

Financial Assets and Financial Liabilities

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-01, “*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.” Teradyne adopted the new accounting guidance in the first quarter of 2018 using the modified retrospective approach. This guidance requires that changes in fair value of equity securities be accounted for directly in earnings. Previously, the changes in fair value were recorded in accumulated other comprehensive income on the balance sheet. Teradyne continues to record realized gains in interest income and realized losses in interest expense. The adoption of this new accounting guidance increased the January 1, 2018 retained earnings balance by \$3.1 million and decreased the accumulated other comprehensive income balance by the same amount.

Investment in Other Company

Teradyne holds an investment in a private company that develops and sells advanced wearable technology. Teradyne does not have the ability to exert significant influence over the company. The investment was recorded at cost and is evaluated for impairment or an indication of changes in fair value resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer on a quarterly basis. See Note D: “Acquisitions and Investment in Other Company.”

Prepayments

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

	2019	2018
	(in thousands)	
Contract manufacturer and supplier prepayments	\$143,392	\$131,642
Prepaid taxes	8,046	9,646
Prepaid maintenance and other services	8,503	8,487
Other prepayments	16,753	12,744
Total prepayments	<u>\$176,694</u>	<u>\$162,519</u>

Retirement and Postretirement Plans

Teradyne recognizes net actuarial gains and losses and the change in the fair value of the plan assets in its operating results in the year in which they occur or upon any interim remeasurement of the plans. Teradyne calculates the expected return on plan assets using the fair value of the plan assets. Actuarial gains and losses are generally measured annually as of December 31 and, accordingly, recorded during the fourth quarter of each year or upon any interim remeasurement of the plans.

Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, “*Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.” Teradyne retrospectively adopted the new accounting guidance on presentation of net periodic pension costs and net periodic postretirement benefit costs in the first quarter of 2018. This guidance requires the service cost component of net benefit costs to be reported in the same line item in the consolidated statement of operations as other employee compensation costs. The non-service components of net benefit costs such as interest cost, expected return on assets, amortization of prior service cost, and actuarial gains or losses, are required to be reported separately outside of income or loss from operations. Following the adoption of this guidance, Teradyne continues to record the service cost component in the same line item as other employee