495

(1) Deferred Compensation Plan
(2) Excess Plan
(3) All amounts subject to vesting and forfeiture

The Excess Plan is an unfunded, non-qualified retirement plan, which keeps certain highly compensated employees whole with regard to Company contributions that are otherwise limited under the RSP by Internal Revenue Code provisions. The contributions vest in the same manner as under the RSP. Distributions are made only when, and if, the participant is entitled to benefits under the RSP. No in-service withdrawals or loans are available.

The Deferred Compensation Plan allows each participant to elect to defer up to 20% of their base salary and up to 100% of their bonus (if any bonus is paid) in 1% increments. When making a deferral election, a participant may elect to have his or her account paid out at retirement, disability, or death in either a single lump sum or quarterly payments over a term of 5, 10, or 15 years. If the participant's employment i terminated prior to retirement, disability, or death, the account will be paid out in a single lump sum. The Plan also provides for distributions for hardship upon approval of our Compensation Committee and lump sum payments upon the occurrence of a Change of Control.

None of our Named Executive Officers elected to defer compensation earned in 2006. Furthermore, with the exception of Roger Wood, our Named Executive Officers have never participated in the Company's Deferred Compensation Plan.

Participants in the Excess Plan may elect to invest their deferrals in the same investment choices that are offered in the RSP. Participants in the Deferred Compensation Plan may elect to invest their deferrals in the same investment choices that are offered in the RSP, except for the BorgWarner Stock Fund. As the Excess Plan and the Deferred Compensation Plan are unfunded, no money is actually invested. Rather, a notional account is maintained which mirrors the returns of these mutual funds. The funds available and their annual rate of return for th calendar year ended December 31, 2006 as reported by the plan administrator are as follows:

Barclays Equity Index:	15.78%
Barclays Life Path 2010:	10.53%
Barclays Life Path 2015:	12.00%
Barclays Life Path 2020:	13.45%
Barclays Life Path 2025:	14.60%
Barclays Life Path 2030:	15.68%
Barclays Life Path 2035:	16.50%
Barclays Life Path 2040:	17.49%
Barclays Life Path 2045:	17.50%
Barclays Life Path RET:	9.03%
BGI US Debt Index:	4.24%
BorgWarner Company Stock:	-1.59%
Buffalo Small Cap:	13.95%
Harbor International Fund:	32.69%
Investment Contracts Fund:	4.58%
Vanguard Mid Cap Index:	13.78%

Potential Payments Upon Termination or Change of Control

The following table shows the post-employment payments that would be paid to each of our Named Executive Officers under the various employment-related scenarios. The calculations assume each Namec Executive Officer's employment is terminated on December 31, 2006. For purposes of the calculations, th closing stock price on the last business day of 2006 ($59.02) was used to determine the vested market value of stock options.

	Payment Triggering Events Not In Connection with a Change of Control ("CoC")						
	Involuntary Termination		Voluntary Termination				
	with Cause (1)	without Cause (2)	with Good Reason (3)	without Good Reason (3)	Retirement (2)	Death (4)	Disability (2)
	($)	($)	($)	($)	($)	($)	($)
Timothy M. Manganello	1,333,930	3,246,433	1,853,260	1,853,260	3,246,433	3,746,433	3,246,433
CEO							
Robin J. Adams	213,556	1,113,955	454,478	454,478	1,113,955	1,579,955	1,113,955
CFO							
Roger J. Wood	605,663	1,471,628	850,122	850,122	1,471,628	1,866,628	1,471,628
President, TBS/E							
Alfred Weber	238,117	732,498	238,117	238,117	732,498	1,107,498	732,498
President, MT/T							
Cynthia A. Niekamp	-	406,999	72,300	72,300	406,999	771,999	406,999

President, TTS							

Potential Payments Upon Termination or Change of Control (continued)

	Payment Triggering Events In Connection with a CoC				
		Involuntary Termination		Voluntary Termination	
	CoC only	with Cause (6)	without Cause (5)	for Good Reason (5)	without Good Reason (7)
	($)	($)	($)	($)	($)
Timothy M. Manganello	-	-	12,370,804	12,370,804	-
CEO					
Robin J. Adams	-	-	6,987,506	6,987,506	-
CFO					
Roger J. Wood	-	-	4,738,058	4,738,058	-
President, TBS/E					
Alfred Weber	-	-	4,305,593	4,305,593	-
President, MT/T					
Cynthia A. Niekamp	-	-	3,582,022	3,582,022	-
President, TTS					

(1) Includes vested balance of the Excess Plan and vested balance of the Deferred Compensation Plan (Mr. Wood only).

(2) Includes 2006 MIP payment, value of vested stock options, 2004-2006 ESPP payment, vested balance of the Excess Plan, and vested balance of the Deferred Compensation Plan (Mr. Wood only).

(3) Includes value of vested stock options, vested balance of the Excess Plan, and vested balance of the Deferred Compensation Plan (Mr. Wood only).

(4) Includes 2006 MIP payment, value of vested stock options, 2004-2006 ESPP payment, vested balance of the Excess Plan, vested balance of the Deferred Compensation Plan (Mr. Wood only), and life insurance.

(5) Includes cash severance payment based on three times the average of base plus bonus, 2006 MIP payment, stock option payment, 2005-2007 and 2006-2008 performance share payment, retirement benefit based on

three times the 2006 Company contributions to the RSP, value of welfare benefits (i.e. health care, life insurance, and disability insurance coverage for 3 years), outplacement services, and excise tax and tax gross-up payment.
(6) While there are no additional payments associated with Involuntary Termination for Cause associated with a Change of Control, each Named Executive Officer would be eligible for the same payments listed under footnote (1) above.
(7) While there are no additional payments associated with Voluntary Termination without Good Reason associated with a Change of Control, each Named Executive Officer would be eligible for the same payments listed under footnote (3) above.

The stated amounts do not include vested benefits under the qualified RSP or under the TIP, as these benefit plans are available to all salaried employees. The provisions of each plan would determine the timing and method of payments made under the above scenarios.

Change of Control Employment Agreements

Below is a general description of certain terms and conditions of our existing Change of Control Agreements.

In the event a Change of Control of the Company is followed within three years by (1) the termination of Named Executive Officer's employment for any reason other than death, disability, or Cause or (2) such Named Executive Officer terminates his or her employment for Good Reason, then under the Change of Control Agreements, the Named Executive Officer shall be paid a lump sum cash amount equal to three times his or her annual base salary and average annual bonus for the most recent three years, and a lump sum cash amount equal to three times the Company's retirement contributions which would have been made on his or her behalf in the first year after termination of employment. If an excise tax is imposed under Section 4999 of the Internal Revenue Code on payments received by the Named Executive Officer due to a Change of Control of the Company or any interest or penalty is incurred by the Named Executive Officer with respect to such excise tax, the Company will pay the Named Executive Officer an amount that will net the Named Executive Officer the amount the Named Executive Officer would have received if the excise or penalty had not been imposed. In addition, the Named Executive Officer is entitled to continued employee welfare benefits for three years after termination of employment.

"Change of Control" means (a) the acquisition by any individual, entity or group (within the meaning Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) of beneficial ownership of 20% or more of either (i) the then outstanding shares of our common stock or (ii) the combined voting power of our then outstanding voting securities entitled to vote generally in the election of our directors, (b) a change in the majority of our Board of Directors, or (c) a major corporate transaction, such as a merger, sale of substantially all of our assets or a liquidation, which results in a change in the majority of our Board of Directors or a majority of stockholders.

"Cause" means the willful and continued failure of the executive to perform substantially the executive's duties or the willful engaging by the executive in illegal conduct or gross misconduct materially injurious to us.

"Good Reason" means the diminution of responsibilities, assignment to inappropriate duties, our failure t comply with compensation or benefit provisions, transfer to a new work location more than 35 miles from the executive's previous work location, a purported termination of the Change of Control Employment Agreement by us other than in accordance with the Change of Control Employment Agreement, or our failure to require any successor to us to comply with the Change of Control Employment Agreement.

Director Compensation

The following table details the compensation earned by each non-employee director who served on the Board of Directors in 2006. Directors who are employees of BorgWarner are not compensated for their services on the Board:

Name	Fees Earned or Paid in Cash ($)	Stock Awards (1) ($)	Option Awards ($)	Aggregate Number of Outstanding Stock and Option Awards (2) (#)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Tota ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Phyllis O. Bonanno	53,500	53,246	-	19,109	-	-	-	106,74
Dr. Andrew F. Brimmer	19,333	66,177	-	-	-	-	-	85,51
David T. Brown	53,500	55,002	-	1,894	-	-	-	108,50
Jere A. Drummond	65,500	48,654	-	17,219	-	-	-	114,1
Paul E. Glaske	59,500	66,988	-	18,166	-	-	-	126,4
Alexis P. Michas	53,500	53,246	-	19,109	-	-	-	106,74
Ernest J. Novak, Jr.	88,500	48,654	-	5,219	-	-	-	137,1
John Rau	9,667	66,177	-	-	-	-	-	75,84
Richard O. Schaum	58,000	41,260	-	2,837	-	-	-	99,26
Thomas T. Stallkamp	55,667	22,926	-	2,837	-	-	-	78,59

(1) 2006 compensation expense of aggregate grant date fair value of the 2004, 2005, 2006 Restricted Stoc Awards, excluding forfeitures, in accordance with FAS 123R.

(2) Aggregate number of outstanding shares of restricted stock and outstanding vested and unvested stock options at fiscal year-end.

Annual compensation for our non-employee directors for 2006 was comprised of the following components: annual retainer, Board meeting fees, Committee meeting fees, and equity compensation, consisting of restricted stock. Our non-employee directors were not granted any Stock Option Awards and did not receive any Non-Equity Incentive Plan Compensation for 2006.

As allowed under the BorgWarner Inc. Amended and Restated 2004 Stock Incentive Plan, each non-employee director receives $165,000 worth of restricted stock in the initial year of each three-year term. In April 2006, four non-employee directors (Bonanno, Michas, Schaum, and Stallkamp) were elected for a three-year term. In July 2006, these four directors were each awarded 2,837 shares of restricted common stock, determined by dividing the total value of $165,000 by the average of the high and low of the Company's stock price at the time of the grant. The restrictions on the shares of stock will expire over the three-year term, one third in each year. However, the Compensation Committee has the authority to accelerate vesting in the event of retirement. During the period that the restrictions are in place, directors have all of the rights of a stockholder of the Company holding the same class or series of stock as the restricted stock, including the right to vote the shares and the right to receive any cash dividends.

The annual retainer for non-employee directors is $40,000 for service on the Board of Directors. Each non-employee director receives $1,500 for each Board meeting attended. Each Committee member also receives $1,500 ($3,000 if he or she is the Chairman of the committee) for each committee meeting attended. In recognition of increased time commitments, the Chairman of the Audit Committee received $5,000 for each committee meeting attended since January 1, 2005. The Company pays for the expenses associated with attendance at Board and Committee meetings and other functions attended at the request of the Company.

The annual retainer is prorated when a new member joins or a current member leaves our Board, as in the cases of Dr. Brimmer, Mr. Rau, and Mr. Stallkamp. Mr. Rau retired from the Board in February 2006, while Dr. Brimmer retired from the Board in April 2006. Mr. Stallkamp joined the Board in February 2006.

Our non-employee directors may elect to defer, up to 100% in increments of 5%, their annual retainer in one or more investment options, including BorgWarner stock units. The investment options were expanded beginning with the 2007 deferral year. The BorgWarner stock units remain an investment option. The Moody's and Prime Account investments have been replaced with fifteen other fund options, which mirror those in the executive Deferred Compensation Plan. The fifteen funds include nine Ready-Mix Portfolio funds, one Money Market/Stable Value fund, one Bond fund, and four Stock funds.

Our non-employee directors are expected to own Company stock in an amount equivalent to two times the amount of the annual retainer within five years of joining the Board of Directors.

PROPOSAL 2 - STOCKHOLDER PROPOSAL CONCERNING DIRECTOR ELECTIONS

We have been advised by a shareholder, the Massachusetts State Carpenters Pension Fund, 350 Fordham Road, Wilmington, MA 01887, beneficial owner of approximately 2300 shares, that it intends to present the following non-binding stockholder proposal at our Annual Meeting. The proposal will be voted on at the Annual Meeting if the proponent, or a qualified representative, is present at the meeting and submits the proposal for a vote. The proposal and the supporting statement appear below as received by us. The Company is not responsible for the accuracy or content of the proposal and supporting statement. Following the stockholder proposal are the Company's reasons for opposing the proposal.

RESOLVED, That the shareholders of BorgWarner Inc. ("Company") hereby request that the Board of Directors initiate the appropriate process to amend the Company's governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats.

Supporting Statement: In order to provide shareholders a meaningful role in director elections, our company's director election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of director elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual directors and entire boards. Our Company presently uses a plurality vote standard in all director elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are "withheld" from the nominee.

In response to strong shareholder support for a majority vote standard in director elections, an increasing number of companies, including Intel, Dell, Motorola, Texas Instruments, Wal-Mart, Safeway, Home Depot, Gannett, Marathon Oil, and Supervalu, have adopted a majority vote standard in company by-laws Additionally, these companies have adopted director resignation policies in their bylaws or corporate governance policies to address post-election issues related to the status of director nominees that fail to win election. Other companies have responded only partially to the call for change by simply adopting post-election director resignation policies that set procedures for addressing the status of director nominee that receive more "withhold" votes than "for" votes. At the time of the submission of this proposal, our Company and its board had not taken either action.

We believe the critical first step in establishing a meaningful majority vote policy is the adoption of a majority vote standard in Company governance documents. Our Company needs to join the growing list c companies that have taken this action. With a majority vote standard in place, the board can then conside action on developing post election procedures to address the status of directors that fail to win election. A combination of a majority vote standard and a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, while reserving for the board an important post-election role in determining the continued status of an unelected director. We feel that this combination of the majority vote standard with a post-election policy represents a true majority vote standard.

Recommendation

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST THIS STOCKHOLDER PROPOSAL.

This proposal would require that director nominees receive the support of a majority of votes cast to be elected. For compelling reasons, plurality voting is the prevailing standard for the election of federal, stat and local officials as well as for directors of U.S. public companies. The methodology is well known and understood by stockholders. The proposal would alter this longstanding and widespread director election voting procedure. We do not believe that electing directors under a different standard would result in a more effective board.

BorgWarner elects directors by a plurality standard for the same reasons that democracies use plurality standards. A plurality system ensures continuity of governance by preventing a situation where no or limited candidates receive a majority of the votes cast, leaving director positions vacant. The long-standin plurality system also safeguards stockholders against special interest groups that, under a majority system would be empowered to remove a director based upon narrow, parochial interests. If a majority vote by-law is adopted, and a director does not receive a majority of the votes cast, a vacancy on the board wil result and will be filled by the directors, not by the stockholders. We do not believe that result is an improvement over the current plurality voting system.

Our stockholders have consistently had a meaningful role in the director election process. Indeed, since the Company became a public company with an elected Board, each director nominee has received the affirmative vote of more than 90% of the shares voted through the plurality process. Last year each director standing for election received the affirmative vote of more than 98% of the shares voted. The proposal suggests, however, that your Board is being elected by minimal affirmative votes. We do not believe that the facts support that conclusion.

We are committed to good corporate governance. Our directors' corporate governance guidelines are available for review at www.borgwarner.com in the corporate governance section of our website. In particular, the Board felt it appropriate to respond to the concerns that have been raised about plurality voting standards and has adopted a corporate governance guideline to provide that, in the event that a director receives a greater number of "withheld" votes than "for" votes in an uncontested election, the director will promptly offer his or her resignation for consideration. The Corporate Governance Committee will consider the resignation and recommend to the Board whether to accept it, reject it, or tak other action. In considering the resignation, the Committee will take into consideration such factors as the stated reasons why stockholders withheld votes for the election of the director, the director’s length of service, qualifications and contributions to the Company and continued compliance with New York Stock Exchange listing standards.

After careful consideration, the Board unanimously believes that this corporate governance guideline wil adequately address the concerns of those wishing a more meaningful outcome to situations where a director might receive fewer “for” votes than votes “withheld” in connection with election to the Board, w still allowing Board consideration of whether a particular director’s resignation is in the best interests of t Company and its stockholders. We intend to continue to follow and evaluate developments in this area an to consider carefully whether further changes to our policies are appropriate and in the best interests of BorgWarner and its stockholders.

For the foregoing reasons, your Board of Directors believes that this proposal is not in the best interests of BorgWarner or its stockholders and unanimously recommends that you vote AGAINST this proposal.

PROPOSAL 3 — RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors proposes that the stockholders approve the selection by the Audit Committee of Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte") to serve as the Company's independent registered public accounting firm for the 2007 fiscal year. The Board of Directors anticipates that representatives of Deloitte will be present at the meeting to respond to appropriate questions, and will have an opportunity, if they desire, to make a statement.

Recommendation

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees including expenses billed to us for the years ended December 31, 2006 and 2005, for professional services performed by Deloitte & Touche, were as follows:

	2006		2005	
Audit Fees and Expenses (1)	$	4,236,600	$	3,672,300
Audit-Related Fees (2)	$	348,900	$	248,500
Tax Fees (3)	$	346,700	$	266,000
All Other Fees (4)	$	—	$	—
Totals	$	4,932,200	$	4,186,800

(1) Audit fees and expenses are for professional services performed to comply with the standards of the Public Company Accounting Oversight Board (United States), including the recurring audit of the Company's consolidated financial statements and the audit of the Company's internal control over financi reporting. This category also includes fees for audits provided in connection with statutory and regulatory filings or services that generally only the principal auditor reasonably can provide to a client.
(2) Audit-related fees are for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements. This category includes fees related to services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., comfort letters, consents), review of response to SEC comment letters, consultations by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, PCAOB, FASB, or other regulatory or standard setting bodies, assistance in financial due diligence related to acquisitions, and audits of financia statements of employee benefit plans and various attest services.
(3) Tax fees are for professional services provided by Deloitte & Touche in connection with tax compliance and tax planning.
(4) All other fees are for products and services other than the services reported above.

Your Audit Committee has adopted procedures for pre-approving all audit and non-audit services provided by the independent registered public accounting firm, including the fees and terms of such services. These procedures include reviewing detailed back-up documentation for audit and permitted non-audit services. The documentation includes a description of, and a budgeted amount for, particular categories of non-audit services that are recurring in nature and therefore anticipated at the time that the budget is submitted. Audit Committee approval is required to exceed the pre-approved amount for a particular category of non-audit services and to engage the independent registered public accounting firm for any non-audit services not included in those pre-approved amounts. For both types of pre-approval, th Audit Committee considers whether such services are consistent with the Securities and Exchange Commission's and Public Company Accounting Oversight Board's rules on auditor independence. The Audit Committee also considers whether the independent registered public accounting firm is best positioned to provide the most effective and efficient service, based on such reasons as the auditor's familiarity with the Company's business, people, culture, accounting systems, risk profile, and whether th services enhance the Company's ability to manage or control risks and improve audit quality. The Audit Committee may form and delegate pre-approval authority to subcommittees consisting of one or more members of the Audit Committee, and such subcommittees must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. All of the services provided by the independent registered public accounting firm were pre-approved by your Audit Committee.

OTHER INFORMATION

The Company has no reason to believe that any other business will be presented at the Annual Meeting of Stockholders, but if any other business shall be presented, votes pursuant to the proxy will be cast thereon in accordance with the discretion of the persons named in the accompanying proxy.

Expenses of Solicitation

The cost of solicitation of proxies will be borne by the Company. In addition to solicitation of proxies by use of the mail, proxies may be solicited by directors, officers and regularly engaged employees of the Company. Brokers, nominees and other similar record holders will be requested to forward solicitation material and will be reimbursed by the Company upon request for their reasonable out-of-pocket expense

Stockholder Proposals

Stockholder proposals which are intended to be presented at the 2008 Annual Meeting of Stockholders pursuant to SEC Rule 14a-8 must be received by the Company on or before November 22, 2007, for inclusion in the proxy statement relating to that meeting.

A stockholder who intends to present business, including the election of a director, at the 2008 Annual Meeting of Stockholders other than pursuant to Rule 14a-8, must comply with the requirements set forth i the Company's Amended and Restated By-Laws. Among other things, to bring business before an annual meeting, a stockholder must give written notice to the Secretary of the Company not less than 90 days and not more than 120 days prior to the first anniversary of the preceding year's annual meeting. Therefore, fo stockholder proposals to be presented other than pursuant to Rule 14a-8, the Company must receive notic no sooner than December 27, 2007, and no later than January 26, 2008. The notice should contain (a) as t each person whom the stockholder proposes to nominate for election as director, all information that is required to be disclosed in solicitations of proxies for election of directors under the securities laws, including the person's written consent to serve as a director if elected, and (b) as to any other business: th reason for conducting such business; any material interest in such business the stockholder has; the name and address of the stockholder proposing such business as it appears in the Company's books; and the number of shares of the Company that are beneficially owned by the stockholder. Stockholders should consult the Company's Amended and Restated By-Laws to ensure that all of the specific requirements of such notice are met.

Available Information on Corporate Governance and SEC Filings

Through its website (*www.borgwarner.com*), the Company makes available, free of charge, the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments t those reports, and other filings with the Securities and Exchange Commission, as soon as reasonably practicable after they are filed. The Company also makes the following documents available on its website: the Audit Committee Charter; the Compensation Committee Charter; the Corporate Governance Committee Charter; the Company's Corporate Governance Guidelines; the Company's Code of Ethical Conduct; and the Company's Code of Ethics for CEO and Senior Financial Officers. You may also obtai copy of any of the foregoing documents, free of charge, if you submit a written request to Mary Brevard, Vice President, Investor Relations and Corporate Communications, 3850 Hamlin Road, Auburn Hills, Michigan 48326.

This Proxy is Solicited by the Board of Directors in Connection With the Annual Meeting of Stockholders

9:00 A.M. (local time)

April 25, 2007

PLACE: **BorgWarner Inc.**

3850 Hamlin Road
Auburn Hills,
Michigan 48326

PROXY: JOHN J. GASPAROVIC and LAURENE H. HORISZNY and each of them, are hereby appointed by the undersigned as attorneys and proxies with full power of substitution, to vote all the share of Common Stock held of record by the undersigned on March 2, 2007 at the Annual Meeting of Stockholders of BorgWarner Inc. or at any adjournment(s) of the meeting, on each of the items on the reverse side and in accordance with the directions given therein.

THIS PROXY IS CONTINUED ON THE REVERSE SIDE
PLEASE SIGN ON THE REVERSE SIDE AND RETURN PROMPTLY
Address Change/Comments (Mark the corresponding box on the reverse side)

/\ FOLD AND DETACH HERE /

You can now access your BorgWarner account online.

Access your BorgWarner stockholder account online via Investor ServiceDirect® (ISD).
Mellon Investor Services LLC, Transfer Agent for BorgWarner, now makes it easy and convenient to get current information on your stockholder account.

• View account status
• View certificate history
• View book-entry information
• View payment history for dividends
• Make address changes
• Obtain a duplicate 1099 tax form
• Establish/change your PIN

Visit us on the web at http://www.melloninvestor.com
For Technical Assistance Call 1-877-978-7778 between 9am-7pm
Monday-Friday Eastern Time

Investor ServiceDirect® is a registered trademark of Mellon Investor Services LLC

TRY IT OUT
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Investor ServiceDirect®
Available 24 hours per day, 7 days per week
TOLL FREE NUMBER: 1-800-370-1163

IF NO CHOICE IS SPECIFIED, this Proxy will be voted "FOR" the election of all listed nominees, and "FOR" proposals 2 and 3 in accordance with the recommendations of a majority of the Board of Directors.	Please Mark Here for Address o Change or Comments **SEE REVERSE SIDE**

1. Election of three Class II Directors:	**for** all nominees listed (except as indicated)	**withhold authority** to vote for all nominees listed
01 Jere A. Drummond 02 Timothy M. Manganello 03 Ernest J. Novak, Jr.	o	o

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name o the space provided below.)

	FOR	AGAINST	ABSTAIN
2. To vote upon a stockholder proposal concerning director elections.	o	o	o

	FOR	AGAINST	ABSTAIN
3. To ratify the appointment of Deloitte & Touche LLP as Independent Registered Public Accounting Firm for the Company for 2007.	o	o	o

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Dated: ____2007

Signature
Signature if held jointly

Please sign exactly as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

/\ FOLD AND DETACH HERE /
WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING
BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.
Internet and telephone voting is available through 11:59 PM Eastern Time
the day prior to annual meeting day.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner
as if you marked, signed and returned your proxy card.

Internet		**Telephone**
http://www.proxyvoting.com/bwa		**1-866-540-5760**
Use the internet to vote your proxy. Have your proxy card in hand when you access the web site.	**OR**	Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone,you do NOT need to mail back your proxy card.
To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope

Choose **MLink**SM for Fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at www.melloninvestor.com/isd where step-by-step instructions will prompt you through enrollment.

You can view the Annual Report and Proxy Statement on the internet at www.borgwarner.com