

ADVANTEST CORP  
Form 20-F  
June 24, 2011  
Table of Contents

As filed with the Securities and Exchange Commission on June 24, 2011

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended March 31, 2011

OR

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

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

Date of event requiring this shell company report

Table of Contents

For the transition period from to

Commission file number: 1-15236

# **KABUSHIKI KAISHA ADVANTEST**

(Exact name of registrant as specified in its charter)

# **ADVANTEST CORPORATION**

(Translation of registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

Tokyo 100-0005

Japan

(Address of principal executive offices)

Yuichi Kurita, (81-3) 3214-7500, (81-3) 3214-7711,

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

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Tokyo 100-0005

Japan

(Name, telephone, facsimile number and address of company contact person)

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

| Title of each class:                          | Name of each exchange on which registered: |
|---|--|
| American Depositary Shares*<br>Common Stock** | The New York Stock Exchange                |

\* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the registrant's Common Stock.

\*\* No par value. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

| Title of class:                             | Outstanding as of March 31, 2011: |
|---|-----------------------------------|
| Common Stock                                | 173,271,951                       |
| American Depositary Shares                  |                                   |
| each representing one share of Common Stock | 1,882,043                         |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP       International Financial Reporting Standards as issued  
By the International Accounting Standards Board       Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**Table of Contents****TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I</u></b>   |             |
| ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 1           |
| ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>               | 1           |
| ITEM 3. <u>KEY INFORMATION</u>                                       | 1           |
| 3.A. <u>SELECTED FINANCIAL DATA</u>                                  | 1           |
| 3.B. <u>CAPITALIZATION AND INDEBTEDNESS</u>                          | 4           |
| 3.C. <u>REASONS FOR THE OFFER AND USE OF PROCEEDS</u>                | 4           |
| 3.D. <u>RISK FACTORS</u>   | 4           |
| ITEM 4. <u>INFORMATION ON THE COMPANY</u>                            | 14          |
| 4.A. <u>HISTORY AND DEVELOPMENT OF THE COMPANY</u>                   | 14          |
| 4.B. <u>BUSINESS OVERVIEW</u>  | 14          |
| 4.C. <u>ORGANIZATIONAL STRUCTURE</u>                                 | 34          |
| 4.D. <u>PROPERTY, PLANTS AND EQUIPMENT</u>                           | 34          |
| ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>                            | 35          |
| ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>          | 35          |
| 5.A. <u>OPERATING RESULTS</u>  | 35          |
| 5.B. <u>LIQUIDITY AND CAPITAL RESOURCES</u>                          | 49          |
| 5.C. <u>RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES</u>           | 50          |
| 5.D. <u>TREND INFORMATION</u>  | 52          |
| 5.E. <u>OFF-BALANCE SHEET ARRANGEMENTS</u>                           | 52          |
| 5.F. <u>TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS</u>            | 52          |
| 5.G. <u>SAFE HARBOR</u>  | 53          |
| ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>            | 53          |
| 6.A. <u>DIRECTORS AND SENIOR MANAGEMENT</u>                          | 53          |
| 6.B. <u>COMPENSATION</u>   | 61          |
| 6.C. <u>BOARD PRACTICES</u>  | 62          |
| 6.D. <u>EMPLOYEES</u>  | 63          |
| 6.E. <u>SHARE OWNERSHIP</u>  | 64          |
| ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>     | 66          |
| 7.A. <u>MAJOR SHAREHOLDERS</u>                                       | 66          |
| 7.B. <u>RELATED PARTY TRANSACTIONS</u>                               | 68          |
| 7.C. <u>INTERESTS OF EXPERTS AND COUNSEL</u>                         | 68          |
| ITEM 8. <u>FINANCIAL INFORMATION</u>                                 | 68          |
| 8.A. <u>CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u>  | 68          |
| 8.B. <u>SIGNIFICANT CHANGES</u>                                      | 69          |
| ITEM 9. <u>THE OFFER AND LISTING</u>                                 | 69          |
| 9.A. <u>OFFER AND LISTING DETAILS</u>                                | 69          |
| 9.B. <u>PLAN OF DISTRIBUTION</u>                                     | 69          |
| 9.C. <u>MARKETS</u>  | 69          |
| 9.D. <u>SELLING SHAREHOLDERS</u>                                     | 70          |
| 9.E. <u>DILUTION</u>   | 70          |
| 9.F. <u>EXPENSES OF THE ISSUE</u>                                    | 70          |



**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| ITEM 10.  | 70          |
| <u>ADDITIONAL INFORMATION</u>   |             |
| 10.A.   | 70          |
| <u>SHARE CAPITAL</u>  |             |
| 10.B.   | 70          |
| <u>MEMORANDUM AND ARTICLES OF ASSOCIATION</u>                                       |             |
| 10.C.   | 78          |
| <u>MATERIAL CONTRACTS</u>   |             |
| 10.D.   | 78          |
| <u>EXCHANGE CONTROLS</u>  |             |
| 10.E.   | 79          |
| <u>TAXATION</u>   |             |
| 10.F.   | 85          |
| <u>DIVIDENDS AND PAYING AGENTS</u>  |             |
| 10.G.   | 85          |
| <u>STATEMENT BY EXPERTS</u>   |             |
| 10.H.   | 85          |
| <u>DOCUMENTS ON DISPLAY</u>   |             |
| 10.I.   | 85          |
| <u>SUBSIDIARY INFORMATION</u>   |             |
| ITEM 11.  | 85          |
| <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                   |             |
| ITEM 12.  | 87          |
| <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>                       |             |
| 12.A.   | 87          |
| <u>DEBT SECURITIES</u>  |             |
| 12.B.   | 87          |
| <u>WARRANTS AND RIGHTS</u>  |             |
| 12.C.   | 88          |
| <u>OTHER SECURITIES</u>   |             |
| 12.D.   | 88          |
| <u>AMERICAN DEPOSITARY SHARES</u>   |             |
| <b><u>PART II</u></b>   |             |
| ITEM 13.  | 90          |
| <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>                              |             |
| ITEM 14.  | 90          |
| <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> |             |
| ITEM 15.  | 90          |
| <u>CONTROLS AND PROCEDURES</u>  |             |
| ITEM 16.  | 91          |
| <u>[RESERVED]</u>   |             |
| ITEM 16A.   | 91          |
| <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>   |             |
| ITEM 16B.   | 91          |
| <u>CODE OF ETHICS</u>   |             |
| ITEM 16C.   | 91          |
| <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>                                       |             |
| ITEM 16D.   | 92          |
| <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>                   |             |
| ITEM 16E.   | 92          |
| <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>       |             |
| ITEM 16F.   | 93          |
| <u>CHANGE IN REGISTRANTS CERTIFYING ACCOUNTANT</u>                                  |             |
| ITEM 16G.   | 93          |
| <u>CORPORATE GOVERNANCE</u>   |             |
| <b><u>PART III</u></b>  |             |
| ITEM 17.  | 96          |
| <u>FINANCIAL STATEMENTS</u>   |             |
| ITEM 18.  | 96          |
| <u>FINANCIAL STATEMENTS</u>   |             |
| ITEM 19.  | 97          |
| <u>EXHIBITS</u>   |             |

As used in this annual report, the term "fiscal year" preceding a year means the twelve-month period ended March 31 of the year subsequent to the year referred to. For example, "fiscal 2010" refers to the twelve-month period ended March 31, 2011. All other references to years refer to the applicable calendar year.

In parts of this annual report, certain amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was \$1.00 = ¥83.15. This was the approximate exchange rate in Japan on March 31, 2011.





## **Table of Contents**

Unless otherwise noted, all references and discussions of the financial position of Advantest Corporation (the Company) and its consolidated subsidiaries (collectively, Advantest), results of operations and cash flow in this annual report are made with reference to Advantest's consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The segment sales figures included in this annual report are presented before eliminating intercompany transactions.

See Information on the Company Business Overview Glossary for a description of certain technical terms used in this annual report.

### **Cautionary Statement with Respect to Forward-Looking Statements**

This annual report contains forward-looking statements that are based on Advantest's current expectations, estimates and projections. These statements include, among other things, the discussion of Advantest's business strategy, outlook and expectations as to market and business developments, production and capacity plans. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, should and similar expressions. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause Advantest's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including:

changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods;

the environment in which Advantest purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which Advantest operates;

circumstances relating to Advantest's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers and communications network equipment and components makers and service providers; and

changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where Advantest produces, distributes or sells its products.

These risks, uncertainties and other factors also include those identified in Operating and Financial Review and Prospects, Key Information Risk Factors and Information on the Company set forth elsewhere in this annual report.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****3.A. SELECTED FINANCIAL DATA**

You should read the U.S. GAAP selected consolidated financial information presented below together with Operating and Financial Review and Prospects and Advantest's consolidated financial statements together with the notes included in this annual report.

**U.S. GAAP Selected Consolidated Financial Data**

The following selected financial data have been derived from Advantest's audited consolidated financial statements. These consolidated financial statements were prepared under U.S. GAAP. Advantest's U.S. GAAP audited consolidated financial statements for fiscal 2008, fiscal 2009 and fiscal 2010 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

|   | 2007      | 2008   | Year ended March 31, |          | 2011     | 2011   |
|---|-----------|--|----------------------|----------|----------|--|
|   |           |  | 2009                 | 2010     |          | (thousands, except per share and share data) |
|   |           | (in millions, except per share and share data) |                      |          |          |  |
| <b>Consolidated Statement of Income Data:<sup>(4)</sup></b> |           |  |                      |          |          |  |
| Net sales   | ¥ 235,012 | ¥ 182,767                                      | ¥ 76,652             | ¥ 53,225 | ¥ 99,634 | \$ 1,198,244                                 |
| Operating income (loss)                                     | 56,792    | 22,716   | (49,457)             | (11,639) | 6,111    | 73,494                                       |
| Income (loss) before income taxes and equity in earnings    |           |  |                      |          |          |  |
| (loss) of affiliated company                                | 61,090    | 23,533   | (52,761)             | (9,926)  | 5,551    | 66,759                                       |
| Net income (loss)   | 35,556    | 16,550   | (74,902)             | (11,454) | 3,163    | 38,040                                       |

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|  |             |             |             |             |             |      |
|--|-------------|-------------|-------------|-------------|-------------|------|
| Net income (loss) per share                                |             |             |             |             |             |      |
| Basic <sup>(1)</sup>                                       | 190.01      | 90.72       | (419.09)    | (64.09)     | 18.03       | 0.22 |
| Diluted <sup>(1)</sup>                                     | 188.85      | 90.57       | (419.09)    | (64.09)     | 18.03       | 0.22 |
| Basic weighted average shares outstanding <sup>(1)</sup>   |             |             |             |             |             |      |
|  | 187,128,842 | 182,418,821 | 178,724,884 | 178,722,505 | 175,481,854 |      |
| Diluted weighted average shares outstanding <sup>(1)</sup> |             |             |             |             |             |      |
|  | 188,270,688 | 182,723,982 | 178,724,884 | 178,722,505 | 175,495,458 |      |

**Table of Contents**

|   | 2007      | 2008      | As of March 31,<br>2009 2010<br>(in millions) |           | 2011      | 2011<br>(in thousands) |
|---|-----------|-----------|---|-----------|-----------|------------------------|
| <b>Consolidated Balance Sheet Data:</b> |           |           |   |           |           |                        |
| Total assets                            | ¥ 366,374 | ¥ 298,684 | ¥ 202,059                                     | ¥ 188,663 | ¥ 180,312 | \$ 2,168,515           |
| Current portion of long-term debt       | 10        |           |   |           |           |                        |
| Long-term debt, less current portion    |           |           |   |           |           |                        |
| Common stock                            | 32,363    | 32,363    | 32,363  | 32,363    | 32,363    | 389,212                |
| Stockholders equity                     | 294,797   | 254,184   | 163,616                                       | 150,242   | 138,132   | 1,661,239              |

|   | 2007    | 2008     | As of March 31,<br>2009 2010<br>(in millions, except per share data) |          | 2011     | 2011<br>(in thousands) |
|---|---------|----------|--|----------|----------|------------------------|
| <b>Other Data:</b>                                  |         |          |  |          |          |                        |
| Capital expenditures                                | ¥ 8,336 | ¥ 14,083 | ¥ 4,608  | ¥ 3,425  | ¥ 3,793  | \$ 45,616              |
| Research and development expenses                   | 29,509  | 30,507   | 23,713   | 17,896   | 21,197   | 254,925                |
| Net cash provided by (used in) operating activities | 48,951  | 24,166   | 2,357  | (17,746) | (693)    | (8,334)                |
| Net cash provided by (used in) investing activities | (8,013) | (16,322) | (32,507)   | 10,824   | (5,828)  | (70,090)               |
| Net cash used in financing activities               | (3,662) | (46,770) | (8,930)  | (1,803)  | (12,028) | (144,654)              |
| Operating margin <sup>(2),(4)</sup>                 | 24.17%  | 12.43%   | (64.52%)   | (21.87%) | 6.13%    |                        |
| Net income margin <sup>(3),(4)</sup>                | 15.13%  | 9.06%    | (97.72%)   | (21.52%) | 3.17%    |                        |

- (1) On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Net income per share and average number of shares outstanding for each period affected have been restated to reflect the effects of the stock split.
- (2) Operating income as a percentage of net sales.
- (3) Net income as a percentage of net sales.
- (4) On April 1, 2007, the Company and its domestic subsidiaries elected to change the declining-balance method of depreciating machinery and equipment as well as tools, furniture and fixtures from the fixed-percentage-on-declining base application to the 250% declining balance application.

**Dividends**

The Company normally pays cash dividends semi annually, at mid-year and at year-end. Pursuant to its articles of incorporation, the Company can make dividend payments pursuant to a resolution of its Board of Directors, but the articles do not preclude the Company from making dividend payments pursuant to a shareholders resolution. The year-end dividend is paid to shareholders of record as of March 31 pursuant to the resolution of either the Board of Directors or the ordinary general shareholders meeting held usually in June every year. The interim dividend is paid to shareholders of record as of September 30, pursuant to a resolution of the Board of Directors, usually in December.

**Table of Contents**

The following table sets forth the dividends paid by the Company for each of the periods shown, which are the six months ended on that date. The U.S. dollar equivalent for the dividends shown are based on the exchange rate in Japan on each record date shown. On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Dividend per share information has been restated to reflect the effects of the stock split.

| Six months ended/Record date | Dividend per Share |         |
|------------------------------|--------------------|---------|
|                              | Yen                | Dollars |
| September 30, 2006           | 17.5               | 0.17    |
| March 31, 2007               | 32.5               | 0.32    |
| September 30, 2007           | 25.0               | 0.25    |
| March 31, 2008               | 25.0               | 0.25    |
| September 30, 2008           | 25.0               | 0.24    |
| March 31, 2009               | 5.0                | 0.05    |
| September 30, 2009           | 5.0                | 0.06    |
| March 31, 2010               | 5.0                | 0.05    |
| September 30, 2010           | 5.0                | 0.06    |
| March 31, 2011               | 5.0                | 0.06    |

The payment and the amount of any future dividends are subject to the level of Advantest's future earnings, its financial condition and other factors, including statutory restrictions on the payment of dividends.

**Exchange Rates**

In parts of this annual report, certain Japanese yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translation was \$1.00 = ¥83.15. This was the approximate exchange rate in Japan on March 31, 2011.

The following table sets forth, for the periods and dates indicated, information concerning the noon buying rate for Japanese yen announced by the Federal Reserve Bank of New York, expressed in Japanese yen per \$1.00. The noon buying rate as of June 10, 2011 was \$1.00 = 80.26. The Company does not intend to imply that the Japanese yen or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Japanese yen, as the case may be, at any particular rate, or at all.

| Fiscal year ended/ending March 31, | At end<br>of period | Average<br>(of month-end rates)<br>(¥ per \$1.00) | High   | Low   |
|------------------------------------|---------------------|---|--------|-------|
|                                    |                     |   |        |       |
| 2008                               | 99.85               | 113.61  | 124.09 | 96.88 |
| 2009                               | 99.15               | 100.85  | 110.48 | 87.80 |
| 2010                               | 93.40               | 92.49   | 100.71 | 86.12 |
| 2011                               | 82.76               | 85.00   | 94.68  | 78.74 |

| Month ended       |   | High  | Low     |
|-------------------|---|-------|---------|
|                   |   |       |         |
| December 31, 2010 | ¥ | 84.23 | ¥ 81.67 |
| January 31, 2011  |   | 83.36 | 81.56   |
| February 28, 2011 |   | 83.79 | 81.48   |
| March 31, 2011    |   | 82.98 | 78.74   |

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|                |       |       |
|----------------|-------|-------|
| April 30, 2011 | 85.26 | 81.31 |
| May 31, 2011   | 82.12 | 80.12 |

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**Table of Contents**

**3.B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**3.D. RISK FACTORS**

**Risks Related to Advantest's Business**

*Advantest's business and results of operations are subject to significant demand volatility in the semiconductor industry*

Advantest's business depends largely upon the capital expenditures of semiconductor manufacturers, foundries and test houses. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and products incorporating semiconductors. Such demand is influenced significantly by the overall condition of the global economy. Historically, the percentage reduction in capital expenditures by semiconductor manufacturers during downturns in the semiconductor industry, including investment in semiconductor test systems, has typically been much greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry's demand for semiconductor test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to non memory semiconductors. In fiscal 2008, the economic downturn and the slowdown in the semiconductor market both became more pronounced, and Advantest's net sales of test systems for memory semiconductors decreased by ¥75,252 million (81.0%) from fiscal 2007 to ¥17,644 million, and in fiscal 2009 decreased by ¥5,200 million (29.5%) from fiscal 2008 to ¥12,444 million. However, in fiscal 2010, due to an increase in demand for mobile DRAM test systems which are used for mobile devices net sales increased by ¥17,572 million (141.2%) from fiscal 2009 to ¥30,016 million. Reflecting the foregoing Advantest's overall net sales in fiscal 2008 decreased by ¥106,115 million (58.1%) from fiscal 2007 to ¥76,652 million, and in fiscal 2009 net sales decreased by ¥23,427 million (30.6%) from fiscal 2008 to ¥53,225 million, however, in fiscal 2010 net sales increased by ¥46,409 million (87.2%) from fiscal 2009 to ¥99,634 million. Any downturn in the memory semiconductor market will therefore likely continue to adversely affect Advantest's business.

The worldwide semiconductor market grew by 8.9% and 3.2% in 2006 and 2007, respectively. In 2008 and 2009, the semiconductor market contracted by 2.8% and 9.0%, respectively, compared to the previous year, reflecting the global economic downturn that stemmed from the financial crisis. After the previous year's negative growth, the market has significantly recovered in 2010, and has grown by 31.8% compared to the previous year, primarily due to a surge in demand for electronic equipment in developing nations. Worldwide sales of memory semiconductors increased by 20.5% in 2006, on a year-to-year basis, primarily due to the increase in demand for flash memory semiconductors used in digital consumer products and for DRAM semiconductors used in personal computers. Worldwide sales of memory semiconductors, however, declined by 1.1% and 19.9% in 2007 and 2008, respectively, mainly due to a substantial reduction in capital expenditure by semiconductor manufacturers reflecting a substantial decline in the price of DRAM semiconductors and NAND-type flash memory semiconductors. Although the markets for personal computers and cellular phones including smart phones remained steady in 2009, worldwide sales of memory semiconductors in 2009 declined by 3.3% compared to 2008 reflecting the global economic downturn, resulting in negative growth for three consecutive years. In 2010, primarily due to a steady demand for mobile DRAM test systems for mobile devices, worldwide sales increased by 55.4% compared to 2009.

Worldwide sales of non memory semiconductors increased in 2006 and 2007, since demand in the consumer market and automobile market stabilized and the data processing market were strong. Worldwide sales of non memory semiconductors in 2008 increased by 2.3% from 2007, primarily due to steady demand for mobile



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**Table of Contents**

PCs despite the deterioration in the overall condition of the global economy. In 2009, worldwide sales of non memory semiconductors decreased by 10.3% compared to 2008, primarily as a result of the impact of the global economic downturn stemming from the financial crisis that started in 2008. In 2010, worldwide sales of non memory semiconductors increased by 26.0% compared to 2009, primarily due to robust demand for smartphones, tablet PCs, and other consumer electronics.

The significant demand volatility of the market for semiconductors is affected by various factors such as:

the overall state of the global economy;

demand in personal computer and server industries;

consumer demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;

levels of investment in communications infrastructure and trends in the mobile device industry;

demand in the automobile industry; and

trends in the semiconductor industry.

Advantest's net sales in fiscal 2006 declined mainly as a result of a decrease in the price of semiconductors and, as a result, net sales for fiscal 2006 were ¥235,012 million, representing a 7.4% decrease compared to fiscal 2005, and net income decreased by 14.1% as compared to fiscal 2005 to ¥35,556 million. The substantial decline in the price of semiconductors continued through fiscal 2007 and many semiconductor manufacturers froze or postponed their capital expenditures. Primarily reflecting the foregoing, net sales in fiscal 2007 decreased by 22.2%, as compared to fiscal 2006, to ¥182,767 million, and net income decreased by 53.5%, as compared to fiscal 2006, to ¥16,550 million. Furthermore, in fiscal 2008, the global economic downturn that stemmed from the financial crisis led semiconductor manufacturers to maintain their prudent position, with many implementing inventory adjustments and freezing or postponing their capital expenditures. Primarily reflecting the foregoing, Advantest's net sales decreased by 58.1% as compared with fiscal 2007 to ¥76,652 million in fiscal 2008. In fiscal 2009, the semiconductor manufacturers gradually resumed capital expenditures as semiconductor prices rose and equipment utilization rates climbed. Despite the gradual recovery in fiscal 2009, Advantest's net sales in fiscal 2009 decreased by 30.6%, as compared to fiscal 2008, to ¥53,225 million, and Advantest recorded a net loss of ¥11,454 million in fiscal 2009 primarily due to the drop in orders seen in late fiscal 2008. In fiscal 2010, despite a difficult business environment with factors such as continuing appreciation of the Japanese yen and intensified price competition, Advantest seized the positive growth opportunity in the semiconductor market and strived to expand orders and revenues. As a result of the above, Advantest's net sales in fiscal 2010 increased by 87.2%, as compared to fiscal 2009, to ¥99,634 million, and Advantest recorded a net income of ¥3,163 million in fiscal 2010.

Advantest believes that its results are significantly impacted by the significant demand volatility of the semiconductor industry. While Advantest is unable to predict future trends in the semiconductor industry, if there is a significant downturn in the semiconductor industry, Advantest's financial condition and results of operations will be adversely affected. Prices of semiconductors, which have continued to decrease significantly in recent years, may not return to their original levels if, for example, the over-supply of semiconductors persists. Should semiconductor prices remain at low levels, semiconductor manufacturers' earnings could deteriorate, resulting in their further restraint towards capital expenditures, and Advantest's results of operations could be adversely affected.

*Failure by Advantest to meet demand for its products upon a sudden expansion of the markets for semiconductor and component test systems and mechatronics systems may adversely affect its future market share and financial results*

Since the global economic downturn following the financial crisis, suppliers have typically adjusted their production capacity through the reduction of production line and personnel. If the market for semiconductor and

## **Table of Contents**

component test systems and mechatronics systems were to suddenly expand, Advantest would require significant increases in production capabilities including personnel, as well as materials, components and supplies from suppliers, in order to fully capitalize on such expansion. The failure of Advantest to adjust to such unanticipated increases in demand for its products during the period of recovery in demand could result in Advantest losing one or more of its existing large-volume customers or losing the opportunity to establish a strong relationship with potential large-volume customers with which it currently does little or no business. Such failure may adversely affect Advantest's future market share and its financial results.

*If Advantest does not introduce new products meeting its customers' technical requirements in a timely manner and at competitive prices, its products may become obsolete and its financial condition and results of operations may suffer*

Advantest sells its products to several industries that are characterized by rapid technological changes, frequent introduction of new products and services, varying and unpredictable product lifecycles and evolving industry standards. Advantest anticipates that future demand for its products will be driven, in large part, by technological innovation in semiconductor technology, which create new testing requirements that are not adequately addressed by currently installed semiconductor test systems. Customer needs in response to these technological innovations, and their need for greater cost-effectiveness and efficiency to respond to the market environment, include:

investment by memory semiconductor manufacturers in facilities that are used to produce memory semiconductors, such as flash memory, DDR3-SDRAM, the next generation DDR4-SDRAM, GDDR and LPDDR;

the introduction of non memory semiconductors that incorporate more advanced memory semiconductors, logic and analog circuits;

investment by semiconductor manufacturers in mechatronics related products which transport devices faster, more accurately and more stably;

the utilization of testing technologies that employ self-test circuit designs incorporated into semiconductor chips;

the utilization of testing technologies that employ test circuit designs for Device Under Test (DUT);

introduction of mechatronics products that respond to reduced testing time resulting from advances in customers' back-end testing;

prompt response and quick repair in the event of failure;

total solutions that allow customers to reduce their testing costs; and

test solutions of power semiconductors that control small and large motor drives.

Advantest also believes demand for its products, including semiconductor and component test systems, are affected by the level of demand for personal computers, high-speed wireless and wireline data services and digital consumer products. It is likely that advances in technologies used in those products and services will require new testing systems. Without the timely introduction of semiconductor test systems capable of effectively testing and measuring equipment that use new technologies, Advantest's products and services may become technologically obsolete

over time.

A failure by Advantest to meet its customers' technical requirements at competitive prices or to deliver conforming equipment in a timely manner may result in its products being replaced by those of a competitor or an alternative technology solution. Furthermore, Advantest's inability to provide a product that meets requested performance criteria at an acceptable price when required by its customers would severely damage its reputation with such customers and may adversely affect future sales efforts with respect to such customers.

**Table of Contents**

*The business combination with Verigy Ltd. ( Verigy ) may not be completed as planned, or even if the proposed transaction is completed, Advantest may not realize the anticipated benefits of the business combination*

Advantest believes that the business combination, if completed, would enable Advantest to better satisfy customer needs through the development and sale of a wider variety of high quality products, and to better address customer needs through technological innovation that is supported by a stable financial base, leading to continued growth amidst a rapidly changing and challenging semiconductor market.

However, if certain conditions, including approval of the Singapore High Court are not met, the proposed transaction with Verigy will not be completed. If the proposed transaction is not completed, Advantest will have received little or no benefit from the management resources it has invested. In addition, if Advantest does not fulfill the conditions to closing in the implementation agreement, it may be required to pay Verigy a break-up fee of \$7.5 million. In the event the proposed transaction is terminated by Advantest or Verigy in circumstances including when either party's board of directors withdraws its recommendation for the proposed transaction, the financial markets, its customers, suppliers and employees may react negatively. Each of these factors may adversely affect the price of Advantest's common stock and its financial results and operations.

Even if the conditions to the proposed transaction are met and the business combination is completed, the business integration of two companies will be time-consuming and complex, and the business combination may not realize the anticipated benefits. The difficulties in integrating the two companies may arise during various stages of combining the operations, including the following:

consolidation of the two companies' differing research and development, manufacturing and sales processes;

the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies;

the retention of Verigy's valuable and key management and employees; and

the integration of two companies with differing corporate cultures and languages.

If difficulties arise in connection with the proposed transaction, including those mentioned above, Advantest's future financial results may be adversely affected.

Also, if Advantest merges with Verigy, and grants stock options to Verigy's employees, Advantest's pre-business combination voting rights, total assets per share and share price may suffer from dilution.

*Advantest's dependence on certain subcontractors and its dependence on a sole source or a limited number of suppliers for its components and parts may prevent it from delivering products that meet specifications on a timely basis*

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Advantest relies on subcontractors to perform some of the assembly requirements for its products. In addition, many of the components used in Advantest's semiconductor and component test systems and mechatronics systems are produced by suppliers based on Advantest's specifications. Advantest's reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on a sole source or a limited number of suppliers for a portion of its components and parts. Advantest does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If suppliers become unable to provide components or parts in the volumes needed and at acceptable prices, Advantest would

## **Table of Contents**

have to identify and procure acceptable replacements. Furthermore, the markets for semiconductors and other specialized components have, in the past, experienced periods of inadequate supply to meet demand. Moreover, there may be a shortage of components if a large scale natural disaster or electricity shortage occurs. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is lengthy and may result in Advantest being unable to deliver products meeting customer requirements in a timely manner. Advantest has, in the past, been unable to deliver its products according to production schedules primarily due to the inability of suppliers to supply components and parts based on Advantest's specifications and by other shortages in components and parts. Moreover, a deterioration in the financial position of Advantest's subcontractors or suppliers reflecting the decline in the economic environment may result in certain subcontractors and suppliers being unable to meet Advantest's requirements.

***Advantest faces substantial competition in its businesses and, if Advantest does not maintain or expand its market share, its business may be harmed***

Advantest faces substantial competition throughout the world. Advantest's primary competitors in the semiconductor and component test system market include, among others, Teradyne, Inc., Verigy, LTX-Credence Corporation, Yokogawa Electronic Corporation, FROM30 CO., LTD., EXICON Ltd. and UniTest Inc. In the mechatronics system related market, Advantest also competes with Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing, Inc. in test handler devices, and with TSE Co., Ltd. and Secron Co., Ltd. in device interfaces. Some of Advantest's competitors have greater financial and other resources than Advantest.

Advantest faces many challenges in its businesses, including increased pressure from customers to produce semiconductor and component test systems and mechatronics systems that reduce testing costs. To compete effectively and maintain and expand its market share, Advantest must continue to enhance its business processes to lower the cost of its products, as well as introduce enhancements that lower overall testing costs. Advantest also expects its competitors to continue to introduce new products with improvements in price and performance, as well as to increase their customer service and support offerings, and Advantest expects new market participants to launch low-price testers. Significant increases in competition may erode Advantest's profit margin and weaken its earnings.

***Advantest's business may be harmed by the effects resulting from the Great East Japan Earthquake***

If as a result of the aftershocks of the Great East Japan Earthquake on March 11, 2011, Advantest's suppliers' facilities are damaged or if scheduled blackouts resulting from the impact of the earthquake are carried out at suppliers' facilities, Advantest may not be able to procure necessary components, and may be unable to meet market demand for the supply of its products. Also, market trends for the semiconductor industry, and for finished products which are closely related to semiconductors such as household electric appliances, various computer equipments and automobiles, may remain uncertain for the near future. Advantest's business may be adversely affected as a result of these factors.

In the event that a large quantity of radioactive materials is released due to further deterioration of radiation leakage at the Fukushima No. 1 Nuclear Reactor or substantial damages to nuclear power plants caused by aftershocks or tsunamis, as a result of which radioactive materials on Advantest's products exceed the radiation standards set by importing countries, or the radiation levels where Advantest's major production facility is located in Gunma Prefecture exceed national radiation standards and becomes a quarantine zone, or electricity supply becomes unstable due to long-term suspension of operations at nuclear plants, Advantest may be unable to meet market demand for the supply of its products or the competitiveness of its products may be impaired, and Advantest's business may be adversely affected.

***Advantest's product lines are facing significant price pressure***

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Price pressure on Advantest's businesses is adversely affecting Advantest's operating margins. Irrespective of the trend in the demand for semiconductors, there is ongoing price pressure on semiconductors, which puts



## **Table of Contents**

continuous pressure on the market price for products in the Semiconductor and Component Test System Segment and Mechatronics System Segment. Especially with the ongoing slowdown in the semiconductor industry, price pressure is salient. During these periods, semiconductor manufacturers and test houses, which are Advantest's customers, seek to increase their production capacities while minimizing their capital expenditures. In addition, increased competition in the market for digital consumer products and personal computers has driven down prices of these goods, subsequently creating significant price pressure on Advantest's product lines. If prices of semiconductors continue to decline, customers may postpone capital expenditures on new equipment by remodeling or adapting the usage of existing equipment. If price pressure further increases in the future, Advantest's financial condition and results of operations may be adversely affected.

### ***Advantest may not recoup costs incurred in the development of new products***

Enhancements to existing products and the development of new generations of products are, in most cases, costly processes. Furthermore, because the decision to purchase semiconductor and component test systems products and mechatronics systems generally involves a significant commitment of capital, the sale of this equipment typically involves a lengthy sales period and requires Advantest to expend substantial funds and sales efforts to secure the sale. Advantest's enhancements or new generations of products may not generate net sales in excess of development and sales costs if, for example, these new enhancements or products are quickly rendered obsolete by changing customer preferences, the introduction by Advantest's competitors of products embodying new technologies or features, the introduction by Advantest's customers of new products that require different testing functions or the failure of the market for Advantest's customer's products to grow at the rate, or to the levels, anticipated by Advantest. This risk is believed to be particularly acute with respect to test systems for non memory semiconductors because, in general, new non memory semiconductor product lines are introduced to market more frequently than new memory semiconductor product lines. In some cases, Advantest must anticipate industry trends and develop products in advance of the commercialization of its customers' products. This requires Advantest to make significant investments in product development well before it determines the commercial viability of these innovations. If Advantest's customers fail to introduce their devices in a timely manner or the market rejects their devices, Advantest may not recover its investments in product development through sales in significant volume.

### ***The market for Advantest's major products is highly concentrated, and Advantest may not be able to increase sales of its products because of limited opportunities***

The market for test systems for memory semiconductors in the Semiconductor and Component Test System Segment is highly concentrated, with a small number of large semiconductor manufacturers, foundries and test houses accounting for a large portion of total sales in the semiconductor and component test system industry. Advantest believes that this market concentration could become even more severe in the future as larger semiconductor device manufacturers, foundries and test houses acquire smaller semiconductor market participants, and as corporate restructuring, such as elimination and consolidation of businesses, progresses. Advantest's ability to increase sales will depend in large part upon its ability to obtain or increase orders from large-volume customers. Furthermore, in the event there is an over-supply of semiconductor and component test system products on the second-hand market reflecting, among others, restructuring within the industry, Advantest faces an additional risk of losing its sales opportunities.

### ***Advantest's largest customers currently account for a significant part of its net sales and, in addition to the risk of Advantest's business being harmed by the loss of one or more of these customers or changes in their capital expenditures, Advantest may not be able to recover its accounts receivables if its largest customers experience a deterioration in their financial position***

Advantest's success depends on its continued ability to develop and manage relationships with its major customers, a small number of which currently account for a significant portion of its net sales. Sales to Advantest's largest customer as a percentage of its total sales were approximately 24% in fiscal 2008,



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## **Table of Contents**

approximately 20% in fiscal 2009 and approximately 20% in fiscal 2010. Sales to Advantest's five largest customers accounted for approximately 51% in fiscal 2008, approximately 43% in fiscal 2009 and approximately 49% in fiscal 2010. The loss of one or more of these major customers or changes in their capital expenditures could materially harm Advantest's business. Furthermore, if Advantest's major customers experience a deterioration in their financial position and are unable to fulfill their payment obligations to Advantest in accordance with the applicable terms, Advantest's business, results of operations and financial position may be adversely affected.

### ***Fluctuations in exchange rates could reduce Advantest's profitability***

The majority of Advantest's net sales derive from products sold to customers located outside of Japan. Of Advantest's fiscal 2010 net sales, 77.5% were from products sold to overseas customers. Most of Advantest's products are manufactured in Japan, but approximately 37% of Advantest's net sales in fiscal 2010 were derived from currencies other than the Japanese yen, predominantly the U.S. dollar. If the Japanese yen remains strong, or further strengthens relative to foreign currencies (mostly U.S. dollar and, to a much lesser extent, other currencies), it would increase the prices of Advantest products as stated in U.S. dollars and in those other currencies, which could hurt sales in those countries. In addition, significant fluctuations in the exchange rate between the Japanese yen and foreign currencies, especially the U.S. dollar, could require Advantest to lower its prices with respect to foreign sales of its products that are priced in Japanese yen, and reduce the Japanese yen equivalent amounts of its foreign sales for products that are based in U.S. dollars or other foreign currencies, and overall reducing its profitability. These fluctuations could also cause prospective customers to push out or delay orders because of the increased relative cost of Advantest's products. In the past, there have been significant fluctuations in the exchange rate between the Japanese yen and the foreign countries in which Advantest's sales are denominated.

### ***If Advantest's main facilities for research and development, production or information technology systems for all of its businesses, or the facilities of its subcontractors and suppliers, were to experience catastrophic loss, its results of operations would be seriously harmed***

Advantest's main facilities for research and development for its Semiconductor and Component Test Systems and Mechatronics System Segments production, as well as many of Advantest's service bases, are located in Japan and particularly concentrated in Gunma Prefecture and Saitama Prefecture. In addition, the main system server and the network hub are maintained in system centers approved by the Information System Management System, or ISMS, and local network servers are located in certain operations offices in Japan. As most recently evidenced by the Great East Japan Earthquake, Japan is a region that is susceptible to frequent earthquakes.

If Advantest's facilities, particularly its semiconductor and component test system manufacturing factories, were to experience a catastrophic loss, it would materially disrupt Advantest's operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facilities. Advantest has insurance to cover most potential losses at its manufacturing facilities, other than those that result from earthquakes. However, this insurance may not be adequate to cover all possible losses. Similar disruptions to Advantest's business may occur if the facilities of Advantest's subcontractors and suppliers or if the facilities of Advantest's information system network were to experience a catastrophic loss.

Advantest has prepared itself for crises such as large-scale natural disasters, and each department of Advantest has documented its own disaster procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, Advantest has formulated and is in the process of implementing a Business Continuity Plan. However, if Advantest cannot implement such Business Continuity Plan, or if upon implementation such Business Continuity Plan is not effective, Advantest's core businesses could be disrupted at a time of crisis, such as large-scale natural disasters, and could take a substantial amount of time to recover.



## **Table of Contents**

### ***Advantest's business is subject to economic, political and other risks associated with international operations and sales***

Advantest's business is subject to risks associated with conducting business internationally because it sells its products, and purchases parts and components from around the world. In fiscal 2010, 65.9% of Advantest's total net sales came from Asia (excluding Japan), a majority of which consisted of sales in Taiwan, the People's Republic of China and Korea, 9.3% from the Americas and 2.3% from Europe. Advantest anticipates that net sales from international operations will continue to represent a substantial portion of its total net sales. In addition, some of Advantest's distribution and support subsidiaries are located in the Americas, Europe, and Asian countries including Singapore, Taiwan, the People's Republic of China and Korea and some of Advantest's suppliers are also located overseas. Accordingly, Advantest's future results could be harmed by a variety of factors, including:

political and economic instability, natural calamities, epidemics or other risks related to countries where Advantest procures its components and parts or sells its products;

trade protection measures and import or export licensing requirements;

potentially negative consequences from changes in tax laws;

risks with respect to international taxation, including transfer pricing regulations;

difficulty in staffing and managing widespread operations;

differing protection of intellectual property;

difficulties in collecting accounts receivable because of distance and different legal rules; and

risks with respect to social and political crises resulting from terrorism and war, among others.

### ***Advantest's business may be negatively affected by factors relating to its marketing and sales capabilities and its branding***

Advantest's business may be negatively affected by factors relating to its marketing and sales capabilities and its branding, including:

the long selling process involved in the sale of semiconductor and component test systems;

the relatively small number of total units sold in the semiconductor and component test system market;

order cancellations or postponement of capital expenditures by customers;

delays in collection of, or increases in provisions for, accounts receivable reflecting the financial condition of customers;

increases in required provisions for product warranty costs and write-downs of inventory; and

any real or perceived decrease in performance and reliability of Advantest products, which could lead to a decline in Advantest's reputation.

***Chemicals used by Advantest may become subject to more stringent regulations, and Advantest may be required to incur significant costs in adapting to new requirements***

Advantest uses chemicals in the manufacturing of its products, the manufacture, processing and distribution of which are subject to environmental related laws, regulations and rules of Japanese governmental agencies, as well as by various industry organizations and other regulatory bodies in other countries. These regulatory bodies may strengthen existing regulations governing chemicals used by Advantest and may also begin to regulate other chemicals used by Advantest. While Advantest is taking measures to eliminate toxic substances included in parts used to manufacture its products, Advantest uses solder which contains lead for mounting electronic parts and components for its products in order to ensure the reliability of its products as a matter of priority. Further, as a

## **Table of Contents**

method to cool some of its semiconductor and component test systems, Advantest uses a type of perfluorocarbon, or PFC, that is not currently regulated by laws related to global warming. Advantest believes that it is in compliance with regulations with respect to the use of chemicals by promoting environmental policies for its products with the focus on ensuring the safety and the reliability of its products; however, Advantest must be prepared to adapt to regulatory requirements in all relevant countries as requirements change. Advantest may be required to incur significant cost in adapting to new requirements. Any failure by Advantest to comply with applicable government or industry regulations could result in restrictions on its ability to carry on or expand its operations, including being unable to sell its products.

***Advantest could suffer significant liabilities, litigation costs or licensing expenses or be prevented from selling its products if it is infringing the intellectual property of third parties***

Advantest may be unknowingly infringing the intellectual property rights of third parties and may be held responsible for that infringement. To date, Advantest has not been the subject of a material intellectual property claim. However, any future litigation regarding patents or other intellectual property infringement could be costly and time consuming and divert management and key personnel from Advantest's business operations. If Advantest loses a claim, it might be forced to pay significant damages, pay license fees, modify its products or processes, stop making products or stop using processes. A license could be very expensive to obtain or may not be available at all. Changing Advantest's products or processes to avoid infringing the rights of third parties may be costly or impractical.

***Advantest may be unable to protect its proprietary rights due to the difficulty of Advantest gaining access to, and investigating, the products believed to infringe Advantest's intellectual property rights***

Advantest relies on patents, utility model rights, design rights, trademarks and copyrights obtained in various countries to actively protect its proprietary rights. For instance, with respect to the device interface market, Advantest has taken legal action based on its patent and utility model rights against manufacturers that sell replicas of Advantest's products and, in some instances, has obtained injunctions against sales of such replicas. However, in general, it is difficult for Advantest to gain access to, and investigate, the products believed to infringe its intellectual property rights. Therefore, Advantest cannot ensure that its intellectual property rights will provide meaningful protection of its proprietary rights. Nevertheless, Advantest is focused on protecting its intellectual property rights from third party infringement and will continue to monitor and enforce its rights.

***The technology labor market is very competitive, and Advantest's business may suffer if Advantest is unable to hire and retain engineers and other key personnel***

Advantest's future success depends partly on its ability to attract and retain highly qualified engineers for its research and development and customer service and support divisions. If Advantest fails to hire and retain a sufficient number of these personnel, it may not be able to maintain and expand its business. Advantest may need to revise its compensation and other personnel related policies to retain its existing officers and employees and attract and retain the additional personnel that it expects to require.

***Confidential information could be inadvertently disclosed through unauthorized access or use, which could lead to substantial costs or harm Advantest's reputation***

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Advantest uses both paper documents and electronic data in managing confidential information. Although Advantest has established the Information Security Committee and Security Control Office and is taking measures to keep information confidential through procedures designed to prevent accidental release of information through unauthorized access or use, such information may be inadvertently disclosed without Advantest's knowledge. If this occurs, Advantest's reputation could be harmed and Advantest could incur substantial costs to remedy the situation. Accordingly, inadvertent disclosure of confidential information could have a material adverse effect upon Advantest's business results and financial condition.



## **Table of Contents**

***Product defects and any damages stemming from Advantest's product liability could harm Advantest's reputation among existing and potential customers and could have a material adverse effect upon Advantest's business results and financial condition***

Advantest manufactures its products in accordance with internationally accepted quality control standards such as ISO 9000. However, Advantest cannot guarantee that there are no defects in its products. Advantest maintains product liability insurance, but cannot guarantee that such insurance will sufficiently cover the ultimate amount of damages with respect to Advantest's liabilities. Large scale accidents or any discovery of defects in its products could harm Advantest's reputation for not adequately addressing defects, could cause Advantest to incur higher costs and could have a material adverse effect upon Advantest's business results and financial condition if Advantest is liable for claims for damages.

## **Risks Related to Ownership of American Depositary Shares ( ADSs ) or Common Stock**

***Japanese yen-dollar fluctuations could cause the market price of the ADSs to decline and reduce dividend amounts payable to ADS holders as expressed in U.S. dollars***

Fluctuations in the exchange rate between the Japanese yen and the U.S. dollar may affect the U.S. dollar equivalent of the Japanese yen price of the shares on the Tokyo Stock Exchange and, primarily reflecting the foregoing, are likely to affect the market price of the ADSs. The Company has historically paid dividends on its shares twice a year. If the Company declares cash dividends, dividends on the shares represented by the ADSs will be paid to the depositary in Japanese yen and then converted by the depositary into U.S. dollars. Therefore, exchange rate fluctuations could also affect the dividend amounts payable to ADS holders following conversion into U.S. dollars of dividends paid in Japanese yen on the shares represented by the ADSs.

***As a holder of ADSs, you will have fewer rights than a shareholder has, and you must act through the depositary to exercise those rights***

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Advantest's accounting books and records and exercising appraisal rights, are available only to holders of record on the Company's register of shareholders. Because the depositary, through its custodian agents, is the registered holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying a holder's ADSs as instructed by the holder and will pay to the holder the dividends and distributions collected from Advantest. However, in the holder's capacity as an ADS holder, that holder will not be able to bring a derivative action, examine Advantest's accounting books and records or exercise appraisal rights through the depositary.

***There are restrictions on the withdrawal of shares from the Company's depositary receipt facility***

Under the Company's ADS program, each ADS represents the right to receive one share. To withdraw any shares, a holder of ADSs has to surrender for cancellation American Depositary Receipts, or ADRs, evidencing 100 ADSs or any integral multiple thereof. Each ADR bears a legend to that effect. As a result, holders of ADSs are unable to withdraw fractions of shares or units or receive any cash settlement from the depositary in lieu of withdrawal of fractions of shares or units. Holders of shares representing less than one unit, or 100 shares, may require the Company to repurchase those shares, whereas holders of ADSs representing less than one unit of shares are unable to exercise this right because the holders of these ADSs are unable to withdraw the underlying shares. Under the Company's ADS program, an ADS holder cannot cause the

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depository to require the Company to repurchase fractions of shares or units on its behalf. For a further discussion of the ADSs and the ADS program, see Description of American Depositary Receipts set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002. For a further discussion of the Japanese unit share system, see Additional Information Memorandum and Articles of Association The Unit Share System.

## **Table of Contents**

### ***Enforcement of Civil Liabilities***

The Company is a limited liability, joint-stock corporation incorporated under the laws of Japan. Almost all of the Company's directors, executive officers and corporate auditors reside in Japan. Substantially all of the Company's assets and the assets of these persons are located in Japan. It may not be possible, therefore, for investors to effect service of process within the U.S. upon the Company or these persons or to enforce against the Company or these persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S. The Company's Japanese counsel, Nagashima Ohno & Tsunematsu, has advised the Company that there is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the federal securities laws of the U.S.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **4.A. HISTORY AND DEVELOPMENT OF THE COMPANY**

The Company commenced operations in July 1954, and was incorporated in December 1954 under the name Takeda Riken Industry Co., Ltd. as a limited liability, joint-stock company in Japan under the Commercial Code of Japan. At the time of incorporation, Takeda Riken's primary business was the design, manufacture and sale of measuring instruments for Japanese electronics manufacturers. Takeda Riken started focusing on semiconductor test equipment for the semiconductor industry in 1968 and was the first to domestically produce semiconductor test equipment in 1972. In 1971, Takeda Riken entered into its first distribution agreement with a foreign distributor and, in 1973, established its first representative office in the U.S. to gather information on technology and distribution and to establish dealer relationships. These two milestones launched the Company's long-term goal of becoming a global manufacturer of testing and measuring products. Takeda Riken has been listed on the Tokyo Stock Exchange since February 1983. Takeda Riken changed its registered name to Kabushiki Kaisha Advantest in October 1985.

Advantest applies its capital expenditures chiefly to the streamlining of development, production of new products, energy saving initiatives and the expansion of production capacity. Advantest's capital expenditures were ¥4.6 billion, ¥3.4 billion and ¥3.8 billion in fiscal 2008, 2009 and 2010, respectively.

On March 28, 2011, Advantest agreed to acquire all of the outstanding shares of common stock of Verigy at US\$ 15.00 per share, pursuant to which Verigy will become a wholly-owned subsidiary of Advantest. The total purchase price is expected to be approximately US\$ 1.1 billion.

The proposed transaction is expected to be structured as a scheme of arrangement under Singapore law. A scheme of arrangement is a common acquisition method under Singapore law and is implemented based on the approval of Verigy's board of directors, and subject to the approvals of Verigy's shareholders and the Singapore Court.

The Company's principal executive offices are located at Shin-Marunouchi Center Building, 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan. The Company's telephone number in Japan is (81-3) 3214-7500.

The Company's agent in the United States is Advantest America Corporation (Holding Co.), located at 3201 Scott Boulevard, Santa Clara, California 95054, U.S.A.

**4.B. BUSINESS OVERVIEW**

**Overview**

As of June 24, 2011, Advantest is comprised of the Company and its 28 consolidated subsidiaries and one investee which is accounted for by the equity method. Advantest conducts its business in the following segments:

Semiconductor and Component Test System Segment;

**Table of Contents**

Mechatronics System Segment, focusing on peripheral devices including test handlers and device interfaces; and

Services, Support and Others Segment.

**Semiconductor and Component Test System Segment**

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic component industry. The products in this segment include test systems for memory semiconductors and test systems for non memory semiconductors. The test systems for non memory semiconductors are divided into test systems for SoC semiconductors, LCD driver integrated circuits and semiconductors used in car electronics.

**Mechatronics System Segment**

The Mechatronics System Segment focuses on peripheral devices to the semiconductor and component test systems. This business includes test handlers applying mechatronics technologies, which handle semiconductor devices and automate testing, device interfaces with measured devices, and operations related to nano-technology.

**Services, Support and Others Segment**

The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test System and Mechatronics System Segments, support services and an equipment lease business.

**Sales by Segment**

The following table illustrates net sales by each segment for the last three fiscal years.

| Segment   | Fiscal 2008            |               | Fiscal 2009            |               | Fiscal 2010            |               |
|---|------------------------|---------------|------------------------|---------------|------------------------|---------------|
|   | Sales<br>(in millions) | %             | Sales<br>(in millions) | %             | Sales<br>(in millions) | %             |
| Semiconductor and Component Test System Segment | ¥ 49,216               | 64.2          | ¥ 32,572               | 61.2          | ¥ 69,333               | 69.6          |
| Mechatronics System Segment                     | 14,388                 | 18.8          | 11,237                 | 21.1          | 18,515                 | 18.6          |
| Services, Support and Others Segment            | 15,815                 | 20.6          | 11,838                 | 22.2          | 14,166                 | 14.2          |
| Intercompany transactions elimination           | (2,767)                | (3.6)         | (2,422)                | (4.5)         | (2,380)                | (2.4)         |
| <b>Total Net Sales</b>                          | <b>¥ 76,652</b>        | <b>100.0%</b> | <b>¥ 53,225</b>        | <b>100.0%</b> | <b>¥ 99,634</b>        | <b>100.0%</b> |

**Industry Overview**

Advantest offers products in semiconductor and component test systems, mechatronics systems, and services, support and others. Advantest's main customers are semiconductor manufacturers, foundries and test houses. Advantest believes that the following factors promote growth of the business carried out by its main customers.

the move to lower-cost, smaller, faster and more powerful and energy efficient semiconductors and electronic components;

the increase in demand for higher performance servers and personal computers;

the increase in demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;

the increasing levels of wireless high-speed data transmission worldwide reflecting the expansion of the mobile device industry in developing countries;

## **Table of Contents**

the development of higher speed and high capacity communications infrastructure;

the increasing demand for electronic devices that incorporate semiconductor and communications technologies; and

the increase in demand for electronic components including semiconductors and sensors, in response to technological advancement of automobiles such as electric vehicles (EV) and hybrid electric vehicles (HEV).

Advantest believes that these factors will continue to provide long-term growth opportunities for Advantest because they lead to additional capital expenditures by its customers, resulting in an expansion of businesses for Advantest. However, the capital expenditures of Advantest's customers may be adversely affected by the following factors:

the level of demand for semiconductors and electronic components;

advancements in semiconductor and electronic component technology; and

changes in semiconductor and electronic component manufacturing processes.

### ***Demand for Semiconductors and Electronic Components***

Demand for semiconductor and component test systems and mechatronics systems is closely related to the volume of semiconductors and electronic components produced and the resulting capital expenditure of semiconductor manufacturers and others.

Semiconductors are generally classified as either memory semiconductors or non memory semiconductors. Memory semiconductors are used in electronic systems to store data and programs. Non memory semiconductors include various semiconductors that incorporate non memory circuits, which include logic and analog circuits. Logic circuits process digital data to control the operations of electronic systems. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion. SoC semiconductors are a subset of non memory semiconductors that combine digital circuits with analog, memory and RF circuits, among others, on a single semiconductor chip. SoC semiconductors are used in a variety of sophisticated products, including wireless communications, fiber optic equipments and digital consumer products.

Semiconductor sales have increased significantly over the long-term. However, semiconductors, particularly memory semiconductors, have experienced significant cyclical variations in growth rates. According to World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales in 2006 increased by approximately \$20.2 billion or 8.9% to approximately \$247.7 billion, and sales in 2007 increased by approximately \$7.9 billion or 3.2% to approximately \$255.6 billion. However, sales in 2008 decreased by approximately \$7.0 billion or 2.8% compared to the previous year to approximately \$248.6 billion, mainly due to the substantial decline in the price of memory semiconductors. Sales in 2009 also decreased compared to the previous year, by approximately \$22.3 billion or 9.0% to approximately \$226.3 billion, mainly due to the slow economy persisting since the previous year. Sales in 2010 increased compared to the previous year, by approximately \$72.0 billion or 31.8% to approximately \$298.3 billion, mainly due to increased demand for electronic components in developing nations. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors and all semiconductors between 2006 and 2010 and the projected market size between 2011 and 2013 as compiled and estimated by WSTS as of June 2011.

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|            | 2006       | Actual Year ended December 31, |            |            |            | Projections for Years ending December 31, |            |            |
|------------|------------|--------------------------------|------------|------------|------------|---|------------|------------|
|            |            | 2007                           | 2008       | 2009       | 2010       | 2011                                      | 2012       | 2013       |
|            |            | (in millions)                  |            |            |            |   |            |            |
| Memory     | \$ 58,473  | \$ 57,854                      | \$ 46,348  | \$ 44,797  | \$ 69,614  | \$ 67,708                                 | \$ 68,310  | \$ 71,416  |
| Non memory | 189,243    | 197,791                        | 202,255    | 181,516    | 228,701    | 246,702                                   | 270,065    | 285,197    |
| Total      | \$ 247,716 | \$ 255,645                     | \$ 248,603 | \$ 226,313 | \$ 298,315 | \$ 314,410                                | \$ 338,375 | \$ 356,613 |



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## **Table of Contents**

The non memory semiconductor market is not as volatile as the memory semiconductor market because non memory semiconductors are used in a larger variety of consumer products and equipment. In periods of rapid decline in the semiconductor market, the capital expenditures of semiconductor manufacturers, including their purchases of semiconductor test systems, generally decline at a faster pace than the decline in semiconductor sales. In addition, following a downturn in the semiconductor market or a decline in the price of semiconductors, investment is generally restrained until semiconductor manufacturers determine that the market for semiconductors is experiencing a substantive recovery and accordingly, sales of semiconductor test systems generally do not experience significant increase. Advantest believes these trends will continue in the future.

The semiconductor market remained steady in 2006 and 2007. However, the semiconductor market experienced negative growth in 2008 for the first time in seven years primarily due to the global economic crisis and further declined in 2009 reflecting the conditions continuing from the previous year. The market significantly recovered in 2010 and grew by 31.8% compared to the previous year, due to a surge in demand for electronic equipment in developing nations. According to data published by WSTS, the market for memory semiconductors is expected to decrease slightly by 2.7% in 2011 as compared with 2010, after which it is expected to grow by approximately 1% in 2012 and by approximately 5% in 2013. WSTS expects that the market for memory semiconductors will grow to approximately \$71.4 billion in 2013. Advantest believes that demand for memory semiconductors will be generated in the foreseeable future by the prevalence of DDR3-SDRAM, the next generation DDR4-SDRAM, flash memory and other high-end semiconductors. WSTS estimates that the non memory semiconductor market will steadily grow by approximately 8% in 2011, by approximately 10% in 2012, and by approximately 6% in 2013. WSTS expects that the market for non memory semiconductors will grow to approximately \$285.2 billion in 2013. Advantest believes that the demand for non memory semiconductors will generally grow in the foreseeable future, led by the further prevalence of, and new developments in, digital consumer products and personal computers.

### ***Advancements in Semiconductor and Electronic Component Technology***

Advantest believes that demand for semiconductor and component test systems and mechatronics systems is also affected by the rate of change and development in semiconductor and electronic component technology. Current changes in the semiconductor and electronic component industry relate to the innovation of digital consumer products and communications technologies. Demand for faster semiconductors and electronic components that are smaller in size, incorporate more functions and require less power to operate is being driven by:

growing demand for, and continuous improvements in, personal computers and digital consumer products, such as flat-panel TVs, DVD/Blu-ray disc recorders, digital cameras, electronic books and mobile phone handsets; and

requirements of communications network equipment, such as network routers, switches and base stations, as well as wireless handsets and other Internet access devices, to enable advances in Internet hardware and software applications, increases in infrastructure performance and simplification and miniaturization of Internet access devices.

Demand for personal computers and servers with higher performance and capabilities is also driving changes in the memory semiconductor sector. This demand is causing manufacturers to shift from the production of the DDR2-SDRAM high-speed data transfer memory semiconductor to the high-speed DDR3-SDRAM, and to further expand production of large capacity and nonvolatile and high-speed read or writable flash memory semiconductors. Advantest believes that this shift is creating demand for test systems for memory semiconductors capable of handling these new types of memory semiconductors, as well as contributing to a reduction in testing costs. In addition, Advantest believes that additional demand for mechatronics systems, including test handlers and device interfaces connecting semiconductor devices and semiconductor test systems, will be created and will grow in line with advances in semiconductor technologies.

## **Table of Contents**

The development of SoC semiconductors with smaller size, higher performance and lower power consumption has created demand for sophisticated semiconductor and component test systems that can simultaneously test SoC semiconductors' logic, analog and memory circuits. Further innovations in non memory semiconductor technologies including SoC semiconductor technology are expected, and Advantest believes these innovations will create demand for new, high-performance semiconductor and component test systems optimized for use with these advanced semiconductors.

Advantest believes that the integration of non memory semiconductors into a range of digital consumer products will drive demand for test systems for non memory semiconductors which contribute to the reduction of testing costs. Non memory semiconductors are often customized for applications in specific products, which results in a large variety of non memory semiconductors that are often produced in relatively smaller volumes.

### ***Changes in Semiconductor and Electronic Component Manufacturing Processes***

Semiconductor and electronic component manufacturers are promoting production outsourcing, technological innovation in manufacturing processes and testing technology to improve productivity.

#### ***Production Outsourcing***

In recent years, semiconductor manufacturing and testing processes have become more complex and capital intensive. Primarily reflecting the foregoing, an increasing portion of the manufacturing and testing functions are being subcontracted out, not only by fabless companies, but also by industrial, design and manufacturing companies which had previously designed and manufactured semiconductors, in order to reduce capital expenditures. This trend has resulted in an increase in the number of test houses that accept test process outsourcing and foundries that accept manufacturing process outsourcing. Foundries either perform testing in-house or outsource their testing needs to test houses. This trend towards production outsourcing, particularly to test houses, has increased the number of potential customers for semiconductor test system manufacturers, although it has not significantly affected the total demand for Advantest's products. In addition, Advantest believes that it is most appropriate to use semiconductor and component test systems which have been designed using module structure, which enables the formation of semiconductor test systems that can meet the multiple needs of the customers of test houses and foundries. Outsourcing has also been utilized for electronic component manufacturing.

#### ***Technological Innovation in Manufacturing Processes***

One of the innovations in semiconductor manufacturing processes is the use of 300 millimeter wafers. Wafers are circular flat pieces of silicon from which multiple semiconductor chips are made using photo-etching and other manufacturing processes. The use of 300 millimeter wafers allows manufacturers to increase semiconductor production per wafer twofold or more when compared to production using the conventional 200 millimeter wafers. From 2007, investment has remained at low levels mainly due to factors such as excess supply and increased price competition. However from the latter half of 2010, as a result of a rapid expansion of the mobile device market which resulted in an increase in the manufacture of low power memory, capital expenditures related to 300mm wafers have increased, and demand for new semiconductor and component test systems and test handlers has been increasing.

#### ***New Testing Technologies***

Semiconductor designers and manufacturers are striving to further reduce costs in connection with manufacturing semiconductors, especially the cost of testing semiconductors. Thus, there is a stronger demand for semiconductor test systems that can simultaneously test more semiconductors and accommodate a larger number of pins at higher speeds and with high throughput capabilities. On the other hand, there is an increasing pressure on semiconductor test systems to be energy efficient, smaller in size and less expensive. In order to

## **Table of Contents**

respond to this demand, semiconductor test system manufacturers are taking measures to reduce semiconductor test system costs by making the development and manufacturing process of semiconductor test systems more efficient, strengthening peripheral devices such as test handlers and device interfaces and improving service and support systems. Furthermore, although certain semiconductors are now tested in a simplified manner in which self-test technologies are designed into circuits, or are tested in a manner that is close to actual operation by using firmware used to operate final products or even sold without being tested, Advantest believes that it has become increasingly important for semiconductor test systems to ensure the reliability of semiconductors since semiconductors are expected to become more complex and advanced going forward.

Advantest believes that semiconductor and electronic component manufacturing processes will continue to evolve. The introduction of new manufacturing processes will likely result in test costs constituting a higher percentage of the total cost of manufacturing and, therefore, increase price pressure on the semiconductor test system industry. Furthermore, advances in the semiconductor and electronic component industry will require semiconductor test systems with new and more sophisticated testing functions. Advantest believes that these trends provide it with an opportunity to distinguish itself from its competitors through the delivery of new products that are priced and designed to meet the specific needs of its customers.

## **Business Strategy**

Advantest is currently facing a challenging business environment primarily due to the recent downturn in the global economy and weakened demand for semiconductors. In order to create a stable foundation amidst the fast-changing and challenging semiconductor market, Advantest and Verigy entered into a definitive agreement that requires the fulfillment of certain conditions such as approval of the Singapore High Court. Advantest expects the effective date of the scheme of arrangement to be in early July. Furthermore Advantest has established the following core business goals to achieve mid- to long-term growth:

focusing on the development of semiconductor test systems which can respond to changes in capabilities of memory and non memory semiconductors;

increasing its market share for test systems for non memory semiconductors and maintaining its large market share for test systems for memory semiconductors;

increasing its market share for test handlers for memory and non memory semiconductors;

developing, designing and supplying high quality device interfaces in a shorter period of time;

reducing product cost of goods to withstand price pressures on products

enhancing its operating efficiency to improve profitability, through promotion of production innovations;

strengthening its ability to provide comprehensive solutions to satisfy customer needs; and

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promoting the development and establishment of new businesses in the measuring instruments field outside of its semiconductor-related business.

To achieve these goals, Advantest plans to:

*Continue to address industry trends, identify customer needs and deliver new products ahead of its competitors*

Advantest will continue to work closely with major semiconductor manufacturers beginning in the product design stage of semiconductor and component test systems to understand customer needs relating to emerging technologies and applications. Based on this knowledge and its technological expertise, Advantest seeks to develop more advanced semiconductor and component test systems, test handlers, device interfaces and comprehensive solutions ahead of its competitors. For example, Advantest is pursuing the following strategies:

developing semiconductor and component test systems with increased test speeds and throughput capabilities and test handlers in line with the technological development of memory semiconductors and non memory semiconductors;

## **Table of Contents**

proactively developing products to address the recent shift in emphasis in the semiconductor industry toward front-end testing of dies;

actively applying high-frequency analog technology developed for measuring instruments for the wireless communications market to test systems for non memory semiconductors including test systems for SoC semiconductors;

offering semiconductor and component test systems and device interfaces with high throughput in order to test recent devices incorporating interfaces with data rates of several gigabits per second; and

developing device interfaces that can optimize the performance of semiconductor and component test systems and test handlers in responding to semiconductors with higher speed and large pin counts.

### ***Strengthen the test system business for non memory semiconductors***

Advantest believes that in 2010 the market for test systems for non memory semiconductors was approximately four times the size of the market for test systems for memory semiconductors. Advantest has therefore devoted its resources to develop test systems and modules for non memory semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of non memory semiconductors.

Advantest is utilizing the test module structure in test systems for non memory semiconductors. Advantest believes the primary benefits of these test module structures are reduced testing costs. In addition, Advantest hopes that the reduction in testing costs, and thus the lowering of overall manufacturing costs of non memory semiconductors, will help foster further demand for non memory semiconductors to be used in digital consumer products and other products.

### ***Focus sales and support efforts on key customer accounts***

Advantest believes that a small number of large semiconductor manufacturers, foundries and test houses account for a large portion of total sales in the semiconductor and component test system industry. Advantest sells semiconductor and component test systems and mechatronics systems to many of these customers and supports them on a regular basis. Advantest is seeking to expand its business with these key customers and develop new relationships with the remaining potential major customers. Many of Advantest's sales and support offices are located near the corporate headquarters or main research and development and manufacturing facilities of these key customers. These offices facilitate Advantest's efforts to continue conducting collaborative development activities with leading semiconductor manufacturers.

### ***Advantest and Verigy entered into a definitive agreement and agreed that Verigy will become a wholly-owned subsidiary of Advantest.***

On March 28, 2011, Advantest agreed to acquire all of the outstanding shares of common stock of Verigy, a leading manufacturer of semiconductor test systems, which will become a wholly-owned subsidiary of Advantest. Approval of the Singapore High Court is pending, which is required as a closing condition to the proposed transaction. Advantest expects the effective date of the scheme of arrangement to be in early July. The purpose of this business combination is mainly threefold as set out below.

(1) Highly Complementary Technology and Products

Building on Advantest's strength in memory semiconductor test systems and mass production lines and Verigy's strength in non-memory semiconductor test systems and research and development, Advantest expects to drive technological innovation in the more comprehensive field of automatic semiconductor test equipment. Advantest will also work to enhance growth and profitability by reallocating resources currently devoted to areas of duplicative research and development, with a goal of accelerating Advantest's combined technical capabilities and developing new business.

**Table of Contents**

## (2) Customer Relationships

Advantest will have a wide and comprehensive range of products, which will enable it to provide customers with the most advanced collection of test solutions, such as improved test efficiency and reduced cost. Expanding Advantest's scale of operations is also expected to enhance Advantest's ability to provide long-term and consistent service to Advantest's customers.

## (3) Global Business Development

Through the combination of Advantest, which has developed its business primarily in Japan and Asia, and Verigy, which has a significant presence in the United States and Europe, Advantest will expand its global customer base. Advantest expects to accelerate its globalization efforts at the operation level by acquiring excellent human resources on a global scale.

**Products**

As of fiscal 2010, Advantest's main products are products developed, manufactured and sold in the Semiconductor and Component Test System Segment and Mechatronics System Segment. They are as follows:

***Semiconductor and Component Test Systems Segment***

Semiconductor and component test systems are used during the semiconductor and electronic component manufacturing process to confirm that a semiconductor functions properly. Semiconductor and component test systems consist of test systems for memory semiconductors and test systems for non memory semiconductors.

The following table sets forth the amount of net sales of Advantest's semiconductor and component test systems, for memory and non memory semiconductors for the periods presented.

| Category                                   | Fiscal 2008     | Fiscal 2009<br>(in millions) | Fiscal 2010     |
|--|-----------------|------------------------------|-----------------|
| Test systems for memory semiconductors     | ¥ 17,644        | ¥ 12,444                     | ¥ 30,016        |
| Test systems for non memory semiconductors | 31,572          | 20,128                       | 39,317          |
| <b>Total</b>                               | <b>¥ 49,216</b> | <b>¥ 32,572</b>              | <b>¥ 69,333</b> |

***Test Systems for Memory Semiconductors***



Advantest's test systems for memory semiconductors are test systems designed to test high-speed/high performance DRAM semiconductors used in equipment such as personal computers and servers, as well as flash memory semiconductors used in digital consumer products.

Test systems for memory semiconductors consist of a mainframe and one or more test heads. During testing, a device interface is attached to the test head. During the front-end testing process, wafers are loaded by a prober and are connected to the test system for memory semiconductors through the device interface. Electric signals between the die and the test systems for memory semiconductors are transmitted through probe pins located in the device interface and tested. After front-end testing is completed, the wafer is diced into separate dies and properly functioning dies are packaged. During back-end testing, test handlers are used to load these packaged devices onto the test heads, and electric signals are transmitted between the devices and the test heads via the device interface and tested. The test results are analyzed by the test systems for memory semiconductors' hardware circuits and software programs. Customized software programs for each semiconductor are required to analyze the semiconductor tests and test data.

Characteristics of the performance and other characteristics of test systems for memory semiconductors that are important to customers include:

*Throughput.* Throughput is measured by the number of semiconductors that can be tested by test systems for memory semiconductors during a specified time.

## **Table of Contents**

*Test Speed.* Test speed is the speed at which the test systems for memory semiconductors test semiconductors during testing. Test speed is measured in terms of hertz (Hz), or Bits Per Second (bps).

*Timing Accuracy.* Timing accuracy is the test system for memory semiconductors accuracy of control over the timing of testing signals generated.

*Maximum Pin Count.* Maximum pin count is the number of channels for test signals (at the maximum) used by test systems for memory semiconductors.

*Size.* Smaller machines reduce the amount of floor space occupied and electricity consumed by the test systems for memory semiconductors.

*Temperature.* Semiconductor manufacturers perform tests on semiconductors at varying temperatures to ensure proper operation under extreme conditions.

*Compatibility.* Test systems for memory semiconductors that are compatible with predecessor systems cut down on the time required to develop new test programs and otherwise allow for effective utilization by customers of existing resources.

*Quality.* Quality is determined by the reliability of test results produced and whether the equipment can maintain stable operation under different testing environments.

Advantest estimates that its market share in test systems for memory semiconductors was approximately 51% and 37% in fiscal 2008 and 2009, respectively, as a result of restrained capital expenditure in test systems for DRAM semiconductors on the part of Advantest's customers, but recovered to approximately 62% in 2010. Advantest has a substantially larger market share in test systems for DRAM memory semiconductors than in test systems for flash memory semiconductors. Advantest is currently seeking to increase its market share in test systems for flash memory semiconductors.

Advantest's main product lines of test systems for memory semiconductors are the T5500 series, the T5300 series and the T5700 series.

*T5500 Series.* The T5593 is a test system targeted at the market for high speed memory semiconductors such as DDR2-SDRAM and SGRAM. SGRAM is a memory semiconductor for use in graphical processor units. The T5588, makes possible simultaneous measurement of up to 512 DDR2-SDRAM devices, twice that of the T5593, and is a test system for mass production. Advantest can also accommodate a greater variety of memory semiconductors by using testing functions for flash memory which are already long used in connection with the T5370 series and its newly developed throughput enhancement functions. The top-of-the-line device in the T5500 series is the T5503, a memory semiconductor test system most suitable for testing and production of ultra high-speed memory semiconductors such as DDR3-SDRAM. This model allows twice as much of the spectrum band to be covered in terms of testing speed as the T5501 and thus enhances the measurement accuracy.

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*T5300 Series.* The T5383 is a multi-functional test system for memory semiconductors that reduces testing costs for semiconductor manufacturers. The T5383 is used for the front-end testing of DRAM semiconductors and for back-end testing of flash memory semiconductors. The T5383, which is capable of simultaneously testing up to 384 devices, is a test system with a maximum testing rate of 286 MHz/572 Mbps, which is twice the testing rate of Advantest's previous model. This allows for DRAM wafer testing at speed testing, or testing for KGD, and package testing for flash memory semiconductors, at high-speed and with high-throughputs capabilities. The T5385, which is capable of simultaneously testing up to 768 devices with a maximum testing rate of 266 MHz/533 Mbps, succeeds the T5383. The T5300 series is Advantest's best selling test systems for memory semiconductors product line for front-end testing of DRAM semiconductors and for back-end testing of flash memory semiconductors.

## **Table of Contents**

*T5700 Series.* Because variations in cell characteristics must be kept within a defined range, front-end testing for flash memory semiconductors require more types of testing than is required in front-end testing for DRAM semiconductors. Accordingly, front-end testing for flash memory semiconductors contributes to higher testing costs. Furthermore, although the volume of production with respect to NAND-type flash memory semiconductors is rapidly growing, prices have fallen substantially and there is a demand for higher efficiency for test systems. In response, Advantest introduced the T5781ES memory test system, which is capable of testing Multiple Chip Package (MCP)-type memories which combine multiple memory types, such as NAND-type flash memories, which are used in mobile phones, NOR-type flash memories and SDRAM, at speeds of up to 266 MHz. Because the T5781ES has diverse memory semiconductor testing capabilities and can test single-handedly many different types of memory semiconductors which are incorporated into MCPs, higher testing efficiency can be achieved. The T5700 series will provide effective solutions that will enable everything from design to mass production of flash memories and MCPs.

### *Test Systems for Non Memory Semiconductors*

Advantest's main line of test systems for non memory semiconductors relates to test systems for SoC semiconductors, test systems for LCD driver integrated circuits and test systems for semiconductors used in car electronics. Test systems for SoC semiconductors test SoC semiconductors that combine circuits such as digital, analog, memory and RF circuits on a single semiconductor chip. Test systems for LCD driver integrated circuits test semiconductors with specific functions, such as LCD driver integrated circuits that display images on LCD panels. The factors that are important to customers in the performance and other characteristics of test systems for memory semiconductors described above also apply to test systems for non memory semiconductors. Advantest's market share in test systems for non memory semiconductors remained at a similar level of approximately 18% in fiscal 2010, compared with approximately 21% in fiscal 2009.

*T2000.* In 2003, Advantest introduced to the market the T2000 test systems for non memory semiconductors which used the test module structure. Advantest believes that the development of modules for the T2000 compatible semiconductor test systems for non memory semiconductors and the increase in product lineup will increase Advantest's market share in test systems for non memory semiconductors. Main compatible component modules for the T2000 include modules designed for digital testing, power supply testing, analog testing, power device testing, image sensor testing and RF testing. Furthermore, mainframes for the T2000 may be chosen to meet customers' needs.

*T6500 Series.* The T6577 test systems for SoC semiconductors in the T6500 series were primarily developed to test MCU and SoC semiconductors that control digital consumer products at the production lines. The T6500 series is approximately one-third in size and uses approximately 50% less power than Advantest's predecessor product line.

*T6300 Series.* The T6300 series are test systems for LCD driver integrated circuits used with high-definition LCD displays. A maximum of 1,536 LCD testing pins may be used with the T6362 and T6372 systems and a maximum of 3,072 LCD testing pins may be used with the T6373 system. Each of these systems can simultaneously test multiple LCD driver integrated circuits.

*T7720 Series.* The T7721, T7722 and T7723 are test systems for non memory semiconductors for mixed signal integrated circuits. The T7723 targets highly complex semiconductors used in car electronics and is the result of the development of Advantest's constituent technology that measures analog signals. Also, the T7723 uses a direct current signal generator with a range of 150V to 64V and floating power supply of 60V/10A or 30V/30A (pulse), utilizes up to a maximum of 256 pins, and has the capacity to simultaneously measure multiple devices.

### *Mechatronics System Segment*

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The main products in the Mechatronics System Segment are test handlers which handle semiconductor devices and automate the testing, and device interfaces which are the interfaces with devices being tested.

## **Table of Contents**

### *Test Handlers*

Test handlers are used with semiconductor and component test systems to handle, condition temperature, contact and sort semiconductors and other electronic components during the back-end testing of the semiconductor manufacturing process.

Advantest's test handlers are sold primarily in conjunction with the sale of its semiconductor and component test systems. A majority of Advantest's test handlers for memory semiconductors, measured in units, are sold to customers of Advantest's semiconductor and component test systems. Advantest's test handlers are compatible with the semiconductor and component test systems of its competitors.

Test handlers are designed with different characteristics for memory and non memory semiconductors. Memory semiconductors require relatively long test times. Advantest's test handlers for memory semiconductors handle up to 512 semiconductors per test head at a time. Non memory semiconductors, including SoC semiconductors, require relatively short test times. Advantest's test handlers for non memory semiconductors require short time and handle up to 16 semiconductors at a time.

*Test Handlers for Memory Semiconductors.* The M6242 test handler for test systems for memory semiconductors, including DDR-3SDRAM, can handle up to 512 semiconductors at a time. The M6242's maximum throughput is 42,200 semiconductors per hour through the use of a new high-speed handling technology that shortens the time between tests to approximately half of the time associated with Advantest's ordinary model. In addition, the M6242 has a built-in temperature control device which can minimize the temperature fluctuation within a 1.5°C range for temperatures between -10°C and 100°C. Advantest also has other test handler product line for test systems for memory semiconductors that meet varying cost and functional needs of its customers.

*Test Handlers for Non Memory Semiconductors.* Advantest's test handlers for non memory semiconductors, including SoC semiconductors, are the M4841, the M4741A and the M4742A, among others. With a rate of 16 semiconductors at a time, the M4841 can handle approximately twice as many semiconductors at a time as Advantest's previous model. The M4841's maximum throughput of up to 18,500 semiconductors per hour is triple the maximum throughput of the previous model. Furthermore, the M4841 is also capable of testing in a wide range of temperatures, from as low as -55°C or as high as 125°C.

The M4741A employs the vision alignment system which enables high-accuracy positioning of contact sockets for small sized/narrow-pitched integrated circuits used in cellular phones and other products. Through the adoption of the vision alignment system, various types of measurement device can be operated under certain conditions without switching the change kit. M4742A realizes a reduction in contact pitch exchange time in handling of various products, visualization of operation screen, visibility check of internal devices, and improvement of operability, hence contributing to the reduction of test costs.

In addition, as a common feature in Advantest's test handlers for memory/non memory semiconductors, numerous functions to improve operating rate are installed.

### *Device Interfaces*

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Device interfaces are components which transmit test signals between the device being tested and the semiconductor and component test system. These components are divided into motherboards, socket boards, performance boards and sockets all of which transmit signals to compatible components of a device under test; components compatible with a test handler device; and device interfaces and change kits with a device handling mechanisms and contact mechanisms, and probe card for front-end testing.

Advantest develops and manufactures device interfaces for semiconductor and component test systems and supplies device interfaces such as high performance and high density connectors, socket boards and sockets to

## **Table of Contents**

meet the demands of next- generation semiconductors that are becoming more high-speed and more diversified. Advantest believes that the rate at which new semiconductor designs are introduced to market will continue to increase in the long term, and customers' requests to accelerate development of main parts of device interfaces that are compatible with such new semiconductor designs will increase accordingly.

*Motherboards:* For test systems for memory semiconductors, Advantest provides motherboards capable of handling a maximum of 512 semiconductors at a time. For test systems for non memory semiconductors, Advantest provides motherboards that are compatible with a maximum of 3,072 signals. Advantest also provides motherboards designed for use in front-end testing.

*Socket Boards and Performance Boards:* Advantest provides custom manufacturing of socket boards and performance boards for each device under test in accordance with customers' specifications.

*Sockets:* Advantest provides sockets for test systems for memory semiconductors. Advantest provides low-inductance (0.4nH) sockets and fine pitch (0.4mm) sockets for semiconductors that are becoming more high-speed and more compact in size.

*Change Kits:* Advantest provides carrying and contacting mechanism components compatible with each device under test for test handlers for memory semiconductors and test handlers for non memory semiconductors.

*Probe Card:* Advantest provides probe card used for the front-end testing for memory semiconductors.

Advantest competes with numerous small and independent electronics manufacturers in providing device interfaces for its semiconductor and component test systems. However, Advantest believes that as the complexity of the testing requirements of next-generation semiconductors increases, Advantest will enjoy competitive advantages by applying its technical knowledge, such as high speed signal transmission, derived from designing and manufacturing semiconductor and component test systems to device interfaces.

## **Customers**

Advantest's semiconductor and component test systems and mechatronics systems are shipped and delivered to world's leading semiconductor manufacturers, as well as some foundries and test houses. Sales to INTEL Corporation and Samsung Corporation in fiscal 2008, INTEL Corporation in fiscal 2009 and INTEL Corporation and Hynix Semiconductor Inc. in fiscal 2010 each accounted for greater than 10% of Advantest's net sales in each of those respective years. Advantest's five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 51% of net sales in fiscal 2008, approximately 43% in fiscal 2009 and approximately 49% in fiscal 2010.

## **Geographic Sales**



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Of Advantest's fiscal 2010 net sales, 77.5% were derived from products sold to customers located outside Japan. The following table sets forth Advantest's net sales by geographic area, as well as net sales by geographic area as a percentage of total net sales, for Advantest's last three fiscal years. Net sales are classified into geographic areas based on the location to which the products are shipped.

| Market                 | Fiscal 2008                |        | Fiscal 2009                |        | Fiscal 2010                |        |
|------------------------|----------------------------|--------|----------------------------|--------|----------------------------|--------|
|                        | Net Sales<br>(in millions) | %      | Net Sales<br>(in millions) | %      | Net Sales<br>(in millions) | %      |
| Japan                  | ¥ 24,734                   | 32.3   | ¥ 11,976                   | 22.5   | ¥ 22,398                   | 22.5   |
| Asia (excluding Japan) | 37,315                     | 48.7   | 34,182                     | 64.2   | 65,706                     | 65.9   |
| Americas               | 11,759                     | 15.3   | 4,930                      | 9.3    | 9,278                      | 9.3    |
| Europe                 | 2,844                      | 3.7    | 2,137                      | 4.0    | 2,252                      | 2.3    |
| Total                  | ¥ 76,652                   | 100.0% | ¥ 53,225                   | 100.0% | ¥ 99,634                   | 100.0% |

## **Table of Contents**

**Japan.** Advantest enjoys a significant market position in Japanese markets for test systems for memory semiconductors, with a market share of approximately 76% in 2010. In addition, Advantest had a market share of approximately 40% in the Japanese test systems for non memory semiconductors market in 2010. Sales of test systems for SoC semiconductors used in DVD/Blu-ray disc recorders and flat-panel TVs comprised a substantial portion of total sales of test systems for non memory semiconductors in Japan. Advantest is working to maintain and expand its large market share in Japan by continuing to work closely with its major customers to identify their needs during the early stages of their product development cycles.

**Asia (excluding Japan).** Asia is the largest market for semiconductor and component test systems and mechatronics systems, with semiconductor manufacturers located in Taiwan, Korea, the People's Republic of China and Singapore accounting for a majority of semiconductor production in Asia. Advantest views its relationships with these companies as critical to its semiconductor and component test system and mechatronics system business. Many Japanese, U.S. and European semiconductor manufacturers have shifted production to Asia, either to subsidiaries or foundries and test houses. Capital expenditure decisions for subsidiaries are usually made at the Company's headquarters. Foundries and test houses, a majority of which are located in Taiwan, often consult with their customers before investing in semiconductor and component test systems. Therefore, Advantest's performance in Asia will also depend on its ability to maintain strong relationships with customers in Japan, the U.S. and Europe. In addition, some of Advantest's customers have partnered with semiconductor manufacturers in Asia and outsourced manufacturing processes, thus shifting net sales to the Asia geographic market.

**Americas.** Advantest's marketing efforts in this region are centered in the United States, which accounted for approximately 9% of its total sales in fiscal 2010. Advantest's market share of semiconductor and component test systems sold in the U.S. was approximately 16% in 2010. Semiconductor and component test systems are marketed and sold in the Americas through Advantest's subsidiary, Advantest America, Inc.

**Europe.** Sales in Europe constituted approximately 2% of Advantest's sales in fiscal 2010. Advantest's market share of semiconductor and component test systems sold in Europe decreased to approximately 8% in 2010 from approximately 23% in 2009. Advantest's principal European markets are Germany, Italy and France.

## **Sales and Marketing**

Advantest sells its semiconductor and component test systems and mechatronics systems globally through direct sales channels. Advantest's direct sales department includes engineers who have in-depth knowledge of the customer's business and technology needs. Currently, Advantest has sales offices in Japan, Taiwan, Singapore and other parts of Asia, the Americas and Europe. Advantest maintains its sales and support centers in close physical proximity to key customer sites to identify its customers' needs in the early stage of product development and to provide required support in a timely fashion. Advantest is also strengthening its relationships with test houses through limited minority investments as a part of its sales and marketing strategy. In addition, Advantest offers operating lease contracts for semiconductor and component test systems through its subsidiary, Advantest Finance Inc.

Advantest believes that the best marketing strategy is to demonstrate the ability to develop products that meet the customer's specific needs, produce and deliver them in the required time and quantity, and support the customer and the product with sufficient technical and maintenance support. Advantest holds exhibitions from time to time to demonstrate and market its products to target customers. Advantest also markets its products by participating in industry trade shows and advertising in trade magazines.

## **Table of Contents**

### **Support and Customer Service**

Advantest's support and customer service programs are designed to respond to all of the semiconductor testing-related needs of its customers. Advantest provides its services through its worldwide network of sales and customer support offices. These services consist of the following elements:

***Testing Technology Support.*** Advantest engineers work with customers from the design phase of new products to the development of testing methods and device interfaces. Advantest also supports customers' initiatives to reduce costs at the large-scale production phase by proposing procedures to improve production yield and throughput, and offering advice in connection with the operation of semiconductors and component test systems and other test products.

***Application Software Support.*** Each different semiconductor design requires customized software programs for analysis of test data. As a part of its solution services, Advantest engineers assist customers in designing device interface, application software and test programs that optimize production throughput, reliability and capacity.

***Procurement Support.*** The procurement process for semiconductor and component test systems and mechatronics systems is time consuming and complicated. Semiconductor and component test systems consist of a combination of multiple components, including test handlers or probers, device interfaces and software. Advantest sales personnel and engineers work with customers to identify the semiconductor and component test systems and mechatronics systems and related optional functions that best address their needs.

***Installation and Warranty Support.*** The introduction of a new line of semiconductors by a manufacturer typically requires either the purchase of new semiconductor and component test systems and mechatronics systems or warranty support for the customer's existing system. Upon the sale of a new system, Advantest's engineers provide installation services and work with the customer to integrate the purchased system with the customer's existing manufacturing infrastructure.

***Training Support.*** Advantest engineers prepare customer training materials related to the operation and maintenance of Advantest's semiconductor and component test systems and mechatronics systems, and offer their customers suitable training on-site and at Advantest's facilities in a timely manner.

***Maintenance Support.*** Advantest's maintenance support services consist of:

***Call Center Support.*** Advantest currently offers call center support services for hardware and software in Japan. This call center also offers support to the customer support centers that Advantest has overseas.

***Internet Support.*** The Advantest customer support website offers maintenance tips and access to a database with possible solutions to semiconductor and component test system problems. Advantest customers can also make on-line requests for maintenance work and check the status of equipment sent in for repair through Advantest's web page.

***Repairs and Parts.*** Requests for repairs or parts can be made through the Advantest website or by phone. Advantest has established a system under which it endeavors to deliver requested parts to customers in Japan within 24 hours of request, and for customers in Asia (excluding Japan), the Americas and Europe within 48 hours. Equipment for maintenance is located in both Singapore and Japan to supplement each other in the event of a major natural disaster. To provide for quick and efficient repairs, Advantest's repair factories in Japan serve as the hub, and those in Korea and Taiwan also have started to undertake repairs of test boards.

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*Remote Surveillance.* Advantest can equip its semiconductor and component test systems with a remote surveillance function. This function allows Advantest engineers to remotely monitor the performance of its customers' semiconductor and component test systems for more timely and effective maintenance.

## **Table of Contents**

*Worldwide Presence.* Advantest provides maintenance support through customer support centers in Japan; other parts of Asia, including Korea, China, Taiwan and Singapore; the Americas and Europe.

### **Manufacturing and Supplies**

Advantest's principal factories at which semiconductors and component test systems and mechatronics systems are manufactured are its Gunma Factory and Gunma Factory 2 located in Gunma Prefecture, Japan. Printed circuit boards, on which electronic parts and other components are mounted, for use in these products are manufactured at the Gunma Factory 2. The Gunma Factory assembles the final products and conducts tests. The Gunma Factory is highly automated, and testing and production systems within the factory are interconnected by a sophisticated local area network using advanced data management software. This network allows Advantest factory managers to check on the status of systems under production at any given time.

Advantest uses a sophisticated enterprise resource planning (ERP) system that processes new information on a real time basis and converts sales order information into production specifications and manufacturing plans. This system also interconnects Advantest's multiple production and warehousing facilities to its information network.

Advantest has integrated many production processes in an effort to introduce a new production system based on the just-in-time production system and to improve upon the existing production system with a view to attaining a shorter production cycle, cost reduction and reduction of inventories.

The Great East Japan Earthquake and tsunami that struck Japan on March 11, 2011 inflicted only minor direct damage to parts of Advantest's business facilities and the affected facilities have already been fully restored. Advantest is considering reducing its electricity consumption or setting up its own electricity generator in order to avoid manufacturing disruptions as a result of possible future scheduled blackouts.

Advantest purchases substantially all of its components and parts from outside suppliers. The Great East Japan Earthquake and tsunami that struck Japan on March 11, 2011 inflicted damage to some manufacturing facilities of Advantest's components and materials suppliers. Advantest has identified replacement components and has established an emergency procurement system to assess the system performance compliance, implementation and reliability levels of these components in order to ensure the stability of its manufacturing operations.

The average costs of components and parts used by Advantest during the last three fiscal years have remained relatively stable. Advantest believes this relative price stability results from the fact that Advantest negotiates the terms of the purchase orders directly with its suppliers and the fact that the prices of the made-to-order components set forth in the purchase orders are primarily influenced by the technical specifications of the relevant components and parts.

Device interfaces, one of Advantest's products in its Mechatronics System Segment, are manufactured in Japan as well as overseas, including in Korea, Taiwan and Malaysia, in order to reduce lead time and reduce manufacturing costs.

### **Seasonality**

As Advantest's sales levels of semiconductor and component test systems and mechatronics systems are not dependent on any particular season and are subject, in large part, to sales levels of the semiconductors in the market that can fluctuate significantly from year to year, Advantest does not traditionally experience seasonality in the sense of higher sales during any certain period of the year as compared to other periods of the year.

## **Table of Contents**

### **Competition**

Advantest faces substantial competition throughout the world in all of their business segments. In particular, competition in the semiconductor and component test system market is currently intensifying, which may lead to restructuring within the industry and certain companies may be eliminated or consolidated. Advantest believes that the principal factors of competition are:

*Performance.* The performance of products is determined by its accuracy, test speed, throughput and ability to test semiconductors with large pin counts. High performance products reduce the customer's cost of testing.

*Reliability.* Products that operate with minimal downtime allow semiconductor production and engineering work to proceed without frequent intervention and provides more cost-effective operation.

*Delivery Time.* Semiconductor manufacturers require timely delivery of products, especially in periods of high demand.

*Price.* The need for more sophisticated products often translates into higher testing costs for semiconductor manufacturers. In addition, primarily as a result of increased efficiency in the fabrication process and lower market prices for semiconductors, test costs have come to represent a higher proportion of the total cost of manufacturing. Advantest currently faces significant price pressure on its Semiconductor and Component Test System Segment.

*System Architecture.* Product architecture that is modular expands the product life because the system can be adapted to meet the customer's new requirements, while largely retaining compatibility with existing test programs.

*Software.* Products that use software that is easier to use and more powerful reduce the amount of engineering resources needed to develop and operate test programs.

*Customer Support.* Customer specific applications programs, worldwide service and customer training contribute to the efficient use of products and minimize the customer's cost of testing.

*Qualified Technical Personnel.* Having in place a team of highly qualified engineers and other customer service and support personnel is essential for securing sales and maintaining and developing strong relationships with key customers.

According to a report issued by a research company, Advantest maintained the highest market share in the semiconductor test system market for five consecutive years until 2007. However, from 2008 to 2010, Teradyne, Inc. achieved the highest share, and Advantest achieved the second highest share. Other companies following Advantest include Verigy, LTX-Credence Corporation and Yokogawa Electronic Corporation. Some of Advantest's other competitors include FROM30 CO., LTD., EXICON Ltd., and UniTest Inc. In addition, Advantest also competes in the mechatronics system market with, among others, Delta Design, Inc., Seiko Epson Corporation, Mirae Corporation and TechWing Inc. for test handlers, and TSE Co., Ltd. and Secron Co., Ltd. for device interfaces. In addition, in the Services, Support and Others Segment, Advantest has been competing with companies providing similar services. It also has been suggested by customers that Advantest competes with start-up companies with newer technologies or products in the market for both the test systems for memory semiconductors and test systems for non memory semiconductors.

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On March 28, 2011, Advantest and Verigy entered into a definitive agreement for the business combination of the two companies. Approval of the Singapore High Court is pending, which is required as a closing condition to the proposed transaction. Advantest expects the effective date of the scheme of arrangement to be in early July.

### **Licenses and Intellectual Property Rights**

Advantest has a policy of seeking licenses and intellectual property rights worldwide on technology considered of particular strategic importance. While Advantest does not consider any one or group of licenses



## **Table of Contents**

and intellectual property rights to be so important that their expiration or termination would materially affect Advantest's business, Advantest considers all of its licenses and intellectual property rights to be important.

## **Legal Proceedings**

Based on information currently available to Advantest, Advantest believes that its losses from any pending legal proceedings would not have a material adverse effect on Advantest's financial position, operating results or cash flows.

## **Environmental**

Advantest established and implemented the Advantest Group Environmental Management Plan. Under this management plan, in addition to improving its environmental management systems, Advantest is supporting its customers' environmental management by developing new products with lower power consumption and dealing with top priority environmental issues, for example by taking measures to prevent global warming.

Advantest's primary environmental activities during fiscal 2010 are as follows:

*ISO 14001 Certification.* Advantest has received ISO 14001 Uniform Certification for all eight of its domestic manufacturing and research and development facilities. With respect to its overseas manufacturing and research and development activities, seven principal facilities in Asia, Europe and North America regions have received ISO 14001 Uniform Certification.

*Environmental Measures for Products.* Advantest is actively involved in the development of environmentally friendly product lines. Advantest conducts environmental assessments of all its new products from their development stages. In fiscal 2010, eleven models complied with Advantest's internal environment-oriented design standards, and have qualified as environmentally friendly Green products.

*Reduce Waste.* Advantest has implemented a recycling program and introduced liquid waste disposal capabilities at its facilities. Through such initiatives, Advantest's waste volume was a total of 307 tons in fiscal 2010, and Advantest continues to retain less than 1% of its industrial waste output at all eight of its domestic research and development and manufacturing facilities.

*Use of Safe Components.* Advantest has established an internal procurement standard for parts and components and has procured parts and components for its new products that do not contain specified toxic substances. Primarily reflecting the foregoing, Advantest has eliminated most regulated toxic substances from approximately 95% of the surface-mounted components on its new products after 2008, except lead solder, which is used for mounting parts and components for its products.

*Prevention of Global Warming.* Through the use of energy efficient equipment and the re-evaluation of manufacturing processes, Advantest strives to reduce levels of carbon dioxide emissions resulting from energy consumption relating to its business activities. Advantest's carbon dioxide emissions resulting from its all eight of domestic facilities was reduced to 20,444-CO<sub>2</sub>tons in fiscal 2010, primarily as a result of energy saving effects and a decrease in production.

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As one of its activities designed to contribute to society and to the environment, Advantest implements reforestation of seedlings, both in Japan and overseas.

Advantest spent approximately ¥571 million during fiscal 2010 to further implement its environmental protection activities.

Following the Great East Japan Earthquake on March 11, 2011, Advantest investigated and confirmed that there were no leakages of chemical substances.

**Table of Contents**

Advantest has been addressing issues of corporate management, social activities and environmental issues from a global perspective. With increased attention in recent years on corporate ethics, Advantest believes that it should focus more on the issue of CSR (Corporate Social Responsibility). Accordingly, Advantest has established a CSR & Environmental Affairs Promotion Office and nine committees (Disclosure Committee, Personnel Mediation Committee, Human Rights Protection Committee, Information Security Committee, Committee on Environmental Conservation, Internal Control Committee, Corporate Ethics Committee, Product Liability Committee and Safety and Health Committee), and engages in corporate social responsibility efforts.

## **Table of Contents**

### **Glossary**

|                                |  |
|--------------------------------|--|
| Analog circuits                | Circuits on a semiconductor that monitor, condition, amplify or transform analog signals, which are signals that vary continuously over a wide range of values. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion. |
| DDR-SDRAM                      | Double Data Rate Synchronous Dynamic Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SDRAM semiconductors.  |
| DDR2-SDRAM                     | Advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR-SDRAM semiconductors.  |
| DDR3-SDRAM                     | DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors.  |
| DDR4-SDRAM                     | The next generation DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR3-SDRAM semiconductors.  |
| Digital circuits               | Circuits that perform binary arithmetic functions on data represented by a series of on/off states.  |
| DRAM                           | Dynamic Random Access Memory. Devices that store a large volume of data and can read and write data freely. Because of their volatile characteristics, periodic re-writing of data is required to maintain memory information.   |
| Foundries                      | Semiconductor manufacturing service providers that manufacture semiconductors based on their customers' semiconductor designs.   |
| Fabless                        | Manufacturers that outsource their entire production to external entities, instead of having their own manufacturing facilities.   |
| Flash memory                   | Memory devices that electrically erase or write data freely. Devices with nonvolatile memory which is maintained even when the power is turned off.  |
| GDDR                           | Graphics DDR. DDR memory standard specifically designed for use in RAM video cards.  |
| Integrated circuit             | An electric part made of a combination of many transistors on a silicon wafer.   |
| LCD driver integrated circuits | Integrated circuits that operate LCD (Liquid Crystal Display).   |

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Logic circuits

Circuits that perform binary arithmetic functions.

LPDDR

Low Power DDR memory.

**Table of Contents**

|                 |  |
|-----------------|--|
| Memory circuits | Circuits that store data and programs.   |
| MCP             | Multi Chip Package. A package which combines multiple chips with different functions.  |
| MCU             | Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system.   |
| MPU             | Microprocessor unit. A microprocessor that incorporates most or all of the functions of a computer's central processing unit on a single integrated circuit.   |
| NAND            | A type of flash memory that is primarily used for data storage due to its large storage capability.  |
| NOR             | A type of flash memory that is primarily used for memorization of programs due to its random access capability.  |
| SDRAM           | Synchronous Dynamic Random Access Memory DRAM that is synchronized with the system bus.  |
| SGRAM           | Synchronous Graphics Random Access Memory SDRAM with added graphics functions.   |
| SoC             | System on a Chip. A chip that integrates functions, including logic, memory and signaling, that are conventionally executed with multiple chips and requires smaller space and significantly less electricity. |
| Test houses     | Providers of semiconductor test services.  |
| Testing for KGD | Known Good Die. Testing for KGD is conducted to guarantee that semiconductor bare chips are in good quality.   |

**Table of Contents****4.C. ORGANIZATIONAL STRUCTURE**

As of June 1, 2011, Advantest had 11 Japanese subsidiaries, 17 overseas subsidiaries and one investee which is accounted for by the equity method. The following table sets forth for each of Advantest's principal subsidiaries, the country of incorporation and the principal activities of the subsidiary.

| <b>Name of Subsidiary</b>       | <b>Country of Incorporation</b> | <b>Principal Activities</b>                                    |
|---------------------------------|---------------------------------|--|
| Advantest Laboratories Ltd.     | Japan                           | Research and development of measuring and testing technologies |
| Japan Engineering Co., Ltd.     | Japan                           | Development, manufacture and sales of Advantest's products     |
| Advantest Finance Inc.          | Japan                           | Leasing Advantest's products and sales of second-hand products |
| Advantest America, Inc.         | U.S.                            | Sales of Advantest's products                                  |
| Advantest Europe GmbH           | Germany                         | Development and sales of Advantest's products                  |
| Advantest Taiwan Inc.           | Taiwan                          | Sales of Advantest's products                                  |
| Advantest (Singapore) Pte. Ltd. | Singapore                       | Sales of Advantest's products                                  |
| Advantest Korea Co., Ltd.       | Korea                           | Sales support of Advantest's products                          |
| Advantest (Suzhou) Co., Ltd.    | China                           | Sales support of Advantest's products                          |

\* Each of the subsidiaries listed above is a direct or indirect wholly-owned subsidiary of the Company.

Advantest's consolidated subsidiaries, Advantest Manufacturing, Inc. and Advantest Customer Support Corporation merged into the Company as of July 1, 2010.

**4.D. PROPERTY, PLANTS AND EQUIPMENT**

Set forth below is a list of each of Advantest's material properties, the use and location of the property and the approximate size of the property on which the facility is located.

| <b>Name</b>                             | <b>Location</b> | <b>Approximate Size (m<sup>2</sup>)</b> | <b>Use</b>  |
|---|-----------------|---|---|
| Gunma R&D Center                        | Gunma, Japan    | 250,887                                 | Research and development of semiconductor and component test systems and mechatronics systems |
| Saitama R&D Center                      | Saitama, Japan  | 85,817                                  | Research and development for and manufacturing of mechatronics systems                        |
| Kitakyushu R&D Center                   | Fukuoka, Japan  | 5,461                                   | Research and development of semiconductor and component test systems                          |
| Advantest Laboratory and Sendai Factory | Miyagi, Japan   | 66,904                                  |   |

Basic technology research, and research for and manufacturing of key devices installed in semiconductor and component test systems



**Table of Contents**

| <b>Name</b>     | <b>Location</b> | <b>Approximate Size (m<sup>2</sup>)</b> | <b>Use</b>  |
|-----------------|-----------------|---|---|
| Gunma Factory   | Gunma, Japan    | 88,512                                  | Manufacture of semiconductors and component test systems and test handlers    |
| Gunma Factory 2 | Gunma, Japan    | 93,112                                  | Manufacture of semiconductor and component test systems and device interfaces |

In addition to the above-mentioned manufacturing facilities, Advantest has manufacturing facilities in Korea and Malaysia, sales offices and customer support centers in various regions of the world, and owned or leased research facilities in Japan, the U.S. and Germany. Advantest owns each of its significant properties.

Advantest considers all of its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations. Advantest does not maintain internal records of the exact productive capacity and extent of utilization of its manufacturing facilities. It would require unreasonable effort and expense to determine this information because Advantest alters the volume, quantity and nature of its manufactured products as necessary in response to changes in demand and other market conditions, and revamps its manufacturing processes to take advantage of technological innovations. However, Advantest believes that its manufacturing facilities are currently operating at utilization levels that are substantially in line with prevailing market demand for its products.

Advantest believes that there are no material environmental issues that may affect utilization of its assets.

Advantest has prepared itself for crises such as large-scale natural disasters, and each department of Advantest has drafted its own disaster procedures and manuals. Furthermore, in order to prevent any disruption of its core businesses, or in case of suspension, to re-start the suspended businesses, including the recovery of important facilities, in the shortest possible time, Advantest has developed its Business Continuity Plan and is promoting its implementation. However, if Advantest is not successful in implementing such Business Continuity Plan, or if upon implementation, such Business Continuity Plan is not effective, Advantest's core businesses could be disrupted at a time of crisis, such as large-scale natural disasters, and could take a substantial amount of time to recover.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****5.A. OPERATING RESULTS**

The following discussion and analysis of Advantest's financial condition and results of operations should be read with Key Information Selected Financial Data and the audited consolidated financial statements for fiscal 2008, 2009 and 2010 as well as the notes to such consolidated financial statements appearing elsewhere in this annual report. These consolidated financial statements have been prepared in accordance with U.S. GAAP.

**Overview**

Advantest manufactures and sells semiconductor and component test systems and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines in the Semiconductor and Component

## **Table of Contents**

Test System Segment include test systems for memory semiconductors and non memory semiconductors. Test systems for non memory semiconductors include test systems for SoC semiconductors, test systems for LCD driver ICs and test systems for semiconductors used in car electronics. This business segment is the most important segment, accounting for 69.6% of Advantest's net sales in fiscal 2010.

The Mechatronics System Segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products. This business segment accounted for 18.6% of Advantest's net sales in fiscal 2010.

The Services, Support and Others Segment consists of comprehensive customer solutions provided in connection with the Semiconductor and Component Test Systems and Mechatronics System Segments, support services, equipment lease business and others. This business segment accounted for 14.2% of Advantest's net sales in fiscal 2010.

### ***Semiconductor and Component Test System Segment***

The market for semiconductor and component test systems is subject to high demand volatility, is competitive, and depends on capital expenditures of customers. Their capital expenditures depend, to a large extent, on:

demand for semiconductors and electronic components;

innovation in semiconductor and electronic component technology; and

changes in semiconductor and electronic component manufacturing processes.

The business environment of the Semiconductor and Component Test System Segment in fiscal 2010, registered significant overall growth with the growth of the market, despite demand divergence among various device types, notably a weakening in DRAM in the latter half of fiscal 2010, in contrast to strong growth in the DRAM market at the beginning of the period.

Despite a difficult business environment with factors such as continuing Japanese yen appreciation and intensified price competition, Advantest leveraged the positive growth in the semiconductor market and strived to expand orders and revenues.

As a result of the above, net sales of the Semiconductor and Component Test Systems Segment totaled ¥69,333 million in fiscal 2010, a 112.9% increase compared to that of fiscal 2009. For a detailed discussion of these factors, see [Information on the Company Business Overview Industry Overview](#).

The test systems for memory semiconductor market of this segment, the fiscal year began well, as long restrained DRAM capital expenditures rebounded on the strength of PC DRAM shortages in early 2010. However, memory manufacturers reversed course in late 2010, as

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DDR3-DRAM fell into oversupply and prices dropped, and again became reluctant to invest in test systems for DDR3-DRAM manufacturing. On the other hand, demand for mobile DRAM test systems for devices such as smartphones and tablet PCs continued to be steady.

In the test systems for non memory semiconductor market, MPU testers saw steady demand throughout the fiscal year, while demand for microcontroller and mobile CPU test systems also remained steady, amidst robust demand for smartphones, tablet PCs, and other consumer electronics.

Advantest believes that price pressure with respect to semiconductor and component test systems tends to be the strongest during periods when semiconductor manufactures are subject to price pressure despite an increase

## **Table of Contents**

in demand for their products. Advantest continues to face significant price pressure. Even when the semiconductor industry experienced a recovery, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on its products and restriction on capital expenditure.

### ***Mechatronics System Segment***

The Mechatronics System Segment tracked strong test system demand, delivering robust results principally driven by device interface products. In addition, primarily due to aggressive capital expenditures by the major semiconductor manufacturers, sales for test handlers for analog ICs remained strong.

Mainly as a result of the above, net sales of the Mechatronics System Segment totaled ¥18,515 million in fiscal 2010, a 64.8% increase compared to that of fiscal 2009.

### ***Services, Support and Others Segment***

In the Services, Support and Others Segment, Advantest has focused on maintenance services such as installation and repair of Advantest's products and lease and rental services of its products as a part of Advantest's effort to provide customers with comprehensive solutions. In fiscal 2010, net sales of the Services, Support and Others Segment were stable, as Advantest's customers placed larger orders for new testers, and customer utilization rates improved.

As a result of the above, net sales of the Services, Support and Others Segment totaled ¥14,166 million in fiscal 2010, a 19.7% increase compared to that of fiscal 2009.

### ***Non-recurring Charges Related to Cost Reduction Initiatives***

In response to concerns over the prolonged deterioration of Advantest's business environment in fiscal 2008, Advantest implemented an organizational restructuring to strengthen its management structure by undertaking certain actions to streamline its operations and change its organization to return to profitability in the future. In connection with the restructuring, Advantest recognized non-recurring charges, consisting of inventory write-down of ¥8,715 million incurred as a result of the rapid deterioration of the market, additional voluntary retirement benefit costs amounting to ¥5,064 million resulting from the early retirement of certain employees, and impairment losses on long-lived assets and goodwill of ¥13,866 million in fiscal 2008.

The inventory write-down of ¥8,715 million is included in cost of sales, and the additional voluntary retirement benefit costs of ¥5,064 million are included in restructuring and impairment charges. Impairment losses on long-lived assets of ¥5,142 million, which are related to production facilities, are included in cost of sales, and the remaining impairment losses of long-lived assets and goodwill of ¥8,724 million are included in restructuring and impairment charges as part of operating expenses in the accompanying consolidated statements of operations.

These actions were non-recurring in nature and represented a significant change in Advantest's businesses. However, such organizational restructuring and related charges were not exit or disposal activities. Advantest neither anticipates nor has exited businesses or discontinued product lines. Advantest did not incur costs associated with involuntary, one-time termination benefits, cancellation of contractual arrangements such as operating leases, or expenses associated with consolidation or integration of subsidiaries.

Significant assumptions and methodology with respect to the voluntary termination benefits and impairment losses on long-lived assets and goodwill are discussed further in the section on critical accounting policies and estimates.

In fiscal 2009 and 2010, Advantest did not incur non-recurring charges related to cost reduction initiatives.

## **Table of Contents**

### ***Research and Development***

Research and development expenses represent a significant portion of Advantest's annual operating expenses. Advantest's research and development expenses were ¥23,713 million, ¥17,896 million and ¥21,197 million or 30.9%, 33.6% and 21.3% of net sales, in fiscal 2008, 2009 and 2010, respectively.

### ***Personnel***

As of March 31, 2011, Advantest had a total of 3,163 full-time employees, an increase of 12 persons, or 0.4%, compared to that of March 31, 2010.

Advantest plans to continue its periodic recruitment of new graduates as part of its mid- to long-term growth strategy. Advantest expects that a majority of these new hires will join the Semiconductor and Component Test System Segment and Mechatronics System Segment to support the growth of Advantest's businesses. Other new hires are expected to join Advantest's maintenance support division or administrative divisions. The addition of these new hires may increase Advantest's future selling, general and administrative expenses and its research and development expenses.

### ***Currency Fluctuations***

Advantest is affected to some extent by fluctuations in foreign currency exchange rates. Advantest is principally exposed to fluctuations in the value of the Japanese yen against the U.S. dollar and currencies of other countries where Advantest does business. Advantest's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk.

Translation risk is the risk that Advantest's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in which subsidiaries of the Company prepare their financial statements against the Japanese yen. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Advantest's underlying results of operations.

Transaction risk is the risk that the currency structure of Advantest's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Advantest produces substantially all of its products, including all semiconductor and component test systems, in Japan. A small portion of the components and parts used in Advantest's semiconductor and component test systems is purchased in currencies other than the Japanese yen, predominantly the U.S. dollar.

Advantest enters into foreign exchange forward contracts to reduce its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations against the Japanese yen, which in some years can be significant.

Generally, the weakening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has a positive effect on Advantest's operating income and net income. The strengthening of the Japanese yen against other foreign currencies, particularly the U.S. dollar, has the opposite effect. In the second half of fiscal 2008, the Japanese yen strengthened rapidly, with the U.S. dollar depreciating below ¥90 to the dollar at one point, but subsequently, the Japanese yen depreciated to the high ¥90s to the dollar toward the end of the fiscal year. In fiscal 2009, the Japanese yen started from the high ¥90s and strengthened gradually against the U.S. dollar to the ¥80s during the third quarter of the fiscal year, yet the Japanese yen depreciated to the low ¥90s to the dollar toward the end of the fiscal year. In the first quarter of fiscal 2010, the Japanese yen started from the low ¥90s and strengthened against the U.S. dollar to the high ¥80s and appreciated to the low ¥80s during the



## **Table of Contents**

second half of the fiscal year. After the Great East Japan Earthquake, the Japanese yen further appreciated at one point to below ¥80 to the dollar, the highest level since post-WWII, and then depreciated to the low ¥80s by the end of the fiscal year.

Advantest's business is subject to risks associated with doing business internationally, and its business could be impacted by certain governmental, economic, fiscal, monetary, taxation or political policies or factors, including trade protection measures and import or export licensing requirements, that may materially affect, directly or indirectly, Advantest's operations or its future results.

## **Critical Accounting Policies and Estimates**

Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in preparing its consolidated financial statements in conformity with U.S. GAAP. Critical accounting policies are accounting policies that require the application of management's most difficult, subjective or complex judgments and often require management to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The following is not intended to be a comprehensive list of all of Advantest's accounting policies. Advantest's significant accounting policies are more fully described in note 1 to Advantest's consolidated financial statements included elsewhere in this annual report. In many cases, U.S. GAAP specifically dictates the accounting treatment of a particular transaction, with no need for judgment in its application. There are also areas in which management's judgment in selecting an available alternative could produce materially different results. Set forth below is a description of accounting policies under U.S. GAAP that Advantest has identified as critical to understanding its business and the reported financial results and condition of the Company.

### ***Revenue Recognition***

Advantest recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured.

For equipment sales involving software that is more than incidental to the product, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection of the related receivable is probable. Revenue for the separate elements is only recognized when the functionality of the undelivered element is not essential to the delivered element.

### ***Sales of Products***

Sales of products which require installation are recognized when the related installation is completed and other sales recognition criteria are met since the installation is essential to the functionality of the equipment. When customer acceptance is uncertain, revenue is deferred until customer acceptance has been received. When the final payment is subject to customer acceptance, a portion of revenue for the final payment is deferred until an enforceable claim has become effective.

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Sales of products and component which do not require installation service by Advantest is recognized upon shipment if the terms of the sale are free on board (FOB) shipping point or upon delivery if the terms are FOB destination which coincide with the passage of title and risk of loss.

### *Long-term Service contracts*

Revenue from fixed-price, long-term service contracts is recognized on the straight-line basis over the contract term.

## **Table of Contents**

### *Leasing Income*

Revenue from operating leases is primarily recognized on the straight-line basis over the lease term.

### *Multiple deliverables*

Advantest accounts for multiple element arrangements that consist of non-software or software-related products in accordance with multiple element revenue recognition guidance and industry specific accounting guidance for software and software related transactions.

Advantest obtains and utilizes objective evidence (Vendor-Specific Objective Evidence (VSOE) for software-related products) of fair value to allocate revenue to elements in multiple element arrangements and recognizes revenue when the criteria for revenue recognition have been met for each element. If the criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. In the absence of objective evidence of fair value of a delivered element, Advantest allocates revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. The price charged when an element is sold separately generally determines fair value.

### *Inventories*

Advantest's inventories consist of on-hand inventory, including inventory located at customer sites, and inventory that is on-order and subject to a contract that is non-cancelable. Advantest states its inventories at the lower of cost or market. Cost is determined using the average cost method. Advantest determines the market for finished goods by determining net realizable value and for raw materials by identifying replacement cost. Advantest reviews its inventories and determines the appropriate amount of any inventory write-downs periodically based on these reviews. Write-downs occur from the discontinuation of product lines, inventory in excess of estimated usage, the release of new products which renders inventory obsolete and declines in net realizable value of Advantest's inventory leased to customers. Advantest recognizes inventory write-downs in cost of sales. Advantest may be required to take additional charges for excess and obsolete inventory in fiscal 2011 or other future periods if future weakness in its businesses causes further reductions to Advantest's inventory valuations. In addition, unexpected changes in testing technology can render Advantest's inventories obsolete. Advantest evaluates its inventory levels based on its estimates and forecasts of demand for its products.

Advantest's inventories increased by ¥6,903 million, or 41.6%, during fiscal 2010 to ¥23,493 million as of March 31, 2011 due to improvements in backlogs of orders.

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation.

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Depreciation is computed principally using the declining-balance method for the Company and its domestic subsidiaries. The straight-line method over estimated useful lives of the assets is used for foreign subsidiaries.

The depreciation period for significant assets ranges from 15 years to 50 years for buildings, 4 years to 10 years for machinery and equipment, and 2 years to 5 years for tools, furniture and fixtures.

Depreciation expense was ¥8,035 million, ¥4,101 million and ¥3,977 million for the fiscal years 2008, 2009 and 2010, respectively.

### *Impairment of Long-Lived Assets*

Advantest evaluates the impairment of long-lived assets and certain identifiable intangibles with definite useful lives by reviewing for impairment whenever events or changes in circumstances indicate that the carrying

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## **Table of Contents**

amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

During the fourth quarter of fiscal 2008, Advantest made significant adverse changes to its business forecast and cash flows to be generated by its test systems for non memory semiconductor business and mechatronics semiconductor business in the future mainly reflecting the deteriorated semiconductor markets including bankruptcy of major semiconductor manufacturers as well as in anticipation for a delayed recovery in the market. These events and macroeconomic trends led to a significant decline in Advantest's operating results for fiscal 2008 when compared to fiscal 2007. Accordingly, Advantest evaluated the ongoing value of the long-lived assets, including buildings, machinery and equipment, related to its test systems for non memory semiconductor business and mechatronics business.

In Advantest's impairment assessments, Advantest took into consideration the structure of its organization and vertical integration of different aspects of its non memory test systems and mechatronics systems businesses. Advantest's decision to group assets reflects the inter-connectivity of its manufacturing, distribution and selling efforts for different types of products and services. To assess whether long-lived asset groups are impaired when an impairment indicator exists, Advantest first estimated undiscounted cash flows. Advantest determined its estimates of undiscounted cash flows applying an in-use premise for its asset groups. Advantest identified a primary asset within each asset group and projected cash flows over the remaining useful life of the primary asset. To develop its projections of cash flows, Advantest used proprietary knowledge and judgments about its customers' production plans and capital expenditure trends. Additionally, Advantest considered the impact of reduced headcount resulting from the voluntary special termination benefit offer. Advantest's estimates of cash flows reconcile to those used for recoverability of other assets.

Based on this evaluation, Advantest determined that long-lived assets of production facilities with land, buildings, machinery and equipment, tools, furniture and fixtures that were held and used primarily in its non-memory test systems and mechatronics systems businesses were no longer recoverable and were in fact impaired, and wrote such assets down to their estimated fair value. Advantest used present value techniques to estimate fair value of the asset groups. Impairment losses were calculated based on excess of the carrying amount of the long-lived asset over its fair value.

The amounts of the impairment losses for those long-lived assets included in cost of sales and operating expenses in the accompanying consolidated statements of operations for fiscal 2008 were ¥5,142 million and ¥7,943 million, respectively. Fair value was measured mainly based on expected future cash flows to be generated by those asset groups, discounted at the risk-free interest rate. In fiscal 2009 and 2010, Advantest did not incur impairment of long-lived assets.

### ***Trade Receivables***

Advantest's trade receivables, less allowance for doubtful accounts was ¥22,707 million as of March 31, 2011, as compared with ¥15,930 million as of March 31, 2010. Advantest maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Advantest provides an allowance for doubtful accounts for all specific accounts receivable that it judges are probable of not being collected.

Advantest periodically reviews its estimated allowances for doubtful accounts taking into account the customer's payment history, assessing the customer's current financial position and considering other information that is publicly available and the customer's credit worthiness. Additional reviews are undertaken upon significant changes in the financial condition of Advantest's customers and the semiconductor industry. Increases in

allowance for doubtful accounts are charged to selling, general and administrative expenses.

## **Table of Contents**

At the end of fiscal 2010, Advantest decreased its allowance for doubtful accounts to ¥152 million, a decrease of ¥94 million from fiscal 2009. A reversal of allowances made for accounts receivable that are later collected, depending upon the recovered financial status of its customers and Advantest's collection efforts, will decrease the selling, general and administrative expenses for the accounting period during which such collection takes place. Conversely, additional allowances may be necessary in the future if conditions in the industries of some of Advantest's customers do not improve in the near-term.

### ***Accrued Warranty Expenses***

Advantest's products are generally subject to a product warranty. In addition, under certain circumstances, Advantest is responsible for the repair of defective components and parts. Advantest provides an allowance for estimated product warranty expenses when product revenue is recognized as part of its selling, general and administrative expenses. The allowance for estimated product warranty expenses represents management's best estimate at the time of sale of the total costs that Advantest will incur to repair or replace components or parts that fail while still under warranty. Advantest records its allowance for estimated product warranty expenses based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred. The foregoing evaluations are inherently uncertain as they require estimates as to maintenance costs and failure rates related to different product lines. Consequently, actual warranty costs may differ from the estimated amounts and could result in additional product warranty expenses. If actual warranty costs significantly exceed the amount of Advantest's allowance for product warranty expenses, it would negatively affect the future results of operations of Advantest. Primarily due to a smaller amount of estimated product warranty expenses for newly incurred repairs of defective components and parts during fiscal 2010, accrued warranty expenses were ¥1,754 million at March 31, 2011, a decrease of ¥1,048 million from ¥2,802 million at March 31, 2010.

### ***Stock-Based Compensation***

Advantest applies the fair-valued-based method of accounting for stock-based compensation and recognizes stock-based compensation expense in the consolidated statements of operations. The cost of employee services received in exchange for an award of equity instrument is measured based on the grant-date fair value of the stock options granted to employees. The cost is recognized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The Black Scholes pricing model is used to estimate the value of the stock options.

Expected dividend yield is determined by the Company's dividend ratio of the past and other associated factors. Risk free interest rate is determined by Japanese government bond yield for the period corresponding to expected life. Expected volatility is determined by historical volatility and trend of the Company's share prices, and other associated factors. Expected life is determined by the Company's option exercise history, post vesting employment termination behavior for similar grants, and other pertinent factors.

Advantest has recorded ¥248 million, ¥143 million and ¥165 million as stock-based compensation expense in fiscal 2008, 2009 and 2010, respectively.

### ***Accrued Pension and Severance Cost***

The Company and certain of its subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification

and their performance.

The Company and certain of its subsidiaries also have a defined benefit corporate pension plan covering substantially all employees. Under the cash balance pension plan, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance with a certain interest rate calculated based on the upper and lower limit of a market interest rate.



**Table of Contents**

The retirement benefit costs are estimated from actuarial valuations. Inherent in these valuations are key assumptions in estimating pension costs including mortality, withdrawal, retirement, changes in compensation, discount rate and expected return on plan assets. Advantest is required to estimate the key assumptions by taking into account various factors including personnel demographics, current market conditions and expected trends in interest rates. Advantest determines the discount rate by looking to available information about rates implicit in return on high-quality fixed-income governmental and corporate bonds. Accordingly, the discount rate is likely to change from period to period based on these ratings. A decrease in the discount rate results in an increase in actuarial pension benefit obligations. Increases and decreases in the pension benefit obligation affect the amount of the actuarial gain or loss which is amortized into income over the service lives of employees. Changes in the key assumptions may have a material effect on Advantest's financial position and results of operations. Management believes that estimation of the key assumptions is reasonable under the various underlying factors.

Advantest has recorded ¥1,987 million, ¥2,158 million and ¥1,910 million as benefit cost in fiscal 2008, 2009 and 2010, respectively.

During the fourth quarter of fiscal 2008, as part of cost reduction measures under the rapidly deteriorated business environment, Advantest offered its employees an early retirement program under which special lump-sum termination benefits were provided to employees who applied. Advantest recognized a liability and an expense when employees accepted the offer and the amount was reasonably estimated. All of the employees who applied for the program terminated their employment prior to March 31, 2009, and were paid out in April 2009. Advantest recorded a voluntary termination benefit of ¥5,064 million for the program. The termination benefit is included in restructuring and impairment charges in the accompanying consolidated statements of operations.

***Deferred Tax Assets***

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management's expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of valuation allowance. The net (decreases) increases in valuation allowance were ¥48,015 million, ¥3,274 million and ¥793 million for fiscal years 2008, 2009 and 2010, respectively.

At March 31, 2010, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥52,922 million of which ¥27,231 million represents NOL. Advantest has also recorded a valuation allowance of ¥51,289 million, as a result, net deferred tax assets were ¥1,633 million. At March 31, 2011, Advantest has recorded on its consolidated balance sheet, deferred tax assets of ¥53,480 million of which ¥30,352 million represents NOL. Advantest has also recorded a valuation allowance of ¥52,082 million, as a result, net deferred tax assets were ¥1,398 million. Net operating loss carryforwards utilized were ¥2,421 million and ¥554 million in fiscal years 2009 and 2010, respectively. There was no utilized amount in fiscal year 2008.

The amount of the deferred tax assets were considered realizable, however, could be changed in the near term if estimates of future taxable income are revised and such effect on the Company's consolidated financial position and results of operations could be significant.

***Income Taxes***

Advantest recognizes the financial statement effects of tax positions when they are more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest

## **Table of Contents**

amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

### ***Fair Value***

#### Investment securities

The fair value of available-for-sale equity securities is based on quoted market prices at the reporting date for those investments. The fair value of available-for-sale debt securities is based on unobservable inputs as the market for the assets was not active at the measurement date.

#### Plan assets

Plan assets are comprised principally of listed equity securities, pooled funds, hedge funds and investments in life insurance company's general accounts. Listed equity securities is based on quoted market prices on the reporting date for those investments. Pooled funds and hedge funds are valued at their net asset values which are calculated by the sponsors of the funds. Investments in life insurance company's general accounts are valued at conversion value.

## **Results of Operations Fiscal 2010 Compared with Fiscal 2009**

### ***Net Sales***

Advantest's net sales increased by ¥46,409 million, or 87.2%, compared with fiscal 2009, to ¥99,634 million in fiscal 2010. This was primarily due to increases in capital expenditures by semiconductor manufacturers. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales by ¥2,808 million.

The following is a discussion of net sales for Advantest's Semiconductor and Component Test System, Mechatronics System and Services, Support and Others Segments. Net sales amounts discussed include intercompany sales between segments.

### ***Semiconductor and Component Test System Segment***

In fiscal 2010, net sales of Advantest's Semiconductor and Component Test System Segment accounted for 69.6% of total net sales. Net sales of Advantest's Semiconductor and Component Test System Segment increased by ¥36,761 million, or 112.9%, compared with fiscal 2009, to ¥69,333 million in fiscal 2010. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales in its

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Semiconductor and Component Test System Segment by ¥2,004 million.

Net sales of test systems for memory semiconductors in fiscal 2010 increased by ¥17,572 million, or 141.2%, compared with fiscal 2009 to ¥30,016 million. This increase was mainly due to stronger than expected demand for Advantest's DRAM semiconductor test systems especially for the T5300 series front-end test systems and the T5500 series back-end test systems, reflecting increased capital expenditures by semiconductor manufacturers for PC DRAM and mobile DRAM.

Net sales of test systems for non memory semiconductors in fiscal 2010 increased by ¥19,189 million, or 95.3%, compared with fiscal 2009 to ¥39,317 million. This increase was mainly due to a steady growth in the sales of T2000 series test systems for SoC semiconductors.

### ***Mechatronics System Segment***

Net sales of the Mechatronics System Segment including test handlers and device interfaces increased by ¥7,278 million, or 64.8%, compared to fiscal 2009 to ¥18,515 million in fiscal 2010.

## **Table of Contents**

The steady growth for test systems for memory and non memory semiconductors, led to an increase in demand for test handlers and device interface products, which are used together with semiconductor and component test systems.

### ***Services, Support and Other Segment***

Net sales of the Services, Support and Other Segment increased by ¥2,328 million, or 19.7%, compared with fiscal 2009 to ¥14,166 million in fiscal 2010, mainly due to an increase in demand for maintenance services reflecting the strong performance of the semiconductor market. The main businesses in the Services, Support and Others Segment for fiscal 2010 were maintenance services and leasing and rentals.

### ***Geographic Markets***

Advantest experienced an increase of 87.2% in its net sales in fiscal 2010, which was primarily due to the growth in sales in Japan, Korea, Taiwan and China.

Net sales in Japan significant increased by ¥10,422 million, or 87.0%, compared with fiscal 2009 to ¥22,398 million in fiscal 2010. This increase was mainly due to a growth in demand for the T5300 series front-end test systems for mobile DRAM test systems.

Net sales in the Americas increased by ¥4,348 million, or 88.2%, compared with fiscal 2009 to ¥9,278 million in fiscal 2010. This increase was primarily due to steady sales of the T2000 for MPU testers for major semiconductor manufacturers. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales in the Americas by approximately ¥754 million, primarily due to a continued Japanese yen appreciation against the U.S. dollar.

Net sales in Europe increased by ¥115 million, or 5.4%, compared to fiscal 2009 to ¥2,252 million in fiscal 2010. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales in Europe by approximately ¥194 million.

Net sales in Asia (excluding Japan) increased by ¥31,524 million, or 92.2%, compared with fiscal 2009 to ¥65,706 million in fiscal 2010. Net sales in Korea and Taiwan increased by ¥10,418 million and ¥9,030 million, or 100.8% and 70.5%, respectively, compared with fiscal 2009. This increase was primarily due to increased capital expenditures for PC DRAM. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) increased by ¥12,076 million, or 109.4%, compared with fiscal 2009. This increase resulted from increased sales of the T2000 for MPU testers in China. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales in Asia by approximately ¥1,844 million.

Advantest's overseas sales as a percentage of total sales was 77.5% for both fiscal 2010 and 2009.

### ***Operating Expenses***

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In fiscal 2010, Advantest's operating expenses increased by ¥28,659 million, or 44.2%, compared with fiscal 2009 to ¥93,523 million.

In fiscal 2010, cost of sales increased by ¥23,867 million, or 87.4%, compared to fiscal 2009 to ¥51,164 million. This increase was attributed to a ¥46,409 million increase in net sales.

In fiscal 2010, research and development expenses increased by ¥3,301 million, or 18.4%, compared to fiscal 2009 to ¥21,197 million. This increase in research and development expenses was mainly due to increased costs for materials for future product development, increased payments for outsourced research as well as increased bonuses and personnel expenses for fiscal 2010.

## **Table of Contents**

In fiscal 2010, selling, general and administrative expenses increased by ¥1,491 million, or 7.6%, compared to fiscal 2009 to ¥21,162 million. This increase was mainly due to an increase in sales expenses resulting from increased net sales and an increase in bonuses and personnel expenses.

### ***Operating Income***

In fiscal 2010, operating income improved by ¥17,750 million, compared to fiscal 2009, to a profit of ¥6,111 million.

### ***Other Income and Expenses***

In fiscal 2010, interest and dividend income decreased by ¥253 million, or 43.7%, compared with fiscal 2009 to ¥326 million. This decrease reflects the decrease in interest income caused primarily by a decrease of cash and cash equivalents and a decline of interest rates.

In fiscal 2010, interest expenses decreased by ¥1 million, or 25.0%, compared with fiscal 2009 to ¥3 million.

In fiscal 2010, impairment loss on investment securities increased by ¥196 million compared with fiscal 2009 to ¥512 million.

In fiscal 2010, other non-operating income decreased by ¥1,825 million, compared with fiscal 2009, to a loss of ¥371 million. This decrease was primarily due to an increase in foreign currency exchange loss of ¥1,580 million compared with fiscal 2009 resulting in a loss of ¥508 million in fiscal 2010, which was caused by the continued appreciation of the Japanese yen against the U.S. dollar. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales amounts settled during the fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2011.

### ***Income Taxes***

In fiscal 2010, Advantest's effective tax rate was negative 42.4%, as the Company did not record tax benefits on pretax losses; the tax rate for fiscal 2009 was negative 14.7%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.4% for fiscal 2010. For a more detailed discussion on income taxes of Advantest in fiscal 2010 and fiscal 2009, see note 12 to Advantest's consolidated financial statements.

### ***Net Income***

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In fiscal 2010, Advantest's net income improved by ¥14,617 million, compared to fiscal 2009, to an income of ¥3,163 million.

### ***Other Comprehensive Income (Loss)***

In fiscal 2010, Advantest's other comprehensive income (loss), net of tax, declined by ¥3,139 million compared to fiscal 2009, to a loss of ¥3,411 million. This decline was primarily due to a decrease of ¥1,687 million in pension liability adjustments from an income of ¥1,566 million in fiscal 2009 to a loss of ¥121 million in fiscal 2010. No tax effect was recognized on the pension liability adjustments recorded in the other comprehensive income (loss).



## **Table of Contents**

### **Results of Operations Fiscal 2009 Compared with Fiscal 2008**

#### *Net Sales*

Advantest's net sales decreased by ¥23,427 million, or 30.6%, compared with fiscal 2008, to ¥53,225 million in fiscal 2009. This decrease was primarily due to the global downturn that sharply restricted capital expenditures by semiconductor manufacturers in the semiconductor industry and a drop in orders seen in late fiscal 2008. The estimated effect of changes in exchange rates during fiscal 2009 was to decrease Advantest's net sales by ¥2,556 million.

The following is a discussion of net sales for Advantest's Semiconductor and Component Test System, Mechatronics System and Services, Support and Others Segments. Net sales amounts discussed include intercompany sales between segments.

#### *Semiconductor and Component Test System Segment*

In fiscal 2009, net sales of Advantest's Semiconductor and Component Test System Segment accounted for 61.2% of total net sales. Net sales of Advantest's Semiconductor and Component Test System Segment decreased by ¥16,644 million, or 33.8%, compared with fiscal 2008, to ¥32,572 million in fiscal 2009. The estimated effect of changes in exchange rates during fiscal 2009 was to decrease Advantest's net sales in its Semiconductor and Component Test System Segment by ¥1,399 million.

Net sales of test systems for memory semiconductors in fiscal 2009 decreased by ¥5,200 million, or 29.5%, compared with fiscal 2008 to ¥12,444 million. This decrease was mainly due to lower than expected demand for Advantest's DRAM semiconductor test systems especially for the T5300 series front-end test systems, reflecting lower capital expenditures by semiconductor manufacturers.

Net sales of test systems for non memory semiconductors in fiscal 2009 decreased by ¥11,444 million, or 36.2%, compared with fiscal 2008 to ¥20,128 million. This decrease was mainly due to weak sales of T2000 series test systems for SoC semiconductors.

#### *Mechatronics System Segment*

Net sales of the Mechatronics System Segment including test handlers and device interfaces decreased by ¥3,151 million, or 21.9%, compared to fiscal 2008 to ¥11,237 million in fiscal 2009.

The weak results for test systems for memory and non memory semiconductors also weakened demand for test handlers and device interface products, which are used together with semiconductor and component test systems. In particular, the downturn in the DRAM market led to a significant decline in demand for back-end test handlers. Furthermore, low nano-technology sales also contributed to decrease in net sales of the Mechatronics System Segment.

***Services, Support and Other Segment***

Net sales of the Services, Support and Other Segment decreased by ¥3,977 million, or 25.1%, compared with fiscal 2008 to ¥11,838 million in fiscal 2009, mainly due to a decline in demand for maintenance services reflecting the weak performance of the semiconductor market. The main businesses in the Services, Support and Others Segment for fiscal 2009 were maintenance services and leasing and rentals.

***Geographic Markets***

Advantest experienced a decrease of 30.6% in its net sales in fiscal 2009, which was mostly effected by decline in sales, in Japan and the Americas.

## **Table of Contents**

Net sales in Japan significant decreased by ¥12,758 million, or 51.6%, compared with fiscal 2008 to ¥11,976 million in fiscal 2009. This decrease was primarily due to weak sales of test systems for non memory semiconductors used for digital consumer device integrated circuits, effected by the decrease in capital expenditure by semiconductor manufacturers in light of the increasing uncertainty pertaining to demand for end products stemming from further slowdown of the economy.

Net sales in the Americas decreased by ¥6,829 million, or 58.1%, compared with fiscal 2008 to ¥4,930 million in fiscal 2009. This decrease was primarily due to restraint in capital expenditure by major semiconductor manufacturers for T2000 modules. The estimated effect of changes in exchange rates during fiscal 2009 was to decrease Advantest's net sales in the Americas by approximately ¥487 million.

Net sales in Europe decreased by ¥707 million, or 24.9%, compared to fiscal 2008 to ¥2,137 million in fiscal 2009 mainly due to low demand of test systems for semiconductors. The estimated effect of changes in exchange rates during fiscal 2009 was to decrease Advantest's net sales in Europe by approximately ¥205 million.

Net sales in Asia (excluding Japan) decreased by ¥3,133 million, or 8.4%, compared with fiscal 2008 to ¥34,182 million in fiscal 2009. Net sales in Korea decreased by ¥3,740 million, or 26.6% compared with fiscal 2008. This decrease was primarily due to restraint in capital expenditures by semiconductor manufacturers resulting from the slowing economy. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥1,958 million, or 15.1%, compared with fiscal 2008. This decrease resulted from lower sales of test systems for semiconductors. On the other hand, net sales in Taiwan in fiscal 2009 increased by ¥2,565 million, or 25.0%, compared with fiscal 2008, reflecting a relatively rapid recovery of demand for test systems for semiconductors compared to other regions. The estimated effect of changes in exchange rates during fiscal 2009 was to decrease Advantest's net sales in Asia by approximately ¥1,847 million.

Advantest's overseas sales as a percentage of total sales was 77.5% for fiscal 2009, compared with 67.7% for fiscal 2008.

## ***Operating Expenses***

In fiscal 2009, Advantest's operating expenses decreased by ¥61,245 million, or 48.6%, compared with fiscal 2008 to ¥64,864 million.

In fiscal 2009, cost of sales decreased by ¥29,540 million, or 52.0%, compared to fiscal 2008 to ¥27,297 million. This decrease was attributed to a ¥23,427 million decrease in net sales and a one-time expense relating to the structural reform in fiscal 2008 in the amount of ¥13,857 million, including inventory write-down of ¥8,715 million and impairment loss on long-lived assets of ¥5,142.

In fiscal 2009, research and development expenses decreased by ¥5,817 million, or 24.5%, compared to fiscal 2008 to ¥17,896 million. This decrease in research and development expenses reflects focusing on certain research and development projects as well as the decrease in personnel expenses achieved through voluntary retirement, non-renewal of contracts for temporary employees, and reduction of bonuses, along with the impairment loss on long-lived assets in fiscal 2008 resulting in the decline in depreciation for fiscal 2009.

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In fiscal 2009, selling, general and administrative expenses decreased by ¥12,100 million, or 38.1%, compared to fiscal 2008 to ¥19,671 million. This decrease primarily reflect the effects of the decrease in personnel expenses achieved through voluntary retirement, non-renewal of contracts for temporary employees, and reduction of bonuses.

In fiscal 2008, Advantest recorded a one-time expense for restructuring and impairment loss in an amount of ¥13,788 million. This amount was comprised of restructuring and impairment loss on long-lived assets of ¥8,724 million and costs related to the early retirement program amounting to ¥5,064 million.

## **Table of Contents**

### ***Operating Income***

In fiscal 2009, operating income improved by ¥37,818 million, compared to fiscal 2008, to a loss of ¥11,639 million.

### ***Other Income and Expenses***

In fiscal 2009, interest and dividend income decreased by ¥1,578 million, or 73.2%, compared with fiscal 2008 to ¥579 million. This decrease reflects the decrease in interest income caused primarily by a decrease of cash and cash equivalents and a decline of interest rates.

In fiscal 2009, interest expenses decreased by ¥7 million, or 63.6%, compared with fiscal 2008 to ¥4 million.

In fiscal 2009, impairment loss on investment securities decreased by ¥3,194 million compared with fiscal 2008 to ¥316 million reflecting the recovery of stock prices.

In fiscal 2009, other non-operating income improved by ¥3,394 million, compared with fiscal 2008, to an income of ¥1,454 million. This improvement was primarily due to an increase in the effects of foreign currency exchange by ¥3,368 million compared with fiscal 2008 to ¥1,072 million in fiscal 2009. Currency exchange profits/losses represent the difference between the value of foreign currency-denominated sales, translated at prevailing exchange rates, and either (i) the value of sales amounts settled during the fiscal year, including those settled using foreign exchange forward contracts, or (ii) the value of cash and cash equivalents, accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2010.

### ***Income Taxes***

In fiscal 2009, Advantest's effective tax rate was negative 14.7%, as the Company did not record tax benefits on pretax losses; the tax rate for fiscal 2008 was negative 41.7%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.5% for fiscal 2009. The difference between the statutory tax rate of 40.5% in fiscal 2009 and the effective tax rate of negative 14.7% in fiscal 2009 was mainly due to the effects of the valuation allowance for deferred tax assets. For a more detailed discussion on income taxes of Advantest in fiscal 2009 and fiscal 2008, see note 12 to Advantest's consolidated financial statements.

### ***Net Income***

In fiscal 2009, Advantest's net income improved by ¥63,448 million, compared to fiscal 2008, to a loss of ¥11,454 million.

***Other Comprehensive Income (Loss)***

In fiscal 2009, Advantest's other comprehensive income (loss), net of tax, improved by ¥6,700 million compared to fiscal 2008, to a loss of ¥272 million. This improvement was primarily due to a ¥6,501 million increase in pension liability adjustments from a loss of ¥4,935 million in fiscal 2008 to an income of ¥1,566 million. No tax effect was recognized on the pension liability adjustments recorded in the other comprehensive income (loss).

**5.B. LIQUIDITY AND CAPITAL RESOURCES**

Advantest's cash and cash equivalents balance decreased by ¥21,116 million in fiscal 2010 to ¥75,323 million as of March 31, 2011. As of March 31, 2011, approximately 53% of Advantest's cash and cash equivalents were held in Japanese yen.

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**Table of Contents**

Net cash used in operating activities was ¥693 million in fiscal 2010, mainly reflecting the results from an increase in accounts receivable of ¥7,645 million due to increased orders and sales in fiscal 2010, an increase in inventory of ¥7,285 million, an increase in accrued expenses of ¥2,540 million and an adjustment of noncash items such as depreciation and amortization, and net income of ¥3,163 million. Net cash used in operating activities improved by ¥17,053 million in fiscal 2010 compared to ¥17,746 million in net cash used in operating activities in fiscal 2009. The main reason for the improvement in fiscal 2010 was the ¥14,617 million increase to ¥3,163 million of net income in fiscal 2010 from ¥11,454 million of net loss in fiscal 2009.

Net cash used in investing activities was ¥5,828 million in fiscal 2010, which was mainly attributable to an increase in purchase of property, plant and equipment in the amount of ¥3,138 million and an increase in short-term investments in the amount of ¥2,446 million. Compared to net cash provided by investing activities in the amount of ¥10,824 million in fiscal 2009, the decrease was ¥16,652 million, which was primarily due to the ¥2,446 million increase in short-term investments in fiscal 2010 compared to the ¥13,811 million decrease in short-term investments in fiscal 2009.

Net cash used in financing activities was ¥12,028 million in fiscal 2010 which was mainly attributable to purchase of treasury stock in the amount of ¥10,268 million and dividends paid in the amount of ¥1,760 million. Net cash used in financing activities in fiscal 2010 increased by ¥10,225 million compared to ¥1,803 million in fiscal 2009. The main reason for the increase in fiscal 2010 was the purchase of treasury stock in the amount of ¥10,268 million in fiscal 2010 compared to ¥4 million in fiscal 2009.

Net effect of exchange rate changes on cash and cash equivalents was unfavorable by ¥2,567 million in fiscal 2010, a decline of ¥2,276 million compared to fiscal 2009.

Advantest has various retirement and severance plans for employees, including non-contributory defined benefit retirement and severance plans consisting primarily of the Employees Provident Fund ( EPF ) plan. As mentioned in Note 15 to the consolidated financial statements, in the balance sheet as of March 31, 2011, the amount of ¥14,069 million has been recognized as accrued severance and pension costs. Advantest has contributed to the EPF plan in accordance with the funding requirements of applicable Japanese governmental regulations. Although there is presently no immediate or significant near-term increase expected in cash funding requirements, Advantest's cash funding requirements would be affected by any changes in interest rates, rate of returns on plan assets and government regulations. The contributions paid by Advantest under the EPF were ¥689 million in fiscal 2009 and ¥1,606 million in fiscal 2010, respectively. Advantest expects to contribute ¥1,719 million under the EPF in fiscal 2011.

In accordance with Advantest's funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Accounting Department, Advantest has funded and is expected to continue to fund substantially all of its cash needs through cash from operating activities and cash and cash equivalents on hand. If conditions in the semiconductor industry, and thus the semiconductor and component test system industry, experience a downturn in the medium term, Advantest may need to fund future capital expenditures and other working capital needs through the incurrence of additional debt or dilutive issuances of equity securities.

The total acquisition price of Verigy is estimated to be approximately US\$1.1 billion, due at closing, and will be funded with existing cash and borrowings from commercial banks.

**5.C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

**Research and Development and Product Enhancement**

In order to support technology on the leading-edge, Advantest undertakes research and development initiatives to develop products which play a central role in the area of measuring technologies to support electronics, information and communications, and semiconductor manufacturing. Advantest's research and



## **Table of Contents**

development focuses on the development of new products and the improvement of existing products. In particular, in the Semiconductor and Component Test System Segment, a large and ongoing investment in research and development is necessary in order to maintain market competitiveness and to provide many types of products that meet the various needs of the customers. Advantest also conducts research of basic technologies. Advantest's expenditures for research and development were approximately ¥23.7 billion in fiscal 2008, ¥17.9 billion in fiscal 2009 and ¥21.2 billion in fiscal 2010. Advantest employs over 1,000 engineers and other personnel in its research and development division.

The contents and achievements to date of Advantest's current research and development activities include:

### *Basic Technology*

development of constituent technologies in the field of terahertz;

development of constituent technologies, including high speed, energy-saving micro switches and high speed samplers used in semiconductor and component test systems and millimeter wave measuring instruments;

development of methods to detect timing jitters in high bit-rate signals; and

development of compound semiconductor devices, including less-distortion devices used for semiconductor and component test systems.

### *Semiconductor and Component Test System Segment*

development of semiconductor and component test systems that enable testing of super high speed memory semiconductors at actual motion speed;

development of semiconductor and component test systems that enhance the functionality of testing of DRAM semiconductors and flash memory semiconductors and require less floor space;

development of semiconductor and component test systems that have the capacity to simultaneously test multiple complex SoC semiconductors with large pin counts and require less floor space;

development of semiconductor and component test systems with specialized applications;

development of measurement modules for devices that operate at extremely high frequencies and for networks that carry extremely high density transmissions;

development of high speed transmission technologies for high speed large pin counts and high speed transmission signal contact technologies; and

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development of application software for interface between the semiconductor designing environment and semiconductor and component test systems, as well as development of software to analyze defective semiconductors.

### *Mechatronics System Segment*

development of test handlers for memory semiconductors enabling measuring of multiple semiconductors for high throughput testing;

development of test handlers for SoC semiconductors that respond to diversified device types and packages; and

development of real Active Thermal Control technology with high speed response for high power devices.

Advantest has four research and development facilities in Japan, two in the U.S. and two in the Europe.

## **Table of Contents**

Advantest promotes joint development efforts between its various research facilities to capitalize on the capabilities of its researchers worldwide. Advantest's research and development team for semiconductor and component test systems in Japan works closely with Advantest engineers in Santa Clara, California in the development of software for T2000.

Advantest has been carrying out research and development activities for its burn-in system, concentrating its development resources on Japan Engineering Co., Ltd, a subsidiary of Advantest.

Advantest is currently engaged in the research and development of electron-beam, or e-beam, lithography technology used to draw circuit patterns directly on semiconductor wafers, as well as the research and development of electron-beam length measuring systems used to measure the microscopic size of the circuit pattern of a photomask. Due to their throughput limitations, e-beam lithography systems are currently only used in the production of high value-added semiconductors with limited production volumes and semiconductor prototypes. Advantest believes that further research and development will be necessary in order to attain high precision technologies for the leading semiconductor design and manufacturing process, in addition to the development of technologies for throughput responding to the demand for next generation equipment.

For a description of Advantest's patents, licenses and other intellectual property, see [Information on the Company Business Overview Licenses and Intellectual Property Rights](#).

### **5.D. TREND INFORMATION**

For a discussion of the trends that affect Advantest's business and financial condition and results of operations, see [Information on the Company Business Overview, Operating and Financial Review Operating Results and Operating and Financial Review and Liquidity and Capital Resources](#).

Furthermore, the situation of the Great East Japan Earthquake and the Fukushima No. 1 Nuclear Reactor is ongoing and is extremely unpredictable, and as a result, if the markets for the semiconductor industry and finished products which are closely related to semiconductors such as household electric appliances, various computer equipments and automobiles deteriorate, Advantest's business may be adversely affected.

### **5.E. OFF-BALANCE SHEET ARRANGEMENTS**

As of March 31, 2011, Advantest had no material off-balance sheet arrangements.

Advantest does not participate in transactions that derecognize assets or liabilities through unconsolidated entities, structured finance or special purpose entities that were created for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

### **5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

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The following table reflects Advantest's current obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments as of March 31, 2011.

| <b>Contractual Cash Obligation</b>        | <b>Total</b> | <b>Payments due by Period</b> |  |                      |                              |
|---|--------------|-------------------------------|--|----------------------|------------------------------|
|   |              | <b>Less than<br/>1 year</b>   | <b>1-3<br/>years<br/>(in millions)</b> | <b>3-5<br/>years</b> | <b>More than<br/>5 years</b> |
| Long-Term Debt, including current portion | ¥            | ¥                             | ¥                                      | ¥                    | ¥                            |
| Operating Leases                          | 1,039        | 288                           | 370                                    | 246                  | 135                          |
| Contractual Obligations                   | 45           | 45                            |  |                      |                              |
| <br>Total Contractual Cash Obligations    | <br>¥ 1,084  | <br>¥ 333                     | <br>¥ 370                              | <br>¥ 246            | <br>¥ 135                    |

**Table of Contents****5.G. SAFE HARBOR**

All information that is not historical in nature disclosed under Item 5. Operating and Financial Review and Prospects Off-Balance Sheet Arrangements and Tabular Disclosure of Contractual Obligations is deemed to be a forward-looking statement. See Cautionary Statement with Respect to Forward-Looking Statements.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A. DIRECTORS AND SENIOR MANAGEMENT****Directors, Corporate Auditors and Executive Officers**

Directors, corporate auditors and executive officers of the Company as of June 24, 2011 and their respective business experience are listed below.

| <b>Name (Date of birth)</b>              | <b>Position<br/>(Group executive/function)</b>   | <b>Date of<br/>commencement</b> | <b>Business experience</b>   |
|--|--|---------------------------------|--|
| Toshio Maruyama<br><br>(April 17, 1948)  | Chairman of the Board and Representative   | 4/1973                          | Joined Advantest Corporation   |
|  |  | 6/1989                          |  |
|  | Director   | 6/1995                          | Director   |
|  |  | 6/1999                          | Managing Director  |
|  |  |                                 | Senior Managing Director   |
|  |  |                                 | Senior Vice President, ATE Sales Group                                 |
|  |  | 6/2001                          | Representative Director and President                                  |
|  |  | 5/2003                          | Director, Environmental Management Center                              |
|  |  | 6/2003                          | Representative Director, President and COO                             |
|  |  | 6/2005                          | Representative Director, President and CEO                             |
|  |  | 5/2006                          | Director of the Association of Super-Advanced Electronics Technologies |
|  |  | 7/2008                          | SEMI Director (present position)                                       |
|  |  | 3/2009                          | Senior Vice President, New Concept Product Initiative                  |
|  |  | 4/2009                          | Director, CSR & Environmental Affairs Promotion Center                 |
| 6/2009                                   | Chairman of the Board and Representative Director (present position)                               |                                 |  |
| 7/2009                                   | Director of Nippon Keidanren (present position)  |                                 |  |
| 4/2011                                   | Director of Japan Electronics and Information Technology Industries Association (present position) |                                 |  |
| 5/2011                                   | Executive Director of Semiconductor Equipment Association of Japan (present position)              |                                 |  |
| Haruo Matsuno<br><br>(February 14, 1960) | Representative Director, President and CEO   | 4/1984                          | Joined Advantest Corporation   |
|  |  | 6/2006                          |  |
|  | Senior Vice President, Procurement Group   | 6/2007                          | Senior Vice President, Procurement & Logistics Group                   |
|  |  | 1/2008                          | Senior Vice President, Production Group                                |
|  |  | 6/2008                          | Executive Officer  |
|  |  | 6/2009                          |  |

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Representative Director, President and CEO (present position)

Director, CSR & Environmental Affairs Promotion Center (present position)

6/2010

Executive Vice President, New Concept Product Initiative (present position)

53

**Table of Contents**

| <b>Name (Date of birth)</b>                | <b>Position<br/>(Group executive/function)</b>  | <b>Date of<br/>commencement</b>        | <b>Business experience</b>  |        |                                       |
|--|---|--|---|--------|---------------------------------------|
| Naoyuki Akikusa<br><br>(December 12, 1938) | Director  | 4/1961                                 | Joined Fuji Communication Apparatus Mfg. Co., Ltd. (currently Fujitsu Limited)  |        |                                       |
|  |   | 6/1988                                 | Director, Fujitsu Limited   |        |                                       |
|  |   | 6/1991                                 | Managing Director of Fujitsu Limited  |        |                                       |
|  |   | 6/1992                                 | Senior Managing Director, Fujitsu Limited   |        |                                       |
|  |   | 6/1998                                 | Representative Director and President, Fujitsu Limited  |        |                                       |
|  |   | 6/2003                                 | Representative Director and Chairman of the Board, Fujitsu Limited  |        |                                       |
|  |   | 6/2003                                 | Corporate Auditor of FANUC LTD  |        |                                       |
|  |   | 6/2005                                 | Corporate Auditor of Advantest Corporation  |        |                                       |
|  |   | 6/2006                                 | Director, Advantest Corporation (present position)  |        |                                       |
|  |   | 6/2008                                 | Senior Executive Advisor and Director of Fujitsu Limited  |        |                                       |
|  |   | 6/2010                                 | Senior Executive Advisor of Fujitsu Limited (present position)  |        |                                       |
|  |   | Yasushige Hagio<br>(November 24, 1947) | Director  | 4/1972 | Assistant Judge, Tokyo District Court |
|  |   |  |   | 4/1982 | Judge, Tokyo District Court           |
| 4/1998                                     | Instructor, Legal Training and Research Institute   |  |   |        |                                       |
| 12/2003                                    | Chief of the Shizuoka District Court  |  |   |        |                                       |
| 6/2004                                     | Registered as an attorney-at-Law  |  |   |        |                                       |
| 6/2006                                     | Joined Seiwa Patent office & Law (present position)<br>Director, Advantest Corporation (present position) |  |   |        |                                       |
| Yuichi Kurita<br>(July 28, 1949)           | Director, Senior Executive Officer  | 4/1973                                 | Joined Fujitsu Limited  |        |                                       |
|  |   | 3/2001                                 | Joined Advantest Corporation  |        |                                       |
|  |   | 10/2001                                | General Manager, Investor Relations Office  |        |                                       |
|  |   | 4/2002                                 |   |        |                                       |
|  |   | 6/2003                                 | Manager, Finance Department<br>Executive Officer  |        |                                       |
|  | Corporate Planning and Administration   | 6/2004                                 | Vice President, Corporate Affairs Group<br>Vice President, Corporate Affairs Group (overseeing Finance)   |        |                                       |
|  |   | 6/2005                                 | Senior Vice President, Corporate Relations Group  |        |                                       |
|  |   | 11/2006                                | Senior Vice President, Corporate Planning Group   |        |                                       |
|  |   | 6/2007                                 | Director, e-Shuttle, Inc. (present position)  |        |                                       |
|  |   | 6/2007                                 | Director, Managing Executive Officer<br>Corporate Affairs   |        |                                       |
|  |   | 6/2008                                 | Corporate Administration<br>Senior Vice President, Corporate Administration Group<br>Assistant Director (Administration), Environmental Management Center In Charge of Corporate Ethics Office (present position) |        |                                       |

**Table of Contents**

| <b>Name (Date of birth)</b>          | <b>Position<br/>(Group executive/function)</b>             | <b>Date of<br/>commencement</b>       | <b>Business experience</b>   |
|--------------------------------------|--|---------------------------------------|--|
|                                      |  | 4/2009                                | Assistant Director (Administration), CSR & Environmental Affairs Promotion Center (present position)                       |
|                                      |  | 6/2009                                | Corporate Planning and Administration (present position)   |
|                                      |  | 6/2010                                | Director, Senior Executive Officer (present position)<br>Corporate Auditor, Tera Probe, Inc. (present position)            |
| Shinichiro Kuroe<br>(March 30, 1959) | Director, Managing Executive<br>Officer Strategic Business | 4/1981                                | Joined Advantest Corporation   |
|                                      |  | 3/1998                                | Manager, 1st Product Development Department  |
|                                      |  | 6/2000                                | Manager, Memory Tester Development Department  |
|                                      |  | 6/2001                                | General Manager, Memory Tester Business Division   |
|                                      |  | 4/2002                                | In Charge of Memory Tester Product, ATE Business Group<br>General Manager, 1st Memory Tester Business Division             |
|                                      |  | 2/2003                                | General Manager, Memory Tester Business Division   |
|                                      |  | 6/2005                                | Executive Officer<br>Vice President, Sales and Marketing Group<br>General Manager, Solution Business Division              |
|                                      |  | 4/2007                                | General Manager, Soc Strategic Sales Team  |
|                                      |  | 12/2007                               | General Manager, 1st SoC Tester Business Division  |
|                                      |  | 6/2008                                | Senior Vice President, SoC Tester Business Group   |
|                                      |  | 4/2009                                | Senior Vice President, Test System Business Group<br>General Manager, Memory Tester Business Division                      |
|                                      |  | 6/2009                                | Director, Managing Executive Officer (present position)<br><br>Technology Development Group and Test System Business Group |
|                                      |  | 6/2010                                | Test System Business<br>General Manager, System Planning Division  |
|                                      |  | 6/2011                                | Strategic Business (present position)<br>Executive Vice President, Strategic Business Unit (present position)              |
|                                      |  | Sae Bum Myung<br>(September 16, 1954) | Director, Managing Executive<br>Officer  |
| 4/2004                               | Manager, International Sales Department 3                  |                                       |  |
| Sales and Marketing                  | 6/2006   |                                       | Representative Director and President, Advantest Korea Co., Ltd.   |
|                                      | 6/2008   |                                       | Executive Officer<br>Asia Sales, Sales and Marketing Group   |



**Table of Contents**

| <b>Name (Date of birth)</b>                 | <b>Position<br/>(Group executive/function)</b> | <b>Date of<br/>commencement</b> | <b>Business experience</b>   |
|---|--|---------------------------------|--|
|   |  | 4/2009                          | Leader, Korea Account Sales Initiatives  |
|   |  | 6/2011                          | Director, Managing Executive Officer (present position)<br>Sales and Marketing (present position)<br>Executive Vice President, Sales and Marketing Group<br>(present position) |
| Yuri Morita<br><br>(July 15, 1947)          | Standing Corporate Auditor                     | 4/1972<br>1/1994                | Joined Fujitsu Limited<br>Joined Benesse Corporation   |
|   |  | 9/1995                          | Joined Advantest Corporation   |
|   |  | 4/1996                          | Manager of Legal Department  |
|   |  | 6/2000                          | Director   |
|   |  | 6/2001                          | Senior Vice President, Export Control Division   |
|   |  | 2/2003                          | Vice President, Corporate Affairs Group  |
|   |  | 6/2003                          | Manager, General Affairs Department<br>Managing Executive Officer<br>Assistant Director, Environmental Management Center   |
|   |  | 3/2004                          | Senior Vice President, Corporate Affairs Group<br>Assistant Director (overseeing Administration),<br>Environmental Management Center   |
|   |  | 4/2005                          | In Charge of Corporate Ethics Office   |
|   |  | 6/2008                          | Standing Corporate Auditor (present position)  |
| Akira Hatakeyama<br><br>(December 20, 1950) | Standing Corporate Auditor                     | 4/1973<br>5/1995                | Joined Advantest Corporation<br>General Manager, ATE Engineering and Manufacturing<br>Division   |
|   |  | 4/2001                          | Representative Director, President and CEO, Japan<br>Engineering Co., Ltd.   |
|   |  | 6/2005                          | Executive Officer  |
|   |  | 6/2008                          | Advisor  |
|   |  | 6/2011                          | Standing Corporate Auditor (present position)  |
| Megumi Yamamuro<br>(March 8, 1948)          | Corporate Auditor                              | 4/1974                          | Assistant Judge, Tokyo District Court  |
|   |  | 4/1984                          | Judge, Tokyo District Court  |
|   |  | 4/1988                          | Instructor, Legal Training and Research Institute  |
|   |  | 4/1997                          | Judge, Tokyo High Court  |
|   |  | 7/2004                          | Registered as an attorney-at-Law<br>Joined CAST Law P.C. (currently SOGA URYU &<br>ITOGA) (present position)   |
|   |  | 10/2004                         | Professor, The University of Tokyo Graduate School of Law<br>and Politics  |
|   |  | 6/2005                          | Corporate Auditor, Fujitsu Limited (present position)  |
|   |  | 6/2006                          | Corporate Auditor, Advantest Corporation (present position)  |

**Table of Contents**

| <b>Name (Date of birth)</b>            | <b>Position<br/>(Group executive/function)</b> | <b>Date of<br/>commencement</b> | <b>Business experience</b>   |
|--|--|---------------------------------|--|
|  |  | 6/2009                          | Corporate Auditor, NIFTY Corporation (present position)                            |
|  |  | 10/2010                         | Professor, The University of Nihon Graduate School of Law (present position)       |
| Masamichi Ogura<br>(June 30, 1946)     | Corporate Auditor                              | 4/1969                          | Joined Fujitsu Limited   |
|  |  | 6/2000                          | Director, Fujitsu Limited  |
|  |  | 6/2002                          | Managing Executive Officer, Fujitsu Limited  |
|  |  | 4/2003                          | Senior Executive Officer, Fujitsu Limited  |
|  |  | 6/2003                          | Director, Senior Executive Officer, Fujitsu Limited                                |
|  |  | 6/2004                          | Corporate Auditor, Fujitsu General Limited (present position)                      |
|  |  | 6/2006                          | Vice President and Representative Director, Fujitsu Limited                        |
|  |  | 6/2008                          | Standing Corporate Auditor, Fujitsu Limited (present position)                     |
|  |  | 6/2011                          | Corporate Auditor, Advantest Corporation (present position)                        |
| Hiroshi Nakamura<br>(December 4, 1957) | Managing Executive Officer                     | 4/1981                          | Joined Advantest Corporation   |
|  |  | 6/1998                          | Manager, Business Accounting Department, Corporate Affairs Group                   |
|  |  | 6/2002                          | Manager, Accounting Department, Corporate Affairs Group                            |
|  |  | 6/2006                          | Executive Officer  |
|  |  | 6/2007                          | Vice President, Corporate Affairs Group  |
|  |  | 6/2007                          | Senior Vice President, Financial Group   |
|  |  | 6/2008                          | Senior Director, Accounting Department, (present position)                         |
|  |  | 6/2008                          | Vice President, Corporate Administration Group                                     |
|  |  | 6/2009                          | General Manager, Accounting and Finance Division                                   |
|  |  | 6/2009                          | Managing Executive Officer (present position)                                      |
|  |  | 6/2010                          | Executive Vice President, Corporate Administration Group (present position)        |
| Yoshiaki Yoshida<br>(February 8, 1958) | Managing Executive Officer                     | 4/1999                          | Joined Advantest Corporation   |
|  |  | 6/2000                          | Director, Advantest Finance Inc.   |
|  |  | 6/2006                          | Representative Director, Advantest Finance Inc.                                    |
|  |  | 6/2006                          | Executive Officer  |
|  |  | 6/2007                          | Vice President, Corporate Planning Group   |
|  |  | 6/2008                          | Executive Vice President, Corporate Planning Group (present position)              |
|  |  | 3/2009                          | Senior Vice President (Officer), New Concept Product Initiative (present position) |
|  |  | 6/2009                          | Managing Executive Officer (present position)                                      |

**Table of Contents**

| <b>Name (Date of birth)</b>              | <b>Position<br/>(Group executive/function)</b>             | <b>Date of<br/>commencement</b>  | <b>Business experience</b>   |
|--|--|--|--|
|  |  | 6/2010   | Senior Vice President, Launch Planning Group for Certification Association (present position)  |
| Masao Shimizu<br><br>(February 24, 1953) | Managing Executive Officer<br><br>System Solution Business | 4/1973<br>4/2000<br>6/2001<br>4/2002<br>6/2003<br>6/2004<br><br>4/2005<br>6/2006<br><br>6/2007<br><br>4/2009<br><br>6/2009 | Joined Advantest Corporation<br>General Manager, SoC Tester Business Division<br>Director<br>General Manager, 1st SoC Tester Business Division<br>Executive Officer<br>Vice President, ATE Business Group (overseeing SoC Tester product)<br>Senior Vice President, 1st Test System Business Group<br>Senior Vice President, DI Business Group<br>General Manager, DI Business Division<br>Director, Fujitsu Interconnect Technologies Limited (present position)<br>Vice President (DI), System Solution Business Group<br>General Manager, DI Business Division<br>General Manager, DI Solution Business Division<br><br>Senior Vice President, System Solution Business Group<br><br>General Manager, CE Support Division<br>Managing Executive Officer (present position)<br>System Solution Business (present position)<br>Executive Vice President, System Solution Group (present position) |
| Hideaki Imada<br><br>(April 19, 1955)    | Managing Executive Officer                                 | 4/1978<br>4/2002<br>2/2003<br>6/2003<br><br>4/2004<br>6/2004<br><br>4/2005<br><br>6/2008<br>4/2009                         | Joined Advantest Corporation<br>General Manager, 2nd SoC Tester Business Division<br>Leader, OAI Business Initiatives<br>Executive Officer<br>Vice President, ATE Sales Group<br>Vice President, Sales and Marketing Group<br>Vice President, Sales and Marketing Group (overseeing OAI)<br>Senior Vice President, 2nd Test System Business Group<br>General Manager, Product Design Initiatives 2<br>General Manager, Memory Tester Business Division<br>Senior Vice President, Memory Tester Business Group<br>Vice President (SE), System Solution Business Group   |

**Table of Contents**

| <b>Name (Date of birth)</b>          | <b>Position<br/>(Group executive/function)</b> | <b>Date of<br/>commencement</b> | <b>Business experience</b>   |
|--------------------------------------|--|---------------------------------|--|
|                                      |  | 6/2009                          | Executive Vice President, Production Group (present position)                                    |
|                                      |  | 6/2011                          | Managing Executive Officer (present position)  |
| Yasuhiro Kawata<br>(October 5, 1953) | Executive Officer                              | 4/1974                          | Joined Advantest Corporation   |
|                                      |  | 6/2001                          | General Manager, ATE Product Engineering Division  |
|                                      |  | 4/2002                          | General Manager, 2nd Memory Tester Business Division   |
|                                      |  | 2/2003                          | General Manager, 2nd SoC Tester Business Division, ATE Business Group                            |
|                                      |  | 6/2005                          | Executive Officer (present position)   |
|                                      |  |                                 | General Manager, 2nd SoC Tester Business Division, 1st Test System Business Group                |
|                                      |  | 5/2007                          | Senior Vice President, Cost Planning Group   |
|                                      |  |                                 | General Manager, Cost Planning Division  |
|                                      |  | 6/2008                          | Executive Vice President, Quality Assurance Group (present position)                             |
|                                      |  |                                 | General Manager, Quality Assurance Division  |
|                                      |  |                                 | Assistant Director (Technology), Environmental Management Center                                 |
|                                      |  | 4/2009                          | Assistant Director (Technology), CSR & Environmental Affairs Promotion Center (present position) |
| Takashi Sugiura<br>(March 8, 1957)   | Executive Officer                              | 4/1979                          | Joined Advantest Corporation   |
|                                      |  | 9/1998                          | Manager, ATE Global Marketing Department   |
|                                      |  | 6/2001                          | Manager, ATE SoC Solution Business Department  |
|                                      |  | 10/2001                         | General Manager, Product Design Initiatives  |
|                                      |  | 6/2002                          | General Manager, ATE Product Design Initiatives  |
|                                      |  | 2/2003                          | General Manager, Product Design Initiatives  |
|                                      |  | 6/2005                          | General Manager, Product Design Initiatives 1  |
|                                      |  |                                 | Executive Officer (present position)   |
|                                      |  | 6/2006                          | Senior Vice President, FA Business Group   |
|                                      |  |                                 | General Manager, Handler Division  |
|                                      |  | 6/2009                          | Vice President, Corporate Administration Group   |
|                                      |  |                                 | General Manager, Legal and Intellectual Property Division  |
|                                      |  | 4/2010                          | General Manager, Launch Planning Group for Certification Association                             |
|                                      |  | 7/2010                          | Executive Vice President, Field Service Group (present position)                                 |
| Takashi Sekino<br>(May 30, 1957)     | Executive Officer                              | 4/1982                          | Joined Advantest Corporation   |
|                                      |  | 4/1998                          | Manager, 1st R&D Department, ATE Technology Division   |

**Table of Contents**

| <b>Name (Date of birth)</b>                | <b>Position<br/>(Group executive/function)</b> | <b>Date of<br/>commencement</b> | <b>Business experience</b>  |
|--|--|---------------------------------|---|
|  |  | 6/1998                          | Manager, 2nd R&D Department, ATE 1st Technology Division  |
|  |  | 6/2001                          | Manager, 3rd R&D Department, ATE 1st Technology Division  |
|  |  | 11/2001                         | General Manager, ATE 1st Technology Division  |
|  |  | 4/2005                          | General Manager, 1st Technology Division  |
|  |  | 6/2006                          | Executive Officer (present position)  |
|  |  | 5/2007                          | Vice President, Technology Development Group  |
|  |  | 6/2009                          | Senior Vice President, Technology Development Group   |
|  |  | 6/2011                          | General Manager, 3rd Technology Division  |
|  |  |                                 | Executive Vice President, ATE Unit Development Group (present position)                         |
| Soichi Tsukakoshi<br>(February 1, 1960)    | Executive Officer                              | 4/1983                          | Joined Advantest Corporation  |
|  |  | 4/2008                          | General Manager, Strategic Sales Division   |
|  |  | 6/2008                          | Executive Officer (present position)  |
|  |  |                                 | Senior Vice President (Officer), Sales and Marketing Group (present position)                   |
|  |  | 1/2010                          | Leader, Domestic Account Sales Initiatives  |
|  |  |                                 | Senior Vice President, Sales Division 1 (present position)                                      |
| Josef Schraetzenstaller<br>(June 16, 1957) | Executive Officer                              | 11/1996                         | Joined Advantest (Europe) GmbH (currently Advantest Europe GmbH)                                |
|  |  | 10/1997                         | Prokurist, Advantest (Europe) GmbH (currently Advantest Europe GmbH)                            |
|  |  | 4/2000                          | Managing Director, Advantest (Europe) GmbH (currently Advantest Europe GmbH) (present position) |
|  |  | 6/2008                          | Executive Officer, Advantest Corporation (present position)                                     |
|  |  |                                 | Europe Sales, Sales and Marketing Group   |
|  |  | 4/2009                          | Leader, EU Account Sales Initiatives  |
| R. Keith Lee<br>(December 15, 1955)        | Executive Officer                              | 8/1984                          | Joined Takeda Riken America, Inc. (currently Advantest America, Inc.)                           |
|  |  | 7/1996                          | General Manager, Custom Design Engineering, Advantest America, Inc.                             |
|  |  | 1/2004                          | Chairman of the Board, President and CEO, Advantest America, Inc. (present position)            |
|  |  |                                 | Director, President and CEO, Advantest America Corporation (Holding Co.) (present position)     |
|  |  | 6/2008                          | Executive Officer, Advantest Corporation (present position)                                     |
|  |  |                                 | America Sales, Sales and Marketing Group  |
|  |  | 4/2009                          | Leader, US Account Sales Initiatives  |

**Table of Contents**

| <b>Name (Date of birth)</b>         | <b>Position<br/>(Group executive/function)</b> | <b>Date of<br/>commencement</b> | <b>Business experience</b>  |
|-------------------------------------|--|---------------------------------|---|
| Makoto Nakahara<br>(July 23, 1959)  | Executive Officer                              | 4/1983                          | Joined Advantest Corporation  |
|                                     |  | 5/2002                          | Director, Chief Executive Officer and President, Advantest America Measuring Solutions, Inc.  |
|                                     |  | 11/2006                         | Manager, Development Purchasing & Innovative Procurement Planning Department, Procurement Group   |
|                                     |  | 1/2008                          | Manager, 1st Purchasing department, Production Group  |
|                                     |  | 1/2010                          | General Manager, Global Marketing Division  |
| Toshiyuki Okayasu<br>(June 2, 1962) | Executive Officer                              | 6/2011                          | Executive Officer (present position)  |
|                                     |  |                                 | Senior Vice President (Officer), Strategic Business Unit (present position)   |
|                                     |  | 4/1987                          | Joined Advantest Corporation  |
|                                     |  | 6/2007                          | Manager, 5th R&D Department, 1st Technology Division  |
|                                     |  | 6/2009                          | Vice President, Technology Development Group  |
|                                     |  | 6/2011                          | General Manager, 2nd Technology Division<br>Executive Officer (present position)<br>Executive Vice President, ATE System Development Group (present position) |

None of the persons listed above was selected as director, corporate auditor or executive officer pursuant to an arrangement or understanding with Advantest's major shareholders, customers, suppliers or others. There are no family relationships between any of the persons listed above.

**6.B. COMPENSATION****Executive Compensation**

The aggregate amount of compensation of all of the Company's directors and corporate auditors was approximately ¥614 million during fiscal 2010. Of the foregoing, the aggregate amount of compensation for the Company's directors (outside corporate directors excluded) was ¥514 million (¥344 million in fixed compensation, ¥98 million in bonus and ¥72 million in qualifying stock options), ¥60 million for the Company's corporate auditors (outside corporate auditors excluded) (¥41 million in fixed compensation, ¥14 million in bonus and ¥5 million in qualifying stock options) and ¥40 million for outside directors and outside corporate auditors (¥29 million in fixed compensation and ¥11 million in qualifying stock options). The amount of compensation for Director Toshio Maruyama was ¥105 million (¥66 million in fixed compensation, ¥23 million in bonus and ¥16 million in qualifying stock options).

Compensation for directors and corporate auditors was authorized by resolutions of the general meeting of shareholders on June 27, 2007 and to the extent compensation is within the authorized range, further authorization is not required. For a description of the Company's equity-based compensation plans, see [Share Ownership](#).

The amounts of compensation for directors and corporate auditors set forth above includes fixed compensation paid to one director who retired from his position as of the closing of the 68th ordinary general meeting of shareholders, which was held on June 24, 2010.

## **Table of Contents**

### **6.C. BOARD PRACTICES**

#### **Directors**

The Board of Directors has the ultimate responsibility for the administration of the affairs of the Company. The Company's articles of incorporation limit the number of directors to ten. Directors are elected at a general meeting of shareholders, and the standard term of directors is one year. Directors may serve any number of consecutive terms. The Board of Directors elects one or more representative directors from among its members, each of whom has the authority individually to represent the Company. From among its members, the Board of Directors may elect the chairman and the vice chairman. None of the directors of the Company has a service contract with the Company that provides for benefits upon termination of service.

Pursuant to the Company Law of Japan (hereinafter in Item 6.C., "Company Law") and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its directors (including persons who have previously served as the Company's directors) for failing to perform their duties. The Company may enter into contracts with outside directors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.

#### **Corporate Auditors**

The Company's articles of incorporation provide for no more than five corporate auditors and the Company currently has two Standing Corporate Auditors and two outside corporate auditors. Corporate auditors are elected at the general meeting of shareholders and the standard term of office of corporate auditors is four years. Under the Company Law, at least half of the corporate auditors are required to be persons who have not been a director, accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who executes its duties), executive officer, manager, or employee of the Company or any of its subsidiaries at any time in the past. Corporate auditors may not at the same time be directors, accounting counselors (if an accounting counselor is a corporation, an employee who executes its duties), executive officers, managers, or employees of the Company or any of its subsidiaries. The Company increased the number of required outside corporate auditors from one to two at the general meetings of shareholders held in June 2003 in order to strengthen the auditing function of the board of corporate auditors. Corporate auditors are under a statutory duty to oversee the administration of the Company's affairs by its directors, to audit its financial statements to be submitted by its Board of Directors to the general meetings of the shareholders and to report their opinions thereon. They are also required to attend the meetings of the Board of Directors and to express their opinions, but are not entitled to vote.

Corporate auditors constitute the board of corporate auditors. The board of corporate auditors has a statutory duty to prepare and submit an audit report to the directors each year. A corporate auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The board of corporate auditors is empowered to establish audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors.

Pursuant to the Company Law and the Company's articles of incorporation, and to the extent permitted by the laws and regulations, the Company may, by resolution of the Board of Directors, exempt liabilities of its corporate auditors (including persons who have previously served as the Company's corporate auditors) for failing to perform their duties. The Company may enter into contracts with outside corporate auditors to limit their liabilities for a failure to perform their duties, provided that the maximum amount of liabilities under such contracts shall be the total of the amounts provided in each item of Article 425, Paragraph 1 of the Company Law.





**Table of Contents****6.D. EMPLOYEES**

Set forth below is a table listing the total number of full-time employees and a breakdown of persons employed by main category of activity and by geographic location, as of March 31, 2009, March 31, 2010 and March 31, 2011.

|                          | As of March 31, |       |       |
|--------------------------|-----------------|-------|-------|
|                          | 2009            | 2010  | 2011  |
| Full-Time Employees      | 3,187           | 3,151 | 3,163 |
| By Category of Activity: |                 |       |       |
| Administrative           | 343             | 358   | 321   |
| Sales                    | 249             | 246   | 256   |
| Customer Support         | 786             | 731   | 700   |
| Manufacturing            | 578             | 579   | 674   |
| Research and Development | 1,120           | 1,139 | 1,121 |
| Other                    | 111             | 98    | 91    |
| By Geographic Location:  |                 |       |       |
| Japan                    | 2,413           | 2,413 | 2,404 |
| Asia (excluding Japan)   | 410             | 400   | 409   |
| Americas                 | 179             | 173   | 183   |
| Europe                   | 185             | 165   | 167   |

Most regular employees of the Company and its subsidiaries in Japan are members of one of the four labor unions. None of Advantest's overseas employees is a member of a union. Advantest considers its labor relations with all of its workers to be good.

During the fiscal year ended March 31, 2009, 2010 and 2011, Advantest had an annual average of 565, 217 and 223 temporary employees, respectively.

**Table of Contents****6.E. SHARE OWNERSHIP**

The following table sets forth the beneficial ownership of shares of common stock of the Company as of March 31, 2011 of each of the Company's directors, corporate auditors and executive officers as of March 31, 2011 and of directors, corporate auditors and executive officers newly elected in June, 2011.

| <b>Name of Record/Beneficial Owner</b> | <b>Number of Shares</b> |
|--|-------------------------|
| Toshio Maruyama                        | 128,990                 |
| Haruo Matsuno                          | 81,954                  |
| Naoyuki Akikusa                        | 20,530                  |
| Yasushige Hagio                        | 21,216                  |
| Yuichi Kurita                          | 78,177                  |
| Hiroshi Tsukahara                      | 77,583                  |
| Hiroyasu Sawai                         | 77,759                  |
| Shinichiro Kuroe                       | 61,335                  |
| Hitoshi Owada                          | 26,377                  |
| Yuri Morita                            | 38,857                  |
| Megumi Yamamuro                        | 20,488                  |
| Jiro Haneda                            | 18,000                  |
| Hiroshi Nakamura                       | 60,421                  |
| Yoshiaki Yoshida                       | 56,691                  |
| Masao Shimizu                          | 52,000                  |
| Hideaki Imada                          | 51,958                  |
| Yasuhiro Kawata                        | 48,799                  |
| Takashi Sugiura                        | 62,564                  |
| Takashi Sekino                         | 50,845                  |
| Sae Bum Myung                          | 39,000                  |
| Soichi Tsukakoshi                      | 39,917                  |
| Josef Schraetzenstaller                | 46,000                  |
| R. Keith Lee                           | 46,000                  |
| Akira Hatakeyama                       | 27,652                  |
| Masamichi Ogura                        | 0                       |
| Makoto Nakahara                        | 2,000                   |
| Toshiyuki Okayasu                      | 0                       |

Each of the persons listed above owns less than one percent of the issued and outstanding shares of common stock of the Company.

The number of shares owned by the Company's directors, corporate auditors and executive officers include options that are currently exercisable for 1,142,000 shares of the Company's common stock. For a description of these options, see "Stock Option Plan" below. The number of shares of common stock owned by the Company's directors, corporate auditors and executive officers reflects the number of shares that are owned through the director and corporate auditor stock ownership association and allocated to an individual director, corporate auditor or executive officer. For a description of this association, see "Stock Ownership Associations." For a description of the unit share system, see "Additional Information - The Unit Share System."

**Table of Contents****Stock Option Plan**

At the general ordinary meetings of shareholders or meeting of Board of Directors held in June 2007, June 2008, June 2009, June 2010 and June 2011, the shareholders or the Board Directors of the Company approved stock option plans for selected directors, corporate auditors, executive officers and employees of Advantest. The shareholders of the Company also approved the compensation amount of stock acquisition rights to be granted as stock options to directors and corporate auditors of the Company. The following table shows selected information related to these stock options.

|   | Sixteenth series     | Seventeenth series  | Eighteenth series    |
|---|----------------------|---------------------|----------------------|
| Date of grant   | July 12, 2007        | July 12, 2007       | September 26, 2007   |
| Number of shares to be issued/ delivered                                      | 184,000              | 593,000             | 2,000                |
| Issuance price per unit (100 shares)  | ¥111,500             | ¥0                  | ¥0                   |
| Exercise price per share  | ¥5,563               | ¥5,563              | ¥5,563               |
| Beginning of exercise period  | April 1, 2008        | April 1, 2008       | April 1, 2008        |
| End of exercise period  | March 31, 2012       | March 31, 2012      | March 31, 2012       |
| Number of directors, corporate auditors and executive officers of the Company | 13                   | 16                  | 0                    |
| Number of other employees   | 0                    | 182                 | 1                    |
|   | Nineteenth series    | Twentieth series    | Twenty-first series  |
| Date of grant   | February 28, 2008    | July 10, 2008       | July 10, 2008        |
| Number of shares to be issued/ delivered                                      | 1,000                | 182,000             | 522,000              |
| Issuance price per unit (100 shares)  | ¥0                   | ¥36,900             | ¥0                   |
| Exercise price per share  | ¥5,563               | ¥2,653              | ¥2,653               |
| Beginning of exercise period  | April 1, 2008        | April 1, 2009       | April 1, 2009        |
| End of exercise period  | March 31, 2012       | March 31, 2013      | March 31, 2013       |
| Number of directors, corporate auditors and executive officers of the Company | 0                    | 13                  | 15                   |
| Number of other employees   | 1                    | 0                   | 174                  |
|   | Twenty-second series | Twenty-third series | Twenty-fourth series |
| Date of grant   | April 1, 2009        | July 10, 2009       | July 12, 2010        |
| Number of shares to be issued/ delivered                                      | 12,000               | 338,000             | 308,000              |
| Issuance price per unit (100 shares)  | ¥0                   | ¥41,700             | ¥53,500              |
| Exercise price per share  | ¥2,653               | ¥1,844              | ¥2,089               |
| Beginning of exercise period  | May 1, 2009          | April 1, 2010       | April 1, 2011        |
| End of exercise period  | March 31, 2013       | March 31, 2014      | March 31, 2015       |
| Number of directors, corporate auditors and executive officers of the Company | 0                    | 25                  | 23                   |
| Number of other employees   | 8                    | 0                   | 0                    |
|   | Twenty-fifth series  |                     |                      |
| Date of grant   | July 12, 2011        |                     |                      |
| Number of shares to be issued/ delivered                                      | 988,000              |                     |                      |
| Issuance price per unit (100 shares)  | to be determined     |                     |                      |
| Exercise price per share  | to be determined     |                     |                      |
| Beginning of exercise period  | April 1, 2012        |                     |                      |
| End of exercise period  | March 31, 2016       |                     |                      |
| Number of directors, corporate auditors and executive officers of the Company | 23                   |                     |                      |
| Number of other employees   | 228                  |                     |                      |

## **Table of Contents**

### **Employee Stock Purchase Program**

Since August 1, 2002, eligible employees of Advantest America Corporation and its U.S. subsidiaries are able to participate in an employee stock purchase program. Under the program, each eligible employee may authorize payroll deductions of up to 15% of their base salary toward the purchase of ADRs representing shares of common stock of the Company. In addition, the Company will make an additional contribution equal to 15% of each eligible employee's payroll deductions toward the purchase of the ADRs.

### **Stock Ownership Associations**

The Company's director and corporate auditor stock ownership association is a partnership formed by the current and former directors, executive officers and corporate auditors of the Company for the purpose of acquiring the Company's shares of common stock. Only current directors, executive officers and corporate auditors and company advisors that formerly were directors, corporate auditors and executive officers of the Company may join the director and corporate auditor stock ownership association. The Company established its director and corporate auditor stock ownership association in 1983. Any member of the association may request that record ownership of the stock held by that member be transferred, in lots of a single unit, to that member. As of March 31, 2011, 24 current and former directors, executive officers, corporate auditors and company advisors were members of the director, executive officer and corporate auditor stock ownership association, and the association held 18,316 shares of the Company's common stock. The Company also has an employee stock ownership association for other employees in Japan. As of March 31, 2011, the association had 560 members and held 357,716 shares of the Company's common stock.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **7.A. MAJOR SHAREHOLDERS**

As of March 31, 2011, 173,271,951 shares of the Company's common stock were outstanding. Beneficial ownership of the Company's common stock in the table below was prepared from publicly available records of the filings made by the Company's shareholders regarding their ownership of the Company's common stock under the Financial Instruments and Exchange Law of Japan.

Under the Financial Instruments and Exchange Law of Japan, any person who becomes, beneficially and solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares) must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. The number of shares in the table below has been restated to reflect the effects of the stock split.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of the Company's common stock as of the dates indicated in the reports described below.

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| <b>Name of Beneficial Owner</b>                                   | <b>Number of Shares</b> | <b>Percentage of<br/>Outstanding Shares</b> |
|---|-------------------------|---|
| Fujitsu Limited   | 20,142,792              | 10.09%                                      |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd., and its related entities  | 13,690,220              | 6.86%                                       |
| The Sumitomo Trust and Banking Co., Ltd. and its related entities | 13,703,400              | 6.87%                                       |

**Table of Contents**

The number of shares owned by Fujitsu Limited is based on a report filed under the Securities and Exchange Law of Japan stating that Fujitsu held or was deemed to hold beneficially, as of February 23, 2005, 20,142,792 shares of the Company's common stock. This figure includes 20,142,600 shares of the Company's common stock held by the trustee of a retirement benefit plan of Fujitsu. Fujitsu retained beneficial ownership of these 20,142,600 shares of common stock.

The number of shares owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities held or were deemed to hold beneficially, as of May 10, 2010, 13,690,220 shares of the Company's common stock.

The number of shares owned by The Sumitomo Trust and Banking Co., Ltd. and its related entities is based on reports filed under the Financial Instruments and Exchange Law of Japan stating that The Sumitomo Trust and Banking Co., Ltd. and its related entities held or were deemed to hold beneficially, as of April 15, 2011, 13,703,400 shares of the Company's common stock.

Based on information made publicly available on or after April 1, 2008, the following table describes transactions resulting in a 1% or more change in the percentage ownership held by major beneficial owners of the Company's common stock.

| Name of Shareholder   | Date of Transaction | Shares Owned Prior to Transaction | Percentage | Number of Shares Changed | Shares Owned After the Transaction | Percentage |
|---|---------------------|-----------------------------------|------------|--------------------------|------------------------------------|------------|
| Nomura Securities Co., Ltd. and its related entities              | March 31, 2008      | 10,767,725                        | 5.40%      | 3,661,941                | 14,429,666                         | 7.23%      |
| Deutsche Bank London Office and its related entities              | March 31, 2008      |                                   |            |                          | 10,975,630                         | 5.50%      |
| Nomura Securities Co., Ltd. and its related entities              | April 15, 2008      | 14,429,666                        | 7.23%      | (4,257,900)              | 10,171,766                         | 5.10%      |
| Deutsche Bank London Office and its related entities              | April 15, 2008      | 10,975,630                        | 5.50%      | (2,455,703)              | 8,519,927                          | 4.27%      |
| J.P.Morgan Whitefriars Inc. and its related entities              | June 13, 2008       |                                   |            |                          | 10,744,020                         | 5.38%      |
| The Goldman Sachs Group, Inc. and its related entities            | July 31, 2008       |                                   |            |                          | 10,449,931                         | 5.23%      |
| The Goldman Sachs Group, Inc. and its related entities            | September 30, 2008  | 10,449,931                        | 5.23%      | (2,297,299)              | 8,152,632                          | 4.08%      |
| Walter Scott & Partners Limited                                   | October 27, 2008    | 10,008,360                        | 5.02%      | (2,173,051)              | 7,835,309                          | 3.93%      |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities   | December 29, 2008   |                                   |            |                          | 10,034,102                         | 5.03%      |
| J.P.Morgan Whitefriars Inc. and its related entities              | January 30, 2009    | 10,744,020                        | 5.38%      | (1,232,000)              | 9,512,020                          | 4.77%      |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its related entities   | July 27, 2009       | 10,034,102                        | 5.03%      | 4,535,136                | 14,569,238                         | 7.30%      |
| J.P.Morgan Securities Ltd. and its related entities               | December 15, 2009   |                                   |            |                          | 10,712,896                         | 5.37%      |
| Nomura Securities Co., Ltd. and its related entities              | January 29, 2010    | 10,176,766                        | 5.10%      | (3,061,933)              | 7,109,773                          | 3.56%      |
| J.P.Morgan Securities Ltd. and its related entities               | May 31, 2010        | 10,712,896                        | 5.37%      | (1,490,751)              | 9,222,145                          | 4.62%      |
| J.P.Morgan Whitefriars Inc. and its related entities              | July 30, 2010       |                                   |            |                          | 10,007,937                         | 5.01%      |
| J.P.Morgan Whitefriars Inc. and its related entities              | September 15, 2010  | 10,007,937                        | 5.01%      | (1,153,468)              | 8,854,469                          | 4.44%      |
| The Sumitomo Trust and Banking Co., Ltd. and its related entities | April 15, 2011      |                                   |            |                          | 13,703,400                         | 6.87%      |

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As of March 31, 2011, the Company had 173,271,951 outstanding shares of common stock. According to JPMorgan Chase Bank, depositary for the Company's ADSs, as of March 31, 2011, 1,882,043 shares of the

## **Table of Contents**

Company common stock were held in the form of ADRs and there were two ADR holders of record in the U.S. According to the Company's register of shareholders, as of March 31, 2011, there were 50,272 holders of common stock of record worldwide. As of March 31, 2011, there were 96 record holders of the Company's common stock with addresses in the U.S., whose shareholdings represented 13.4% of the outstanding common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the U.S. might not fully show the number of beneficial owners in the U.S.

None of the Company's shares of common stock entitles the holder to any preferential voting rights.

Advantest knows of no arrangements the operation of which may at a later time result in a change of control.

## **7.B. RELATED PARTY TRANSACTIONS**

### **Business Relationships**

Advantest sells products to and purchases parts from Fujitsu Limited, which owns approximately 12% of the voting rights of Advantest, and its subsidiaries. Advantest sells products to Fujitsu and its subsidiaries in arm's-length transactions. Advantest purchases parts from Fujitsu and its subsidiaries after receiving competitive bids from several suppliers. Advantest derived net sales of ¥2,461 million in fiscal 2010 from the sale of products to Fujitsu and its subsidiaries. Advantest purchased parts from Fujitsu and its subsidiaries in the amount of ¥4,622 million in fiscal 2010. Advantest had receivables from Fujitsu and its subsidiaries in the amount of ¥696 million as of March 31, 2011. Advantest had payables to Fujitsu and its subsidiaries in the aggregate amount of ¥2,717 million as of March 31, 2011. Advantest expects to continue to engage in arm's-length transactions with Fujitsu and its subsidiaries in the future.

Mr. Akikusa, a Director of the Company since 2006, currently serves as a Senior Executive Advisor of Fujitsu Limited. Mr. Yamamuro, a Corporate Auditor of the Company since 2006, currently serves as a corporate auditor of Fujitsu Limited. Mr. Ogura, a Corporate Auditor of the Company since 2011, currently serves as a full-time standing corporate auditor of Fujitsu Limited.

### **Loans**

As of March 31, 2011, the Company has no outstanding loans to its directors and executive officers.

## **7.C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**



**8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

1-4. Consolidated Financial Statements. Advantest's audited consolidated financial statements are included under Item 18 Financial Statements. Except for Advantest's consolidated financial statements included under Item 18, no other information in this annual report has been audited by Advantest's independent registered public accounting firm.

5. Not applicable.

6. Export Sales. See Information on the Company Business Overview Geographic Sales.

7. Legal and Arbitration Proceedings. See Information on the Company Business Overview Legal Proceedings.

**Table of Contents**

8. Dividend Policy. See Key Information Selected Financial Data Dividends.

**8.B. SIGNIFICANT CHANGES**

See Operating and Financial Review and Prospects, Key Information Risk Factors and Information on the Company Business Overview Industry Overview for a discussion of significant adverse changes since the date of Advantest's latest annual financial statements.

**ITEM 9. THE OFFER AND LISTING****9.A. OFFER AND LISTING DETAILS**

The following table sets forth for the periods shown the reported high and low sales prices of the Company's common stock on the Tokyo Stock Exchange and the ADSs on the New York Stock Exchange. The Company changed the ratio of ADSs to underlying shares on October 1, 2006. The prices below reflect the change in ratio. Details are included in the Company's press release dated July 26, 2006.

|                                       | Tokyo Stock Exchange<br>Price Per Share |       | New York Stock Exchange<br>Price Per ADS |       |
|---------------------------------------|---|-------|--|-------|
|                                       | High                                    | Low   | High                                     | Low   |
| <b>Fiscal year ended March 31,</b>    |   |       |  |       |
| 2007                                  | 7,680                                   | 5,030 | 63.72                                    | 44.70 |
| 2008                                  | 5,770                                   | 2,070 | 48.47                                    | 19.45 |
| 2009                                  | 3,100                                   | 996   | 29.71                                    | 10.82 |
| 2010                                  | 2,615                                   | 1,423 | 28.07                                    | 15.14 |
| 2011                                  | 2,516                                   | 1,179 | 26.89                                    | 15.86 |
| <b>Financial quarter ended/ending</b> |   |       |  |       |
| June 30, 2009                         | 1,910                                   | 1,423 | 19.28                                    | 15.14 |
| September 30, 2009                    | 2,550                                   | 1,581 | 27.80                                    | 17.72 |
| December 31, 2009                     | 2,525                                   | 1,864 | 27.97                                    | 21.50 |
| March 31, 2010                        | 2,615                                   | 2,033 | 28.07                                    | 23.25 |
| June 30, 2010                         | 2,516                                   | 1,860 | 26.89                                    | 20.58 |
| September 30, 2010                    | 2,020                                   | 1,571 | 22.72                                    | 18.87 |
| December 31, 2010                     | 1,916                                   | 1,456 | 22.68                                    | 18.32 |
| March 31, 2011                        | 1,924                                   | 1,179 | 22.90                                    | 15.86 |
| <b>Month ended</b>                    |   |       |  |       |
| December 31, 2010                     | 1,916                                   | 1,678 | 22.68                                    | 20.60 |
| January 31, 2011                      | 1,924                                   | 1,656 | 22.90                                    | 20.12 |
| February 28, 2011                     | 1,798                                   | 1,656 | 21.40                                    | 20.23 |
| March 31, 2011                        | 1,740                                   | 1,179 | 20.81                                    | 15.86 |
| April 30, 2011                        | 1,609                                   | 1,387 | 19.87                                    | 17.17 |
| May 31, 2011                          | 1,663                                   | 1,438 | 19.95                                    | 17.64 |

**9.B. PLAN OF DISTRIBUTION**

Not applicable.

**9.C. MARKETS**

The Company's common stock is traded on the First Section of the Tokyo Stock Exchange. In April 2000, the Company's common stock was added to the Nikkei Stock Average, which is an index of 225 selected stocks from the First Section of the Tokyo Stock Exchange.

**Table of Contents**

Since September 17, 2001, ADSs evidenced by ADRs have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by JPMorgan Chase Bank, as depositary. Each ADS represents one share of the Company's common stock.

**9.D. SELLING SHAREHOLDERS**

Not applicable.

**9.E. DILUTION**

Not applicable.

**9.F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**10.A. SHARE CAPITAL**

Not applicable.

**10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is information relating to the Company's common stock, including brief summaries of the relevant provisions of the Company's articles of incorporation and share handling regulations and of the Company Law of Japan (the Company Law, hereinafter in Item 10.B. the same) and related legislation, all as currently in effect.

**General**

The Company's authorized number of shares to be issued is 440,000,000 shares. The number of the Company's issued share capital as of March 31, 2011, including treasury shares, was 199,566,770. All of the issued shares are fully paid and non-assessable.

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The Company's share registration agent is Tokyo Securities Transfer Agent Co., Ltd., located at 6-2, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-0004, Japan. The shares have no par value.

The registered holder of deposited shares underlying the ADSs is the depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert their shareholders' rights against the Company.

In January 2009, the share certificates of all Japanese companies listed on stock exchanges in Japan, including the common stock of the Company, were delisted and became subject to a new book-entry transfer system. Under the new system, the Company's shares are administered by being recorded in a shareholder's transfer account book at the Japan Securities Depository Center, Inc. ( JASDEC ), which is a book-entry transfer institution, or at securities firms, banks and other account management institutions. JASDEC will provide the Company with information pertaining to the Company's shareholders that it has collated from each of the relevant account management institutions as of March 31 and September 30, or at such time as the Company makes a request for information pertaining to its shareholders based on justifiable grounds. The Company will record or register such information received from JASDEC on its register of shareholders.

Shareholders wishing to assert the minority rights and other rights set forth in Article 147, Paragraph 4 of the Law on Book-Entry Transfer of Corporate Bonds, Stock and Other Securities must submit an individual

## **Table of Contents**

shareholder notice to the account management institution at which such shareholder has opened a transfer account. The account management institution will promptly inform JASDEC of such individual shareholder notice and JASDEC will, in turn, provide information pertaining to the shareholder (the individual shareholder notice) to Advantest through its share registration agent.

In order for a transfer of shares to become effective, the amount of shares transferred must be recorded on the transfer account books. Moreover, the Company requires that a transfer of shares must be recorded in its shareholders' register in order for such transfer to be perfected.

## **Objects and Purposes**

Article 2 of the Company's articles of incorporation states that its objective is to engage in the following business activities:

the manufacture and sale of electric, electronic and physicochemical appliances and their applied equipment;

the manufacture and sale of appliances, equipment and software related to any of the foregoing items;

the lease and rental of equipment, appliances and other products incidental to each of the foregoing items;

the temporary personnel service business; and

any and all businesses incidental to any of the foregoing items.

## **Dividends**

### **Dividends General**

Under its articles of incorporation, the Company's fiscal year closes on March 31 of each year, and year-end dividends, if any, are paid to shareholders (or registered pledgees thereof) of record at that date.

Under the Company Law, subject to certain limitation on the distributable surplus, dividends, if any, may be paid to shareholders and pledgees of shares of record as of a record date as set forth by the Company's articles of incorporation or as determined by the Board of Directors from time to time. Dividends shall be paid by way of distribution of surplus. Dividends may be distributed in cash, or in kind subject to certain conditions being met. The Company may make distribution of dividends by a resolution of a general meeting of shareholders or by a resolution of the Board of Directors.

**Dividends Interim cash dividends**

In addition to year-end cash dividends, pursuant to Article 459, Paragraph 1, Item 4 of the Company Law, the Board of Directors may by resolution declare, an interim cash surplus dividend to shareholders, and pledges of record at September 30 of each year.

**Dividends Legal reserve**

When a stock company like the Company makes distribution of surplus, it shall set aside in its legal reserve or additional paid-in capital an amount equal to 10 percent of the amount of the surplus to be decreased as a result of such distribution of surplus in accordance with the provisions set forth in an ordinance of the Ministry of Justice.

**Dividends Distributable amount**

Under the Company Law, the Company is permitted to make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the Distributable Amount (as defined below) as at the effective date of such distribution of surplus.

**Table of Contents**

The amount of surplus at any given time shall be the amount of the Company's assets and the book value of the Company's treasury stock after subtracting the amounts of the following items (1) through (4) as they appear on the Company's non-consolidated balance sheet as at the end of the Company's last fiscal year, and after reflecting the changes in the Company's surplus after the end of the Company's last fiscal year, by adding the amounts of the following items (5), (6) and (7) and/or subtracting the amounts of the following items (8), (9) and (10):

- (1) its liabilities;
- (2) its stated capital;
- (3) its additional paid-in capital and legal reserve;
- (4) other amounts as provided for by an ordinance of the Ministry of Justice;
- (5) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock after subtracting the book value thereof;
- (6) (if the Company decreased its stated capital after the end of the last fiscal year) the amount of decrease in its stated capital (excluding the amount transferred to the additional paid-in capital or legal reserve);
- (7) (if the Company decreased its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in its additional paid-in capital or legal reserve (excluding the amount transferred to the stated capital);
- (8) (if the Company cancelled its treasury stock after the end of the last fiscal year) the book value of its treasury stock so cancelled;
- (9) (if the Company distributed surplus to shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus; and
- (10) other amounts as provided for by an ordinance of the Ministry of Justice including (if the Company reduced the surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if the Company has distributed the surplus to the shareholders after the end of the last fiscal year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by the ordinances of the Ministry of Justice.

The Distributable Amount of the Company at any given time shall be the aggregate amount of (a) the surplus and (b) the amount of the transfer price of its treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of its treasury stock;
- (2) (if the Company transferred its treasury stock after the end of the last fiscal year) the amount of the transfer price of its treasury stock; and



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- (3) other amounts as provided for by an ordinance of the Ministry of Justice including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

In addition, if the Company elects to become a company that uses its consolidated balance sheet for calculating distributable dividends (thus, becomes a company subject to regulations in respect of dividends determined based on consolidated accounts ), the Company would be required to deduct the excess amount calculated in the following manner from the distributable amount of surplus. Such excess amount is determined as (x) the total amount of the amount of shareholders' equity on unconsolidated balance sheet at the end of the last fiscal year and other amounts as provided for by an ordinance of the Ministry of Justice exceeds (y) the total amount of the amount of shareholders' equity on its consolidated balance sheet at the end of its last fiscal year and other amounts as provided for by an ordinance of the Ministry of Justice.

## **Table of Contents**

If the Company prepares extraordinary financial statements (as described below) and such extraordinary financial statements are approved at a meeting of the Board of Directors or the shareholders (if the Company Law so requires), the Company would be required to adjust the distributable amount for surplus by considering the profits and losses and the amount in respect of issuance of treasury stock during the period covered in such extraordinary financial statements.

The Company may prepare extraordinary unconsolidated financial statements that consist of a balance sheet as of a date within the fiscal year immediately following the last fiscal year (an extraordinary settlement date) and profit and loss covering a period of the first day of the current fiscal year up to such extraordinary settlement date. Such extraordinary financial statements prepared in the foregoing manner must be audited by corporate auditors and accounting auditors.

## **Dividends Ex-dividend date and prescription**

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The market price of shares generally becomes ex-dividend on the third business day before the record date.

Under the articles of incorporation, the Company is not required to pay any cash dividends unclaimed for a period of three years after the date on which the dividends first become payable.

For information as to Japanese taxes on dividends, see [Taxation Japanese Taxation](#).

## **Capital Accounts**

The amount of the issue price of new shares (with certain exceptions) is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the issue price as additional paid-in capital.

Under the Company Law, a resolution of general meetings of shareholders is generally required for such transfer of the additional paid-in capital and legal reserve to the stated capital.

The Company may also reduce the sum of its legal reserve and additional paid-in capital by resolution of a general meeting of shareholders. Under the Company Law, the Company may reduce the sum of its legal reserve and additional paid-in capital without the limitation of the amount to be reduced as mentioned above.

All or any part of the surplus which may be distributed as dividends may also be transferred to stated capital by resolution of a general meeting of shareholders.

**Stock Split**

The Company may at any time split the outstanding shares into a greater number of shares by resolution of the Board of Directors. The Company must give public notice of the stock split, specifying a record date for the stock split, not less than two weeks prior to the record date.

**Consolidation of Shares**

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (See Voting Rights ). When a consolidation of shares is to be made, the Company must give public notice or notice to each shareholder within two weeks from the date of entry into force. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

## **Table of Contents**

### **The Unit Share System**

#### ***General***

Consistent with the requirements of the Company Law, the Company's articles of incorporation provide that 100 shares constitute one unit. Although the number of shares constituting a unit is included in the articles of incorporation, any amendment to the articles of incorporation reducing (but not increasing) the number of shares constituting a unit or eliminating the provisions for the unit of shares may be made by a resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the articles of incorporation. The number of shares constituting one unit, however, cannot exceed 1,000 shares or one-200th of the number of the Company's issued share capital (including treasury stock).

#### ***Voting Rights under the Unit Share System***

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

#### ***Repurchase by the Company of Shares Constituting Less Than a Full Unit***

A holder of shares constituting less than a full unit may require the Company to purchase those shares at their market value in accordance with the provisions of the Company's share handling regulations.

#### ***Request by a Holder of Shares of Sales by the Company of Shares to Constitute a Full Unit***

The Company's articles of incorporation provide that a holder of shares constituting less than a full unit may request the Company to sell to such holder such amount of shares which will, when added together with the shares constituting less than a full unit, constitute a full unit of shares in accordance with the provisions of the Company's share handling regulations.

#### ***Effect of the Unit Share System on Holders of ADRs***

A holder who owns ADRs evidencing less than 100 ADSs will indirectly own less than a whole unit of shares of common stock. Although, as discussed above, under the unit share system holders of less than a unit have the right to require the Company to purchase their shares, holders of ADRs evidencing ADSs that represent other than integral multiples of whole units are unable to withdraw the underlying shares of common stock representing less than a unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of common stock in lots less than a unit. The unit share system does not affect the transferability of ADSs, which may be

transferred in lots of any size.

### **General Meeting of Shareholders**

The Company holds its ordinary general meeting of shareholders within three months after the end of a fiscal year and normally in June of each year in Tokyo, Japan. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice. Under the Company Law, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with the Company's share handling regulations, at least two weeks before the date of the meeting. The record date for an ordinary general meeting of shareholders is March 31 each year.

Any shareholder holding at least 300 voting rights or 1% of the total number of voting rights for a period of six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a representative director of the Company at least eight weeks before the date of such meeting.

## **Table of Contents**

### **Voting Rights**

A holder of shares constituting one or more whole units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following paragraph. In general, under the Company Law, a resolution can be adopted at a general meeting of shareholders by a majority of voting rights represented at the meeting. The Company Law and the Company's articles of incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the voting rights of all shareholders. The Company's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder whose outstanding shares are directly or indirectly owned by the Company or, due to other causes, whose management is being controlled in substance by the Company as provided for by an ordinance of the Ministry of Justice, does not have voting rights.

Shareholders may exercise their voting rights through proxies if those proxies are also shareholders who have voting rights.

The Company Law provides that a quorum of at least one-third of voting rights of shareholders that are eligible to vote must be present at a shareholders' meeting to approve any material corporate actions, such as:

- (1) amendment of the articles of incorporation (except in cases in which a shareholders' resolution is not required);
- (2) acquisition of its own shares from a specific party;
- (3) consolidation of shares;
- (4) any issue or transfer of new or treasury shares at a specially favorable price (or any issue of stock acquisition rights, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (5) the removal of a corporate auditor;
- (6) the exemption of liability of a director or corporate auditor with certain exceptions;
- (7) a reduction of stated capital meeting certain conditions;
- (8) a distribution of in-kind dividends which meets certain requirements;
- (9) dissolution, merger, or consolidation with certain exceptions in which a shareholders' resolution is not required;
- (10) the transfer of the whole or a material part of the business;
- (11) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required;

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- (12) share exchange or share transfer for the purpose of establishing 100% parent-subsiary relationships with certain exceptions in which a shareholders' resolution is not required; or
- (13) separating of the corporation with certain exceptions in which a shareholders' resolution is not required.

At least two-thirds of voting rights eligible to vote that are represented at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the depositary based on instructions from those holders. With respect to voting by holders of ADRs, see "Description of American Depositary Receipts" set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002.

## **Table of Contents**

### **Rights to be Allotted Shares**

Holders of shares have no preemptive rights under the Company's articles of incorporation. Under the Company Law, the Board of Directors may, however, determine that shareholders shall be given rights to be allotted shares in connection with a particular issue or transfer of new or treasury shares, or stock acquisition rights. In this case, the rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date.

Rights to be allotted new or treasury shares are non-transferable. A shareholder, however, may be allocated stock acquisition rights for free, in which case such stock acquisition rights may be transferred to a third party.

### **Stock Acquisition Rights**

Subject to certain requirements, the Company may issue stock acquisition rights by resolution of the Board of Directors. Except where the issue would be on especially favorable terms, the issue of stock acquisition rights may be authorized by a resolution of the Board of Directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of existing shares held by it.

### **Liquidation Rights**

In the event of a liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the respective numbers of shares they own.

### **Liability to Further Calls or Assessments**

All of the Company's currently outstanding shares, including shares represented by the ADSs, are fully paid and non-assessable.

### **Record Date**

March 31 of each year is the record date for the Company's year-end dividends, if declared. A holder of shares constituting one or more whole units who is registered as a holder on the Company's register of shareholders at the close of business as of March 31 is entitled to exercise shareholders' voting rights at the ordinary general meeting of shareholders with respect to the fiscal year ending on that March 31. September 30 of each year is the record date for interim dividends, if declared. In addition, the Company may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.



The shares generally trade ex-dividend or ex-rights in the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

### **Repurchase by the Company of Shares**

The Company may acquire its own shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors), (ii) by purchase from a specific party (pursuant to a special resolution of a general meeting of shareholders), or (iii) from a subsidiary of the Company (pursuant to a resolution of the Board of Directors). When such acquisition is made by the Company from a specific party other than a subsidiary of the Company, any other shareholder may make a demand to a representative director, more than five calendar days prior to the

## **Table of Contents**

relevant shareholders' meeting, that the Company also purchase the shares held by such shareholder. However, under the Company Law, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase. Any such acquisition of shares must satisfy certain requirements and shall be integrated into regulations governing financial resources relating to the distribution of distributable surplus to shareholders. See Additional Information Memorandum and Articles of Association Dividends Distributable amount.

Shares acquired by the Company may be held by it for any period or may be cancelled by resolution of the Board of Directors. The Company may also transfer to any person the shares held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

The Company Law generally prohibits any subsidiary of the Company from acquiring shares of the Company.

## **Disposal of the Shares by the Company**

The Company is not required to send notices to a shareholder if notices to such shareholder fail to arrive continuously for five years or more at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company.

In addition, the Company may dispose of the Shares at the then market price of the Shares by a resolution of the Board of Directors and after giving at least three months' prior public notice as well as individual notice to the shareholder at the registered address of the shareholder in the Company's register of shareholders or to the address otherwise notified to the Company, and hold or deposit the proceeds for the shareholder, the location of which is unknown, if (i) notices to the shareholder fail to arrive continuously for five years or more at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive surplus dividends on the Shares continuously for five years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company.

## **Acquisition or Disposition of Shares**

Under the Foreign Exchange and Foreign Trade Law and the cabinet orders and ministerial ordinances thereunder (collectively, the Foreign Exchange Regulations), all aspects of regulations on foreign exchange and trade transactions are, with minor exceptions relating to inward direct investments (which are not generally applicable to the Company's shares), only subject to post transaction reporting requirements. Acquisitions and dispositions of shares of common stock or ADSs by non-residents of Japan (including foreign corporation not resident in Japan) are generally not subject to this reporting requirement. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.

## **Dividends and Proceeds of Sales**

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Under the Foreign Exchange Regulations as currently in effect, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. The acquisition of shares by non-residents of Japan by way of stock splits is not subject to any of the foregoing notification or reporting requirements.

## **Table of Contents**

### **Reporting of Substantial Shareholdings**

Pursuant to the Financial Instruments and Exchange Law of Japan and regulations thereunder, a person or group of persons beneficially holding more than 5% of the total shares with voting rights (for this purpose shares issuable upon exercise of stock acquisition rights held by the person or persons are counted in the calculation of the holding and the total shares in issue) of a company listed on any Japanese stock exchange is required to file with the director of a competent local finance bureau, within five business days a report containing the identity of such person or persons, the purpose of such holding and certain other information prescribed by regulations. A similar report must also be made (with certain exceptions) if the percentage of such holding subsequently increases or decreases by 1% or more or if any change occurs in material matters set out in reports previously filed.

### **10.C. MATERIAL CONTRACTS**

The material contracts entered into by the Company during the two years preceding this filing, which were not entered into in the ordinary course of business are as follows:

On March 28, 2011, Advantest and Verigy entered into a definitive agreement for the business combination of the two companies. Approval of the Singapore High Court is pending, which is required as a closing condition to the proposed transaction. Advantest expects the effective date of the scheme of arrangement to be in early July, and the expected closing date when the other closing conditions to the proposed transaction will be satisfied, has not yet been determined. For more details of the contract, see Item 19 EXHIBITS -4.1 IMPLEMENTATION AGREEMENT BY AND BETWEEN ADVANTEST CORPORATION AND VERIGY LTD.

### **10.D. EXCHANGE CONTROLS**

The Foreign Exchange Regulations govern the acquisition and holding of shares of capital stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50% or more of the total voting rights of their shares are held by individuals who are exchange non-residents or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements.

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## **Table of Contents**

In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of the Company) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of the Company) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which the Company's ADSs are issued, the Depositary is required, to the extent that in its judgment it can convert Japanese yen on a reasonable basis into dollars and transfer the resulting dollars to the U.S., to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holder of ADSs.

## **10.E. TAXATION**

The following discussion is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of the shares of common stock of the Company (the Shares) or ADSs. This summary does not purport to address all the material tax consequences that may be relevant to the holders of the Shares or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, investors liable for alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of the Company's voting stock, investors that hold the Shares or ADSs as part of an arbitrage, options trading, hedge, conversion or constructive sale transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the federal income tax laws and regulations of the United States and the national tax laws of Japan, judicial decisions and published rulings and administrative pronouncements as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), as described below, all of which are subject to change (possibly with retroactive effect), and/or to differing interpretations.

For purposes of this discussion, a U.S. Holder is any beneficial owner of the Shares or ADSs that, for U.S. federal income tax purposes, is:

- (1) an individual who is a citizen or resident of the United States;
- (2) a corporation or other entity organized in or under the laws of the United States or any State thereof or the District of Columbia;
- (3) an estate the income of which is subject to U.S. federal income tax without regard to its source; or

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- (4) a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

## **Table of Contents**

An Eligible U.S. Holder is a U.S. Holder that:

- (1) is a resident of the United States for purposes of the Treaty;
- (2) does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. holder carries on or has carried on a business or (b) of which the Shares or ADSs form part of the business property; and
- (3) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the Shares or ADSs.

If a partnership (including any entity treated as a partnership for U.S. federal income taxation purposes) holds the Shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding the Shares or ADSs is urged to consult its tax advisor.

This summary does not address any aspects of U.S. federal tax law other than income taxation and does not discuss any aspects of Japanese tax law other than income taxation as limited to national taxes, inheritance and gift taxation and securities transfer taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state, local and Japanese and other tax consequences of acquiring, owning and disposing of Shares or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders.

This summary is also based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement referred to in Description of American Depositary Receipts set forth in the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on July 22, 2002, and in any related agreement, will be performed under its terms.

In general, for purposes of the Treaty, and for U.S. federal and Japanese national income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADSs, and exchanges of the Shares for ADSs, and exchanges of ADSs for the Shares, will not be subject to U.S. federal or Japanese income tax.

This discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to ownership of Shares or ADSs. Investors in Shares or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.

## **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of the Shares and of ADRs evidencing ADSs representing the Shares who are either individuals who are not residents of Japan or non-Japanese corporations, without a permanent establishment in Japan ( non-resident Holders ).



Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits in themselves are, in general not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20%. With respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-Japanese

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**Table of Contents**

corporations or non-residents of Japan, such as non-resident Holders), other than any individual shareholder who holds 5% or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends due and payable on or before December 31, 2011, and (ii) as a general rule, 15% for dividends due and payable on or after January 1, 2012. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15% for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and Russia, and 10% for portfolio investors under the income tax treaty with, among others, France, the U.K., India, Australia, China, Pakistan, Vietnam, Poland, Romania and the United States.

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10% of the gross amount actually distributed and Japanese withholding tax with respect to dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise, unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is entitled to reduced rate or exemption from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of, or exemption from, Japanese withholding tax on payment of dividends on the Shares by the Company is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through the Company to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depository or its agent submits two Application Forms (one before payment of dividends, the other within eight months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depository. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

Gains derived from the sale of the Shares or ADSs outside Japan by a non-resident Holder holding such Shares or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired the Shares or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of the Shares or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

## **Table of Contents**

### **U.S. Federal Income Taxation**

#### *U.S. Holders*

The following discussion is a summary of the principal U.S. federal income tax consequences to U.S. Holders that hold Shares or ADSs as capital assets (generally, for investment purposes).

#### *Taxation of Dividends*

Subject to the passive foreign investment company ( PFIC ) rules discussed below, the gross amount of any distribution made by the Company in respect of Shares or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits of the Company, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when the dividend is actually or constructively received by the U.S. Holder, in the case of Shares, or by the depositary, in the case of ADSs. Dividends paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Under current law, dividends received on shares or ADSs of certain foreign corporations in taxable years beginning before January 1, 2013 by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to Shares or ADSs are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars on such date. If the Japanese yen received as a dividend is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in such Japanese yen equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or the U.S. Holder otherwise disposes of the Japanese yen) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of Shares or ADSs exceeds the Company's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those Shares or ADSs, and thereafter will be treated as U.S. source capital gain.

Distributions of additional Shares that are made to U.S. Holders with respect to their Shares or ADSs and that are part of a pro rata distribution to all of the Company's shareholders generally will not be subject to U.S. federal income tax.

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For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of Shares or ADSs will constitute income from sources outside the United States, and will generally be passive category income or, for certain U.S. Holders, general category income. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of the Company dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or if the U.S. Holder does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, as a deduction from such U.S. Holder's taxable income. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential tax rates of U.S. federal income

## **Table of Contents**

tax. Additionally, special rules may apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

- (i) has held Shares or ADSs for less than a specified minimum period, or
- (ii) is obligated to make payments related to the Company dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on the Company dividends.

Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The U.S. Internal Revenue Service (the IRS) has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, investors should be aware that the discussion above regarding the creditability of Japanese withholding tax on dividends could be affected by future actions that may be taken by the IRS.

### *Taxation of Capital Gains*

In general, upon a sale or other taxable disposition of Shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in those Shares or ADSs. A U.S. Holder generally will have an adjusted tax basis in the Shares or ADSs equal to their U.S. dollar cost. Subject to the PFIC rules discussed below, gain or loss recognized on the sale or other taxable disposition generally will be capital gain or loss and, if the U.S. Holder's holding period for those Shares or ADSs exceeds one year, will be long-term capital gain or loss. Non-corporate U.S. Holders, including individuals, are currently eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain at this time. Under U.S. federal tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other disposition of Shares or ADSs generally will be treated as derived from U.S. sources for foreign tax credit purposes.

Deposits and withdrawals of Shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### *PFIC*

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75% of its gross income is passive income, or (2) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and the composition of its income for the relevant tax year.

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Based on current estimates of its income and assets, the Company does not believe that it will be a PFIC for its current taxable year, and intends to continue its operations in such a manner that it will not become a PFIC in the future. However, because the PFIC determination is made annually at the close of the taxable year, the Company can provide no assurance that it will not become a PFIC in the current or any future taxable year due to changes in its asset or income composition, a decrease in the price of its Shares (which is used as a measure of goodwill as an active asset) or for other reasons. If the Company becomes a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the Shares or ADSs and on certain excess distributions (generally distributions in excess of 125% of the average distribution over a three-year

## **Table of Contents**

period, or, if shorter, the holding period for the Shares or ADSs). In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a non-corporate U.S. Holder receives from the Company will not be eligible for the reduced U.S. federal income tax rates applicable to dividends described above if the Company is a PFIC either in the taxable year of the distribution or the preceding taxable year. The Company will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year. If a U.S. Holder holds Shares or ADSs in any taxable year in which the Company is a PFIC, such U.S. Holder generally will be required to file an information statement or form specified by the U.S. Department of the treasury with the IRS in each year that the Company is a PFIC.

U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding Shares or ADSs if the Company were considered a PFIC in any year.

### ***Non-U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of Shares or ADSs that are neither U.S. Holders nor partnerships, nor entities taxable as partnerships for, U.S. federal income tax purposes ( Non-U.S. Holders ).

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax in respect of distributions in respect of the Shares or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, are attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other taxable disposition of Shares unless (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder (and, if an applicable income tax treaty applies, is attributable to a U.S. permanent establishment or a fixed base of such Non-U.S. Holder) generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits realized by a corporate Non-U.S. Holder may be subject to additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

### ***Backup Withholding and Information Reporting***

In general, except in the case of certain exempt recipients, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of Shares or ADSs, and to the proceeds received by a U.S. Holder upon the sale, exchange or redemption of Shares or ADSs within the United States or through certain U.S.-related financial intermediaries. Furthermore, backup withholding (currently at a rate of 28%) may apply to such payments or proceeds if a U.S. Holder fails to provide an accurate tax identification number and make appropriate certifications in the required manner.

Dividends paid to a Non-U.S. Holder in respect of Shares or ADSs, and proceeds received upon the sale, exchange or redemption of Shares or ADSs by a Non-U.S. Holder generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification under penalty of perjury to ensure that exemption. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9, entitled Request for



## **Table of Contents**

Taxpayer Identification Number and Certification, in the case of U.S. Holders, and on IRS Form W-8BEN, entitled Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding (or other appropriate IRS Form W-8), in the case of Non-U.S. Holders.

Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment may generally be refunded or allowed as a credit against the holder's U.S. federal income tax liability provided that the required information is properly and promptly furnished to the IRS in a timely manner.

For taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include the Shares or ADSs) are required to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this reporting requirement on their ownership and disposition of the Shares or ADSs.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. INVESTORS IN THE SHARES OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF SHARES OR ADSs BASED ON THEIR PARTICULAR CIRCUMSTANCES.

### **10.F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **10.G. STATEMENT BY EXPERTS**

Not applicable.

### **10.H. DOCUMENTS ON DISPLAY**

The Company files annual reports on Form 20-F and furnishes quarterly and other periodic reports on Form 6-K with the Commission. You may read and copy any reports, statements or other information on file at the public reference facilities maintained by the Commission at 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the Commission's home page (<http://www.sec.gov>). Copies of the Company's annual reports on Form 20-F, semi-annual and other periodic reports on Form 6-K are also available on its website at <http://www.advantest.co.jp/investors/en-index.shtml>. The ADSs are listed on the New York Stock Exchange under the symbol ATE, and the Company's reports and other information may also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. In addition, copies of contracts referred to in this annual report may be inspected at the principal executive offices of the Company, located at Shin Marunouchi Center Building, 1-6-2, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan.

### **10.I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Advantest is exposed to market risk from changes in foreign currency exchange rates, interest rates and equity security prices and credit.

**Table of Contents****Foreign Currency Exchange Rate Risk**

The tables below summarize information as of March 31, 2011 and March 31, 2010 on instruments and transactions that are sensitive to foreign currency exchange rates, including assets and liabilities denominated in U.S. dollars, Euros, New Taiwan dollars and Korean won, and forward contracts. The information in each table is presented in Japanese yen equivalents, which is the Company's reporting currency.

**Foreign Currency Denominated Assets and Liabilities**

Foreign currency denominated assets and liabilities that are sensitive to exchange rates between such foreign currency and the Japanese yen are presented by denominated currency. All of these assets and liabilities are stated at fair value.

|   | As of March 31, 2011                  |         |         |         |
|---|---------------------------------------|---------|---------|---------|
|   | Assets and Liabilities Denominated in |         |         |         |
|   | U.S.\$                                | Euro    | NT\$    | KRW     |
|   | (in millions)                         |         |         |         |
| Cash, cash equivalents and short-term investments | ¥ 26,680                              | ¥ 5,646 | ¥ 1,512 | ¥ 1,281 |
| Accounts receivable                               | 12,711                                | 171     | 1,256   | 439     |
| Accounts payables and accruals                    | (1,628)                               | (387)   | (306)   | (223)   |

|   | As of March 31, 2010                  |         |       |       |
|---|---------------------------------------|---------|-------|-------|
|   | Assets and Liabilities Denominated in |         |       |       |
|   | U.S.\$                                | Euro    | NT\$  | KRW   |
|   | (in millions)                         |         |       |       |
| Cash, cash equivalents and short-term investments | ¥ 18,612                              | ¥ 7,031 | ¥ 719 | ¥ 549 |
| Accounts receivable                               | 4,992                                 | 251     | 857   | 791   |
| Accounts payables and accruals                    | (1,051)                               | (363)   | (390) | (346) |

Other foreign currency denominated assets and liabilities that are sensitive to exchange rates between such foreign currency and a currency other than the Japanese yen are presented on a combined basis below. All of the assets and liabilities are stated at fair value.

|  | As of March 31, 2011                               |      |
|--|--|------|
|  | Yen Value of Cross Currency Assets and Liabilities |      |
|  | (in millions)                                      |      |
| Cash and cash equivalents and short-term investments | ¥  | 189  |
| Accounts receivable                                  |  | 162  |
| Accounts payables and accruals                       |  | (12) |

|  | As of March 31, 2010                               |     |
|--|--|-----|
|  | Yen Value of Cross Currency Assets and Liabilities |     |
|  | (in millions)                                      |     |
| Cash and cash equivalents and short-term investments | ¥  | 257 |
| Accounts receivable                                  |  | 219 |
| Accounts payables and accruals                       |  | (4) |



**Table of Contents****Foreign Exchange Contracts**

Advantest uses foreign exchange forward contracts and currency options to manage currency exposure, resulting from changes in foreign currency exchange rates, on trade receivables. Foreign exchange contracts have terms of a year. Foreign exchange forward contracts are presented by the notional balances with weighted average exchange rates. All of the foreign exchange forward contracts outstanding as of March 31, 2011 and March 31, 2010 are listed below.

|                                   | As of March 31, 2011 |                             |                                   |
|-----------------------------------|----------------------|-----------------------------|-----------------------------------|
|                                   | Contract Amounts     | Fair Value<br>(in millions) | Average Contractual Exchange Rate |
| To sell Euro/receive Japanese yen | ¥ 123                | ¥ (6)                       | ¥ 112.28                          |
| To sell Japanese yen/receive Euro | 399                  | 22                          | 111.41                            |
| To sell U.S. dollars/receive Euro | 67                   | 3                           | 1.3641                            |
| To sell Euro/receive U.S. dollars | 19                   | (1)                         | 1.3747                            |
| Total                             | ¥ 608                | ¥ (18)                      |                                   |

|   | As of March 31, 2010 |                             |                                   |
|---|----------------------|-----------------------------|-----------------------------------|
|   | Contract Amounts     | Fair Value<br>(in millions) | Average Contractual Exchange Rate |
| To sell U.S. dollars/receive Japanese yen | ¥ 2,748              | ¥ (24)                      | ¥ 92.84                           |
| To sell Euro/receive Japanese yen         | 3                    | (0)                         | 124.57                            |
| To sell Japanese yen/receive Euro         | 68                   | 1                           | 124.52                            |
| To sell U.S. dollars/receive Euro         | 188                  | (6)                         | 1.3894                            |
| To sell Euro/receive U.S. dollars         | 22                   | 0                           | 1.3765                            |
| Total                                     | ¥ 3,029              | ¥ (29)                      |                                   |

**Interest Rate Risk**

Advantest has no long-term debt obligations as of March 31, 2010 and March 31, 2011.

**Securities Value Risk**

The table below shows the acquisition price and fair value of securities that Advantest holds as of March 31, 2011 and March 31, 2010. Advantest does not hold or issue financial commodities with the purpose to trade. Advantest holds equity or debt securities as available-for-sale securities.

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|                     | As of March 31, 2010 |            | As of March 31, 2011 |            |
|---------------------|----------------------|------------|----------------------|------------|
|                     | Acquisition Price    | Fair Value | Acquisition Price    | Fair Value |
| Tradable Securities | ¥ 2,833              | ¥ 4,232    | ¥ 4,309              | ¥ 5,608    |

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**12.A. DEBT SECURITIES**

Not applicable.

**12.B. WARRANTS AND RIGHTS**

Not applicable.

**Table of Contents**

**12.C. OTHER SECURITIES**

Not applicable.

**12.D. AMERICAN DEPOSITARY SHARES**

***Fees and Charges for Holders of American Depositary Receipts***

JPMorgan Chase Bank, N.A. ( Depository ), as depositary of the Company's ADS, collects the following fees from holders of ADRs or intermediaries acting in their behalf. The Depository may sell (by public or private sale) sufficient securities and property received prior to such deposit to pay such fees.

- (a) Depositing or substituting the underlying shares

Each person to whom ADSs are issued, will be charged U.S. \$5.00 for each 100 ADSs (or portion thereof) issued or delivered (as the case may be).

- (b) Receiving or distributing dividends

A fee of U.S. \$0.02 or less per ADS (or portion thereof) for any cash distribution made.

- (c) Selling or exercising rights

A fee for the distribution or sale of securities, being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged U.S.\$5.00 for each 100 ADSs (or portion thereof) as a result of the deposit of such securities (treating all such securities as if they were shares of stock).

- (d) Withdrawing an underlying security

Each person surrendering ADSs for withdrawal of deposited securities or whose ADSs are cancelled or reduced for any other reason will be charged U.S. \$5.00 for each 100 ADSs (or portion thereof) reduced, cancelled or surrendered (as the case may be).

- (e) Transferring, splitting or grouping receipts

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A fee of U.S. \$1.50 per ADR or ADRs for transfers made.

- (f) General depositary services, particularly those charged on an annual basis

A fee of U.S. \$0.02 per ADS (or portion thereof) per year for the services performed by the Depositary in administering the ADRs (which fee shall be assessed against holders as of the record date or dates set by the Depositary not more than once each calendar year and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions).

- (g) Expenses of the Depositary

Such fees and expenses incurred by the Depositary (including without limitation expenses incurred on behalf of holders in connection with foreign exchange control regulations or any law or regulation relating to foreign investments) in connection with the delivery of deposited securities or otherwise to comply with the Depositary's or its custodian's compliance procedures, applicable law, rule or regulation.

- (i) stock transfer or other taxes and other governmental charges (which are payable by holders or persons depositing stock);
- (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering stock, ADRs or deposited securities (which are payable by such persons or holders);



**Table of Contents**

- (iii) transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars; and
- (v) any other charge payable by any of the Depositary, any of the Depositary's agents, including, without limitation, the custodian, or the agents of the Depositary's agents in connection with the servicing of the stock or other deposited securities.

***Fees and Other Payments Made by the Depositary to the Company***

The Depositary has agreed to reimburse certain reasonable expenses of the Company related to the Company's ADR program and incurred by the Company in connection with the ADR program. In fiscal 2010, the Company received the following payments from JPMorgan Chase Bank, N.A., as depositary of the Company's ADS.

| Category of Expenses (Direct Payments) | Amount Reimbursed for FY2010 |                  |
|--|------------------------------|------------------|
| Listing fees                           | US\$                         | 38,000.00        |
| Investor relations                     | US\$                         | 50,000.00        |
| <b>Total</b>                           | <b>US\$</b>                  | <b>88,000.00</b> |

**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

***(a) Disclosure Controls and Procedures***

Advantest performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of fiscal 2010. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the reports that Advantest files, or submits, under the Exchange Act is accumulated and communicated to its management including the chief executive officer and principal accounting and financial officer to allow timely decisions regarding required disclosure. The disclosure controls and procedures also ensure that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Advantest's Representative Director, President and CEO and Director and Senior Executive Officer. Advantest's disclosure and controls and procedures provide reasonable assurance that its objectives will be met. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Advantest's Representative Director, President and CEO and Director and Senior Executive Officer have concluded that Advantest's disclosure controls and procedures are effective at the reasonable assurance level.

***(b) Management's Annual Report on Internal Control Over Financial Reporting***

The management of Advantest is responsible for establishing and maintaining adequate internal control over financial reporting. Advantest's internal control system was designed to provide reasonable assurance with respect to the preparation of financial statements in accordance with U.S. GAAP and the reliability of such financial statements.

Internal control over financial reporting has inherent limitations underlying internal control systems and misstatements may not be prevented or detected. Furthermore, if the evaluation results regarding the effectiveness of internal control are expected to remain the same going forward, it is important to recognize that there are risks, under which changes in circumstances may lead the controls in place to be inadequate or that the extent to which policies or procedures are complied with may lower.

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Advantest's management assessed the effectiveness of the company's internal control over financial reporting as of March 31, 2011. In making this assessment, it used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of March 31, 2011, Advantest's internal control over financial reporting was effective based on those criteria.

Ernst & Young ShinNihon LLC, Advantest's independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of March 31, 2011. This report appears in Item 18.

***(c) Attestation Report of the Independent Registered Public Accounting Firm***

This report appears in Item 18.

**Table of Contents*****(d) Changes in Internal Control Over Financial Reporting***

There has been no change in our internal control over financial reporting that occurred during the year ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. [RESERVED]****ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Company's Board of Corporate Auditors has determined that Masamichi Ogura is an audit committee financial expert as defined by Item 16.A. of Form 20-F. Mr. Ogura met the independence requirements, as the term is defined under the New York Stock Exchange listing standards. For details regarding Mr. Ogura's business experiences, see 6.A. DIRECTORS AND SENIOR MANAGEMENT.

**ITEM 16B. CODE OF ETHICS**

The Company has adopted a code of ethics that applies to its directors and executive officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Company's code of ethics was attached to the annual report on Form 20-F for fiscal 2003 and is attached as an exhibit to this Form 20-F for reference.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Ernst & Young ShinNihon LLC served as the Company's independent registered public accounting firm for fiscal 2008, 2009 and 2010. The audited financial statements for these fiscal years are included in the respective year's annual report filed on Form 20-F.

The chart below sets forth the aggregate fees for professional services and other services rendered to Advantest by Ernst & Young ShinNihon LLC and its member firms in fiscal 2009 and 2010.

|                                   | Fiscal 2009   | Fiscal 2010  |
|-----------------------------------|---------------|--------------|
|                                   | (in millions) |              |
| Audit Fees <sup>(1)</sup>         | ¥ 282         | ¥ 279        |
| Audit-Related Fees <sup>(2)</sup> |               | 39           |
| Tax Fees <sup>(3)</sup>           | 26            | 15           |
| All Other Fees <sup>(4)</sup>     |               |              |
| <b>Total</b>                      | <b>¥ 308</b>  | <b>¥ 333</b> |

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit; statutory audits; the issuance of consents; and assistance with and review of documents filed with the SEC.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; and review of security controls and operational effectiveness of systems.
- (3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance in connection with tax audits and advice related to transfer pricing, and requests for rulings or technical advice from taxing authorities; and expatriate tax services.
- (4) All Other Fees include fees billed for training; and process improvement and advice.

**Table of Contents*****Policies and Procedures of the Board of Corporate Auditors***

Below is a summary of the current policies and procedures of the board of corporate auditors for the pre-approval of audit and permissible non-audit services performed by Advantest's independent public accountants.

Under the policy, the board of corporate auditors authorizes general pre-approval of audit and permissible non-audit services for the following fiscal year. Upon the general pre-approval of the board of corporate auditors, no specific pre-approval for audit and permissible non-audit services is required so long as those services fall within the scope of the general pre-approval provided.

Applications to provide services that require specific pre-approval by the board of corporate auditors will be submitted to the board of corporate auditors.

The board of corporate auditors makes further determination as to whether or not to revise the general pre-approval for the applicable fiscal year. Such request may include adding to or subtracting from any audit or permissible non-audit services listed in the general pre-approval. The performance of audit and permissible non-audit services and the payment of fees are subject to the review by the board of corporate auditors once every fiscal year.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

The Company does not have an audit committee. The Company is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like the Company that have a board of corporate auditors. The Company's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table sets forth Advantest's purchases of its common stock during fiscal 2010:

| Period             | (a) Total Number of Shares Purchased <sup>1</sup> | (b) Average Price Paid per Share (Yen) | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>2</sup> | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------|---|--|---|--|
| <b>2010</b>        |   |  |   |  |
| April 1 - April 30 | 144   | ¥ 2,464                                | N/A   | N/A  |
| May 1 - May 31     | 20  | 2,197                                  | N/A   | N/A  |
| June 1 - June 30   | 355   | 1,978                                  | N/A   | N/A  |

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|              |              |                        |         |     |     |
|--------------|--------------|------------------------|---------|-----|-----|
| July 1       | July 31      | 120                    | 1,793   | N/A | N/A |
| August 1     | August 31    | 5,448,027 <sup>3</sup> | 1,884   | N/A | N/A |
| September 1  | September 30 | 57                     | 1,654   | N/A | N/A |
| October 1    | October 31   | 98                     | 1,693   | N/A | N/A |
| November 1   | November 30  | 177                    | 1,609   | N/A | N/A |
| December 1   | December 31  | 364                    | 1,807   | N/A | N/A |
| <b>2011</b>  |              |                        |         |     |     |
| January 1    | January 31   | 64                     | 1,867   | N/A | N/A |
| February 1   | February 28  | 219                    | 1,784   | N/A | N/A |
| March 1      | March 31     | 76                     | 1,702   | N/A | N/A |
| <b>Total</b> |              | 5,449,721              | ¥ 1,884 | N/A | N/A |

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**Table of Contents**

- 1 All purchases are made through repurchase of shares constituting less than one unit, which is 100 shares of common stock, or through repurchase of shares pursuant to a resolution of Board of Directors. The purchase of shares that are a fraction of a unit are made in accordance with the provisions of the Company's share handling regulations. The Company is required to comply with such requests pursuant to the Company Law. See Additional Information Memorandum and Articles of Association The Unit Share System.
- 2 The Company can repurchase its shares through stock exchanges where the Company's shares are listed or pursuant to a takeover bid when there is a resolution of Board of Directors in accordance to Article 41 of the Articles of Incorporation.
- 3 The number of shares purchased in August 2010 includes 5,447,922 shares which were repurchased in connection with the merger of the Company's consolidated subsidiaries, Advantest Manufacturing, Inc. and Advantest Customer Support Corporation on July 1, 2010. The Company was required under the Company Law to repurchase the shares of common stock from shareholders who dissented to the merger.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

**Significant Differences in Corporate Governance Practices between the Company and U.S. Companies Listed on the New York Stock Exchange**

Pursuant to home country practices exemptions granted by the New York Stock Exchange, or the NYSE, the Company is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The SEC approved changes to the NYSE's listing standards related to corporate governance practices of listed companies in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company's board of corporate auditors satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company's CEO must notify the NYSE of any non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company's corporate governance practices and those followed by domestic companies under the NYSE listing standards, or NYSE Corporate Governance, have the following significant differences:

**1. Directors.** The Company currently has two outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 16G., the Company Law), do not require Japanese companies with boards of corporate auditors such as the Company to have any outside directors on its Board of Directors. While NYSE Corporate Governance requires that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, the Company currently has no non-management director on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law does not require, and accordingly the Company does not have, an internal corporate organ or committee comprised of only outside directors.

**2. Committees.** The Company has not established committees responsible for director nomination, corporate governance and executive compensation as required by NYSE Corporate Governance, but it has adopted a system of corporate auditors based on the Company Law and integrated such system into the Company's corporate governance structure. In addition, in connection with such system of corporate auditors, the Company has elected to establish a nomination and compensation committee, which is an optional committee under the Company Law.





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## **Table of Contents**

Pursuant to the Company Law, the Company's Board of Directors nominates and submits a proposal for appointment of directors for shareholder approval. The shareholders vote on such nomination at the Company's general meeting of shareholders. The Company Law requires that the respective total amount of remuneration, among others, (remuneration, bonus, and other consideration for services related to employment) to be paid to all directors and all corporate auditors must be determined by a resolution of the general meeting of shareholders, unless their remuneration is provided for in the articles of incorporation. The distribution of remuneration among directors is broadly delegated to the Company's Board of Directors and the distribution of remuneration among corporate auditors is determined by the board of corporate auditors.

**3. Audit Committee.** The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Consistent with the requirements of the Company Law, the Company elects its corporate auditors through a resolution adopted at a general meeting of shareholders. The Company currently has four corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Company Law.

Unlike NYSE Corporate Governance, the Company Law, among others, does not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Company Law, the board of corporate auditors may determine audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors, prepare corporate auditors' reports and give consent to proposals of the nomination of corporate auditors and accounting auditors.

The Company currently has two corporate auditors who satisfy the requirements of "outside corporate auditor" under the Company Law. Unlike NYSE Corporate Governance, under the Company Law, at least one-half of the corporate auditors of the Company must be "outside corporate auditors," which is a person who was not a director, an accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries at any time in the past. Corporate auditors may not at the same time be directors, an accounting counselor (if an accounting counselor is a corporation, an employee who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries.

**4. Corporate Governance Guidelines.** The Company is required to adopt or disclose corporate governance guidelines under Japanese laws and regulations, including the Company Law and the Financial Instruments and Exchange Law of Japan or rules of Tokyo stock exchange. Pursuant to the Company Law, the Company is required to decide to implement a structure as required by an ordinance of the Ministry of Justice (the Internal Control System) in order to ensure directors' compliance with applicable laws and regulations and the Company's articles of incorporation while executing their duties and joint stock companies' proper business operation, and is required to disclose the decision to implement the Internal Control System, policies and the conditions of its corporate governance in its business report, annual securities report and certain other disclosure documents in accordance with the Company Law, the Financial Instruments and Exchange Law, and applicable Cabinet ordinances and rules of Tokyo stock exchange in respect of timely disclosure.

**5. Code of Business Conduct and Ethics.** Unlike NYSE Corporate Governance, under Japanese law (including the Company Law and the Financial Instruments and Exchange Law of Japan), and the rules of the Tokyo stock exchange, the Company is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, the Company is not required to adopt and disclose a code of business conduct and ethics for these individuals. However, in accordance with the Company Law, the Company has decided to implement the Internal Control System as a structure to ensure that director's execution of their duties at meetings of the Board of Directors complies with applicable laws and regulations and the Company's articles of incorporation. Furthermore, the Company has established a code of ethics

consistent with Section 406 of the Sarbanes-Oxley Act.

**Table of Contents**

**6. Shareholder Approval of Equity Compensation Plans.** Unlike NYSE Corporate Governance, in which material revisions to equity-compensation plans of the listed companies are subject to shareholder approval, pursuant to the Company Law, if a joint stock company desires to adopt an equity-compensation plan for directors as compensation to directors other than cash, such company is generally required to obtain shareholder approval by an ordinary resolution. In addition to the above approval, when the Company previously desired to adopt an equity-compensation plan under which stock acquisition rights are granted on favorable terms to the recipient under the plan (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), the Company has obtained shareholder approval by a special resolution of a general meeting of shareholders, where the quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required.

**Table of Contents**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements are filed as part of this annual report on Form 20-F.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|  |      |
|--|------|
| <u>Reports of Independent Registered Public Accounting Firm</u>  | F-2  |
| <u>Consolidated Balance Sheets as of March 31, 2010 and 2011</u>   | F-4  |
| <u>Consolidated Statements of Operations<br/>for the years ended March 31, 2009, 2010 and 2011</u>           | F-6  |
| <u>Consolidated Statements of Stockholders' Equity<br/>for the years ended March 31, 2009, 2010 and 2011</u> | F-8  |
| <u>Consolidated Statements of Cash Flows<br/>for the years ended March 31, 2009, 2010 and 2011</u>           | F-9  |
| <u>Notes to Consolidated Financial Statements</u>  | F-10 |

All schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission, as the required information is presented in the notes to consolidated financial statements, or the schedules are not applicable.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of

Advantest Corporation

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advantest Corporation and subsidiaries at March 31, 2010 and 2011, and the consolidated results of its their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Advantest Corporation's internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 24, 2011 expressed an unqualified opinion.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan  
June 24, 2011

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of

Advantest Corporation

We have audited Advantest Corporation and subsidiaries' internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Advantest Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Advantest Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2011 and our report dated June 24, 2011 expressed an unqualified opinion thereon.



/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan  
June 24, 2011

F-3

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**March 31, 2010 and 2011**

|                                    | Yen (Millions) |         |
|------------------------------------|----------------|---------|
|                                    | 2010           | 2011    |
| <b>Assets</b>                      |                |         |
| Current assets:                    |                |         |
| Cash and cash equivalents          | ¥ 96,439       | 75,323  |
| Short-term investments             | 10,498         | 12,651  |
| Trade receivables, net             | 15,930         | 22,707  |
| Inventories                        | 16,590         | 23,493  |
| Other current assets               | 4,292          | 2,995   |
| Total current assets               | 143,749        | 137,169 |
| Investment securities              | 8,077          | 7,432   |
| Property, plant and equipment, net | 32,881         | 31,878  |
| Intangible assets, net             | 1,445          | 1,519   |
| Other assets                       | 2,511          | 2,314   |
| Total assets                       | ¥ 188,663      | 180,312 |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**March 31, 2010 and 2011**

|  | Yen (Millions) |          |
|--|----------------|----------|
|  | 2010           | 2011     |
| <b>Liabilities and Stockholders Equity</b>                                       |                |          |
| Current liabilities:   |                |          |
| Trade accounts payable   | ¥ 11,430       | 11,729   |
| Accrued expenses   | 4,894          | 7,329    |
| Accrued warranty expenses  | 2,802          | 1,754    |
| Customer prepayments   | 544            | 1,740    |
| Other current liabilities  | 2,249          | 1,955    |
| Total current liabilities  | 21,919         | 24,507   |
| Accrued pension and severance costs  | 13,765         | 14,069   |
| Other liabilities  | 2,737          | 3,604    |
| Total liabilities  | 38,421         | 42,180   |
| Commitments and contingent liabilities   |                |          |
| Stockholders equity:   |                |          |
| Common stock,  |                |          |
| Authorized 440,000,000 shares; issued 199,566,770 shares                         | 32,363         | 32,363   |
| Capital surplus  | 40,463         | 40,628   |
| Retained earnings  | 181,606        | 183,009  |
| Accumulated other comprehensive income (loss)                                    | (14,859)       | (18,270) |
| Treasury stock, 20,845,178 shares in 2010 and 26,294,819 shares in 2011, at cost | (89,331)       | (99,598) |
| Total stockholders equity  | 150,242        | 138,132  |
| Total liabilities and stockholders equity  | ¥ 188,663      | 180,312  |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Consolidated Statements of Operations**

**Years ended March 31, 2009, 2010 and 2011**

|   | <b>2009</b>       | <b>Yen (Millions)<br/>2010</b> | <b>2011</b>   |
|---|-------------------|--------------------------------|---------------|
| Net sales   | ¥ 76,652          | 53,225                         | 99,634        |
| Cost of sales   | 56,837            | 27,297                         | 51,164        |
| <b>Gross profit</b>   | <b>19,815</b>     | <b>25,928</b>                  | <b>48,470</b> |
| Research and development expenses   | 23,713            | 17,896                         | 21,197        |
| Selling, general and administrative expenses  | 31,771            | 19,671                         | 21,162        |
| Restructuring and impairment charges  | 13,788            |                                |               |
| <b>Operating income (loss)</b>  | <b>(49,457)</b>   | <b>(11,639)</b>                | <b>6,111</b>  |
| Other income (expense):   |                   |                                |               |
| Interest and dividend income  | 2,157             | 579                            | 326           |
| Interest expense  | (11)              | (4)                            | (3)           |
| Impairment losses on investment securities  | (3,510)           | (316)                          | (512)         |
| Other, net  | (1,940)           | 1,454                          | (371)         |
| <b>Total other income (expense)</b>   | <b>(3,304)</b>    | <b>1,713</b>                   | <b>(560)</b>  |
| Income (loss) before income taxes and equity in earnings (loss) of affiliated company | (52,761)          | (9,926)                        | 5,551         |
| Income taxes  | 21,994            | 1,457                          | 2,352         |
| Equity in earnings (loss) of affiliated company                                       | (147)             | (71)                           | (36)          |
| <b>Net income (loss)</b>  | <b>¥ (74,902)</b> | <b>(11,454)</b>                | <b>3,163</b>  |
|   | <b>2009</b>       | <b>Yen<br/>2010</b>            | <b>2011</b>   |
| Net income (loss) per share:  |                   |                                |               |
| Basic   | ¥ (419.09)        | (64.09)                        | 18.03         |
| Diluted   | (419.09)          | (64.09)                        | 18.03         |

See accompanying notes to consolidated financial statements.

**Table of Contents****ADVANTEST CORPORATION****AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)****Years ended March 31, 2009, 2010 and 2011**

|  | <b>2009</b> | <b>Yen (Millions)<br/>2010</b> | <b>2011</b> |
|--|-------------|--------------------------------|-------------|
| Net income (loss)                                      | ¥ (74,902)  | (11,454)                       | 3,163       |
| Other comprehensive income (loss), net of tax          |             |                                |             |
| Foreign currency translation adjustments               | (1,793)     | (2,614)                        | (3,231)     |
| Net unrealized gains (losses) on investment securities | (244)       | 776                            | (59)        |
| Pension related adjustment                             | (4,935)     | 1,566                          | (121)       |
| Total other comprehensive income (loss)                | (6,972)     | (272)                          | (3,411)     |
| Total comprehensive income (loss)                      | ¥ (81,874)  | (11,726)                       | (248)       |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Consolidated Statements of Stockholders' Equity**

**Years ended March 31, 2009, 2010 and 2011**

|  | 2009     | Yen (Millions)<br>2010 | 2011     |
|--|----------|------------------------|----------|
| <b>Common stock</b>                                  |          |                        |          |
| Balance at beginning of year                         | ¥ 32,363 | 32,363                 | 32,363   |
| Changes in the year                                  |          |                        |          |
| Total changes in the year                            |          |                        |          |
| Balance at end of year                               | 32,363   | 32,363                 | 32,363   |
| <b>Capital surplus</b>                               |          |                        |          |
| Balance at beginning of year                         | 40,072   | 40,320                 | 40,463   |
| Changes in the year                                  |          |                        |          |
| Stock option compensation expense                    | 248      | 143                    | 165      |
| Total changes in the year                            | 248      | 143                    | 165      |
| Balance at end of year                               | 40,320   | 40,463                 | 40,628   |
| <b>Retained earnings</b>                             |          |                        |          |
| Balance at beginning of year                         | 278,689  | 194,848                | 181,606  |
| Changes in the year                                  |          |                        |          |
| Net income (loss)                                    | (74,902) | (11,454)               | 3,163    |
| Cash dividends                                       | (8,936)  | (1,787)                | (1,760)  |
| Sale of treasury stock                               | (3)      | (1)                    | (0)      |
| Total changes in the year                            | (83,841) | (13,242)               | 1,403    |
| Balance at end of year                               | 194,848  | 181,606                | 183,009  |
| <b>Accumulated other comprehensive income (loss)</b> |          |                        |          |
| Balance at beginning of year                         | (7,615)  | (14,587)               | (14,859) |
| Changes in the year                                  |          |                        |          |
| Other comprehensive income (loss), net of tax        | (6,972)  | (272)                  | (3,411)  |
| Total changes in the year                            | (6,972)  | (272)                  | (3,411)  |
| Balance at end of year                               | (14,587) | (14,859)               | (18,270) |
| <b>Treasury stock</b>                                |          |                        |          |
| Balance at beginning of year                         | (89,325) | (89,328)               | (89,331) |
| Changes in the year                                  |          |                        |          |

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|   |                  |                 |                 |
|---|------------------|-----------------|-----------------|
| Purchases of treasury stock                   | (7)              | (4)             | (10,267)        |
| Sale of treasury stock                        | 4                | 1               | 0               |
| <b>Total changes in the year</b>              | <b>(3)</b>       | <b>(3)</b>      | <b>(10,267)</b> |
| Balance at end of year                        | (89,328)         | (89,331)        | (99,598)        |
| <b>Total stockholders' equity</b>             |                  |                 |                 |
| Balance at beginning of year                  | 254,184          | 163,616         | 150,242         |
| <b>Changes in the year</b>                    |                  |                 |                 |
| Net income (loss)                             | (74,902)         | (11,454)        | 3,163           |
| Other comprehensive income (loss), net of tax | (6,972)          | (272)           | (3,411)         |
| Cash dividends                                | (8,936)          | (1,787)         | (1,760)         |
| Stock option compensation expense             | 248              | 143             | 165             |
| Purchases of treasury stock                   | (7)              | (4)             | (10,267)        |
| Sale of treasury stock                        | 1                | 0               | 0               |
| <b>Total changes in the year</b>              | <b>(90,568)</b>  | <b>(13,374)</b> | <b>(12,110)</b> |
| <b>Balance at end of year</b>                 | <b>¥ 163,616</b> | <b>150,242</b>  | <b>138,132</b>  |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**Years ended March 31, 2009, 2010 and 2011**

|   | 2009            | Yen (Millions)<br>2010 | 2011            |
|---|-----------------|------------------------|-----------------|
| <b>Cash flows from operating activities:</b>  |                 |                        |                 |
| Net income (loss)   | ¥ (74,902)      | (11,454)               | 3,163           |
| <b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b> |                 |                        |                 |
| Depreciation and amortization   | 8,719           | 4,314                  | 4,209           |
| Deferred income taxes   | 20,205          | (148)                  | 425             |
| Stock option compensation expense   | 248             | 143                    | 165             |
| Restructuring and impairment charges  | 18,930          |                        |                 |
| Impairment losses on investment securities  | 3,510           | 316                    | 512             |
| <b>Changes in assets and liabilities:</b>   |                 |                        |                 |
| Trade receivables   | 19,323          | (5,457)                | (7,645)         |
| Inventories   | 17,816          | (6,942)                | (7,285)         |
| Trade accounts payable  | (6,879)         | 6,525                  | 1,146           |
| Other accounts payable  | 5,948           | (5,534)                | (393)           |
| Accrued expenses  | (4,893)         | (1,126)                | 2,540           |
| Accrued warranty expenses   | (617)           | (8)                    | (1,040)         |
| Customer prepayments  | (1,081)         | 24                     | 1,276           |
| Accrued pension and severance costs   | (1,605)         | 1,386                  | 225             |
| Other   | (2,365)         | 215                    | 2,009           |
| <b>Net cash provided by (used in) operating activities</b>  | <b>2,357</b>    | <b>(17,746)</b>        | <b>(693)</b>    |
| <b>Cash flows from investing activities:</b>  |                 |                        |                 |
| (Increase) decrease in short-term investments   | (26,210)        | 13,881                 | (2,446)         |
| Purchase of available-for-sale securities   |                 | (389)                  |                 |
| Purchase of non-marketable equity securities  | (911)           |                        |                 |
| Proceeds from sale of property, plant and equipment   | 390             | 287                    | 12              |
| Purchases of property, plant and equipment  | (4,909)         | (2,798)                | (3,138)         |
| Purchases of intangible assets  | (645)           | (215)                  | (323)           |
| Other   | (222)           | 58                     | 67              |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(32,507)</b> | <b>10,824</b>          | <b>(5,828)</b>  |
| <b>Cash flows from financing activities:</b>  |                 |                        |                 |
| Purchases of treasury stock   | (6)             | (4)                    | (10,268)        |
| Dividends paid  | (8,924)         | (1,796)                | (1,760)         |
| Other   | 0               | (3)                    | 0               |
| <b>Net cash used in financing activities</b>  | <b>(8,930)</b>  | <b>(1,803)</b>         | <b>(12,028)</b> |
| Net effect of exchange rate changes on cash and cash equivalents  | (2,813)         | (291)                  | (2,567)         |
| <b>Net change in cash and cash equivalents</b>  | <b>(41,893)</b> | <b>(9,016)</b>         | <b>(21,116)</b> |



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|  |           |         |        |
|--|-----------|---------|--------|
| Cash and cash equivalents at beginning of year | 147,348   | 105,455 | 96,439 |
| Cash and cash equivalents at end of year       | ¥ 105,455 | 96,439  | 75,323 |
| Supplemental data:                             |           |         |        |
| Cash paid during the year for:                 |           |         |        |
| Income taxes                                   | ¥ 5,414   | 1,083   | 1,412  |
| Interest                                       | 12        | 10      | 4      |

See accompanying notes to consolidated financial statements.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Description of Business and Summary of Significant Accounting Policies and Practices**

*(a) Description of Business*

The Company and its consolidated subsidiaries (collectively, Advantest ) manufacture and sell semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

Description of the business by segment is as follows:

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC ( System-on-a-Chip ) semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

*(b) Principles of Consolidation*

Advantest s consolidated financial statements include financial statements of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

*(c) Cash Equivalents*

Cash equivalents primarily consist of deposits and certificates of deposit with an original maturity of three months or less from the date of purchase. Advantest considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

*(d) Short-term investments*

Short-term investments consist of time deposit with fixed maturities greater than three months and Japanese money trusts with fixed maturities of three months, which are carried at cost, based on the characteristics of its fixed maturities, fixed interest rates, restriction of early redemption and non negotiability. The Japanese money trusts amounted to ¥9,000 million and ¥12,000 million at March 31, 2010 and 2011, respectively.

*(e) Allowance for Doubtful Accounts*

Advantest recognizes an allowance for doubtful accounts to ensure that trade receivables are not overstated due to uncollectability, which represents Advantest's best estimate of the amount of probable credit losses in Advantest's existing trade receivables. An allowance for doubtful accounts is provided at an amount calculated based on historical write off experience and a specific allowance for estimated amounts considered to be uncollectable after reviewing individual factors such as the customer's current financial position, significant changes in the semiconductor industry, other information that is publicly available and the customer's credit worthiness.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

***(f) Inventories***

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

***(g) Investment Securities***

Investment securities consist of debt securities, marketable and non-marketable equity securities, and investment in an affiliated company. Fair value is determined based on quoted market prices, projected discounted cash flow or other valuation techniques as appropriate.

**Debt and Marketable Equity Securities**

Advantest classifies its debt and marketable equity securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. A decline in the fair value of any available-for-sale security below cost that is deemed to be other than temporary results in an impairment loss. The impairment loss is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

On a periodic basis, Advantest evaluates the available-for-sale securities for possible impairment. Factors considered in assessing whether an indication of other than temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at the date of evaluation compared to the acquisition date, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors. Advantest generally has the intention and ability to retain available-for-sale securities which it determines that their impairment is not other than temporary for a period of time sufficient to allow for any anticipated recovery in market value. The impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the average cost method.

Non-marketable Equity Securities

Non-marketable equity securities are carried at cost. On a periodic basis, Advantest evaluates these investments for possible impairment. Non-marketable equity securities that have impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, is other than temporary. If the impairment is other than temporary, Advantest recognizes an impairment loss to reduce the carrying amount to the fair value and a new cost basis for the security is established.

Investment in an Affiliated Company

Investment in an affiliated company over which Advantest has the ability to exercise significant influence, but does not hold a controlling financial interest, is accounted for by the equity method. All significant intercompany profits have been eliminated.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

***(h) Derivative Financial Instruments***

All derivative instruments in the consolidated balance sheets are stated at fair value. The accounting for changes in the fair value (that are, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the purpose for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies.

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

***(i) Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is computed principally using the declining-balance method for the Company and its domestic subsidiaries. The straight-line method over estimated useful lives of the assets is used for foreign subsidiaries.

The depreciation period for significant assets ranges from 15 years to 50 years for buildings, 4 years to 10 years for machinery and equipment, and 2 years to 5 years for tools, furniture and fixtures.

***(j) Intangible Assets and Other Assets***

Intangible assets principally consist of goodwill and internal-use computer software. Other assets primarily consist of security deposits and others.

Advantest capitalizes certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal-use are expensed as incurred during the preliminary project stage, which includes costs for making strategic decisions about the project, determining performance and system requirements and vendor demonstration cost. Costs incurred subsequent to the preliminary project stage through implementation are capitalized. Advantest also expenses costs incurred for internal-use software projects in the post implementation stage such as costs for training and maintenance.

Costs incurred to develop software to be included with and sold as part of the Company's Semiconductor Test Systems are capitalized subsequent to the attainment of technological feasibility until the product becomes available for general release to customers. Other development costs are expensed as incurred.

The cost of software is amortized on a straight-line basis over the estimated useful life, which is generally from 3 years to 5 years.

Business combinations are accounted for using the purchase method. Goodwill and other intangible assets with indefinite useful lives are not subjected to amortization and are tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

***(k) Impairment of Long-Lived Assets***

Advantest reviews impairment of long-lived assets and certain identifiable intangibles with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such circumstances, if the carrying value of the asset is less than the estimated undiscounted cash flows expected to be generated by the asset or asset group, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the fair value.

***(l) Accrued Warranty Expenses***

Advantest's products are generally subject to warranty, and Advantest provides an allowance for such estimated costs when product revenue is recognized. To provide for future repairs during warranty periods, estimated repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred.

***(m) Accrued Pension and Severance Costs***

The Company and certain of its subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. Prior service benefit and cost, and actuarial gains and losses are recognized in accumulated other comprehensive income (loss) and are amortized using the straight-line method over the average remaining service period of active employees. The funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension plans is recognized in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) represents the unrecognized actuarial loss, and unrecognized prior service cost. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Advantest's accounting policy for amortizing such amounts.

***(n) Revenue Recognition***

**General**

Advantest recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured.



For equipment sales involving software that is more than incidental to the product, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection of the related receivable is probable. Revenue for the separate elements is only recognized when the functionality of the undelivered element is not essential to the delivered element.

Sales of Products

Sales of products which require installation are recognized when the related installation is completed and other sales recognition criteria are met since the installation is essential to the functionality of the equipment. When customer acceptance is uncertain, revenue is deferred until customer acceptance has been received. When the final payment is subject to customer acceptance, a portion of revenue for the final payment is deferred until an enforceable claim has become effective.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Sales of products and components which do not require installation service by Advantest is recognized upon shipment if the terms of the sale are free on board (FOB) shipping point or upon delivery if the terms are FOB destination which coincide with the passage of title and risk of loss.

**Long-term Service Contracts**

Revenue from fixed-price, long-term service contracts is recognized on the straight-line basis over the contract term.

**Leasing Income**

Revenue from operating leases is primarily recognized on the straight-line basis over the lease term.

**Multiple Deliverables**

Advantest accounts for multiple element arrangements that consist of non-software or software-related products in accordance with multiple element revenue recognition guidance and industry specific accounting guidance for software and software related transactions.

Advantest obtains and utilizes objective evidence (Vendor-Specific Objective Evidence (VSOE) for software-related products) of fair value to allocate revenue to elements in multiple element arrangements and recognizes revenue when the criteria for revenue recognition have been met for each element. If the criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. In the absence of objective evidence of fair value of a delivered element, Advantest allocates revenue to the fair value of the undelivered elements and the residual revenue to the delivered elements. The price charged when an element is sold separately generally determines fair value.

***(o) Shipping and Handling Costs***

Shipping and handling costs totaled ¥819 million, ¥741 million and ¥929 million for the years ended March 31, 2009, 2010 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

***(p) Research and Development Expenses***

Research and development costs are expensed as incurred.

***(q) Advertising Costs***

Advertising costs totaled ¥410 million, ¥80 million and ¥104 million for the years ended March 31, 2009, 2010 and 2011, respectively, and are expensed as incurred.

***(r) Stock-Based Compensation***

Advantest applies the fair-valued-based method of accounting for stock-based compensation and recognizes stock-based compensation expense in the consolidated statements of operations. The cost of employee services received in exchange for an award of equity instruments is measured based on the grant-date fair value of the stock options granted to employees. The cost is recognized on the straight line basis over the period during which an employee is required to provide service in exchange for the award. The Black Scholes pricing model is used to estimate the value of stock options.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Expected dividend yield is determined by the Company's dividend ratio of the past and other associated factors. Risk free interest rate is determined by Japanese government bond yield for the period corresponding to expected life. Expected volatility is determined by historical volatility and trend of the Company's share prices, and other associated factors. Expected life is determined by the Company's option exercise history, post vesting employment termination behavior for similar grants, and other pertinent factors.

***(s) Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Advantest records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Advantest recognizes the financial statement effects of tax positions when it is more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

***(t) Net Income (Loss) per Share***

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted net income per share is calculated by dividing net income by the sum of the weighted average number of shares plus additional shares that would have been outstanding if potential dilutive shares had been issued for granted stock options.

***(u) Foreign Financial Statements***

The financial statements of foreign operations whose functional currency is a local currency are translated into Japanese Yen. Assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated at the average exchange rate for the period. Resulting translation adjustments are shown as a component of other comprehensive income (loss).

The financial statements of foreign operations whose functional currency is Japanese Yen are remeasured into Japanese Yen. All exchange gains and losses from remeasurement of monetary assets and liabilities denominated in the local currency are included in other income (expense) for the period in which the remeasurement is made.

*(v) Foreign Currency Transactions*

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated by using the applicable current rate prevailing at that date. All revenue and expenses associated with foreign currencies are translated by using the rate of exchange prevailing when such transactions occur. Those gains (losses) are included in other income (expense) in the accompanying consolidated statements of operations.

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Foreign exchange gains (losses) were (¥2,296) million, ¥1,072 million and (¥508) million for the years ended March 31, 2009, 2010 and 2011, respectively.

***(w) Use of Estimates***

Management of Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States ( U.S. GAAP ). Significant items subject to such estimates and assumptions include valuation of trade receivables, inventories, long-lived assets and deferred tax assets, various accruals such as accrued warranty expenses, and assets and obligations related to employees retirement and severance plans. Actual results could differ from those estimates.

***(x) New Accounting Standards***

In October 2009, the FASB amended the accounting guidance for revenue recognition under multiple-deliverable arrangements. The guidance modifies the criteria for separating deliverables and allocating consideration in multiple-deliverable arrangements. The allocation of revenue is based on estimated selling price if neither vendor-specific objective evidence nor third-party evidence of selling price is available. The guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2011. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect to have a material impact.

In October 2009, the FASB amended accounting guidance for software revenue recognition. This guidance changes the accounting model for revenue arrangements that include both tangible products and software elements. It provides guidance on how to determine which software, if any, relating to the tangible product would be excluded from the scope of the software revenue guidance. The guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2011. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect to have a material impact.

***(y) Reclassifications***

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current year presentation.



**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(2) Trade Receivables**

Trade receivables at March 31, 2010 and 2011 were as follows:

|                                      | Yen (Millions) |        |
|--------------------------------------|----------------|--------|
|                                      | 2010           | 2011   |
| Notes                                | ¥ 2,382        | 2,021  |
| Accounts                             | 13,794         | 20,838 |
|                                      | 16,176         | 22,859 |
| Less allowance for doubtful accounts | 246            | 152    |
|                                      | ¥ 15,930       | 22,707 |

**(3) Allowance for Doubtful Accounts**

Changes in the allowance for doubtful accounts for the years ended March 31, 2009, 2010 and 2011 were as follows:

|                                       | Yen (Millions) |       |      |
|---------------------------------------|----------------|-------|------|
|                                       | 2009           | 2010  | 2011 |
| Balance at beginning of year          | ¥ 45           | 585   | 246  |
| Provision for (reversal of) allowance | 558            | (255) | (90) |
| Amount written off                    | (18)           | (84)  | (4)  |
| Balance at end of year                | ¥ 585          | 246   | 152  |

**(4) Inventories**

Inventories at March 31, 2010 and 2011 were composed of the following:



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|                            | Yen (Millions) |        |
|----------------------------|----------------|--------|
|                            | 2010           | 2011   |
| Finished goods             | ¥ 5,965        | 5,681  |
| Work in process            | 7,482          | 12,243 |
| Raw materials and supplies | 3,143          | 5,569  |
|                            | ¥ 16,590       | 23,493 |

F-17

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(5) Property, Plant and Equipment**

Property, plant and equipment at March 31, 2010 and 2011 were composed of the following:

|                               | Yen (Millions) |        |
|-------------------------------|----------------|--------|
|                               | 2010           | 2011   |
| Land                          | ¥ 16,152       | 16,138 |
| Buildings                     | 28,115         | 28,156 |
| Machinery and equipment       | 14,222         | 14,638 |
| Tools, furniture and fixtures | 14,737         | 14,130 |
| Construction in progress      | 45             | 42     |
|                               | 73,271         | 73,104 |
| Less accumulated depreciation | 40,390         | 41,226 |
|                               | ¥ 32,881       | 31,878 |

Depreciation expense was ¥8,035 million, ¥4,101 million and ¥3,977 million for the years ended March 31, 2009, 2010 and 2011, respectively.

During the fourth quarter of the year ended March 31, 2009, Advantest made significant adverse changes to its business forecast and cash flows to be generated by its non-memory semiconductors test system business and mechatronics system business in the future mainly reflecting the deteriorated semiconductor markets including bankruptcy of major semiconductor manufacturers as well as an anticipation for a delayed recovery in the market. Accordingly, Advantest evaluated the carrying value of the long-lived assets related to its non-memory test system business and mechatronics business by projecting undiscounted cash flows of the applicable asset groups. Based on this evaluation, Advantest determined that certain long-lived assets were no longer recoverable and were in fact impaired, and wrote them down to their estimated fair value. The specific long-lived assets included in the impaired asset groups consisted of production facilities with land, buildings, machinery and equipment, tools, furniture and fixtures that were held and used primarily in our non-memory test systems and mechatronics businesses. The amounts of the impairment losses for those long-lived assets included in cost of sales and operating expenses in the accompanying consolidated statements of operations were ¥5,142 million and ¥7,943 million, respectively. Impairment losses were measured as the amount by which the carrying amount of a long lived asset exceeds its fair value. Fair value was determined by using present value techniques mainly based on expected future cash flows to be generated by those asset groups, discounted at the risk-free interest rate.

**(6) Intangible Assets**

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The components of acquired intangible assets excluding goodwill at March 31, 2010 and 2011 were as follows:

|  | Yen (Millions)              |                             |                             |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | 2010                        |                             |                             | 2011                        |
|  | Gross<br>carrying<br>amount | Accumulated<br>amortization | Gross<br>carrying<br>amount | Accumulated<br>amortization |
| Intangible assets subject to amortization: |                             |                             |                             |                             |
| Software                                   | ¥ 2,929                     | 2,366                       | ¥ 2,338                     | 1,698                       |
| Other                                      | 50                          | 37                          | 54                          | 44                          |
| Total                                      | ¥ 2,979                     | 2,403                       | ¥ 2,392                     | 1,742                       |

F-18

**Table of Contents****ADVANTEST CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Intangible assets not subject to amortization at March 31, 2010 and 2011 were insignificant.

Aggregate amortization expense for the years ended March 31, 2009, 2010 and 2011 was ¥684 million, ¥213 million and ¥232 million, respectively. Estimated amortization expense for the next five years ending March 31 is: ¥224 million in 2012, ¥189 million in 2013, ¥110 million in 2014, ¥32 million in 2015, and ¥15 million in 2016, respectively.

Goodwill is related to the semiconductor and component test system segment. Changes in the carrying amount of goodwill for the years ended March 31, 2009, 2010 and 2011 were as follows:

|                              | 2009    | Yen (Millions)<br>2010 | 2011 |
|------------------------------|---------|------------------------|------|
| Balance at beginning of year | ¥ 1,426 | 645                    | 645  |
| Impairment loss              | (781)   |                        |      |
| Balance at end of year       | ¥ 645   | 645                    | 645  |

Advantest experienced a significant decline in purchase orders of testers due to further deterioration of the semiconductor market during the fourth quarter of the year ended March 31, 2009. This sharp decline was not expected to recover in the near term. Consequently, this led to an impairment of our goodwill for a reporting unit, and we wrote it down to its estimated fair value. Fair value was measured primarily utilizing discounted cash flow valuation techniques. The amount of the impairment loss was ¥781 million, which was included in restructuring and impairment charges on the consolidated statements of operations, and the consolidated statements of cash flows for the year ended March 31, 2009. Advantest performed its annual impairment test for goodwill at the reporting unit level and identified no impairment at March 31, 2010 and 2011.

**(7) Investment Securities**

Debt and marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2010 and 2011 were as follows:

Yen (Millions)  
2010

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|                         | Equity securities | Debt securities | Total |
|-------------------------|-------------------|-----------------|-------|
| Noncurrent:             |                   |                 |       |
| Available-for-sale:     |                   |                 |       |
| Acquisition cost        | ¥ 2,833           | 411             | 3,244 |
| Gross unrealized gains  | 1,468             |                 | 1,468 |
| Gross unrealized losses | 69                |                 | 69    |
| Fair value              | ¥ 4,232           | 411             | 4,643 |

F-19

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

|                         | Yen (Millions)    |                 | Total |
|-------------------------|-------------------|-----------------|-------|
|                         | Equity securities | Debt securities |       |
| Noncurrent:             |                   |                 |       |
| Available-for-sale:     |                   |                 |       |
| Acquisition cost        | ¥ 4,309           |                 | 4,309 |
| Gross unrealized gains  | 1,455             |                 | 1,455 |
| Gross unrealized losses | 156               |                 | 156   |
| Fair value              | ¥ 5,608           |                 | 5,608 |

Equity securities consist primarily of stocks issues by Japanese listed companies. Debt securities were redeemable at the option of Advantest, and had no contractual maturity. During the year ended March 31, 2011, all of the outstanding debt securities that were redeemable at the option of Advantest were transferred to non-marketable equity securities due to a conversion into non-marketable common stocks.

Proceeds from the sale of available-for-sale securities for the year ended March 31, 2009 were ¥30 million. No gross gains were realized on the sale of available-for-sale securities for the year ended March 31, 2009. Gross realized losses on available-for-sale securities for the year ended March 31, 2009 were ¥28 million. No proceeds from the sale of available-for-sale securities and no gross gains and losses were realized on the sale of available-for-sale securities for the year ended March 31, 2010. Proceeds from the sale of available-for-sale securities and gross realized gains on the sale of available-for-sale securities for the year ended March 31, 2011 were insignificant. No gross losses were realized on the sale of available-for-sale securities for the year ended March 31, 2011.

Net realized gains and losses of the sale of available-for-sale securities are based on the averaged cost method and are included in other income (expense) in the consolidated statements of operations.

For the years ended March 31, 2009, 2010 and 2011, Advantest recognized impairment losses of ¥3,022 million, ¥57 million and ¥426 million, respectively, on available-for-sale securities, which were considered other-than-temporarily impaired and wrote them down to the fair value.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2010 and 2011, were as follows:

|  | Yen (Millions)      |                     |
|--|---------------------|---------------------|
|  | 2010                |                     |
|  | Less than 12 months | 12 months or longer |
|  |                     |                     |

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|                     | <b>Fair<br/>value</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Fair<br/>value</b> | <b>Gross<br/>unrealized<br/>losses</b> |
|---------------------|-----------------------|--|-----------------------|--|
| Noncurrent:         |                       |  |                       |  |
| Available-for-sale: |                       |  |                       |  |
| Equity securities   | ¥ 740                 | 69                                     | 2                     | 0                                      |

F-20

Table of Contents

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

|                     | Yen (Millions)      |                               |                     |                               |
|---------------------|---------------------|-------------------------------|---------------------|-------------------------------|
|                     | 2011                |                               |                     |                               |
|                     | Less than 12 months |                               | 12 months or longer |                               |
|                     | Fair<br>value       | Gross<br>unrealized<br>losses | Fair<br>value       | Gross<br>unrealized<br>losses |
| Noncurrent:         |                     |                               |                     |                               |
| Available-for-sale: |                     |                               |                     |                               |
| Equity securities   | ¥ 2,019             | 130                           | 237                 | 26                            |

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥3,434 million and ¥1,824 million at March 31, 2010 and 2011, respectively. For certain non-marketable equity securities which Advantest identified events or changes in circumstances that might have had significant adverse effect on the fair value of the investments, the fair value approximates the carrying value. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥1,417 million and ¥1,812 million at March 31, 2010 and 2011, respectively, since it was not practicable to estimate the fair value of the investments. It was because of the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2009, 2010 and 2011, non-marketable equity securities with a purchase cost of ¥1,104 million, ¥376 million and ¥98 million were written down to their fair value of ¥616 million, ¥117 million and ¥12 million, resulting in an other-than-temporary impairment charge of ¥488 million, ¥259 million and ¥86 million, respectively, which was included in impairment losses on investment securities in the accompanying consolidated statements of operations.

**(8) Derivative Financial Instruments**Derivatives

Advantest uses foreign exchange forward contracts and currency options to manage currency exposure, resulting from changes in foreign currency exchange rates, on trade receivables. However, these contracts do not qualify for hedge accounting since they do not meet the hedging criteria specified in U.S. GAAP.

Foreign exchange contracts generally have terms of several months. These contracts are used to reduce Advantest's risk associated with exchange rate fluctuations, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).



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Advantest does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro at March 31, 2010 and 2011. The notional amounts of these contracts at March 31, 2010 and 2011 were as follows:

|                            | Yen (Millions) |      |
|----------------------------|----------------|------|
|                            | 2010           | 2011 |
| Foreign exchange contracts | ¥ 3,041        | 608  |

F-21

Table of Contents

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The fair value of derivative instruments not designated as hedging instruments under U.S. GAAP at March 31, 2010 and 2011 was as follows:

|                            | Yen (Millions)                 |            |                                |            |
|----------------------------|--------------------------------|------------|--------------------------------|------------|
|                            | 2010<br>Balance Sheet Location | Fair Value | 2011<br>Balance Sheet Location | Fair Value |
| <b>Assets</b>              |                                |            |                                |            |
| Foreign exchange contracts | Other current assets           | ¥ 0        | Other current assets           | ¥ 24       |
| <b>Liabilities</b>         |                                |            |                                |            |
| Foreign exchange contracts | Other current liabilities      | ¥ 29       | Other current liabilities      | ¥ 6        |

A loss of ¥278 million was recognized in earnings on foreign exchange contracts, which was included in other income (expense) for the three months ended March 31, 2009.

The effect of derivative instruments not designated as hedging instruments under U.S. GAAP on consolidated statements of operations for the years ended March 31, 2010 and 2011 was as follows:

|                            | Location of gain (loss) recognized<br>in income on derivatives | Yen<br>(Millions)  |      |
|----------------------------|--|--|------|
|                            |  | Amount of gain (loss) recognized<br>in income on derivatives |      |
|                            |  | 2010   | 2011 |
| Foreign exchange contracts | Other income (expense)   | ¥ 361  | 223  |

Concentration of credit risk

Derivative financial instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Advantest minimizes risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Advantest does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default on its obligations.

Advantest generally does not require or place collateral for these derivative financial instruments.



**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(9) Fair Value Measurement**Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2010 and 2011, except for cash and cash equivalents, short-term investments, trade receivables, other current assets, trade accounts payable, accrued expenses and other current liabilities for which fair value approximate their carrying amounts. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

|                               | Yen (Millions)     |               |                    |               |
|-------------------------------|--------------------|---------------|--------------------|---------------|
|                               | 2010               |               | 2011               |               |
|                               | Carrying<br>amount | Fair<br>value | Carrying<br>amount | Fair<br>value |
| <b>Financial assets:</b>      |                    |               |                    |               |
| Investment securities         |                    |               |                    |               |
| Available-for-sale securities | ¥ 4,643            | 4,643         | ¥ 5,608            | 5,608         |
| Foreign exchange contracts    | 0                  | 0             | 24                 | 24            |
| <b>Financial liabilities:</b> |                    |               |                    |               |
| Foreign exchange contracts    | 29                 | 29            | 6                  | 6             |

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents, short-term investments, trade receivables, other current assets, trade accounts payable, accrued expenses and other current liabilities:* The carrying amounts approximate fair value because of the short maturity of these instruments.

*Available-for-sale securities:* The fair values of available-for-sale equity securities are based on quoted market prices at the reporting date for those investments. The fair values of available-for-sale debt securities are based on unobservable inputs as the market for the assets was not active at the measurement date.

*Foreign exchange contracts:* The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Fair Value Hierarchy

US GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

*Level 1* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

*Level 2* Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

*Level 3* Unobservable inputs for the asset or liability.

**Assets / Liabilities Measured at Fair Value on a Recurring Basis**

As of March 31, 2010 and 2011, carrying amount of financial assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

|   | Total        | Yen (Millions)<br>Fair Value Measurements<br>at March 31, 2010 |   |  |
|---|--------------|--|---|--|
|   |              | Quoted<br>Prices<br>in<br>Active<br>Markets<br>(Level<br>1)    | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Financial Assets</b>                         |              |  |   |  |
| Available-for-sale equity securities            | 4,232        | 4,232  |   |  |
| Available-for-sale debt securities              | 411          |  |   | 411  |
| Foreign exchange contracts                      | 0            |  | 0   |  |
| <b>Total assets measured at fair value</b>      | <b>4,643</b> | <b>4,232</b>   | <b>0</b>  | <b>411</b>   |
| <b>Financial Liabilities</b>                    |              |  |   |  |
| Foreign exchange contracts                      | 29           |  | 29  |  |
| <b>Total liabilities measured at fair value</b> | <b>29</b>    |  | <b>29</b>   |  |

|  | Total | Yen (Millions)<br>Fair Value Measurements<br>at March 31, 2011 |                      |                             |
|--|-------|--|----------------------|-----------------------------|
|  |       | Quoted<br>Prices   | Significant<br>Other | Significant<br>Unobservable |

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|  |       | in<br>Active<br>Markets<br>(Level 1) | Observable<br>Inputs<br>(Level 2) | Inputs<br>(Level 3) |
|--|-------|--------------------------------------|-----------------------------------|---------------------|
| <b>Financial Assets</b>                  |       |                                      |                                   |                     |
| Available-for-sale equity securities     | 5,608 | 5,608                                |                                   |                     |
| Foreign exchange contracts               | 24    |                                      | 24                                |                     |
| Total assets measured at fair value      | 5,632 | 5,608                                | 24                                |                     |
| <b>Financial Liabilities</b>             |       |                                      |                                   |                     |
| Foreign exchange contracts               | 6     |                                      | 6                                 |                     |
| Total liabilities measured at fair value | 6     |                                      | 6                                 |                     |

The table does not include assets and liabilities which are measured at historical cost or any basis other than fair value. Advantest's financial assets and liabilities measured at fair value consist of available-for-sale debt and equity securities and foreign exchange contracts. Adjustments to fair value of available-for-sale debt and equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss)

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).

Changes in the Level 3 financial assets and liabilities measured on a recurring basis for the years ended March 31, 2010 and 2011 were as follows:

|                                      | Yen (Millions)<br>2010 |       |
|--------------------------------------|------------------------|-------|
|                                      | Debt<br>Securities     | Total |
| Balance at beginning of year         | ¥                      |       |
| Purchases, issuances and settlements | 411                    | 411   |
| Balance at end of year               | ¥ 411                  | 411   |

|                                   | Yen (Millions)<br>2011 |       |
|-----------------------------------|------------------------|-------|
|                                   | Debt<br>Securities     | Total |
| Balance at beginning of year      | ¥ 411                  | 411   |
| Other comprehensive income (loss) | (43)                   | (43)  |
| Transfers out of Level 3          | (368)                  | (368) |
| Balance at end of year            | ¥                      |       |

During the year ended March 31, 2011, debt securities that were redeemable at the option of Advantest were transferred out of Level 3 due to a conversion into non-marketable common stocks.



**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis**

As of March 31, 2010 and 2011, carrying amount of financial assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2010 and 2011, was as follows:

|   | Yen (Millions)   |   |  | Total gains<br>(losses)<br>for<br>the year<br>ended<br>March 31,<br>2010 |
|---|--|---|--|--|
|   | Fair Value Measurements<br>at March 31, 2010             |   |  |  |
| Total   | Quoted<br>Prices in<br>Active<br>Markets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |  |
| <b>Financial Assets</b>                                   |  |   |  |  |
| Non-marketable equity securities                          | 117  |   | 117  | (259)  |
| Total gains (losses) for assets held as of March 31, 2010 |  |   |  | (259)  |

|   | Yen (Millions)   |   |  | Total gains<br>(losses)<br>for<br>the year<br>ended<br>March 31,<br>2011 |
|---|--|---|--|--|
|   | Fair Value Measurements<br>at March 31, 2011             |   |  |  |
| Total   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |  |
| <b>Financial Assets</b>                                   |  |   |  |  |
| Non-marketable equity securities                          | 12   |   | 12   | (86)   |
| Total gains (losses) for assets held as of March 31, 2011 |  |   |  | (86)   |

The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments.

**(10) Leases Lessor**

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Advantest provides leases that enable its customers to use semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2010 and 2011 were as follows:

|                               | Yen (Millions) |       |
|-------------------------------|----------------|-------|
|                               | 2010           | 2011  |
| Machinery and equipment       | ¥ 5,738        | 6,577 |
| Less accumulated depreciation | 3,842          | 4,640 |
|                               | ¥ 1,896        | 1,937 |

F-26

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

Future minimum lease income under noncancelable operating leases as of March 31, 2011 is as follows:

| Year ending March 31       | Yen (Millions) |
|----------------------------|----------------|
| 2012                       | ¥ 1,008        |
| 2013                       | 599            |
| 2014                       | 213            |
| Total minimum lease income | ¥ 1,820        |

**(11) Leases Lessee**

Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2009, 2010 and 2011 was ¥1,618 million, ¥1,227 million and ¥1,122 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2011 are as follows:

| Year ending March 31         | Yen (Millions) |
|------------------------------|----------------|
| 2012                         | ¥ 288          |
| 2013                         | 204            |
| 2014                         | 166            |
| 2015                         | 123            |
| 2016                         | 123            |
| Thereafter                   | 135            |
| Total minimum lease payments | ¥ 1,039        |

**(12) Income Taxes**

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The components of income before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

|   | Yen (Millions) |          |         |
|---|----------------|----------|---------|
|   | 2009           | 2010     | 2011    |
| Income before income taxes and equity in earnings (loss) of affiliated company: |                |          |         |
| The Company and domestic subsidiaries   | ¥ (55,246)     | (13,376) | (1,130) |
| Foreign subsidiaries  | 2,485          | 3,450    | 6,681   |
|   | ¥ (52,761)     | (9,926)  | 5,551   |

F-27

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

|                                       | Yen (Millions) |       |       |
|---------------------------------------|----------------|-------|-------|
|                                       | 2009           | 2010  | 2011  |
| Provision (benefit) for income taxes: |                |       |       |
| Current:                              |                |       |       |
| The Company and domestic subsidiaries | ¥ (281)        | 856   | 813   |
| Foreign subsidiaries                  | 2,369          | 818   | 1,160 |
| Deferred:                             |                |       |       |
| The Company and domestic subsidiaries | 19,509         | (272) | 330   |
| Foreign subsidiaries                  | 397            | 55    | 49    |
|                                       | ¥ 21,994       | 1,457 | 2,352 |

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rate of 40.4%, 40.5% and 40.4% for the years ended March 31, 2009, 2010 and 2011, respectively.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

|   | 2009    | 2010    | 2011   |
|---|---------|---------|--------|
| Statutory tax rate  | 40.4%   | 40.5%   | 40.4%  |
| Increase (decrease) in income taxes resulting from:                                 |         |         |        |
| Earnings of foreign subsidiaries taxed at different rate from the statutory rate in |         |         |        |
| Japan   | (0.7)   | 2.1     | (16.2) |
| Tax credits   | 4.2     | (5.5)   | (13.7) |
| Expenses not deductible for tax purposes  | (0.3)   | (0.8)   | 2.6    |
| Expiration of stock options   |         |         | 11.0   |
| Undistributed earnings of foreign subsidiaries                                      | 2.2     | 1.1     | 3.8    |
| Change in valuation allowance   | (85.5)  | (52.3)  | 13.0   |
| Other, net  | (2.0)   | 0.2     | 1.5    |
|   | (41.7)% | (14.7)% | 42.4%  |

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2010 and 2011 were presented below.

|  | Yen (Millions)   |                |
|--|------------------|----------------|
|  | 2010             | 2011           |
| Deferred tax assets:   |                  |                |
| Inventories  | ¥ 5,682          | 4,356          |
| Accrued warranty expenses                                      | 1,092            | 681            |
| Accrued pension and severance costs                            | 5,621            | 5,732          |
| Accrued expenses   | 988              | 1,557          |
| Research and development expenses capitalized for tax purposes | 3,362            | 2,245          |
| Operating loss carryforwards                                   | 27,231           | 30,352         |
| Property, plant and equipment and intangible assets            | 4,355            | 3,315          |
| Tax credits  | 3,012            | 3,616          |
| Other  | 1,579            | 1,626          |
| <b>Total gross deferred tax assets</b>                         | <b>52,922</b>    | <b>53,480</b>  |
| Less valuation allowance                                       | (51,289)         | (52,082)       |
| <b>Net deferred tax assets</b>                                 | <b>1,633</b>     | <b>1,398</b>   |
| Deferred tax liabilities:                                      |                  |                |
| Net unrealized gains on marketable securities                  | (587)            | (528)          |
| Undistributed earnings of foreign subsidiaries                 | (2,354)          | (2,567)        |
| Other  |                  | (22)           |
| <b>Total gross deferred tax liabilities</b>                    | <b>(2,941)</b>   | <b>(3,117)</b> |
| <b>Net deferred tax assets (liabilities)</b>                   | <b>¥ (1,308)</b> | <b>(1,719)</b> |

At March 31, 2010 and 2011, deferred tax liabilities were provided for all foreign subsidiaries with undistributed earnings.

Included in other current assets and other assets were deferred tax assets of ¥543 million and ¥354 million at March 31, 2010 and 2011, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥1,851 million and ¥2,073 million at March 31, 2010 and 2011, respectively.

At March 31, 2011, Advantest had total net operating loss carry forwards for income tax purposes of ¥75,308 million which are available to reduce future income taxes. Operating losses of ¥74,646 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 and 2018. Other net operating losses of ¥654 million have no expiration dates and other net operating losses of ¥8 million will expire during the years ending March 31, 2014 and 2016. Net operating loss carryforwards utilized during the years ended March 31, 2010 and 2011 were ¥2,421 million and ¥554 million, respectively. There was no utilized amount during the year ended March 31, 2009.

**Table of Contents**

**ADVANTEST CORPORATION**  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections for future taxable income over the periods in which the deferred tax assets are deductible including management's expectations of future semiconductor market and semiconductor and component test systems market prospects and other factors, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of valuation allowance.

The changes in valuation allowance for the years ended March 31 were as follows:

|                              | Yen (Millions) |        |        |
|------------------------------|----------------|--------|--------|
|                              | 2009           | 2010   | 2011   |
| Balance at beginning of year | ¥              | 48,015 | 51,289 |
| Additions                    | 48,015         | 3,274  | 793    |
| Reductions                   |                |        |        |
| Balance at end of year       | ¥ 48,015       | 51,289 | 52,082 |

During the fiscal year ended March 31, 2009, Advantest established a valuation allowance as deferred tax assets were no longer considered to be realizable based upon projections for future taxable income over which the deferred tax assets were deductible. For the year ended March 31, 2010, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which partially offset by decreases in deferred tax assets associated with inventory and property, plant and equipment. For the year ended March 31, 2011, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which partially offset by decreases in deferred tax assets associated with inventory and research and development expenses capitalized for tax purposes.

The amount of the deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income are revised and the effect on the company's consolidated financial position and results of operations could be significant.

There were no unrecognized tax benefits for the years ended March 31, 2009, 2010 and 2011.

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audit settlements and any related litigation could affect the effective tax rate in the future periods. Advantest did not have any unrecognized tax benefits that would affect the effective tax rate. As of March 31, 2011, Advantest did not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months.



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Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2011, Advantest had open tax years beginning April 1, 2007 for Japan, 2009 for Taiwan, and 2007 for the United States.

F-30

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(13) Other Comprehensive Income (Loss)**

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2009, 2010 and 2011 were as follows:

|   | Yen (Millions)                                    |   |                                  | Accumulated<br>other<br>comprehensive<br>income (loss) |
|---|---|---|----------------------------------|--|
|   | Foreign<br>currency<br>translation<br>adjustments | Net unrealized<br>gains (losses)<br>on securities | Pension<br>related<br>adjustment |  |
| Balance at March 31, 2008                         | ¥ (7,100)   | 300   | (815)                            | (7,615)  |
| Change during the year                            | (1,793)   | (2,062)   | (4,701)                          | (8,556)  |
| Reclassification adjustments for realized portion |   | 1,818   | (234)                            | 1,584  |
|   | (1,793)   | (244)   | (4,935)                          | (6,972)  |
| Balance at March 31, 2009                         | ¥ (8,893)   | 56  | (5,750)                          | (14,587)   |
| Change during the year                            | (2,614)   | 742   | 1,241                            | (631)  |
| Reclassification adjustments for realized portion |   | 34  | 325                              | 359  |
|   | (2,614)   | 776   | 1,566                            | (272)  |
| Balance at March 31, 2010                         | ¥ (11,507)  | 832   | (4,184)                          | (14,859)   |
| Change during the year                            | (3,231)   | (311)   | (401)                            | (3,943)  |
| Reclassification adjustments for realized portion |   | 252   | 280                              | 532  |
|   | (3,231)   | (59)  | (121)                            | (3,411)  |
| Balance at March 31, 2011                         | ¥ (14,738)  | 773   | (4,305)                          | (18,270)   |

**Table of Contents****ADVANTEST CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2009, 2010 and 2011 were as follows:

|   | Before-tax<br>amount | Yen (Millions)<br>Tax<br>(expense)<br>or benefit | Net-of-tax<br>amount |
|---|----------------------|--|----------------------|
| <b>Year ended March 31, 2009:</b>   |                      |  |                      |
| Foreign currency translation adjustments                                      | ¥ (1,793)            |  | (1,793)              |
| Net unrealized gains (losses) on securities:                                  |                      |  |                      |
| Net unrealized gains (losses) arising during the year                         | (3,459)              | 1,397  | (2,062)              |
| Less reclassification adjustments for net gains (losses) realized in earnings | 3,050                | (1,232)  | 1,818                |
| Net unrealized gains (losses)   | (409)                | 165  | (244)                |
| Pension related adjustment  | (4,935)              |  | (4,935)              |
| Other comprehensive income (loss)   | ¥ (7,137)            | 165  | (6,972)              |
| <b>Year ended March 31, 2010:</b>   |                      |  |                      |
| Foreign currency translation adjustments                                      | ¥ (2,614)            |  | (2,614)              |
| Net unrealized gains (losses) on securities:                                  |                      |  |                      |
| Net unrealized gains (losses) arising during the year                         | 1,224                | (482)  | 742                  |
| Less reclassification adjustments for net gains (losses) realized in earnings | 57                   | (23)   | 34                   |
| Net unrealized gains (losses)   | 1,281                | (505)  | 776                  |
| Pension related adjustment  | 1,566                |  | 1,566                |
| Other comprehensive income (loss)   | ¥ 233                | (505)  | (272)                |
| <b>Year ended March 31, 2011:</b>   |                      |  |                      |
| Foreign currency translation adjustments                                      | ¥ (3,231)            |  | (3,231)              |
| Net unrealized gains (losses) on securities:                                  |                      |  |                      |
| Net unrealized gains (losses) arising during the year                         | (540)                | 229  | (311)                |
| Less reclassification adjustments for net gains (losses) realized in earnings | 423                  | (171)  | 252                  |
| Net unrealized gains (losses)   | (117)                | 58   | (59)                 |
| Pension related adjustment  | (121)                |  | (121)                |
| Other comprehensive income (loss)   | ¥ (3,469)            | 58   | (3,411)              |

**(14) Stock-Based Compensation**

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Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, corporate auditors and selected employees.

In July 2004, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,522,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

F-32

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

In November 2004, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the exercise price of the July 2004 options. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

In April 2005, stock options were issued to certain employees of the Company and its foreign subsidiary under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the exercise price of the July 2004 options. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

In July 2005, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,518,000. Options were granted with an exercise price of ¥4,300 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In December 2005, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 16,000. Options were granted with an exercise price of ¥4,300 per share that was equal to the exercise price of the July 2005 options. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In February 2006, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 3,980. Options were granted with an exercise price of ¥6,702 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥4,300 per share that was equal to the exercise price of the July 2005 options. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In July 2006, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,578,000. Options were granted with an exercise price of ¥5,880 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2007.

In December 2006, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥6,218 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,880 per share that was equal to the exercise

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price of the July 2006 options. The options had an exercise period of 4 years and were exercisable from April 1, 2007.

F-33

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

In July 2007, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 777,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In September 2007, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 2,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,563 per share that was equal to the exercise price of the July 2007 options. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In February 2008, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,563 per share that was equal to the exercise price of the July 2007 options. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In July 2008, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 704,000. Options were granted with an exercise price of ¥2,653 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2009.

In April 2009, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 12,000. Options were granted with an exercise price of ¥2,653 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥2,653 per share that was equal to the exercise price of the July 2008 options. The options have an exercise period of 4 years and are exercisable from May 1, 2009.

In July 2009, stock options were issued to directors, executive officers and corporate auditors of the Company under a stock option plan approved by the Board of Directors. The number of granted shares totaled 338,000. Options were granted with an exercise price of ¥1,844 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2010.





**Table of Contents****ADVANTEST CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

In July 2010, stock options were issued to directors, executive officers and corporate auditors of the Company under a stock option plan approved by the Board of Directors. The number of granted shares totaled 308,000. Options were granted with an exercise price of ¥2,089 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2011.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

Stock option activity during the years ended March 31, 2009, 2010 and 2011 was as follows:

|                                  | 2009             |                                 | 2010             |                                 | 2011             |                                 |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                  | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Outstanding at beginning of year | 4,515,980        | ¥ 4,940                         | 3,938,980        | ¥ 4,804                         | 3,060,000        | ¥ 4,647                         |
| Granted                          | 704,000          | 2,653                           | 350,000          | 1,872                           | 308,000          | 2,089                           |
| Expired                          | (836,000)        | 3,732                           | (1,117,980)      | 4,309                           | (1,262,000)      | 5,881                           |
| Forfeited                        | (445,000)        | 4,798                           | (111,000)        | 4,854                           | (158,000)        | 5,287                           |
| Outstanding at end of year       | 3,938,980        | 4,804                           | 3,060,000        | 4,647                           | 1,948,000        | 3,392                           |
| Exercisable at end of year       | 3,265,980        | ¥ 5,247                         | 2,722,000        | ¥ 4,995                         | 1,640,000        | ¥ 3,636                         |

Stock based compensation expense recognized was ¥248 million, ¥143 million and ¥165 million, which was included in selling, general and administrative expenses for the years ended March 31, 2009, 2010 and 2011, respectively. The recognized tax benefits were ¥76 million, ¥53 million and ¥61 million for the years ended March 31, 2009, 2010 and 2011, respectively. In addition, the stock options, granted during the fiscal year ended March 31, 2007 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2011, and the related deferred tax assets of ¥610 million were reversed. As of March 31, 2009, 2010 and 2011, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2009, 2010 and 2011 were ¥369, ¥409 and ¥535, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

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|                         | 2009      | 2010      | 2011      |
|-------------------------|-----------|-----------|-----------|
| Expected dividend yield | 2.1%      | 2.6%      | 1.6%      |
| Risk free interest rate | 0.9%      | 0.5%      | 0.2%      |
| Volatility              | 37.4%     | 45.3%     | 45.4%     |
| Expected life           | 3.7 years | 3.8 years | 3.9 years |

No stock options were exercised for the years ended March 31, 2009, 2010 and 2011. The total fair value of shares vested during the years ended March 31, 2009, 2010 and 2011 was ¥858 million, ¥251 million and ¥141 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2009, 2010 and 2011.

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

At March 31, 2011, all of the outstanding stock options were as follows:

| Exercise price  | Outstanding       |                                 |   | Exercisable       |                                 |   |
|-----------------|-------------------|---------------------------------|---|-------------------|---------------------------------|---|
|                 | Number of options | Weighted average exercise price | Weighted average remaining contractual life | Number of options | Weighted average exercise price | Weighted average remaining contractual life |
| ¥1,844 - ¥2,653 | 1,300,000         | 2,309                           | 2.7 years                                   | 992,000           | 2,377                           | 2.4 years                                   |
| ¥5,563 - ¥6,218 | 648,000           | 5,563                           | 1.0 years                                   | 648,000           | 5,563                           | 1.0 years                                   |
|                 | 1,948,000         | 3,392                           | 2.2 years                                   | 1,640,000         | 3,636                           | 1.8 years                                   |

At March 31, 2011, there was no aggregate intrinsic value for the options outstanding and exercisable.

**(15) Accrued Pension and Severance Costs**

The Company and certain of its subsidiaries have unfunded retirement and severance plans (point-based benefits system). Under a point-based benefits system, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance.

The Company and its subsidiaries also have a defined benefit corporate pension plan covering substantially all employees. Under the cash balance pension plan, the benefits are calculated based on accumulated points allocated to employees each year according to their job classification and their performance with a certain interest rate calculated based on the upper and lower limit of a market interest rate.

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

|  | Yen (Millions) |       |       |
|--|----------------|-------|-------|
|  | 2009           | 2010  | 2011  |
| Components of net periodic benefit cost: |                |       |       |
| Service cost                             | ¥ 1,419        | 1,309 | 1,361 |

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|                                |         |       |       |
|--------------------------------|---------|-------|-------|
| Interest cost                  | 700     | 745   | 724   |
| Expected return on plan assets | (343)   | (280) | (486) |
| Amortization of unrecognized:  |         |       |       |
| Net actuarial (gain) or loss   | 284     | 560   | 487   |
| Prior service (benefit) cost   | (210)   | (176) | (176) |
| Other                          | 137     |       |       |
| Net periodic benefit cost      | ¥ 1,987 | 2,158 | 1,910 |

F-36

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status at March 31, 2010 and 2011.

|                                      | Yen (Millions)    |                 |
|--------------------------------------|-------------------|-----------------|
|                                      | 2010              | 2011            |
| <b>Change in benefit obligation:</b> |                   |                 |
| Balance at beginning of year         | ¥ 32,805          | 33,331          |
| Service cost                         | 1,309             | 1,361           |
| Interest cost                        | 745               | 724             |
| Actuarial (gain) or loss             | (82)              | (417)           |
| Benefits paid                        | (1,446)           | (484)           |
| <b>Balance at end of year</b>        | <b>33,331</b>     | <b>34,515</b>   |
| <b>Change in plan assets:</b>        |                   |                 |
| Balance at beginning of year         | 18,691            | 19,427          |
| Employer contributions               | 689               | 1,606           |
| Actual return on plan assets         | 1,440             | (331)           |
| Benefits paid                        | (1,393)           | (420)           |
| <b>Balance at end of year</b>        | <b>19,427</b>     | <b>20,282</b>   |
| <b>Funded status</b>                 | <b>¥ (13,904)</b> | <b>(14,233)</b> |

Amounts recognized in the consolidated balance sheets at March 31, 2010 and 2011 were as follows:

|                                     | Yen (Millions) |          |
|-------------------------------------|----------------|----------|
|                                     | 2010           | 2011     |
| Accrued expenses                    | ¥ (139)        | (164)    |
| Accrued pension and severance costs | (13,765)       | (14,069) |
|                                     | (13,904)       | (14,233) |

Pension related adjustments (net of tax) recognized in accumulated other comprehensive income (loss) at March 31, 2010 and 2011 were as follows:

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|                       | Yen (Millions) |         |
|-----------------------|----------------|---------|
|                       | 2010           | 2011    |
| Actuarial loss        | ¥ (5,153)      | (5,185) |
| Prior service benefit | 969            | 880     |
|                       | (4,184)        | (4,305) |

Changes in pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2010 and 2011 were summarized as follows:

|   | Yen (Millions) |       |
|---|----------------|-------|
|   | 2010           | 2011  |
| Current year actuarial gain (loss)              | ¥ 1,241        | (401) |
| Amortization of actuarial gain                  | 333            | 369   |
| Amortization of prior service benefit and other | (8)            | (89)  |
|   | 1,566          | (121) |

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

|                       | <b>Yen (Millions)</b> |       |
|-----------------------|-----------------------|-------|
| Actuarial loss        | ¥                     | 512   |
| Prior service benefit |                       | (176) |
|                       |                       | 336   |

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2010 and 2011 were summarized as follows:

|                                | <b>Yen (Millions)</b> |             |
|--------------------------------|-----------------------|-------------|
|                                | <b>2010</b>           | <b>2011</b> |
| Projected benefit obligation   | ¥ 33,331              | 34,515      |
| Accumulated benefit obligation | 32,461                | 33,685      |
| Fair value of plan assets      | 19,427                | 20,282      |

Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

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|                               | 2010 | 2011 |
|-------------------------------|------|------|
| Discount rate                 | 2.2% | 2.2% |
| Rate of compensation increase | 3.0% | 3.0% |

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

|                                | 2009 | 2010 | 2011 |
|--------------------------------|------|------|------|
| Discount rate                  | 2.1% | 2.3% | 2.2% |
| Expected return on plan assets | 1.5% | 1.5% | 2.5% |
| Rate of compensation increase  | 3.0% | 3.0% | 3.0% |

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation ( PAA ). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.



**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Advantest's domestic benefit plans' weighted-average asset allocation at March 31, 2010 and 2011 by asset category were as follows:

|   | 2010   | 2011   | Target |
|---|--------|--------|--------|
| Equity securities                       | 45.8%  | 45.3%  | 45.0%  |
| Debt securities                         | 29.4   | 24.9   | 30.0   |
| Cash                                    | 2.0    | 9.5    | 2.0    |
| Life insurance company general accounts | 10.3   | 11.7   | 10.0   |
| Other                                   | 12.5   | 8.6    | 13.0   |
|   | 100.0% | 100.0% | 100.0% |

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets.

*Level 2:* Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

*Level 3:* Unobservable inputs for the assets.

|   | Yen (Millions)<br>Fair Value Measurements<br>at March 31, 2010 |              |               |              |
|---|--|--------------|---------------|--------------|
|   | Total  | (Level 1)    | (Level 2)     | (Level 3)    |
| Cash and cash equivalents               | 384  | 384          |               |              |
| Equity securities:                      |  |              |               |              |
| Japanese companies                      | 1,570  | 1,570        |               |              |
| Pooled funds (a)                        | 7,319  |              | 7,319         |              |
| Debt securities:                        |  |              |               |              |
| Pooled funds (b)                        | 5,716  |              | 5,716         |              |
| Hedge funds (c)                         | 2,433  |              | 301           | 2,132        |
| Life insurance company general accounts | 2,005  |              | 2,005         |              |
| <b>Total</b>                            | <b>19,427</b>  | <b>1,954</b> | <b>15,341</b> | <b>2,132</b> |

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- (a) These funds invested in listed equity securities consisting of approximately 65% Japanese listed companies and 35% foreign listed companies. This category included both long and short positions aggregating ¥2,486 million, invested in Japanese listed companies equity.
- (b) These funds invested in approximately 45% Japanese government bonds, 40% foreign government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.
- (c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

F-39

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

|   | Yen (Millions)                               |              |               |              |
|---|--|--------------|---------------|--------------|
|   | Fair Value Measurements<br>at March 31, 2011 |              |               |              |
|   | Total  | (Level 1)    | (Level 2)     | (Level 3)    |
| Cash and cash equivalents               | 1,929  | 1,929        |               |              |
| Equity securities:                      |  |              |               |              |
| Japanese companies                      | 1,436  | 1,436        |               |              |
| Pooled funds (d)                        | 7,756  |              | 7,756         |              |
| Debt securities:                        |  |              |               |              |
| Pooled funds (e)                        | 5,044  |              | 5,044         |              |
| Hedge funds (f)                         | 1,736  |              | 303           | 1,433        |
| Life insurance company general accounts | 2,381  |              | 2,381         |              |
| <b>Total</b>                            | <b>20,282</b>                                | <b>3,365</b> | <b>15,484</b> | <b>1,433</b> |

- (d) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies. This category included both long and short positions aggregating ¥2,249 million, invested in Japanese listed companies equity.
- (e) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.
- (f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the year ended March 31, 2010 and 2011 were as follows:

| Yen (Millions) |       |
|----------------|-------|
| 2010           |       |
| Hedge funds    | Total |

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|                                       |         |       |
|---------------------------------------|---------|-------|
| Balance at beginning of year          | ¥ 1,248 | 1,248 |
| Net realized / unrealized gain (loss) | 90      | 90    |
| Purchases, issuances and settlements  | 794     | 794   |
| Transfer in and / or out of Level 3   |         |       |
| Balance at end of year                | ¥ 2,132 | 2,132 |

F-40

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

|                                       | Yen (Millions)<br>2011 |       |
|---------------------------------------|------------------------|-------|
|                                       | Hedge funds            | Total |
| Balance at beginning of year          | ¥ 2,132                | 2,132 |
| Net realized / unrealized gain (loss) | 97                     | 97    |
| Purchases, issuances and settlements  | (796)                  | (796) |
| Transfer in and / or out of Level 3   |                        |       |
| Balance at end of year                | ¥ 1,433                | 1,433 |

Cash flows:

Advantest expects to contribute ¥1,719 million to its domestic defined benefit plans during the year ending March 31, 2012.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

| Year ending March 31 | Yen (Millions) |
|----------------------|----------------|
| 2012                 | ¥ 717          |
| 2013                 | 871            |
| 2014                 | 912            |
| 2015                 | 928            |
| 2016                 | 1,010          |
| 2017 through 2021    | 7,351          |

During the fourth quarter of the year ended March 31, 2009, Advantest offered its employees an early retirement program and employees who applied the program terminated their services prior to March 31, 2009. Advantest recognized a liability and an expense when the employees accepted the offer and the amount was reasonably estimated. Accordingly, Advantest recorded a voluntary termination benefit of ¥5,064 million, which was included in restructuring and impairment charges in the accompanying consolidated statements of operations for the year ended March 31, 2009.

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(16) Stockholders' Equity**

Changes in the number of shares issued and treasury stock during the years ended March 31, 2009, 2010 and 2011 were as follows:

|                                       | <b>Total shares of<br/>common stock</b> | <b>Shares of<br/>treasury stock</b> |
|---------------------------------------|---|-------------------------------------|
| Number of shares as of April 1, 2008  | 199,566,770                             | 20,840,721                          |
| Purchase of shares                    |   | 3,497                               |
| Sale of shares                        |   | (920)                               |
| Number of shares as of March 31, 2009 | 199,566,770                             | 20,843,298                          |
| Purchase of shares                    |   | 2,112                               |
| Sale of shares                        |   | (232)                               |
| Number of shares as of March 31, 2010 | 199,566,770                             | 20,845,178                          |
| Purchase of shares                    |   | 5,449,721                           |
| Sale of shares                        |   | (80)                                |
| Number of shares as of March 31, 2011 | 199,566,770                             | 26,294,819                          |

The Corporation Law of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2009, 2010 and 2011 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥5 per share, aggregating ¥866 million for the second-half of the year ended March 31, 2011, subsequently proposed by the Board of Directors.

The amount available for future payment of dividends was determined under the Corporation Law of Japan and amounted to ¥53,291 million at March 31, 2011.

**(17) Accrued Warranty Expenses**

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2009, 2010 and 2011 were summarized as follows:

|                              | Yen (Millions) |         |         |
|------------------------------|----------------|---------|---------|
|                              | 2009           | 2010    | 2011    |
| Balance at beginning of year | ¥ 3,143        | 2,811   | 2,802   |
| Addition                     | 5,260          | 3,364   | 2,653   |
| Reduction                    | (5,564)        | (3,372) | (3,693) |
| Translation adjustments      | (28)           | (1)     | (8)     |
| Balance at end of year       | ¥ 2,811        | 2,802   | 1,754   |

F-42

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(18) Operating Segment and Geographic Information**

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products, for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

Fundamental research and development activities and headquarters functions are represented by Corporate.



**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Reportable operating segment information during the years ended March 31, 2009, 2010 and 2011 was as follows:

|   | Yen (Millions)  |                                    |                                       |                                 |          |
|---|---|------------------------------------|---------------------------------------|---------------------------------|----------|
|   | Semiconductor<br>and<br>Component<br>Test<br>System<br>Business | Mechatronics<br>System<br>Business | Services,<br>Support<br>and<br>Others | Elimination<br>and<br>Corporate | Total    |
| <b>As of and for the year ended March 31, 2009:</b>               |   |                                    |                                       |                                 |          |
| Net sales to unaffiliated customers                               | ¥ 48,629  | 12,208                             | 15,815                                |                                 | 76,652   |
| Inter-segment sales   | 587   | 2,180                              |                                       | (2,767)                         |          |
| Net sales   | 49,216  | 14,388                             | 15,815                                | (2,767)                         | 76,652   |
| Depreciation and amortization                                     | 3,893   | 1,813                              | 2,668                                 | 345                             | 8,719    |
| Impairment charges to long-lived assets and goodwill              | 8,491   | 4,507                              | 606                                   | 262                             | 13,866   |
| Operating income (loss) before stock option compensation expenses | (28,914)  | (11,865)                           | (1,099)                               | (7,331)                         | (49,209) |
| Adjustment:   |   |                                    |                                       |                                 |          |
| Stock based compensation expense                                  |   |                                    |                                       |                                 | 248      |
| Operating income (loss)   |   |                                    |                                       |                                 | (49,457) |
| Expenditures for additions to long- lived assets                  | 1,657   | 1,249                              | 1,606                                 | 96                              | 4,608    |
| Total assets  | 29,449  | 11,017                             | 10,773                                | 150,820                         | 202,059  |
| <b>As of and for the year ended March 31, 2010:</b>               |   |                                    |                                       |                                 |          |
| Net sales to unaffiliated customers                               | ¥ 30,168  | 11,219                             | 11,838                                |                                 | 53,225   |
| Inter-segment sales   | 2,404   | 18                                 |                                       | (2,422)                         |          |
| Net sales   | 32,572  | 11,237                             | 11,838                                | (2,422)                         | 53,225   |
| Depreciation and amortization                                     | 1,364   | 470                                | 1,977                                 | 503                             | 4,314    |
| Operating income (loss) before stock option compensation expenses | (7,042)   | (1,897)                            | 2,175                                 | (4,732)                         | (11,496) |
| Adjustment:   |   |                                    |                                       |                                 |          |
| Stock based compensation expense                                  |   |                                    |                                       |                                 | 143      |
| Operating income (loss)   |   |                                    |                                       |                                 | (11,639) |
| Expenditures for additions to long- lived assets                  | 942   | 396                                | 1,856                                 | 231                             | 3,425    |
| Total assets  | 38,782  | 10,478                             | 11,474                                | 127,929                         | 188,663  |
| <b>As of and for the year ended March 31, 2011:</b>               |   |                                    |                                       |                                 |          |
| Net sales to unaffiliated customers                               | ¥ 67,070  | 18,398                             | 14,166                                |                                 | 99,634   |
| Inter-segment sales   | 2,263   | 117                                |                                       | (2,380)                         |          |
| Net sales   | 69,333  | 18,515                             | 14,166                                | (2,380)                         | 99,634   |

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|   |        |        |       |         |         |
|---|--------|--------|-------|---------|---------|
| Depreciation and amortization                                     | 1,417  | 533    | 1,755 | 504     | 4,209   |
| Operating income (loss) before stock option compensation expenses | 9,857  | (251)  | 2,133 | (5,463) | 6,276   |
| Adjustment:   |        |        |       |         |         |
| Stock based compensation expense                                  |        |        |       |         | 165     |
| Operating income (loss)   |        |        |       |         | 6,111   |
| Expenditures for additions to long-lived assets                   | 1,350  | 374    | 1,733 | 336     | 3,793   |
| Total assets  | 53,570 | 11,780 | 9,226 | 105,736 | 180,312 |

F-44

**Table of Contents****ADVANTEST CORPORATION****AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Adjustments to operating income (loss) in Corporate principally represent corporate general and administrative expenses and research and development expenses related to fundamental research activities that are not allocated to operating segments.

Advantest uses the operating income (loss) before stock option compensation expenses for management's analysis of business segment results.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments.

One customer and its related entities mainly in the semiconductor and component test system segment and the mechatronics system segment accounted for approximately 24%, 20% and 20% of total consolidated net sales for the years ended March 31, 2009, 2010 and 2011, respectively. Other customer accounted for approximately 1%, 2% and 13% for the years ended March 31, 2009, 2010 and 2011, respectively. Another customer accounted for approximately 14%, 6% and 7% for the years ended March 31, 2009, 2010 and 2011, respectively.

Information as to Advantest's net sales and long-lived assets in various geographical areas was as follows:

Net sales to unaffiliated customers for the years ended March 31, 2009, 2010 and 2011 were as follows:

|          | Yen (Millions) |        |        |
|----------|----------------|--------|--------|
|          | 2009           | 2010   | 2011   |
| Japan    | ¥ 24,734       | 11,976 | 22,398 |
| Americas | 11,759         | 4,930  | 9,278  |
| Europe   | 2,844          | 2,137  | 2,252  |
| Asia     | 37,315         | 34,182 | 65,706 |
| Total    | ¥ 76,652       | 53,225 | 99,634 |

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Net sales to unaffiliated customers are based on the customer's location. Net sales indicated as Asia were generated in Taiwan, Korea and China and others in the amount of ¥10,240 million, ¥14,074 million and ¥13,001 million for the year ended March 31, 2009, ¥12,805 million, ¥10,334 million and ¥11,043 million for the year ended March 31, 2010, and ¥21,835 million, ¥20,752 million and ¥23,119 million for the year ended March 31, 2011, respectively. Substantially all net sales indicated as Americas were generated in the United States of America.

Long-lived assets as of March 31, 2009, 2010 and 2011 were as follows:

|          | Yen (Millions) |        |        |
|----------|----------------|--------|--------|
|          | 2009           | 2010   | 2011   |
| Japan    | ¥ 31,723       | 31,067 | 30,696 |
| Americas | 108            | 219    | 288    |
| Europe   | 634            | 606    | 598    |
| Asia     | 2,979          | 2,434  | 1,815  |
| Total    | ¥ 35,444       | 34,326 | 33,397 |

F-45

**Table of Contents**

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Long-lived assets are those assets located in each geographic area.

There was no individually material country with respect to long-lived assets outside Japan. Substantially all long-lived assets indicated as Americas were located in the United States of America. The significant portion of long-lived assets in Asia was located in Singapore, Taiwan and Korea.

**(19) Related Party Transactions**

Advantest sells products to and purchases raw materials from Fujitsu Limited, its 11.6% stockholder as of March 31, 2011 and its group companies (collectively, Fujitsu). The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various software products for internal use, information system related services, research and development materials and services from Fujitsu. Advantest had the following transactions with Fujitsu as of and for the years ended March 31:

|   | Yen (Millions) |       |       |
|---|----------------|-------|-------|
|   | 2009           | 2010  | 2011  |
| Sales of products   | ¥ 1,659        | 2,085 | 2,461 |
| Purchases of raw materials  | 2,501          | 4,065 | 4,622 |
| Receivables   | 418            | 826   | 696   |
| Payables  | 1,021          | 2,372 | 2,717 |
| Purchases of software, hardware and others  | 60             | 199   | 442   |
| Research and development expenses, computer rentals, maintenance and other expenses | 1,839          | 1,056 | 1,779 |

Advantest is holding approximately 35% of common stock of e-Shuttle, Inc., a subsidiary of Fujitsu, since the initial investment, which is accounted for by equity method of accounting.

**(20) Per Share Data**

The following table sets forth the computation of basic and diluted net income (loss) per share as of March 31:

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|   | Yen (Millions) except per share data |             |             |
|---|--------------------------------------|-------------|-------------|
|   | 2009                                 | 2010        | 2011        |
| <b>Numerator:</b>   |                                      |             |             |
| Net income (loss)   | ¥ (74,902)                           | (11,454)    | 3,163       |
| <b>Denominator:</b>   |                                      |             |             |
| Basic weighted average shares of common stock outstanding   | 178,724,884                          | 178,722,505 | 175,481,854 |
| Dilutive effect of exercise of stock options                |                                      |             | 13,604      |
| Diluted weighted average shares of common stock outstanding | 178,724,884                          | 178,722,505 | 175,495,458 |
| Basic net income (loss) per share                           | ¥ (419.09)                           | (64.09)     | 18.03       |
| Diluted net income (loss) per share                         | (419.09)                             | (64.09)     | 18.03       |

F-46

**Table of Contents**

**ADVANTEST CORPORATION**

**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

At March 31, 2009, 2010 and 2011, Advantest had outstanding stock options into 3,938,980, 3,060,000 and 1,610,000 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

**(21) Concentrations of credit risk**

Advantest is exposed to credit risk in the event of default by financial institutions to cash and cash equivalents, but such risk is considered mitigated by the high credit rating of the financial institutions.

At March 31, 2010 and 2011, Advantest had one customer and two customers with significant receivables, respectively. Receivables from these customers accounted for 14% and 36% of consolidated trade receivables at March 31, 2010 and 2011, respectively. Although Advantest does not expect that the customer will fail to meet its obligations, Advantest is potentially exposed to concentrations of credit risk if the customer failed to perform according to the terms of the contracts.

**(22) Commitments and Contingent Liabilities**

Advantest is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Advantest's consolidated financial position, results of operations, or cash flows.

Commitments outstanding for the purchase of property, plant and equipment and other assets totaled ¥45 million at March 31, 2011.

**(23) Pending Acquisition**

On March 28, 2011, Advantest entered into a definitive agreement under which Advantest will acquire all outstanding ordinary shares of Verigy Ltd ( Verigy ), a Singapore incorporated company publicly traded in U.S., for US\$15.00 per share in cash. The total acquisition price is estimated to be approximately US\$1.1 billion (approximately ¥ 90.9 billion (based on the exchange rate US\$1 = ¥81)), due at closing, and will be funded with existing cash and borrowings from commercial banks. The antitrust reviews in respect of the transaction by Korean, Taiwanese and the U.S. authorities have all been completed. In addition, the transaction was approved at Verigy's shareholders meeting on June 17, 2011. The

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transaction will be effective upon the fulfillment of certain conditions, such as the approval of Singapore High Court and the registration of the court order with the Accounting and Corporate Regulatory Authority of Singapore. We expect the effective date of the transaction to be in early July, 2011.

F-47



**Table of Contents**

**ITEM 19. EXHIBITS**

**Index to Exhibits**

- 1.1 Amended and Restated Articles of Incorporation of the Registrant (English translation)\*
- 1.2 Regulations of the Board of Directors of the Registrant (English translation)\*\*
- 1.3 Regulations of the Board of Corporate Auditors of the Registrant (English translation)\*\*
- 2.1 Share Handling Regulations of the Registrant (English translation)\*
- 2.2 Form of Deposit Agreement among the Registrant, JPMorgan Chase Bank (as successor to Morgan Guaranty Trust Company of New York), as depositary, and the owners and beneficial owners from time to time of American Depositary Receipts\*\*\*
- 2.3 Form of Amendment No. 1 to Deposit Agreement among the Registrant, JPMorgan Chase Bank, N.A. as depositary, and all holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt\*\*\*\*
- 2.4 Form of ADR (included in Exhibit 2.3)
- 4.1 Implementation Agreement by and between Advantest Corporation and Verigy Ltd.
- 8.1 List of Principal Subsidiaries (See Organizational Structure in Information on the Company )
- 11.1 Code of Ethics of the Registrant applicable to its directors and executive officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions\*\*\*\*\*
- 12.1 Certifications of the Registrant's Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
- 13.1 Certifications of the Registrant's Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
- 15.1 Consents of Independent Registered Public Accounting Firm

\* Incorporated by reference to the Company's report on Form 20-F filed with the SEC on June 26, 2009 (file no. 1-15236).

\*\* Incorporated by reference to the Company's report on Form 20-F filed with the SEC on June 26, 2008 (file no. 1-15236).

\*\*\* Incorporated by reference to the Company's registration statement on Form 20-F filed with the SEC on September 4, 2001 (file no. 1-15236).

\*\*\*\* Incorporated by reference to the Post Effective Amendment to the Company's registration statement on Form F-6 Filed with the SEC on September 12, 2006 (file no. 333-13886).

\*\*\*\*\* Incorporated by reference to the Company's annual report on Form 20-F filed with the SEC on June 29, 2004 (file no. 1-15236).

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 24, 2011

ADVANTEST CORPORATION

By: /s/ YUICHI KURITA  
Name: Yuichi Kurita  
Title: Director, Senior Executive Officer