ADVANTEST CORP
Form 20-F
June 25, 2010
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As filed with the Securities and Exchange Commission on June 25, 2010

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

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

For the fiscal year ended March 31, 2010

OR

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

For the transition period from to

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

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

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*	The New York Stock Exchange
Common Stock**	

* 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, 2010:
Common Stock	178,721,592
American Depositary Shares	
each representing one share of Common Stock	1,901,143

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 x 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 x	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 x

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As used in this annual report, the term fiscal preceding a year means the twelve-month period ended March 31 of the year subsequent to the year referred to. For example, fiscal 2009 refers to the twelve-month period ended March 31, 2010. 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 = ¥93.04. This was the approximate exchange rate in Japan on March 31, 2010.

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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 a 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 principal 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.

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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 2007, fiscal 2008 and fiscal 2009 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

	Year ended March 31,					
	2006	2007	2008	2009	2010	2010
	(in millions, except per share and share data)					(thousands, except per share and share data)
Consolidated Statement of Income Data:[4]						
Net sales	¥ 253,922	¥ 235,012	¥ 182,767	¥ 76,652	¥ 53,225	$ 572,066
Operating income (loss)	64,458	56,792	22,716	(49,457)	(11,639)	(125,097)
Income before income taxes and equity in earnings (loss) of affiliated company	67,454	61,090	23,533	(52,761)	(9,926)	(106,685)
Net income (loss)	41,374	35,556	16,550	(74,902)	(11,454)	(123,108)
Net income (loss) per share						

Basic[(1)]	223.17	190.01	90.72	(419.09)	(64.09)	(0.69)
Diluted[(1)]	221.98	188.85	90.57	(419.09)	(64.09)	(0.69)
Basic weighted average shares outstanding[(1)]	185,389,026	187,128,842	182,418,821	178,724,884	178,722,505	
Diluted weighted average shares outstanding[(1)]	186,383,080	188,270,688	182,723,982	178,724,884	178,722,505	

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	As of March 31,					
	2006	2007	2008	2009	2010	2010
			(in millions)			(in thousands)
Consolidated Balance Sheet Data:						
Total assets	¥ 350,776	¥ 366,374	¥ 298,684	¥ 202,059	¥ 188,663	$ 2,027,762
Current portion of long-term debt	30	10				
Long-term debt, less current portion	10					
Common stock	32,363	32,363	32,363	32,363	32,363	347,840
Stockholders equity	257,927	294,797	254,184	163,616	150,242	1,614,811

	As of March 31,					
	2006	2007	2008	2009	2010	2010
			(in millions, except per share data)			(in thousands)
Other Data:						
Capital expenditures	¥ 8,323	¥ 8,336	¥ 14,083	¥ 4,608	¥ 3,425	$ 36,812
Research and development expenses	26,927	29,509	30,507	23,713	17,896	192,347
Net cash provided by operating activities	59,480	48,951	24,166	2,357	(17,746)	190,735
Net cash used in investing activities	(8,542)	(8,013)	(16,322)	(32,507)	10,824	116,337
Net cash used in financing activities	(18,336)	(3,662)	(46,770)	(8,930)	(1,803)	(19,379)
Operating margin[2] [4]	25.38%	24.17%	12.43%	(64.52%)	(21.87%)	
Net income margin[3] [4]	16.29%	15.13%	9.06%	(97.72%)	(21.52%)	

(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 presented 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.

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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.

	Dividend per Share	
Six months ended/Record date	**Yen**	**Dollars**
September 30, 2005	12.5	0.12
March 31, 2006	22.5	0.22
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

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 = ¥93.04. This was the approximate exchange rate in Japan on March 31, 2010.

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 18, 2010 was $1.00 = 90.79. 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 of period**	**Average (of month-end rates)**	**High**	**Low**
		(¥ per $1.00)		
2006	117.48	113.67	120.93	104.41
2007	117.56	116.55	121.81	110.07
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
2010 (through June 18, 2010)	90.79	91.95	94.68	89.89

Month ended	**High**	**Low**
	(¥ per $1.00)	
December 31, 2009	¥ 93.08	¥ 86.62
January 31, 2010	93.31	89.41
February 28, 2010	91.94	88.84

March 31, 2010	93.40	88.43
April 30, 2010	94.51	92.03
May 31, 2010	94.68	89.89

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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. 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 decreased by ¥23,427 million (30.6%) from fiscal 2008 to ¥53,225 million, primarily due to lower sales of test systems for memory semiconductors. Any downturn in the memory semiconductor market will therefore likely continue to adversely affect Advantest s business.

The worldwide semiconductor market grew by 6.8%, 8.9% and 3.2% in 2005, 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. Worldwide sales of memory semiconductors increased by 2.9% and 20.5% in 2005 and 2006, respectively, 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 slightly by 1.1% in 2007, 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. Moreover, worldwide sales of memory semiconductors in 2008 decreased by 19.9% compared to 2007, primarily due to the substantial decline in the price of 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 two consecutive years. Worldwide sales of non memory semiconductors increased by 7.9% in 2005. Furthermore, in 2006 and 2007, demand in the consumer market and automobile market stabilized and the data processing market were strong. Accordingly, worldwide sales of non memory semiconductors grew by 5.7% and 4.5% in 2006 and 2007, respectively. Worldwide sales of non memory semiconductors in 2008 increased by 2.3% from 2007, primarily due to steady demand for mobile 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.

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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 telecommunications industry;
- demand in the automobile industry; and
- trends in the semiconductor industry.

Advantest s net sales in fiscal 2005 increased by 6.0% as compared with the previous fiscal year to ¥253,922 million, and net income achieved ¥41,374 million, reflecting the overall completion of adjustment of excess inventory on the part of semiconductor manufacturers. However, 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, and Advantest recorded a net loss of ¥74,902 million in fiscal 2008. In fiscal 2009, the semiconductor manufactures 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.

Advantest believes that its results are significantly impacted by the significant demand volatility of the semiconductor industry. Significant downturns in the semiconductor industry are likely to therefore adversely affect financial condition and results of operations. Advantest is unable to predict trends in the semiconductor industry going forward, and Advantest s financial condition and results of operations may be affected adversely if the demand for semiconductor test systems remains weak or further weakens beyond Advantest s expectations as a result of a further downturn in the semiconductor industry. The price of semiconductors, which have decreased 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 significant expansion in the semiconductor and component test systems and mechatronics systems markets may adversely affect its future market share and financial results

In response to 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 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

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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, the 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 and the next generation DDR4-SDRAM;
- 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;
- 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; and
- total solutions that allow customers to reduce their testing costs.

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 those customers and may adversely affect future sales efforts with respect to those customers.

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 an acceptable product on a timely basis

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

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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 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. 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 Ltd., 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 product lines are facing significant price pressure

Price pressure in 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 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. An increase in price pressure may adversely affect Advantest s future financial condition and results of operations.

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

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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 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 9% in fiscal 2007, approximately 24% in fiscal 2008 and approximately 20% in fiscal 2009. Sales to Advantest s five largest customers accounted for approximately 32% in fiscal 2007, approximately 51% in fiscal 2008 and approximately 43% in fiscal 2009. 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. Approximately 78% of Advantest s fiscal 2009 net sales were from products sold to overseas customers. Most of Advantest s products are manufactured in Japan, but approximately 38% of Advantest s net sales in fiscal 2009 were made in currencies other than the Japanese yen, predominantly the U.S. dollar. A strengthening in the

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Japanese yen relative to foreign currencies (mostly U.S. dollar and, to a much lesser extent, other currencies) 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. Japan suffers from relatively 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.

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 doing business internationally because it sells its products, and purchases parts and components from, around the world. In fiscal 2009, 64.2% 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 4.0% 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;

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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 financial condition and results of operations are subject to factors relating to its marketing and sales capabilities and its branding

Advantest s financial condition and results of operations 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 delays 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 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

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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

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.

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.

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Risks Related to Ownership of 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 depositary 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.

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.

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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 ¥14.1 billion, ¥4.6 billion and ¥3.4 billion in fiscal 2007, 2008 and 2009, respectively. In fiscal 2007, Advantest s capital expenditure included the construction of Sendai Factory A, a factory with clean room facilities for production.

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.

4.B. BUSINESS OVERVIEW

Overview

As of June 25, 2010, Advantest is comprised of the Company and its 30 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;
- 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.

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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.

	Fiscal 2007		Fiscal 2008		Fiscal 2009	
Segment	Sales (in millions)	%	Sales (in millions)	%	Sales (in millions)	%
Semiconductor and Component Test System Segment	¥ 131,608	72.0	¥ 49,216	64.2	¥ 32,572	61.2
Mechatronics System Segment	34,944	19.1	14,388	18.8	11,237	21.1
Services, Support and Others Segment	19,344	10.6	15,815	20.6	11,838	22.2
Intercompany transactions elimination	(3,129)	(1.7)	(2,767)	(3.6)	(2,422)	(4.5)
Total Net Sales	¥ 182,767	100.0%	¥ 76,652	100.0%	¥ 53,225	100.0%

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 communications penetration worldwide reflecting the expansion of the mobile telecommunications industry in developing countries;
- 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.

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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 2005 increased by approximately $14.5 billion or 6.8% compared to the previous year to approximately $227.5 billion. 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. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors and all semiconductors between 2005 and 2009 and the projected market size between 2010 and 2012 as compiled and estimated by WSTS as of June 2010.

	Actual Year ended December 31,					Projections for Years ending December 31,		
	2005	2006	2007	2008	2009	2010	2011	2012
					(in millions)			
Memory	$ 48,519	$ 58,473	$ 57,854	$ 46,348	$ 44,797	$ 65,211	$ 65,699	$ 64,777
Non memory	178,965	189,243	197,791	202,255	181,516	225,740	241,689	255,384
Total	$ 227,484	$ 247,716	$ 255,645	$ 248,603	$ 226,313	$ 290,951	$ 307,388	$ 320,161

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 recovered in the first half of 2005 from the slowdown caused by inventory adjustments in the second half of fiscal 2004, expanding further in the second half of 2005, and remaining 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. The semiconductor market further declined in 2009 reflecting the conditions continuing from the previous year. According to data published by WSTS, the market for memory semiconductors is expected to increase rapidly by 45.6% in 2010 as compared with 2009, after which it is expected to grow by approximately

1% in 2011 and decrease by approximately 1% in 2012. WSTS expects that the market for memory semiconductors will grow to approximately $64.8 billion in 2012. 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

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estimates that the non memory semiconductor market will steadily grow by approximately 24% in 2010, by approximately 7% in 2011, and by approximately 6% in 2012. WSTS expects that the market for non memory semiconductors will grow to approximately $255.4 billion in 2012. 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 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.

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 Technologies

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

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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. While this trend continued throughout 2009, demand for new semiconductor and component test systems and test handlers slowly increased primarily due to the progress made in inventory adjustments on the part of semiconductor manufacturers from the end of 2009 through early 2010 and adjustments of semiconductor prices. However, capital expenditure with respect to 300 millimeter wafers is not yet active and the future remains uncertain.

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 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 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

While Advantest is currently facing a challenging business environment primarily due to the recent downturn in the global economy and weakened demand for semiconductors, 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;

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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

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;

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 2009 the market for test systems for non memory semiconductors was approximately seven times the size of the market for test systems for memory semiconductors, reflecting significant but likely temporary contraction of the market for test systems for memory semiconductors, resulting in the relative expansion of proportion of the market for test systems for non 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 believes that the primary benefits of OPENSTAR®, an industry-wide, open architecture for test systems for non memory semiconductors, for users of semiconductor and component test systems will be reduced testing costs resulting from the adoption of newly developed modules. 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.

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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.

Products

As of fiscal 2009, 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 2007	Fiscal 2008	Fiscal 2009
		(in millions)	
Test systems for memory semiconductors	¥ 92,896	¥ 17,644	¥ 12,444
Test systems for non memory semiconductors	38,712	31,572	20,128
Total	¥ 131,608	¥ 49,216	¥ 32,572

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.

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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 69% in fiscal 2007 and as a result of restrained capital expenditure in test systems for DRAM semiconductors on the part of Advantest s customers, Advantest s market share became approximately 51% in 2008 and 37% in 2009. 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.

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.

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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. The T5761/T5761ES are test systems which have been designed to respond to this demand. The T5761 covers the full range of testing, from NAND-type flash memory testing to package testing. The T5761 is capable of simultaneous testing up to 512 devices, which is twice the capacity of Advantest s previous model, and allows for lower testing costs through its improved ability to detect failures. The T5761ES is designed for use in engineering and retains the same basic capabilities and functions as the T5761, with a substantially smaller size and at lower testing costs. Furthermore, Advantest introduced the T5781 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, and the T5781ES, which is designed to develop programs for evaluation and mass production. Because the T5781 and T5781ES have diverse memory semiconductor testing capabilities and can test single-handedly many different types of memory semiconductors which are incorporated into MCPs testing efficiency can be improved. Through the T5700 series, effective solutions can be provided, from the design of flash memories and MCPs to mass production.

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 17% in fiscal 2008, compared with approximately 16% in fiscal 2007.

T2000. In 2003, Advantest brought to market the T2000 test systems for non memory semiconductors based on component modules compatible with OPENSTAR® open architecture. 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, analog 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. The T7723 uses a

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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.

T8571A. The T8571A is a test system for non memory semiconductors that is primarily used to evaluate and analyze CCDs which are image sensors. These semiconductors are used in digital consumer products, such as high-resolution digital cameras, mobile phone handset cameras and digital video cameras.

Mechatronics System Segment

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.

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, 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 smallsized/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.

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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

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.

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 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.

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 and INTEL Corporation in fiscal 2009 each accounted for greater than 10% of Advantest s net sales in each of those respective years. No customer accounted for greater than 10% of Advantest s net sales in fiscal 2007. Advantest s five largest customers, all of which are semiconductor and component test system customers, accounted for approximately 32% of net sales in fiscal 2007, approximately 51% in fiscal 2008 and approximately 43% in fiscal 2009.

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Geographic Sales

Approximately 78% of Advantest s fiscal 2009 net sales 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.

	Fiscal 2007		Fiscal 2008		Fiscal 2009	
Market	Net Sales (in millions)	%	Net Sales (in millions)	%	Net Sales (in millions)	%
Japan	¥ 56,032	30.7	¥ 24,734	32.3	¥ 11,976	22.5
Asia (excluding Japan)	108,260	59.2	37,315	48.7	34,182	64.2
Americas	9,616	5.3	11,759	15.3	4,930	9.3
Europe	8,859	4.8	2,844	3.7	2,137	4.0
Total	¥ 182,767	100.0%	¥ 76,652	100.0%	¥ 53,225	100.0%

Japan. Advantest enjoys a significant market position in Japanese markets for test systems for memory semiconductors, with a market share of approximately 51% in 2009. In addition, Advantest had a market share of approximately 58% in the Japanese test systems for non memory semiconductors market in 2009. 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 in fiscal 2009. 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 2009. Advantest s market share of semiconductor and component test systems sold in the U.S. was approximately 20% in 2008 and decreased to approximately 17% in 2009. 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 4% of Advantest s sales in fiscal 2009. Advantest s market share of semiconductor and component test systems sold in Europe increased to approximately 24% in 2009 from approximately 12% in 2008. 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

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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 by participating in industry trade shows and advertising in trade magazines.

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 support 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.

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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.

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.

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.

Advantest purchases substantially all of its components and parts from outside suppliers.

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 Germany, 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.

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Competition

Advantest faces substantial competition throughout the world in all of its business segments. In particular, in light of the on-going significant downturn in the semiconductor industry, competition in the semiconductor and component test system market is 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 in 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, in 2008 and 2009, Teradyne, Inc. achieved the highest share, and Advantest achieved the second highest share. Other companies following Advantest include Verigy Ltd., 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.

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 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.

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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 2009 are as follows:

ISO 14001 Certification. Advantest has received ISO 14001 Uniform Certification for all seven 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 2009, seven 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 700 tons in fiscal 2009, and Advantest continues to retain less than 1% of its industrial waste output at all seven 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 2007, 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 seven of domestic facilities was reduced to 20,398-CO_2 tons in fiscal 2009, primarily as a result of energy saving effects and a decrease in production.

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 ¥682 million during fiscal 2009 to further implement its environmental protection activities.

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.

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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.
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).
Logic circuits	Circuits that perform binary arithmetic functions.

Memory circuits	Circuits that store data and programs.
MCP	Multi Chip Package. A package which combines multiple chips with different functions.

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MCU	Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system.
MPU	Microprocessor unit. A microprocessor 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.
OPENSTAR®	The name of the open architecture standard made publicly available by Advantest.
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.

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4.C. ORGANIZATIONAL STRUCTURE

As of June 1, 2010, Advantest had 14 Japanese subsidiaries, 16 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.

Name of Subsidiary	Country of Incorporation	Principal Activities
Advantest Laboratories Ltd.	Japan	Research and development of measuring and testing technologies
Advantest Customer Support Corporation*	Japan	Maintenance service of Advantest s products
Advantest Manufacturing, Inc.*	Japan	Manufacture of Advantest s products
Japan Engineering Co., Ltd.	Japan	Development, manufacture and sales of Advantest s products
Advantest Finance Inc.	Japan	Leasing of Advantest s 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

* Advantest plans to merge its consolidated subsidiaries, Advantest Manufacturing, Inc. and Advantest Customer Support Corporation as of July 1, 2010. Through the merger, Advantest aims to review their R&D, manufacturing, sales, and maintenance service processes to further align them with Advantest s customer requirements, speeding up the implementation of its management strategy and seeking greater business efficiency.

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

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.

Name	Location	Approximate Size (m^2)	Use
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
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

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Name	Location	Approximate Size (m^2)	Use
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

* Effective March 23, 2010, Otone R&D Center changed its name to Saitama R&D Center.

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 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 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.

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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 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, as a whole accounting for 61.2% of Advantest s net sales in fiscal 2009.

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 21.1% of Advantest s net sales in fiscal 2009.

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 segment accounted for 22.2% of Advantest s net sales in fiscal 2009.

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 was challenging at the beginning of fiscal 2009. The semiconductor manufactures were impacted by the global economic downturn, that resulted in reduction of capital expenditures. The semiconductor manufactures gradually resumed capital expenditures as semiconductor prices rose and equipment utilization rates climbed, driven by increased demand for personal computers, flat-screen TVs, and cellular phones and Advantest s orders improved significantly year on year. However, primarily due to the low level of orders in the second half of fiscal 2008, net sales decreased by 33.8% from fiscal 2008 to ¥32,572 million. 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 was in an extremely challenging environment at the beginning of fiscal 2009, as memory semiconductor manufactures continued to take a cautious stance on capital expenditures. However, the upturn in personal computer demand left manufacturers struggling to keep up with demand, raising concerns with respect to potential DRAM shortages. Prices for DDR3-DRAM and other DRAM devices rose, encouraging memory semiconductor manufactures to resume capital expenditures, which led to an increase in orders for memory test systems towards the end of fiscal 2009. However, sales remained weak mainly due to the impact of weak orders carried over from the second half of fiscal 2008.

In the test systems for non memory semiconductor market, orders for MPU test systems continued to be robust and demand for LCD driver integrated circuits test systems and consumer SoC test systems also expanded in the second half of fiscal 2009, as the global recovery stimulated demand for consumer electronics including LCD TVs, cellular phones, and notebook computers. However, sales remained weak mainly due to the impact of weak orders carried over from the second half of fiscal 2008.

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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 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

Demand for Advantest s test handlers also improved sharply during the second half of fiscal 2009, supported by increased activity in the DDR3-DRAM and analog integrated circuits market. However, the steep drop in orders in the second half of fiscal 2008 kept sales at a low level for fiscal 2009.

Mainly as a result of the above, net sales of the Mechatronics System Segment totaled ¥11,237 million in fiscal 2009, a 21.9% decrease compared to that of fiscal 2008.

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. This Segment did not perform strongly in fiscal 2009 as volumes declined in customer utilization rates of testing equipment, and net sales decreased by 25.1% compared to fiscal 2008 to ¥11,838 million in 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 2007 and 2009, Advantest did not incur non-recurring charges related to cost reduction initiatives.

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Research and Development

Research and development expenses represent a significant portion of Advantest s annual operating expenses. Advantest s research and development expenses were ¥30,507 million, ¥23,713 million and ¥17,896 million or 16.7%, 30.9% and 33.6% of net sales, in fiscal 2007, 2008 and 2009, respectively.

Personnel

As of March 31, 2010, Advantest had a total of 3,151 full-time employees, a decrease of 36 persons, or 1.1%, compared to that of March 31, 2009.

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 fiscal 2007, the Japanese yen strengthened significantly against the U.S. dollar, with the exchange rate moving from the ¥120 mark to around ¥100. 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.

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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.

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.

Leasing Income

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

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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 2010 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 ¥6,853 million, or 70.4%, during fiscal 2009 to ¥16,590 million as of March 31, 2010 due to improvements in backlogs of orders.

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.

Depreciation expense was ¥8,216 million, ¥8,035 million and ¥4,101 million for the fiscal years 2007, 2008 and 2009, 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 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.

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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 our 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 2007 and 2009, Advantest did not incur impairment of long-lived assets.

Trade Receivables

Advantest s trade receivables, less allowance for doubtful accounts was ¥15,930 million as of March 31, 2010, as compared with ¥10,415 million as of March 31, 2009. 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.

At the end of fiscal 2009, Advantest decreased its allowance for doubtful accounts to ¥246 million, a decrease of ¥339 million from fiscal 2008. 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.

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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. Accrued warranty expenses were ¥2,802 million at March 31, 2010, a decrease of ¥9 million from ¥2,811 million at March 31, 2009.

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 ¥858 million, ¥248 million and ¥143 million as stock-based compensation expense in fiscal 2007, 2008 and 2009, 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.

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

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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 ¥1,216 million, ¥1,987 million and ¥2,158 million as benefit cost in fiscal 2007, 2008 and 2009, 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 ¥0, ¥ 48,015 million and ¥ 3,274 million for fiscal years 2007, 2008 and 2009, respectively.

At March 31, 2009, Advantest recorded on its consolidated balance sheet, deferred tax assets of ¥49,592 million of which ¥18,169 million represents net operating losses, or NOL, carryforwards available to offset future taxable income. Advantest also established a valuation allowance of ¥48,015 for deferred tax assets were not considered to be realizable based upon projections for future taxable income. As a result, net deferred tax assets were ¥1,577 million. 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. Net operating loss carryforwards utilized were ¥1,046 million, ¥0 and ¥2,421 million in fiscal years 2007, 2008 and 2009, respectively.

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 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.

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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 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 sharply restricted capital expenditures by semiconductor manufactures 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

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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.

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 an one-time expenses relating to the structural reform 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.

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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.

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.

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.

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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).

Results of Operations Fiscal 2008 Compared with Fiscal 2007

Net Sales

Advantest s net sales decreased by ¥106,115 million, or 58.1%, compared with fiscal 2007, to ¥76,652 million in fiscal 2008. This decrease was primarily due to the restraint in capital expenditures within the Semiconductor and Component Test System Segment resulting from the significant decline of prices of DRAM semiconductors and economic downturn of the global economy. The estimated effect of changes in exchange rates during fiscal 2008 was to decrease Advantest s net sales by ¥3,050 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 2008, net sales of Advantest s Semiconductor and Component Test System Segment accounted for 64.2% of total net sales. Net sales of Advantest s Semiconductor and Component Test System Segment decreased by ¥82,392 million, or 62.6%, compared with fiscal 2007, to ¥49,216 million in fiscal 2008. The estimated effect of changes in exchange rates during fiscal 2008 was to decrease Advantest s net sales in its Semiconductor and Component Test System Segment by ¥1,944 million.

Net sales of test systems for memory semiconductors decreased by ¥75,252 million, or 81.0%, compared with fiscal 2007 to ¥17,644 million in fiscal 2008. This decrease was mainly due to lower than expected demand for Advantest s DRAM semiconductor test systems for super high-speed memory devices, the T5500 series test systems and for the front-end testing systems, T5300 series test systems, primarily due to lower capital expenditures by semiconductor manufacturers resulting from falling DRAM semiconductors prices. Test systems for flash memory semiconductors also suffered from weak sales, led by lower capital expenditures by semiconductor manufacturers resulting from a substantial decline of flash memory semiconductors prices.

Net sales of test systems for non memory semiconductors decreased by ¥7,140 million, or 18.4%, compared with fiscal 2007 to ¥31,572 million in fiscal 2008. This decrease was reflecting weak sales, primarily in Japan, Korea and Taiwan, of T6500 series test systems for SoC semiconductors and the T6300 series test systems for non memory semiconductors used for LCD driver integrated circuits, affected by price competition of digital consumer devices.

Mechatronics System Segment

Net sales of the Mechatronics System Segment including test handlers and device interfaces decreased by ¥20,556 million, or 58.8%, compared to fiscal 2007 to ¥14,388 million in fiscal 2008.

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.

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Services, Support and Other Segment

Net sales of the Services, Support and Other Segment decreased by ¥3,529 million, or 18.2%, compared with fiscal 2007 to ¥15,815 million in fiscal 2008, mainly due to a decline in demand for maintenance services reflecting the weak performance of the semiconductor market. Main businesses in the Services, Support and Others Segment for fiscal 2008 were maintenance services and leases and rentals.

Geographic Markets

Advantest experienced a decrease of 58.1% in its net sales in fiscal 2008, which was greatly affected by decline in sales, especially in Taiwan, Japan and Korea.

Net sales in Japan decreased by ¥31,298 million, or 55.9%, compared with fiscal 2007 to ¥24,734 million in fiscal 2008. This decrease was primarily due to weak sales of test systems for non memory semiconductors used for digital consumer device integrated circuits, affected by the decrease in capital expenditure by semiconductor manufacturers in light of the increase in uncertainty pertaining to demands for end products stemming from further slowdown of the economy.

Net sales in the Americas increased by ¥2,143 million, or 22.3%, compared with fiscal 2007 to ¥11,759 million in fiscal 2008. This increase was primarily due to steady demand of major semiconductor manufacturers for T2000 modules. The estimated effect of changes in exchange rates during fiscal 2008 with the appreciation of the Japanese yen against the U.S. dollar was to decrease Advantest s net sales in the Americas by approximately ¥1,056 million.

Net sales in Europe decreased by ¥6,015 million, or 67.9%, compared to fiscal 2007 to ¥2,844 million in fiscal 2008 mainly due to the decrease in the sales of test systems for memory semiconductors. The estimated effect of changes in exchange rates during fiscal 2008 was to decrease Advantest s net sales in Europe by approximately ¥219 million.

Net sales in Asia (excluding Japan) decreased by ¥70,945 million, or 65.5%, compared with fiscal 2007 to ¥37,315 million in fiscal 2008. Net sales in Korea and Taiwan decreased by ¥21,893 million, or 60.9% and, by ¥45,882 million, or 81.8%, compared with fiscal 2007, respectively. This decrease was primarily due to restraint in capital expenditures by semiconductor manufacturers resulting from decline in prices of DRAM semiconductors. Net sales in China and the rest of Asia (excluding Japan, Taiwan and Korea) decreased by ¥3,170 million, or 19.6%, compared with fiscal 2007. This decrease resulted from lower sales of test systems for memory semiconductors in China. The estimated effect of changes in exchange rates during fiscal 2008 was to decrease Advantest s net sales in Asia by approximately ¥1,723 million.

Advantest s overseas sales as a percentage of total sales was 67.7% for fiscal 2008, compared with 69.3% for fiscal 2007.

Operating Expenses

In fiscal 2008, Advantest s operating expenses decreased by ¥33,942 million, or 21.2%, compared with fiscal 2007 to ¥126,109 million.

In fiscal 2008, cost of sales decreased by ¥32,000 million, or 36.0%, compared to fiscal 2007 to ¥56,837 million. This decrease was attributed to the decrease of ¥106,115 million in net sales, however, this has been partially offset by inventory write-down of ¥8,715 million and one-time expenses relating to the structural reform, such as impairment loss on long-lived assets of ¥5,142 million out of total impairment losses on long-lived assets and goodwill of ¥13,866 million. The deterioration of sales cost ratio resulted from lowered capacity utilization reflecting reductions in sales and changes in product mix.

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In fiscal 2008, research and development expenses decreased by ¥6,794 million, or 22.3%, compared to fiscal 2007 to ¥23,713 million. This decrease in research and development expenses reflects the narrowing down of research and development projects as well as the decrease in personnel expenses achieved through non-renewal of contracts for temporary employees.

In fiscal 2008, selling, general and administrative expenses decreased by ¥8,936 million, or 22.0%, compared to fiscal 2007 to ¥31,771 million. This decrease primarily reflects the effects of the decrease in personnel expenses achieved through non-renewal of contracts for temporary employees.

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

Operating Income

In fiscal 2008, operating income decreased by ¥72,173 million, compared to fiscal 2007, to a loss of ¥49,457 million.

Other Income and Expenses

In fiscal 2008, interest and dividend income decreased by ¥1,642 million, or 43.2%, compared with fiscal 2007 to ¥2,157 million. This decrease reflected the decrease in interest income caused primarily by a decline in U.S. dollar interest rates.

In fiscal 2008, interest expenses decreased by ¥1 million, or 8.3% compared with fiscal 2007 to ¥11 million.

In fiscal 2008, impairment loss on investment securities increased by ¥2,179 million compared with fiscal 2007 to ¥3,510 million reflecting the decline in stock prices stemming from the financial crisis.

In fiscal 2008, other, net decreased by ¥301 million, compared with fiscal 2007, to a loss of ¥1,940 million. This decrease in non-operating income was primarily due to an increase in foreign currency exchange losses by ¥416 million compared with fiscal 2007 to ¥2,296 million in fiscal 2008, reflecting the sharp appreciation of the Japanese yen against the Euro. Currency exchange 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 year, including those settled using foreign exchange forward contracts, or (ii) the value of accounts receivable and payables outstanding remeasured at the exchange rate in effect at March 31, 2009.

Income Taxes

In fiscal 2008, Advantest s effective tax rate was negative 41.7%, as the Company did not record tax benefits on pretax losses while that tax rate for fiscal 2007 was 29.3%. The statutory tax rate of the Company and its domestic consolidated subsidiaries was 40.4% for fiscal 2008. The difference between the statutory tax rate of 40.4% in fiscal 2008 and the effective tax rate of negative 41.7% in fiscal 2008 was mainly due to the difference of applicable amount of valuation allowance for deferred tax assets and the availability of tax credits for research and experimental expenses. For a more detailed discussion on income taxes of Advantest in fiscal 2008 and fiscal 2007, see note 12 to Advantest s consolidated financial statements.

Net Income

In fiscal 2008, Advantest s net income decreased by ¥91,452 million, compared to fiscal 2007, to a loss of ¥74,902 million.

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Other Comprehensive Income (Loss)

In fiscal 2008, Advantest s other comprehensive income (loss), net of tax increased by ¥4,295 million, compared to fiscal 2007, to a loss of ¥6,972 million. This increase was primarily due to a ¥5,052 million increase in foreign currency translation adjustment from a loss of ¥6,845 million in fiscal 2007 to a loss of ¥1,793 million in fiscal 2008, which was partially offset by a loss of ¥4,935 million in pension liability adjustments. No tax benefit was recorded on the loss of pension liability adjustments.

5.B. LIQUIDITY AND CAPITAL RESOURCES

Advantest s cash and cash equivalents balance decreased by ¥9,016 million in fiscal 2009 to ¥96,439 million as of March 31, 2010. As of March 31, 2010, approximately 72% of Advantest s cash and cash equivalents were held in Japanese yen.

Net cash used by operating activities was ¥17,746 million in fiscal 2009 mainly reflecting the recording of a net loss of ¥11,454 million resulting from a decrease of sales, increase in inventory of ¥6,942 million resulting from increase in orders received and sales in the second half of the fiscal 2009, and an increase in accounts receivable of ¥5,457 million. Net cash provided by operating activities decreased by ¥20,103 million in fiscal 2009 compared to ¥2,357 million in net cash provided by operating activities in fiscal 2008. The main reason for the decrease in fiscal 2009 was the increase in accounts receivable and an increase in inventory and a decrease in non-cash items such as expense for impairment loss, deferred tax and depreciation. The decrease, however, has been partially offset by the improvement in net loss by ¥63,448 million.

Net cash provided by investing activities was ¥10,824 million in fiscal 2009 mainly attributable to a decrease in short-term investments in the amount of ¥13,881 million. Net cash provided by investing activities in fiscal 2009 was a ¥43,331 million increase compared to net cash used in investing activities in the amount of ¥32,507 million in fiscal 2008. The main reason for the increase in fiscal 2009 was the ¥13,881 million decline in purchase of short-term investments in fiscal 2009 from the ¥26,210 million purchased in fiscal 2008.

Net cash used in financing activities was ¥1,803 million in fiscal 2009, mainly attributable to dividends paid in the amount of ¥1,796 million. Net cash used in financing activities in fiscal 2009 was a ¥7,127 million decrease compared to ¥8,930 million in fiscal 2008. The main reason for the decrease in fiscal 2009 was the dividends paid in the amount of ¥1,796 million in fiscal 2009 which was ¥8,924 million in fiscal 2008.

Net effect of exchange rate changes on cash and cash equivalents was unfavorable by ¥291 million in fiscal 2009, an improvement of ¥2,522 million compared to fiscal 2008.

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, 2010, the amount of ¥13,765 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 ¥1,791 million in fiscal 2008 and ¥689 million in fiscal 2009. And Advantest expects to contribute ¥1,644 million under the EPF in fiscal 2010.

Advantest s funding and treasury policy (including funding for capital expenditures), which is overseen and controlled by its Finance Department, 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.

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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 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 ¥30.5 billion in fiscal 2007, ¥23.7 billion in fiscal 2008 and ¥17.9 billion in fiscal 2009. 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

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.

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

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 open architecture platforms.

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.

5.E. OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2010, 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

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, 2010.

Contractual Cash Obligation	Total	Payments due by Period Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in millions)		
Long-Term Debt, including current portion	¥	¥	¥	¥	¥
Operating Leases	1,292	361	380	131	420
Contractual Obligations	103	103			
Total Contractual Cash Obligations	¥ 1,395	¥ 464	¥ 380	¥ 131	¥ 420

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.

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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, 2010 and their respective business experience are listed below.

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Toshio Maruyama	Chairman of the Board and Representative	4/1973 6/1989	Joined Advantest Corporation Director
(April 17, 1948)	Director	6/1995 6/1999 6/2001 5/2003 6/2003 5/2005 6/2005 5/2006 7/2008 3/2009 4/2009 6/2009 7/2009	Managing Director Senior Managing Director Senior Vice President, ATE Sales Group Representative Director and President Director, Environmental Management Center Representative Director, President and COO Director of Japan Electronics and Information Technology Industries Association (present position) Representative Director, President and CEO Director of the Association of Super-Advanced Electronics Technologies (present position) SEMI Director (present position) Senior Vice President, New Concept Product Initiative Director, CSR & Environmental Affairs Promotion Center Chairman of the Board and Representative Director (present position) Director of Nippon Keidanren (present position) Director of Semiconductor Equipment Association of Japan (present position)
Haruo Matsuno	Representative Director, President and CEO	4/1984 6/2006	Joined Advantest Corporation Senior Vice President, Procurement Group
(February 14, 1960)		6/2007 1/2008 6/2008 6/2009 6/2010	Senior Vice President, Procurement & Logistics Group Senior Vice President, Production Group Executive Officer Representative Director, President and CEO (present position) Director, CSR & Environmental Affairs Promotion Center (present position) Senior Vice President, New Concept Product Initiative (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Naoyuki Akikusa	Director	4/1961	Joined Fuji Communication Apparatus Mfg. Co., Ltd.(currently Fujitsu Limited)
(December 12, 1938)		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	Director	4/1972	Assistant Judge, Tokyo District Court
(November 24, 1947)		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 Joined Seiwa Patent office & Law (present position)
		6/2006	Director, Advantest Corporation (present position)
Yuichi Kurita	Director, Senior Executive Officer	4/1973	Joined Fujitsu Limited
		3/2001	Joined Advantest Corporation
(July 28, 1949)		10/2001	General Manager, Investor Relations Office
	Corporate Planning and Administration	4/2002	Manager, Finance Department
		6/2003	Executive Officer Vice President, Corporate Affairs Group
		6/2004	Vice President, Corporate Affairs Group (overseeing Finance) Senior Vice President, Corporate Relations Group
		6/2005	Senior Vice President, Corporate Planning Group
		11/2006	Director, e-Shuttle, Inc. (present position)
		6/2007	Director, Managing Executive Officer Corporate Affairs
		6/2008	Corporate Administration Senior Vice President, Corporate Administration Group Assistant Director (Administration), Environmental Management Center In Charge of Corporate Ethics Office (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		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)
			Corporate Auditor, Tera Probe, Inc. (present position)
Hiroshi Tsukahara	Director, Managing Executive Officer	4/1974	Joined Advantest Corporation
		6/2001	Director
(August 26, 1950)		11/2001	Senior Vice President, DI Business Group
			General Manager, DI Business Division
		6/2003	Executive Officer
		6/2005	Director, Fujitsu Interconnect Technologies Limited
			Managing Executive Officer
		6/2006	Senior Vice President, 1st Test System Business Group
		6/2007	Director, Managing Executive Officer (present position)
			Technology and Development
		6/2008	ATE Related Businesses
		6/2009	Technology Promotion
		6/2010	Advantest America Corporation (Holding Co.)
			Chairman of the Board (present position)
Hiroyasu Sawai	Director, Managing Executive Officer	4/1974	Joined Advantest Corporation
		6/1997	General Manager of International ATE Sales Department
(May 23, 1950)		6/1999	
	Sales and Marketing		Director
		10/2000	General Manager, ATE International Account Sales Division
		6/2001	Vice President, ATE Sales Group
		6/2002	Manager, ATE Fabless Outsourcing Solution Business Department
		6/2003	Executive Officer
			General Manager, ATE Systems Engineering Division
		6/2004	Vice President, ATE Business Group (overseeing SE)
		4/2005	Senior Vice President, SE Group
		6/2005	Managing Executive Officer
		6/2008	Director, Managing Executive Officer (present position)
			Sales and Marketing (present position)
			Senior Vice President, Sales and Marketing Group (present position)
			General Manager, Sales Division 2

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		4/2009	Leader, Memory Account Sales Initiatives
			General Manager, Sales Division 3
		6/2010	Leader, Memory Account Sales Initiatives (present position)
			General Manager, Sales Division 3 (present position)
Shinichiro Kuroe	Director, Managing Executive Officer	4/1981	Joined Advantest Corporation
		3/1998	Manager, 1st Product Development Department
(March 30, 1959)		6/2000	Manager, Memory Tester Development Department
	Test System Business	6/2001	General Manager, Memory Tester Business Division
		4/2002	In Charge of Memory Tester Product, ATE Business Group
			General Manager, 1st Memory Tester Business Division
		2/2003	General Manager, Memory Tester Business Division
		6/2005	Executive Officer
			Vice President, Sales and Marketing Group
			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 (present position)
			General Manager, Memory Tester Business Division
		6/2009	Director, Managing Executive Officer (present position)
			Technology Development Group and Test System Business Group
		6/2010	Test System Business (present position)
			General Manager, System Planning Division (present position)
Hitoshi Owada	Standing Corporate Auditor	2/1970	Joined Advantest Corporation
		6/1991	
(March 26, 1946)			Manager of Accounting Department
		6/1997	Director
		6/2000	Managing Director
		6/2001	Senior Vice President, Corporate Affairs Group
			Senior Vice President, Auditing Group
		6/2003	Director, Managing Executive Officer
			Corporate Affairs
		6/2007	Standing Corporate Auditor (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Yuri Morita	Standing Corporate Auditor	4/1972	Joined Fujitsu Limited
		1/1994	
(July 15, 1947)			Joined Benesse Corporation
		9/1995	Joined Advantest Corporation
		4/1996	Manager of Legal Department
		6/2000	Director
			Senior Vice President, Export Control Division
		6/2001	Vice President, Corporate Affairs Group
		2/2003	Manager, General Affairs Department
		6/2003	Managing Executive Officer
			Assistant Director, Environmental Management Center
			Senior Vice President, Corporate Affairs Group
		3/2004	Assistant Director (overseeing Administration), Environmental Management Center
		4/2005	In Charge of Corporate Ethics Office
		6/2008	Standing Corporate Auditor (present position)
Megumi Yamamuro	Corporate Auditor	4/1974	Assistant Judge, Tokyo District Court
(March 8, 1948)		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
			Joined CAST Law P.C. (currently SOGA URYU & ITOGA) (present position)
		10/2004	Professor, The University of Tokyo Graduate School of Law and Politics (present position)
		6/2005	Corporate Auditor, Fujitsu Limited (present position)
		6/2006	Corporate Auditor, Advantest Corporation (present position)
		6/2009	Corporate Auditor, NIFTY Corporation (present position)
Jiro Haneda	Corporate Auditor	4/1966	Joined Nihon Kangyou Bank, Limited
(October 3, 1943)		6/1996	Director, Kanematsu Corporation
		6/1998	Representative Director and Managing Director
		6/2000	Corporate Auditor, Kanematsu Electronics Ltd.
		3/2002	Corporate Auditor, Nippon Office Systems Ltd.
		6/2003	Representative Director and Senior Managing Director, Kanematsu Corporation
		3/2004	Standing Corporate Auditor, Nippon Office Systems Ltd.
		6/2007	Corporate Auditor, Advantest Corporation (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Hiroshi Nakamura	Managing Executive Officer	4/1981	Joined Advantest Corporation
		6/1998	Manager, Business Accounting Department, Corporate Affairs Group
(December 4, 1957)		6/2002	Manager, Accounting Department, Corporate Affairs Group
		6/2006	Executive Officer Vice President, Corporate Affairs Group
		6/2007	Senior Vice President, Financial Group Manager, Accounting Department, (present position)
		6/2008	Vice President, Corporate Administration Group General Manager, Accounting and Finance Division
		6/2009	Managing Executive Officer (present position)
		6/2010	Senior Vice President, Corporate Administration Group (present position)
Yoshiaki Yoshida	Managing Executive Officer	4/1999	Joined Advantest Corporation Director, Advantest Finance Inc.
(February 8, 1958)		6/2000	Representative Director, Advantest Finance Inc.
		6/2006	Executive Officer
		6/2007	Vice President, Corporate Planning Group
		6/2008	Senior Vice President, Corporate Planning Group (present position)
		3/2009	Vice President, New Concept Product Initiative (present position)
		6/2009	Managing Executive Officer (present position)
		6/2010	General Manager, Launch Planning Group for Certification Association (present position)
Masao Shimizu	Managing Executive Officer	4/1973	Joined Advantest Corporation
(February 24, 1953)		4/2000	General Manager, SoC Tester Business Division
	System Solution Business	6/2001	Director
		4/2002	General Manager, 1st SoC Tester Business Division
		6/2003	Executive Officer
		6/2004	Vice President, ATE Business Group (overseeing SoC Tester product)
		4/2005	Senior Vice President, 1st Test System Business Group
		6/2006	Senior Vice President, DI Business Group General Manager, DI Business Division
		6/2007	Director, Fujitsu Interconnect Technologies Limited (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		4/2009	Vice President (DI), System Solution Business Group General Manager, DI Business Division
		6/2009	General Manager, DI Solution Business Division
			Senior Vice President, System Solution Business Group (present position)
			General Manager, CE Support Division (present position)
		6/2010	Managing Executive Officer (present position) System Solution Business (present position)
Hideaki Imada (April 19, 1955)	Executive Officer	4/1978	Joined Advantest Corporation
		4/2002	General Manager, 2nd SoC Tester Business Division
		2/2003	Leader, OAI Business Initiatives
		6/2003	Executive Officer (present position) Vice President, ATE Sales Group
		4/2004	Vice President, Sales and Marketing Group
		6/2004	Vice President, Sales and Marketing Group (overseeing OAI)
		4/2005	Senior Vice President, 2nd Test System Business Group General Manager, Product Design Initiatives 2 General Manager, Memory Tester Business Division
		6/2008	Senior Vice President, Memory Tester Business Group
		4/2009	Vice President (SE), System Solution Business Group
		6/2009	Senior Vice President, Production Group (present position)
Yasuhiro Kawata (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	Senior Vice President, Quality Assurance Group (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
			General Manager, Quality Assurance Division (present position)
			Assistant Director (Technology), Environmental Management Center
		4/2009	Assistant Director (Technology), CSR & Environmental Affairs Promotion Center (present position)
Takashi Sugiura	Executive Officer	4/1979	Joined Advantest Corporation
(March 8, 1957)		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 (present position)
			General Manager, Legal and Intellectual Property Division (present position)
		4/2010	General Manager, Launch Planning Group for Certification Association (present position)
Takashi Sekino	Executive Officer	4/1982	Joined Advantest Corporation
(May 30, 1957)		4/1998	Manager, 1st R&D Department, ATE Technology Division
		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)
			Vice President, Technology Development Group
		5/2007	Senior Vice President, Technology Development Group (present position)
		6/2009	General Manager, 3rd Technology Division
Sae Bum Myung	Executive Officer	4/1989	Joined Advantest Corporation
(September 16, 1954)		4/2004	Manager, International Sales Department 3
		6/2006	Representative Director and President, Advantest Korea Co., Ltd. (present position)
		6/2008	Executive Officer (present position)
			Asia Sales, Sales and Marketing Group (present position)
		4/2009	Leader, Korea Account Sales Initiatives (present position)

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Soichi Tsukakoshi	Executive Officer	4/1983	Joined Advantest Corporation
(February 1, 1960)		4/2008	General Manager, Strategic Sales Division
		6/2008	Executive Officer (present position) Vice President, Sales and Marketing Group (present position)
		1/2010	Leader, Domestic Account Sales Initiatives (present position) General Manager, Sales Division 1 (present position)
Josef Schraetzenstaller	Executive Officer	11/1996	Joined Advantest (Europe) GmbH (currently Advantest Europe GmbH)
(June 16, 1957)		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 (present position)
		4/2009	Leader, EU Account Sales Initiatives (present position)
R. Keith Lee	Executive Officer	8/1984	Joined Takeda Riken America, Inc. (currently Advantest America, Inc.)
(December 15, 1955)		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 (present position)
		4/2009	Leader, US Account Sales Initiatives (present position)

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6.B. COMPENSATION

Executive Compensation

The aggregate amount of compensation of all of the Company s directors and corporate auditors was approximately ¥396 million during fiscal 2009. Of the foregoing, the aggregate amount of compensation for the Company s directors (outside corporate directors excluded) was ¥324 million (¥261 million in fixed compensation and ¥63 million in qualifying stock options), ¥38 million for the Company s auditors (outside corporate auditors excluded) (¥34 million in fixed compensation and ¥4 million in qualifying stock options) and ¥34 million for outside corporate directors and auditors (¥25 million in fixed compensation and ¥9 million in qualifying stock options). Compensation for directors and corporate auditors must be authorized by resolutions of the general meetings of shareholders. 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 include compensation paid in relation to stock options and fixed compensation paid to two directors who retired from their respective positions as of the closing of the 67th ordinary general meeting of shareholders, which was held on June 25, 2009.

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.

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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.

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, 2008, March 31, 2009 and March 31, 2010.

	As of March 31,		
	2008	**2009**	**2010**
Full-Time Employees	3,666	3,187	3,151
By Category of Activity:			
Administrative	394	343	358
Sales	285	249	246
Customer Support	885	786	731
Manufacturing	832	578	579
Research and Development	1,144	1,120	1,139
Other	126	111	98
By Geographic Location:			
Japan	2,898	2,413	2,413
Asia (excluding Japan)	463	410	400
Americas	205	179	173
Europe	100	185	165

Most regular employees of the Company and its subsidiaries in Japan are members of one of the five 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, 2008, 2009 and 2010, Advantest had an annual average of 909, 565 and 217 temporary employees, respectively.

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6.E. SHARE OWNERSHIP

The following table sets forth the beneficial ownership of shares of common stock of the Company as of March 31, 2010 of each of the Company s directors, corporate auditors and executive officers as of March 31, 2010.

Name of Record/Beneficial Owner	Number of Shares
Toshio Maruyama	158,324
Haruo Matsuno	53,957
Naoyuki Akikusa	25,396
Yasushige Hagio	25,880
Takashi Tokuno	106,501
Hiroshi Tsukahara	90,918
Yuichi Kurita	81,644
Hiroyasu Sawai	91,293
Shinichiro Kuroe	67,002
Hitoshi Owada	57,244
Yuri Morita	65,857
Megumi Yamamuro	21,353
Jiro Haneda	13,000
Yoshiro Yagi	79,980
Hiroshi Nakamura	68,088
Yoshiaki Yoshida	64,557
Masao Shimizu	60,000
Hideaki Imada	63,284
Yasuhiro Kawata	60,600
Takashi Sugiura	73,892
Takashi Sekino	62,510
Sae Bum Myung	31,000
Soichi Tsukakoshi	31,582
Josef Schraetzenstaller	54,000
R. Keith Lee	54,000

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 1,475,000 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.

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Stock Option Plan

At the general ordinary meetings of shareholders or meeting of Board of Directors held in June 2006, June 2007, June 2008, June 2009 and June 2010, 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. On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. The numbers of shares and exercise price have been restated to reflect the effects of the stock split.

	Thirteenth series	Fourteenth series	Fifteenth series
Date of grant	July 12, 2006	July 12, 2006	December 1, 2006
Number of shares to be issued/ delivered	360,000	1,218,000	8,000
Exercise price per share	¥5,880	¥5,880	¥6,218
Beginning of exercise period	April 1, 2007	April 1, 2007	April 1, 2007
End of exercise period	March 31, 2011	March 31, 2011	March 31, 2011
Number of directors, corporate auditors and executive officers of the Company	13	18	0
Number of other employees	0	184	3

	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
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
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
Exercise price per share	¥2,653	¥1,844	To be determined
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

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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 or corporate auditors 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, 2010, 28 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 11,516 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, 2010, the association had 560 members and held 310,116 shares of the Company s common stock.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. MAJOR SHAREHOLDERS

As of March 31, 2010, 178,721,592 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.

Name of Beneficial Owner	Number of Shares	Percentage of Outstanding Shares
Fujitsu Limited	20,142,792	10.09%
The Bank of Tokyo-Mitsubishi UFJ, Ltd., and its related entities	13,690,220	6.86%

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,

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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.

Based on information made publicly available on or after April 1, 2007, 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 30, 2007	13,212,098	6.62%	(2,824,402)	10,387,696	5.21%
Nomura Securities Co., Ltd. and its related entities	May 15, 2007	10,387,696	5.21%	2,105,426	12,493,122	6.26%
Nomura Securities Co., Ltd. and its related entities	June 29, 2007	12,493,122	6.26%	2,055,956	14,549,078	7.29%
Nomura Securities Co., Ltd. and its related entities	July 13, 2007	14,549,078	7.29%	(2,969,400)	11,579,678	5.80%
Walter Scott & Partners Limited	October 22, 2007				10,008,360	5.02%
Nomura Securities Co., Ltd. and its related entities	November 15, 2007	11,579,678	5.80%	(2,721,771)	8,857,907	4.44%
Nomura Securities Co., Ltd. and its related entities	November 30, 2007				10,767,725	5.40%
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%

As of March 31, 2010, the Company had 178,721,592 outstanding shares of common stock. According to JPMorgan Chase Bank, depositary for the Company s ADSs, as of March 31, 2010, 1,901,143 shares of the 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, 2010, there were 48,489 holders of

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common stock of record worldwide. As of March 31, 2010, there were 101 record holders of the Company s common stock with addresses in the U.S., whose shareholdings represented 12.5% 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 11% 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 ¥2,085 million in fiscal 2009 from the sale of products to Fujitsu and its subsidiaries. Advantest purchased parts from Fujitsu and its subsidiaries in the amount of ¥4,065 million in fiscal 2009. Advantest had receivables from Fujitsu and its subsidiaries in the amount of ¥826 million as of March 31, 2010. Advantest had payables to Fujitsu and its subsidiaries in the aggregate amount of ¥2,372 million as of March 31, 2010. 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.

Loans

As of March 31, 2010, 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.

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

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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 Price Per Share		New York Stock Exchange Price Per ADS	
	High	Low	High	Low
Fiscal year ended March 31,				
2006	¥ 7,750	¥ 3,660	$ 64.54	$ 34.72
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
Financial quarter ended/ending				
June 30, 2008	3,100	2,235	29.71	21.06
September 30, 2008	2,660	2,050	24.73	19.22
December 31, 2008	2,240	996	20.55	10.82
March 31, 2009	1,666	1,122	17.09	11.90
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 (through June 18, 2010)	2,516	1,860	26.89	20.58
Month ended				
December 31, 2009	2,500	1,864	27.06	22.87
January 31, 2010	2,615	2,253	28.07	24.61
February 28, 2010	2,305	2,033	25.64	23.25
March 31, 2010	2,358	2,084	25.43	23.83
April 30, 2010	2,516	2,316	26.89	25.40
May 31, 2010	2,375	1,950	25.94	21.85

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.

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Since September 17, 2001, American Depositary Shares evidenced by American Depositary Receipts have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by JPMorgan Chase Bank, as depositary. Each American Depository Share 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, 2010, including treasury shares, was 199,566,770. All of the issued shares are fully paid and non-assessable.

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 depositary 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 Depositary 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

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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.

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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

(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.

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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.

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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.

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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;

(12) share exchange or share transfer for the purpose of establishing 100% parent-subsidiary 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.

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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

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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