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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2011

OR

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

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

Date of event requiring this shell company report………

For the transition period from to

Commission file number: 1-15236

KABUSHIKI KAISHA ADVANTEST

(Exact name of registrant as specified in its charter)

ADVANTEST CORPORATION

(Translation of registrant's name into English)

Japan
(Jurisdiction of incorporation or organization)

Shin-Marunouchi Center Building
1-6-2, Marunouchi
Chiyoda-ku
Tokyo 100-0005
Japan
(Address of principal executive offices)

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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* Common Stock**	The New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

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

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

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

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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 2010” refers to the twelve-month period ended March 31, 2011. All other references to years refer to the applicable calendar year.

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

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

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

Cautionary Statement with Respect to Forward-Looking Statements

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

- changes in demand for the products and services produced and offered by Advantest's customers, including semiconductors, communications services and electronic goods;
- the environment in which Advantest purchases materials, components and supplies for the production of its products, including the availability of necessary materials, components and supplies during a significant expansion in the market in which Advantest operates;
- circumstances relating to Advantest's investment in technology, including its ability to timely develop products that meet the changing needs of semiconductor manufacturers and communications network equipment and components makers and service providers; and
- changes in economic conditions, competitive environment, currency exchange rates or political stability in the major markets where Advantest produces, distributes or sells its products.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. SELECTED FINANCIAL DATA

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

U.S. GAAP Selected Consolidated Financial Data

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

	Year ended March 31,					
	2007	2008	2009	2010	2011	2011
	(in millions, except per share and share data)					(thousands, except per share and share data)
Consolidated Statement of Income Data:[4]						
Net sales	¥ 235,012	¥ 182,767	¥ 76,652	¥ 53,225	¥ 99,634	$1,198,244
Operating income (loss)	56,792	22,716	(49,457)	(11,639)	6,111	73,494
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	61,090	23,533	(52,761)	(9,926)	5,551	66,759
Net income (loss)	35,556	16,550	(74,902)	(11,454)	3,163	38,040
Net income (loss) per share						
Basic[1]	190.01	90.72	(419.09)	(64.09)	18.03	0.22
Diluted[1]	188.85	90.57	(419.09)	(64.09)	18.03	0.22
Basic weighted average shares outstanding[1]	187,128,842	182,418,821	178,724,884	178,722,505	175,481,854	
Diluted weighted average shares outstanding[1]	188,270,688	182,723,982	178,724,884	178,722,505	175,495,458	

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

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

(1) On October 1, 2006, the Company conducted a two for one stock split of shares of its common stock. Net income per share and average number of shares outstanding for each period affected have been restated to reflect the effects of the stock split.

(2) Operating income as a percentage of net sales.

(3) Net income as a percentage of net sales.

(4) On April 1, 2007, the Company and its domestic subsidiaries elected to change the declining-balance method of depreciating machinery and equipment as well as tools, furniture and fixtures from the fixed-percentage-on-declining base application to the 250% declining balance application.

Dividends

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

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

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

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

Exchange Rates

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

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

Fiscal year ended/ending March 31,	At end of period	Average (of month-end rates)	High	Low
		(¥ per $1.00)		
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
2011	82.76	85.00	94.68	78.74

Month ended	High	Low
	(¥ per $1.00)	
December 31, 2010	¥ 84.23	¥ 81.67
January 31, 2011	83.36	81.56
February 28, 2011	83.79	81.48
March 31, 2011	82.98	78.74
April 30, 2011	85.26	81.31
May 31, 2011	82.12	80.12

3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

3.D. RISK FACTORS

Risks Related to Advantest's Business

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

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

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

Worldwide sales of non memory semiconductors increased in 2006 and 2007, since demand in the consumer market and automobile market stabilized and the data processing market were strong. Worldwide sales of non memory semiconductors in 2008 increased by 2.3% from 2007, primarily due to steady demand for mobile PCs despite the deterioration in the overall condition of the global economy. In 2009, worldwide sales of non memory semiconductors decreased by 10.3% compared to 2008, primarily as a result of the impact of the global economic downturn stemming from the financial crisis that started in 2008. In 2010, worldwide sales of non memory semiconductors increased by 26.0% compared to 2009, primarily due to robust demand for smartphones, tablet PCs, and other consumer electronics.

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

- the overall state of the global economy;
- demand in personal computer and server industries;
- consumer demand for digital consumer products such as flat-panel TVs, DVD/Blu-ray disc recorders, portable audio players and electronic books;
- levels of investment in communications infrastructure and trends in the mobile device industry;
- demand in the automobile industry; and
- trends in the semiconductor industry.

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

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

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

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

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

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

- investment by memory semiconductor manufacturers in facilities that are used to produce memory semiconductors, such as flash memory, DDR3-SDRAM, the next generation DDR4-SDRAM, GDDR and LPDDR;
- the introduction of non memory semiconductors that incorporate more advanced memory semiconductors, logic and analog circuits;
- investment by semiconductor manufacturers in mechatronics related products which transport devices faster, more accurately and more stably;
- the utilization of testing technologies that employ self-test circuit designs incorporated into semiconductor chips;
- the utilization of testing technologies that employ test circuit designs for Device Under Test (DUT);
- introduction of mechatronics products that respond to reduced testing time resulting from advances in customers' back-end testing;

- prompt response and quick repair in the event of failure;
- total solutions that allow customers to reduce their testing costs; and
- test solutions of power semiconductors that control small and large motor drives.

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

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

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

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

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

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

- consolidation of the two companies' differing research and development, manufacturing and sales processes;
- the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies;
- the retention of Verigy's valuable and key management and employees; and
- the integration of two companies with differing corporate cultures and languages.

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

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

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

Advantest relies on subcontractors to perform some of the assembly requirements for its products. In addition, many of the components used in Advantest's semiconductor and component test systems and mechatronics systems are produced by suppliers based on Advantest's specifications. Advantest's reliance on these subcontractors and suppliers gives it less control over the manufacturing process and exposes it to significant risks, especially inadequate manufacturing capacity, late delivery, substandard quality, lack of labor availability and high costs. In addition, Advantest depends on a sole source or a limited number of suppliers for a portion of its components and parts. Advantest does not maintain long-term supply agreements with most of its suppliers, and it purchases most of its components and parts through individual purchase orders. If suppliers become unable to provide components or parts in the volumes needed and at acceptable prices, Advantest would have to identify and procure acceptable replacements. Furthermore, the markets for semiconductors and other specialized components have, in the past, experienced periods of inadequate supply to meet demand. Moreover, there may be a shortage of components if a large scale natural disaster or electricity shortage occurs. The process of selecting subcontractors or suppliers and of identifying suitable replacement components and parts is lengthy and may result in Advantest being unable to deliver products meeting customer requirements in a timely manner. Advantest has, in the past, been unable to deliver its products according to production schedules primarily due to the inability of suppliers to supply components and parts based on Advantest's specifications and by other shortages in components and parts. Moreover, a deterioration in the financial position of Advantest's subcontractors or suppliers reflecting the decline in the economic environment may result in certain subcontractors and suppliers being unable to meet Advantest's requirements.

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

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

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

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

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

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

Advantest's product lines are facing significant price pressure

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

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

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

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

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

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

Advantest's success depends on its continued ability to develop and manage relationships with its major customers, a small number of which currently account for a significant portion of its net sales. Sales to Advantest's largest customer as a percentage of its total sales were approximately 24% in fiscal 2008, approximately 20% in fiscal 2009 and approximately 20% in fiscal 2010. Sales to Advantest's five largest customers accounted for approximately 51% in fiscal 2008, approximately 43% in fiscal 2009 and approximately 49% in fiscal 2010. The loss of one or more of these major customers or changes in their capital expenditures could materially harm Advantest's business. Furthermore, if Advantest's major customers experience a deterioration in their financial position and are unable to fulfill their payment obligations to Advantest in accordance with the applicable terms, Advantest's business, results of operations and financial position may be adversely affected.

Fluctuations in exchange rates could reduce Advantest's profitability

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

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

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

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

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

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

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

- political and economic instability, natural calamities, epidemics or other risks related to countries where Advantest procures its components and parts or sells its products;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- risks with respect to international taxation, including transfer pricing regulations;
- difficulty in staffing and managing widespread operations;
- differing protection of intellectual property;

- difficulties in collecting accounts receivable because of distance and different legal rules; and
- risks with respect to social and political crises resulting from terrorism and war, among others.

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

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

- the long selling process involved in the sale of semiconductor and component test systems;
- the relatively small number of total units sold in the semiconductor and component test system market;
- order cancellations or postponement of capital expenditures by customers;
- delays in collection of, or increases in provisions for, accounts receivable reflecting the financial condition of customers;
- increases in required provisions for product warranty costs and write-downs of inventory; and
- any real or perceived decrease in performance and reliability of Advantest products, which could lead to a decline in Advantest's reputation.

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

Advantest uses chemicals in the manufacturing of its products, the manufacture, processing and distribution of which are subject to environmental related laws, regulations and rules of Japanese governmental agencies, as well as by various industry organizations and other regulatory bodies in other countries. These regulatory bodies may strengthen existing regulations governing chemicals used by Advantest and may also begin to regulate other chemicals used by Advantest. While Advantest is taking measures to eliminate toxic substances included in parts used to manufacture its products, Advantest uses solder which contains lead for mounting electronic parts and components for its products in order to ensure the reliability of its products as a matter of priority. Further, as a method to cool some of its semiconductor and component test systems, Advantest uses a type of perfluorocarbon, or PFC, that is not currently regulated by laws related to global warming. Advantest believes that it is in compliance with regulations with respect to the use of chemicals by promoting environmental policies for its products with the focus on ensuring the safety and the reliability of its products; however, Advantest must be prepared to adapt to regulatory requirements in all relevant countries as requirements change. Advantest may be required to incur significant cost in adapting to new requirements. Any failure by Advantest to comply with applicable government or industry regulations could result in restrictions on its ability to carry on or expand its operations, including being unable to sell its products.

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

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

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

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

4.B. BUSINESS OVERVIEW

Overview

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

- Semiconductor and Component Test System Segment;
- Mechatronics System Segment, focusing on peripheral devices including test handlers and device interfaces; and
- Services, Support and Others Segment.

Semiconductor and Component Test System Segment

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

Mechatronics System Segment

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

Services, Support and Others Segment

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

Sales by Segment

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

	Fiscal 2008		Fiscal 2009		Fiscal 2010	
Segment	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**
Semiconductor and Component Test System Segment	¥49,216	64.2	¥32,572	61.2	¥69,333	69.6
Mechatronics System Segment	14,388	18.8	11,237	21.1	18,515	18.6
Services, Support and Others Segment	15,815	20.6	11,838	22.2	14,166	14.2
Intercompany transactions elimination	(2,767)	(3.6)	(2,422)	(4.5)	(2,380)	(2.4)
Total Net Sales	¥76,652	100.0%	¥53,225	100.0%	¥99,634	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 high-speed data transmission worldwide reflecting the expansion of the mobile device 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.

Demand for Semiconductors and Electronic Components

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

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

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

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

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

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

Advancements in Semiconductor and Electronic Component Technology

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

- growing demand for, and continuous improvements in, personal computers and digital consumer products, such as flat-panel TVs, DVD/Blu-ray disc recorders, digital cameras, electronic books and mobile phone handsets; and
- requirements of communications network equipment, such as network routers, switches and base stations, as well as wireless handsets and other Internet access devices, to enable advances in Internet hardware and software applications, increases in infrastructure performance and simplification and miniaturization of Internet access devices.

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

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

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

Changes in Semiconductor and Electronic Component Manufacturing Processes

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

Production Outsourcing

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

Technological Innovation in Manufacturing Processes

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

New Testing Technologies

Semiconductor designers and manufacturers are striving to further reduce costs in connection with manufacturing semiconductors, especially the cost of testing semiconductors. Thus, there is a stronger demand for semiconductor test systems that can simultaneously test more semiconductors and accommodate a larger number of pins at higher speeds and with high throughput capabilities. On the other hand, there is an increasing pressure on semiconductor test systems to be energy efficient, smaller in size and less expensive. In order to respond to this demand, semiconductor test system manufacturers are taking measures to reduce semiconductor test system costs by making the development and manufacturing process of semiconductor test systems more efficient, strengthening peripheral devices such as test handlers and device interfaces and improving service and support systems. Furthermore, although certain semiconductors are now tested in a simplified manner in which self-test technologies are designed into circuits, or are tested in a manner that is close to actual operation by using firmware used to operate final products or even sold without being tested, Advantest believes that it has become increasingly important for semiconductor test systems to ensure the reliability of semiconductors since semiconductors are expected to become more complex and advanced going forward.

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

Business Strategy

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

- focusing on the development of semiconductor test systems which can respond to changes in capabilities of memory and non memory semiconductors;
- increasing its market share for test systems for non memory semiconductors and maintaining its large market share for test systems for memory semiconductors;
- increasing its market share for test handlers for memory and non memory semiconductors;
- developing, designing and supplying high quality device interfaces in a shorter period of time;

- reducing product cost of goods to withstand price pressures on products
- enhancing its operating efficiency to improve profitability, through promotion of production innovations;
- strengthening its ability to provide comprehensive solutions to satisfy customer needs; and
- 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 2010 the market for test systems for non memory semiconductors was approximately four times the size of the market for test systems for memory semiconductors. Advantest has therefore devoted its resources to develop test systems and modules for non memory semiconductors to meet the demands of a large number of manufacturers for the testing of a wide variety of non memory semiconductors.

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

Focus sales and support efforts on key customer accounts

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

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

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

(1) Highly Complementary Technology and Products

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

(2) Customer Relationships

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

(3) Global Business Development

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

Products

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

Semiconductor and Component Test Systems Segment

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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.

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

Test Systems for Non Memory Semiconductors

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

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

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

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

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

Mechatronics System Segment

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

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

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

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

The M4741A employs the vision alignment system which enables high-accuracy positioning of contact sockets for 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.

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, and probe card for front-end testing.

Advantest develops and manufactures device interfaces for semiconductor and component test systems and supplies device interfaces such as high performance and high density connectors, socket boards and sockets to meet the demands of next- generation semiconductors that are becoming more high-speed and more diversified. Advantest believes that the rate at which new semiconductor designs are introduced to market will continue to increase in the long term, and customers' requests to accelerate development of main parts of device interfaces that are compatible with such new semiconductor designs will increase accordingly.

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

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

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

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

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

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

Customers

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

Geographic Sales

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

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

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

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

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

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

Sales and Marketing

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

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

Support and Customer Service

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

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

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

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

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

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

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

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

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

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

  - *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.

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

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

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

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

Seasonality

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

Competition

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

- *Performance*. The performance of products is determined by its accuracy, test speed, throughput and ability to test semiconductors with large pin counts. High performance products reduce the customer's cost of testing.
- *Reliability*. Products that operate with minimal downtime allow semiconductor production and engineering work to proceed without frequent intervention and provides more cost-effective operation.
- *Delivery Time*. Semiconductor manufacturers require timely delivery of products, especially in periods of high demand.
- *Price*. The need for more sophisticated products often translates into higher testing costs for semiconductor manufacturers. In addition, primarily as a result of increased efficiency in the fabrication process and lower market prices for semiconductors, test costs have come to represent a higher proportion of the total cost of manufacturing. Advantest currently faces significant price pressure on its Semiconductor and Component Test System Segment.
- *System Architecture*. Product architecture that is modular expands the product life because the system can be adapted to meet the customer's new requirements, while largely retaining compatibility with existing test programs.
- *Software*. Products that use software that is easier to use and more powerful reduce the amount of engineering resources needed to develop and operate test programs.
- *Customer Support*. Customer specific applications programs, worldwide service and customer training contribute to the efficient use of products and minimize the customer's cost of testing.

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

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

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

Licenses and Intellectual Property Rights

Advantest has a policy of seeking licenses and intellectual property rights worldwide on technology considered of particular strategic importance. While Advantest does not consider any one or group of licenses and intellectual property rights to be so important that their expiration or termination would materially affect Advantest's business, Advantest considers all of its licenses and intellectual property rights to be important.

Legal Proceedings

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

Environmental

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

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

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

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

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

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

- *Prevention of Global Warming*. Through the use of energy efficient equipment and the re-evaluation of manufacturing processes, Advantest strives to reduce levels of carbon dioxide emissions resulting from energy consumption relating to its business activities. Advantest's carbon dioxide emissions resulting from its all eight of domestic facilities was reduced to 20,444-CO_2 tons in fiscal 2010, 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 ¥571 million during fiscal 2010 to further implement its environmental protection activities.

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

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.

Glossary

Term	Definition
Analog circuits	Circuits on a semiconductor that monitor, condition, amplify or transform analog signals, which are signals that vary continuously over a wide range of values. Analog circuits process analog signals translated from real world phenomena such as sound, light, heat and motion.
DDR-SDRAM	Double Data Rate Synchronous Dynamic Random Access Memory. Memory semiconductor that can be read from, or written to, at double the rate of traditional SDRAM semiconductors.
DDR2-SDRAM	Advanced DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR-SDRAM semiconductors.
DDR3-SDRAM	DDR-SDRAM semiconductors that be read from, or written to, at a significantly higher rate than DDR2-SDRAM semiconductors.
DDR4-SDRAM	The next generation DDR-SDRAM semiconductors that can be read from, or written to, at a significantly higher rate than DDR3-SDRAM semiconductors.
Digital circuits	Circuits that perform binary arithmetic functions on data represented by a series of on/off states.
DRAM	Dynamic Random Access Memory. Devices that store a large volume of data and can read and write data freely. Because of their volatile characteristics, periodic re-writing of data is required to maintain memory information.
Foundries	Semiconductor manufacturing service providers that manufacture semiconductors based on their customers' semiconductor designs.
Fabless	Manufacturers that outsource their entire production to external entities, instead of having their own manufacturing facilities.
Flash memory	Memory devices that electrically erase or write data freely. Devices with nonvolatile memory which is maintained even when the power is turned off.
GDDR	Graphics DDR. DDR memory standard specifically designed for use in RAM video cards.
Integrated circuit	An electric part made of a combination of many transistors on a silicon wafer.
LCD driver integrated circuits	Integrated circuits that operate LCD (Liquid Crystal Display).
Logic circuits	Circuits that perform binary arithmetic functions.
LPDDR	Low Power DDR memory.
Memory circuits	Circuits that store data and programs.
MCP	Multi Chip Package. A package which combines multiple chips with different functions.
MCU	Micro Controller Unit. An integrated circuit that contains all necessary functions required for a small-scale computer system.
MPU	Microprocessor unit. A microprocessor that incorporates most or all of the functions of a computer's central processing unit on a single integrated circuit.
NAND	A type of flash memory that is primarily used for data storage due to its large storage capability.
NOR	A type of flash memory that is primarily used for memorization of programs due to its random access capability.

SDRAM .... Synchronous Dynamic Random Access Memory—DRAM that is synchronized with the system bus.

SGRAM .... Synchronous Graphics Random Access Memory—SDRAM with added graphics functions.

SoC .... System on a Chip. A chip that integrates functions, including logic, memory and signaling, that are conventionally executed with multiple chips and requires smaller space and significantly less electricity.

Test houses .... Providers of semiconductor test services.

Testing for KGD .... Known Good Die. Testing for KGD is conducted to guarantee that semiconductor bare chips are in good quality.

4.C. ORGANIZATIONAL STRUCTURE

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

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

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

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

4.D. PROPERTY, PLANTS AND EQUIPMENT

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

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
Kitakyushu R&D Center	Fukuoka, Japan	5,461	Research and development of semiconductor and component test systems
Advantest Laboratory and Sendai Factory	Miyagi, Japan	66,904	Basic technology research, and research for and manufacturing of key devices installed in semiconductor and component test systems
Gunma Factory	Gunma, Japan	88,512	Manufacture of semiconductors and component test systems and test handlers
Gunma Factory 2	Gunma, Japan	93,112	Manufacture of semiconductor and component test systems and device interfaces

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

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

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. OPERATING RESULTS

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

Overview

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

The Semiconductor and Component Test System Segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines in the Semiconductor and Component Test System Segment include test systems for memory semiconductors and non memory semiconductors. Test systems for non memory semiconductors include test systems for SoC semiconductors, test systems for LCD driver ICs and test systems for semiconductors used in car electronics. This business segment is the most important segment, accounting for 69.6% of Advantest's net sales in fiscal 2010.

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

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

Semiconductor and Component Test System Segment

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

- demand for semiconductors and electronic components;
- innovation in semiconductor and electronic component technology; and
- changes in semiconductor and electronic component manufacturing processes.

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

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

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

The test systems for memory semiconductor market of this segment, the fiscal year began well, as long restrained DRAM capital expenditures rebounded on the strength of PC DRAM shortages in early 2010. However, memory manufacturers reversed course in late 2010, as DDR3-DRAM fell into oversupply and prices dropped, and again became reluctant to invest in test systems for DDR3-DRAM manufacturing. On the other hand, demand for mobile DRAM test systems for devices such as smartphones and tablet PCs continued to be steady.

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

Advantest believes that price pressure with respect to semiconductor and component test systems tends to be the strongest during periods when semiconductor manufactures are subject to price pressure despite an increase in demand for their products. Advantest continues to face significant price pressure. Even when the semiconductor industry experienced a recovery, increased competition in the market for digital consumer products and personal computers drove down prices of these goods, subsequently creating significant price pressure on its products and restriction on capital expenditure.

Mechatronics System Segment

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

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

Services, Support and Others Segment

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

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

Non-recurring Charges Related to Cost Reduction Initiatives

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

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

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

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

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

Research and Development

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

Personnel

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

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

Currency Fluctuations

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

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

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

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

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

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Sales of Products

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

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.

Multiple deliverables

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

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

Inventories

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

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

Property, Plant and Equipment

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

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

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

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

Impairment of Long-Lived Assets

Advantest evaluates the impairment of long-lived assets and certain identifiable intangibles with definite useful lives by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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

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

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

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

Trade Receivables

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

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

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

Accrued Warranty Expenses

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

Stock-Based Compensation

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

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

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

Accrued Pension and Severance Cost

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

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

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

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

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

Deferred Tax Assets

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

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

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

Income Taxes

Advantest recognizes the financial statement effects of tax positions when they are more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

Fair Value

Investment securities

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

Plan assets

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

Results of Operations—Fiscal 2010 Compared with Fiscal 2009

Net Sales

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

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

Semiconductor and Component Test System Segment

In fiscal 2010, net sales of Advantest's Semiconductor and Component Test System Segment accounted for 69.6% of total net sales. Net sales of Advantest's Semiconductor and Component Test System Segment increased by ¥36,761 million, or 112.9%, compared with fiscal 2009, to ¥69,333 million in fiscal 2010. The estimated effect of changes in exchange rates during fiscal 2010 was to decrease Advantest's net sales in its Semiconductor and Component Test System Segment by ¥2,004 million.

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

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

Mechatronics System Segment

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

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

Services, Support and Other Segment

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

Geographic Markets

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

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

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

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

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

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

Operating Expenses

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

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

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

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

Operating Income

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

Other Income and Expenses

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

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

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

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

Income Taxes

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

Net Income

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

Other Comprehensive Income (Loss)

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

Results of Operations—Fiscal 2009 Compared with Fiscal 2008

Net Sales

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

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

Semiconductor and Component Test System Segment

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

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

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

Mechatronics System Segment

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

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

Services, Support and Other Segment

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

Geographic Markets

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

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

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

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

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

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

Operating Expenses

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

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

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

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.

Other Comprehensive Income (Loss)

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

5.B. LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

5.C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Research and Development and Product Enhancement

In order to support technology on the leading-edge, Advantest undertakes research and development initiatives to develop products which play a central role in the area of measuring technologies to support electronics, information and communications, and semiconductor manufacturing. Advantest's research and development focuses on the development of new products and the improvement of existing products. In particular, in the Semiconductor and Component Test System Segment, a large and ongoing investment in research and development is necessary in order to maintain market competitiveness and to provide many types of products that meet the various needs of the customers. Advantest also conducts research of basic technologies. Advantest's expenditures for research and development were approximately ¥23.7 billion in fiscal 2008, ¥17.9 billion in fiscal 2009 and ¥21.2 billion in fiscal 2010. Advantest employs over 1,000 engineers and other personnel in its research and development division.

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

Basic Technology

- development of constituent technologies in the field of terahertz;
- development of constituent technologies, including high speed, energy-saving micro switches and high speed samplers used in semiconductor and component test systems and millimeter wave measuring instruments;
- development of methods to detect timing jitters in high bit-rate signals; and
- development of compound semiconductor devices, including less-distortion devices used for semiconductor and component test systems.

Semiconductor and Component Test System Segment

- development of semiconductor and component test systems that enable testing of super high speed memory semiconductors at actual motion speed;
- development of semiconductor and component test systems that enhance the functionality of testing of DRAM semiconductors and flash memory semiconductors and require less floor space;
- development of semiconductor and component test systems that have the capacity to simultaneously test multiple complex SoC semiconductors with large pin counts and require less floor space;
- development of semiconductor and component test systems with specialized applications;
- development of measurement modules for devices that operate at extremely high frequencies and for networks that carry extremely high density transmissions;
- development of high speed transmission technologies for high speed large pin counts and high speed transmission signal contact technologies; and
- development of application software for interface between the semiconductor designing environment and semiconductor and component test systems, as well as development of software to analyze defective semiconductors.

Mechatronics System Segment

- development of test handlers for memory semiconductors enabling measuring of multiple semiconductors for high throughput testing;
- development of test handlers for SoC semiconductors that respond to diversified device types and packages; and

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

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

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

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

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

For a description of Advantest's patents, licenses and other intellectual property, see "Information on the Company—Business Overview—Licenses and Intellectual Property Rights."

5.D. TREND INFORMATION

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

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

5.E. OFF-BALANCE SHEET ARRANGEMENTS

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

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

5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

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

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

5.G. SAFE HARBOR

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. DIRECTORS AND SENIOR MANAGEMENT

Directors, Corporate Auditors and Executive Officers

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

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Toshio Maruyama	Chairman of the Board and	4/1973	Joined Advantest Corporation
(April 17, 1948)	Representative	6/1989	Director
	Director	6/1995	Managing Director
		6/1999	Senior Managing Director
			Senior Vice President, ATE Sales Group
		6/2001	Representative Director and President
		5/2003	Director, Environmental Management Center
		6/2003	Representative Director, President and COO
		6/2005	Representative Director, President and CEO
		5/2006	Director of the Association of Super-Advanced Electronics Technologies
		7/2008	SEMI Director (present position)
		3/2009	Senior Vice President, New Concept Product Initiative
		4/2009	Director, CSR & Environmental Affairs Promotion Center
		6/2009	Chairman of the Board and Representative Director (present position)
		7/2009	Director of Nippon Keidanren (present position)
		4/2011	Director of Japan Electronics and Information Technology Industries Association (present position)
		5/2011	Executive Director of Semiconductor Equipment Association of Japan (present position)
Haruo Matsuno	Representative Director,	4/1984	Joined Advantest Corporation
(February 14, 1960)	President and CEO	6/2006	Senior Vice President, Procurement Group
		6/2007	Senior Vice President, Procurement & Logistics Group
		1/2008	Senior Vice President, Production Group
		6/2008	Executive Officer
		6/2009	Representative Director, President and CEO (present position)
			Director, CSR & Environmental Affairs Promotion Center (present position)
		6/2010	Executive Vice President, New Concept Product Initiative (present position)
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)

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Yasushige Hagio (November 24, 1947)	Director	4/1972	Assistant Judge, Tokyo District Court
		4/1982	Judge, Tokyo District Court
		4/1998	Instructor, Legal Training and Research Institute
		12/2003	Chief of the Shizuoka District Court
		6/2004	Registered as an attorney-at-Law Joined Seiwa Patent office & Law (present position)
		6/2006	Director, Advantest Corporation (present position)
Yuichi Kurita (July 28, 1949)	Director, Senior Executive Officer Corporate Planning and Administration	4/1973	Joined Fujitsu Limited
		3/2001	Joined Advantest Corporation
		10/2001	General Manager, Investor Relations Office
		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)
		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)
Shinichiro Kuroe (March 30, 1959)	Director, Managing Executive Officer Strategic Business	4/1981	Joined Advantest Corporation
		3/1998	Manager, 1st Product Development Department
		6/2000	Manager, Memory Tester Development Department
		6/2001	General Manager, Memory Tester Business Division
		4/2002	In Charge of Memory Tester Product, ATE Business Group 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 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 General Manager, System Planning Division
		6/2011	Straregic Business (present position) Executive Vice President, Straregic Business Unit (present position)

ame (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Sae Bum Myung (September 16, 1954)	Director, Managing Executive Officer Sales and Marketing	4/1989	Joined Advantest Corporation
		4/2004	Manager, International Sales Department 3
		6/2006	Representative Director and President, Advantest Korea Co., Ltd.
		6/2008	Executive Officer Asia Sales, Sales and Marketing Group
		4/2009	Leader, Korea Account Sales Initiatives
		6/2011	Director, Managing Executive Officer (present position) Sales and Marketing (present position) Executive Vice President, Sales and Marketing Group (present position)
Yuri Morita (July 15, 1947)	Standing Corporate Auditor	4/1972	Joined Fujitsu Limited
		1/1994	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)
Akira Hatakeyama (December 20, 1950)	Standing Corporate Auditor	4/1973	Joined Advantest Corporation
		5/1995	General Manager, ATE Engineering and Manufacturing Division
		4/2001	Representative Director, President and CEO, Japan Engineering Co., Ltd.
		6/2005	Executive Officer
		6/2008	Advisor
		6/2011	Standing Corporate Auditor (present position)
Megumi Yamamuro (March 8, 1948)	Corporate Auditor	4/1974	Assistant Judge, Tokyo District Court
		4/1984	Judge, Tokyo District Court
		4/1988	Instructor, Legal Training and Research Institute
		4/1997	Judge, Tokyo High Court
		7/2004	Registered as an attorney-at-Law Joined CAST Law P.C. (currently SOGA URYU & ITOGA) (present position)
		10/2004	Professor, The University of Tokyo Graduate School of Law and Politics
		6/2005	Corporate Auditor, Fujitsu Limited (present position)
		6/2006	Corporate Auditor, Advantest Corporation (present position)
		6/2009	Corporate Auditor, NIFTY Corporation (present position)
		10/2010	Professor, The University of Nihon Graduate School of Law (present position)

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Masamichi Ogura (June 30, 1946)	Corporate Auditor	4/1969	Joined Fujitsu Limited
		6/2000	Director, Fujitsu Limited
		6/2002	Managing Executive Officer, Fujitsu Limited
		4/2003	Senior Executive Officer, Fujitsu Limited
		6/2003	Director, Senior Executive Officer, Fujitsu Limited
		6/2004	Corporate Auditor, Fujitsu General Limited (present position)
		6/2006	Vice President and Representative Director, Fujitsu Limited
		6/2008	Standing Corporate Auditor, Fujitsu Limited (present position)
		6/2011	Corporate Auditor, Advantest Corporation (present position)
Hiroshi Nakamura (December 4, 1957)	Managing Executive Officer	4/1981	Joined Advantest Corporation
		6/1998	Manager, Business Accounting Department, Corporate Affairs Group
		6/2002	Manager, Accounting Department, Corporate Affairs Group
		6/2006	Executive Officer Vice President, Corporate Affairs Group
		6/2007	Senior Vice President, Financial Group Senior Director, 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	Executive Vice President, Corporate Administration Group (present position)
Yoshiaki Yoshida (February 8, 1958)	Managing Executive Officer	4/1999	Joined Advantest Corporation Director, Advantest Finance Inc.
		6/2000	Representative Director, Advantest Finance Inc.
		6/2006	Executive Officer
		6/2007	Vice President, Corporate Planning Group
		6/2008	Executive Vice President, Corporate Planning Group (present position)
		3/2009	Senior Vice President (Officer), New Concept Product Initiative (present position)
		6/2009	Managing Executive Officer (present position)
		6/2010	Senior Vice President, Launch Planning Group for Certification Association (present position)
Masao Shimizu (February 24, 1953)	Managing Executive Officer System Solution Business	4/1973	Joined Advantest Corporation
		4/2000	General Manager, SoC Tester Business Division
		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)
		4/2009	Vice President (DI), System Solution Business Group General Manager, DI Business Division

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		6/2009	General Manager, DI Solution Business Division
			Senior Vice President, System Solution Business Group
			General Manager, CE Support Division
		6/2010	Managing Executive Officer (present position)
			System Solution Business (present position)
		6/2011	Executive Vice President, System Solution Group (present position)
Hideaki Imada (April 19, 1955)	Managing 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
			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	Executive Vice President, Production Group (present position)
		6/2011	Managing Executive Officer (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	Executive Vice President, Quality Assurance Group (present position)
			General Manager, Quality Assurance Division
			Assistant Director (Technology), Environmental Management Center
		4/2009	Assistant Director (Technology), CSR & Environmental Affairs Promotion Center (present position)
Takashi Sugiura (March 8, 1957)	Executive Officer	4/1979	Joined Advantest Corporation
		9/1998	Manager, ATE Global Marketing Department
		6/2001	Manager, ATE SoC Solution Business Department
		10/2001	General Manager, Product Design Initiatives
		6/2002	General Manager, ATE Product Design Initiatives
		2/2003	General Manager, Product Design Initiatives
		6/2005	General Manager, Product Design Initiatives 1
			Executive Officer (present position)
		6/2006	Senior Vice President, FA Business Group
			General Manager, Handler Division
		6/2009	Vice President, Corporate Administration Group
			General Manager, Legal and Intellectual Property Division
		4/2010	General Manager, Launch Planning Group for Certification Association

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
		7/2010	Executive Vice President, Field Service Group (present position)
Takashi Sekino (May 30, 1957)	Executive Officer	4/1982	Joined Advantest Corporation
		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
		6/2009	General Manager, 3rd Technology Division
		6/2011	Executive Vice President, ATE Unit Development Group (present position)
Soichi Tsukakoshi (February 1, 1960)	Executive Officer	4/1983	Joined Advantest Corporation
		4/2008	General Manager, Strategic Sales Division
		6/2008	Executive Officer (present position)
			Senior Vice President (Officer), Sales and Marketing Group (present position)
		1/2010	Leader, Domestic Account Sales Initiatives
			SeniorVice President, Sales Division 1 (present position)
Josef Schraetzenstaller (June 16, 1957)	Executive Officer	11/1996	Joined Advantest (Europe) GmbH (currently Advantest Europe GmbH)
		10/1997	Prokurist, Advantest (Europe) GmbH (currently Advantest Europe GmbH)
		4/2000	Managing Director, Advantest (Europe) GmbH (currently Advantest Europe GmbH) (present position)
		6/2008	Executive Officer, Advantest Corporation (present position)
			Europe Sales, Sales and Marketing Group
		4/2009	Leader, EU Account Sales Initiatives
R. Keith Lee (December 15, 1955)	Executive Officer	8/1984	Joined Takeda Riken America, Inc. (currently Advantest America, Inc.)
		7/1996	General Manager, Custom Design Engineering, Advantest America, Inc.
		1/2004	Chairman of the Board, President and CEO, Advantest America, Inc. (present position)
			Director, President and CEO, Advantest America Corporation (Holding Co.) (present position)
		6/2008	Executive Officer, Advantest Corporation (present position)
			America Sales, Sales and Marketing Group
		4/2009	Leader, US Account Sales Initiatives
Makoto Nakahara (July 23, 1959)	Executive Officer	4/1983	Joined Advantest Corporation
		5/2002	Director, Chief Executive Officer and President, Advantest America Measuring Solutions, Inc.
		11/2006	Manager, Development Purchasing & Innovative Procurement Planning Department, Procurement Group
		1/2008	Manager, 1st Purchasing department, Production Group
		1/2010	General Manager, Global Marketing Division
		6/2011	Executive Officer (present position)
			Senior Vice President (Officer), Strategic Business Unit (present position)

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience
Toshiyuki Okayasu (June 2, 1962)	Executive Officer	4/1987	Joined Advantest Corporation
		6/2007	Manager, 5th R&D Department, 1st Technology Division
		6/2009	Vice President, Technology Development Group General Manager, 2nd Technology Division
		6/2011	Executive Officer (present position) Executive Vice President, ATE System Development Group (present position)

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

6.B. COMPENSATION

Executive Compensation

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

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

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

6.C. BOARD PRACTICES

Directors

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

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

Corporate Auditors

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

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

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

6.D. EMPLOYEES

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

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

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

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

6.E. SHARE OWNERSHIP

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

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

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

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

Stock Option Plan

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

	Sixteenth series	Seventeenth series	Eighteenth series
Date of grant	July 12, 2007	July 12, 2007	September 26, 2007
Number of shares to be issued/ delivered	184,000	593,000	2,000
Issuance price per unit (100 shares)	¥111,500	¥0	¥0
Exercise price per share	¥5,563	¥5,563	¥5,563
Beginning of exercise period	April 1, 2008	April 1, 2008	April 1, 2008
End of exercise period	March 31, 2012	March 31, 2012	March 31, 2012
Number of directors, corporate auditors and executive officers of the Company	13	16	0
Number of other employees	0	182	1

	Nineteenth series	Twentieth series	Twenty-first series
Date of grant	February 28, 2008	July 10, 2008	July 10, 2008
Number of shares to be issued/ delivered	1,000	182,000	522,000
Issuance price per unit (100 shares)	¥0	¥36,900	¥0
Exercise price per share	¥5,563	¥2,653	¥2,653
Beginning of exercise period	April 1, 2008	April 1, 2009	April 1, 2009
End of exercise period	March 31, 2012	March 31, 2013	March 31, 2013
Number of directors, corporate auditors and executive officers of the Company	0	13	15
Number of other employees	1	0	174

	Twenty-second series	Twenty-third series	Twenty-fourth series
Date of grant	April 1, 2009	July 10, 2009	July 12, 2010
Number of shares to be issued/ delivered	12,000	338,000	308,000
Issuance price per unit (100 shares)	¥0	¥41,700	¥53,500
Exercise price per share	¥2,653	¥1,844	¥2,089
Beginning of exercise period	May 1, 2009	April 1, 2010	April 1, 2011
End of exercise period	March 31, 2013	March 31, 2014	March 31, 2015
Number of directors, corporate auditors and executive officers of the Company	0	25	23
Number of other employees	8	0	0

	Twenty-fifth series
Date of grant	July 12, 2011
Number of shares to be issued/ delivered	988,000
Issuance price per unit (100 shares)	to be determined
Exercise price per share	to be determined
Beginning of exercise period	April 1, 2012
End of exercise period	March 31, 2016
Number of directors, corporate auditors and executive officers of the Company	23
Number of other employees	228

Employee Stock Purchase Program

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

Stock Ownership Associations

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. MAJOR SHAREHOLDERS

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

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

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

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

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 Sumitomo Trust and Banking Co., Ltd. and its related entities	13,703,400	6.87%

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

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

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

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

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

As of March 31, 2011, the Company had 173,271,951 outstanding shares of common stock. According to JPMorgan Chase Bank, depositary for the Company's ADSs, as of March 31, 2011, 1,882,043 shares of the Company common stock were held in the form of ADRs and there were two ADR holders of record in the U.S. According to the Company's register of shareholders, as of March 31, 2011, there were 50,272 holders of common stock of record worldwide. As of March 31, 2011, there were 96 record holders of the Company's common stock with addresses in the U.S., whose shareholdings represented 13.4% of the outstanding common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the U.S. might not fully show the number of beneficial owners in the U.S.

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

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

7.B. RELATED PARTY TRANSACTIONS

Business Relationships

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

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

Loans

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

7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

5. Not applicable.

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

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

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

8.B. SIGNIFICANT CHANGES

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

ITEM 9. THE OFFER AND LISTING

9.A. OFFER AND LISTING DETAILS

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

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

9.B. PLAN OF DISTRIBUTION

Not applicable.

9.C. MARKETS

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

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

9.D. SELLING SHAREHOLDERS

Not applicable.

9.E. DILUTION

Not applicable.

9.F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. SHARE CAPITAL

Not applicable.

10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION

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

General

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

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 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.

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.

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.

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.

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.

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

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

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

Disposal of the Shares by the Company

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

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

Acquisition or Disposition of Shares

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

Dividends and Proceeds of Sales

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

Reporting of Substantial Shareholdings

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

10.C. MATERIAL CONTRACTS

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

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

10.D. EXCHANGE CONTROLS

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

Exchange non-residents are:

- individuals who do not reside in Japan; and
- corporations whose principal offices are located outside Japan.

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

Foreign investors are:

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

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

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

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

10.E. TAXATION

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

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

(1) an individual who is a citizen or resident of the United States;

(2) a corporation or other entity organized in or under the laws of the United States or any State thereof or the District of Columbia;

(3) an estate the income of which is subject to U.S. federal income tax without regard to its source; or

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

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

(1) is a resident of the United States for purposes of the Treaty;

(2) does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. holder carries on or has carried on a business or (b) of which the Shares or ADSs form part of the business property; and

(3) is eligible for benefits under the Treaty with respect to income and gain derived in connection with the Shares or ADSs.

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

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

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

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

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

Japanese Taxation

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

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

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

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

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is entitled to reduced rate or exemption from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of, or exemption from, Japanese withholding tax on payment of dividends on the Shares by the Company is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through the Company to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight

months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

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

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

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

U.S. Federal Income Taxation

U.S. Holders

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

Taxation of Dividends

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

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

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

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

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

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of Shares or ADSs will constitute income from sources outside the United States, and will generally be "passive category income" or, for certain U.S. Holders, "general category income". Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of the Company dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or if the U.S. Holder does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, as a deduction from such U.S. Holder's taxable income. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential tax rates of U.S. federal income tax. Additionally, special rules may apply to individuals whose foreign source income during the taxable year consists entirely of "qualified passive income" and whose creditable foreign taxes paid or accrued during the taxable year do not exceed $300 ($600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

(i) has held Shares or ADSs for less than a specified minimum period, or

(ii) is obligated to make payments related to the Company dividends,

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

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

Taxation of Capital Gains

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

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

PFIC

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

Based on current estimates of its income and assets, the Company does not believe that it will be a PFIC for its current taxable year, and intends to continue its operations in such a manner that it will not become a PFIC in the future. However, because the PFIC determination is made annually at the close of the taxable year, the Company can provide no assurance that it will not become a PFIC in the current or any future taxable year due to changes in its asset or income composition, a decrease in the price of its Shares (which is used as a measure of goodwill as an active asset) or for other reasons. If the Company becomes a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the Shares or ADSs and on certain "excess" distributions (generally distributions in excess of 125% of the average distribution over a three-year period, or, if shorter, the holding period for the Shares or ADSs). In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a non-corporate U.S. Holder receives from the Company will not be eligible for the reduced U.S. federal income tax rates applicable to dividends described above if the Company is a PFIC either in the taxable year of the distribution or the preceding taxable year. The Company will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year. If a U.S. Holder holds Shares or ADSs in any taxable year in which the Company is a PFIC, such U.S. Holder generally will be required to file an information statement or form specified by the U.S. Department of the treasury with the IRS in each year that the Company is a PFIC.

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

Non-U.S. Holders

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

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

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

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

Backup Withholding and Information Reporting

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

Dividends paid to a Non-U.S. Holder in respect of Shares or ADSs, and proceeds received upon the sale, exchange or redemption of Shares or ADSs by a Non-U.S. Holder generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification under penalty of perjury to ensure that exemption. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. Holders, and on IRS Form W-8BEN, entitled Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding (or other appropriate IRS Form W-8), in the case of Non-U.S. Holders.

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

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

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

10.F. DIVIDENDS AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

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

10.I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Rate Risk

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

Foreign Currency Denominated Assets and Liabilities

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

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

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

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

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

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

Foreign Exchange Contracts

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

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

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

Interest Rate Risk

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

Securities Value Risk

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

	As of March 31, 2010		As of March 31, 2011	
	Acquisition Price	Fair Value	Acquisition Price	Fair Value
	(in millions)			
Tradable Securities	¥2,833	¥4,232	¥4,309	¥5,608

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. DEBT SECURITIES

Not applicable.

12.B. WARRANTS AND RIGHTS

Not applicable.

12.C. OTHER SECURITIES

Not applicable.

12.D. AMERICAN DEPOSITARY SHARES

Fees and Charges for Holders of American Depositary Receipts

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

(a) Depositing or substituting the underlying shares

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

(b) Receiving or distributing dividends

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

(c) Selling or exercising rights

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

(d) Withdrawing an underlying security

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

(e) Transferring, splitting or grouping receipts

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

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

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

(g) Expenses of the Depositary

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

(i) stock transfer or other taxes and other governmental charges (which are payable by holders or persons depositing stock);

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

(iii) transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

(iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars; and

(v) any other charge payable by any of the Depositary, any of the Depositary's agents, including, without limitation, the custodian, or the agents of the Depositary's agents in connection with the servicing of the stock or other deposited securities.

Fees and Other Payments Made by the Depositary to the Company

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

Category of Expenses (Direct Payments)	Amount Reimbursed for FY2010
Listing fees	US$ 38,000.00
Investor relations	US$ 50,000.00
Total	US$ 88,000.00

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

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

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

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

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

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

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

This report appears in Item 18.

(d) Changes in Internal Control Over Financial Reporting

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

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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

	Fiscal 2009	Fiscal 2010
	(in millions)	
Audit Fees[1]	¥282	¥279
Audit-Related Fees[2]	—	39
Tax Fees[3]	26	15
All Other Fees[4]	—	—
Total	¥308	¥333

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit; statutory audits; the issuance of consents; and assistance with and review of documents filed with the SEC.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; and review of security controls and operational effectiveness of systems.

(3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance in connection with tax audits and advice related to transfer pricing, and requests for rulings or technical advice from taxing authorities; and expatriate tax services.

(4) All Other Fees include fees billed for training; and process improvement and advice.

Policies and Procedures of the Board of Corporate Auditors

Below is a summary of the current policies and procedures of the board of corporate auditors for the pre-approval of audit and permissible non-audit services performed by Advantest's independent public accountants.

Under the policy, the board of corporate auditors authorizes general pre-approval of audit and permissible non-audit services for the following fiscal year. Upon the general pre-approval of the board of corporate auditors, no specific pre-approval for audit and permissible non-audit services is required so long as those services fall within the scope of the general pre-approval provided.

Applications to provide services that require specific pre-approval by the board of corporate auditors will be submitted to the board of corporate auditors.

The board of corporate auditors makes further determination as to whether or not to revise the general pre-approval for the applicable fiscal year. Such request may include adding to or subtracting from any audit or permissible non-audit services listed in the general pre-approval. The performance of audit and permissible non-audit services and the payment of fees are subject to the review by the board of corporate auditors once every fiscal year.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

The Company does not have an audit committee. The Company is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like the Company that have a board of corporate auditors. The Company's reliance on Rule 10A-3(c) (3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth Advantest's purchases of its common stock during fiscal 2010:

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share (Yen)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
2010				
April 1 – April 30	144	¥2,464	N/A	N/A
May 1 – May 31	20	2,197	N/A	N/A
June 1 – June 30	355	1,978	N/A	N/A
July 1 – July 31	120	1,793	N/A	N/A
August 1 – August 31	5,448,027[3]	1,884	N/A	N/A
September 1 – September 30	57	1,654	N/A	N/A
October 1 – October 31	98	1,693	N/A	N/A
November 1 – November 30	177	1,609	N/A	N/A
December 1 – December 31	364	1,807	N/A	N/A
2011				
January 1 – January 31	64	1,867	N/A	N/A
February 1 – February 28	219	1,784	N/A	N/A
March 1 – March 31	76	1,702	N/A	N/A
Total	5,449,721	¥1,884	N/A	N/A

1 All purchases are made through repurchase of shares constituting less than one unit, which is 100 shares of common stock, or through repurchase of shares pursuant to a resolution of Board of Directors. The purchase of shares that are a fraction of a unit are made in accordance with the provisions of the Company's share handling regulations. The Company is required to comply with such requests pursuant to the Company Law. See "Additional Information—Memorandum and Articles of Association—The Unit Share System."

2 The Company can repurchase its shares through stock exchanges where the Company's shares are listed or pursuant to a takeover bid when there is a resolution of Board of Directors in accordance to Article 41 of the Articles of Incorporation.

3 The number of shares purchased in August 2010 includes 5,447,922 shares which were repurchased in connection with the merger of the Company's consolidated subsidiaries, Advantest Manufacturing, Inc. and Advantest Customer Support Corporation on July 1, 2010. The Company was required under the Company Law to repurchase the shares of common stock from shareholders who dissented to the merger.

ITEM 16F. CHANGE IN REGISTRAINT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Significant Differences in Corporate Governance Practices between the Company and U.S. Companies Listed on the New York Stock Exchange

Pursuant to home country practices exemptions granted by the New York Stock Exchange, or the NYSE, the Company is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The SEC approved changes to the NYSE's listing standards related to corporate governance practices of listed companies in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company's board of corporate auditors satisfy the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 as amended, or the Exchange Act, (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company's CEO must notify the NYSE of any non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company's corporate governance practices and those followed by domestic companies under the NYSE listing standards, or NYSE Corporate Governance, have the following significant differences:

1. Directors. The Company currently has two outside directors on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law of Japan and related legislation (hereinafter in Item 16G., the "Company Law"), do not require Japanese companies with boards of corporate auditors such as the Company to have any outside directors on its Board of Directors. While NYSE Corporate Governance requires that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, the Company currently has no non-management director on its Board of Directors. Unlike NYSE Corporate Governance, the Company Law does not require, and accordingly the Company does not have, an internal corporate organ or committee comprised of only outside directors.

2. Committees. The Company has not established committees responsible for director nomination, corporate governance and executive compensation as required by NYSE Corporate Governance, but it has adopted a system of corporate auditors based on the Company Law and integrated such system into the Company's corporate governance structure. In addition, in connection with such system of corporate auditors, the Company has elected to establish a nomination and compensation committee, which is an optional committee under the Company Law.

Pursuant to the Company Law, the Company's Board of Directors nominates and submits a proposal for appointment of directors for shareholder approval. The shareholders vote on such nomination at the Company's general meeting of shareholders. The Company Law requires that the respective total amount of remuneration, among others, (remuneration, bonus, and other consideration for services related to employment) to be paid to all directors and all corporate auditors must be determined by a resolution of the general meeting of shareholders, unless their remuneration is provided for in the articles of incorporation. The distribution of remuneration among directors is broadly delegated to the Company's Board of Directors and the distribution of remuneration among corporate auditors is determined by the board of corporate auditors.

3. Audit Committee. The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Consistent with the requirements of the Company Law, the Company elects its corporate auditors through a resolution adopted at a general meeting of shareholders. The Company currently has four corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Company Law.

Unlike NYSE Corporate Governance, the Company Law, among others, does not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Company Law, the board of corporate auditors may determine audit policy, methods to investigate the state of business operations and assets and other matters relating to the execution of duties by corporate auditors, prepare corporate auditors' reports and give consent to proposals of the nomination of corporate auditors and accounting auditors.

The Company currently has two corporate auditors who satisfy the requirements of "outside corporate auditor" under the Company Law. Unlike NYSE Corporate Governance, under the Company Law, at least one-half of the corporate auditors of the Company must be "outside corporate auditors," which is a person who was not a director, an accounting counselor (if an accounting counselor is a corporation, an employee of such corporation who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries at any time in the past. Corporate auditors may not at the same time be directors, an accounting counselor (if an accounting counselor is a corporation, an employee who carries out its duties), executive officer, general manager, or any other employee of the Company or any of its subsidiaries.

4. Corporate Governance Guidelines. The Company is required to adopt or disclose corporate governance guidelines under Japanese laws and regulations, including the Company Law and the Financial Instruments and Exchange Law of Japan or rules of Tokyo stock exchange. Pursuant to the Company Law, the Company is required to decide to implement a structure as required by an ordinance of the Ministry of Justice (the "Internal Control System") in order to ensure directors' compliance with applicable laws and regulations and the Company's articles of incorporation while executing their duties and joint stock companies' proper business operation, and is required to disclose the decision to implement the Internal Control System, policies and the conditions of its corporate governance in its business report, annual securities report and certain other disclosure documents in accordance with the Company Law, the Financial Instruments and Exchange Law, and applicable Cabinet ordinances and rules of Tokyo stock exchange in respect of timely disclosure.

5. Code of Business Conduct and Ethics. Unlike NYSE Corporate Governance, under Japanese law (including the Company Law and the Financial Instruments and Exchange Law of Japan), and the rules of the Tokyo stock exchange, the Company is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, the Company is not required to adopt and disclose a code of business conduct and ethics for these individuals. However, in accordance with the Company Law, the Company has decided to implement the Internal Control System as a structure to ensure that director's execution of their duties at meetings of the Board of Directors complies with applicable laws and regulations and the Company's articles of incorporation. Furthermore, the Company has established a code of ethics consistent with Section 406 of the Sarbanes-Oxley Act.

6. Shareholder Approval of Equity Compensation Plans. Unlike NYSE Corporate Governance, in which material revisions to equity-compensation plans of the listed companies are subject to shareholder approval, pursuant to the Company Law, if a joint stock company desires to adopt an equity-compensation plan for directors as compensation to directors other than cash, such company is generally required to obtain shareholder approval by an "ordinary resolution." In addition to the above approval, when the Company previously desired to adopt an equity-compensation plan under which stock acquisition rights are granted on favorable terms to the recipient under the plan (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), the Company has obtained shareholder approval by a "special resolution" of a general meeting of shareholders, where the quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report on Form 20-F.

ADVANTEST CORPORATION
AND SUBSIDIARIES

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All schedules are omitted as permitted by the rules and regulations of the Securities and Exchange Commission, as the required information is presented in the notes to consolidated financial statements, or the schedules are not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Advantest Corporation

We have audited the accompanying consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advantest Corporation and subsidiaries at March 31, 2010 and 2011, and the consolidated results of its their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Advantest Corporation's internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 24, 2011 expressed an unqualified opinion.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 24, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Advantest Corporation

We have audited Advantest Corporation and subsidiaries' internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Advantest Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Advantest Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Advantest Corporation and subsidiaries as of March 31, 2010 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2011 and our report dated June 24, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 24, 2011

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2010 and 2011

	Yen (Millions)	
	2010	**2011**
Assets		
Current assets:		
Cash and cash equivalents	¥ 96,439	75,323
Short-term investments	10,498	12,651
Trade receivables, net	15,930	22,707
Inventories	16,590	23,493
Other current assets	4,292	2,995
Total current assets	143,749	137,169
Investment securities	8,077	7,432
Property, plant and equipment, net	32,881	31,878
Intangible assets, net	1,445	1,519
Other assets	2,511	2,314
Total assets	¥188,663	180,312

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2010 and 2011

	Yen (Millions)	
	2010	**2011**
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	¥ 11,430	11,729
Accrued expenses	4,894	7,329
Accrued warranty expenses	2,802	1,754
Customer prepayments	544	1,740
Other current liabilities	2,249	1,955
Total current liabilities	21,919	24,507
Accrued pension and severance costs	13,765	14,069
Other liabilities	2,737	3,604
Total liabilities	38,421	42,180
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock,		
Authorized 440,000,000 shares; issued 199,566,770 shares	32,363	32,363
Capital surplus	40,463	40,628
Retained earnings	181,606	183,009
Accumulated other comprehensive income (loss)	(14,859)	(18,270)
Treasury stock, 20,845,178 shares in 2010 and 26,294,819 shares in 2011, at cost	(89,331)	(99,598)
Total stockholders' equity	150,242	138,132
Total liabilities and stockholders' equity	¥188,663	180,312

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended March 31, 2009, 2010 and 2011

	Yen (Millions)		
	2009	2010	2011
Net sales	¥ 76,652	53,225	99,634
Cost of sales	56,837	27,297	51,164
Gross profit	19,815	25,928	48,470
Research and development expenses	23,713	17,896	21,197
Selling, general and administrative expenses	31,771	19,671	21,162
Restructuring and impairment charges	13,788	—	—
Operating income (loss)	(49,457)	(11,639)	6,111
Other income (expense):			
Interest and dividend income	2,157	579	326
Interest expense	(11)	(4)	(3)
Impairment losses on investment securities	(3,510)	(316)	(512)
Other, net	(1,940)	1,454	(371)
Total other income (expense)	(3,304)	1,713	(560)
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	(52,761)	(9,926)	5,551
Income taxes	21,994	1,457	2,352
Equity in earnings (loss) of affiliated company	(147)	(71)	(36)
Net income (loss)	¥ (74,902)	(11,454)	3,163

	Yen		
	2009	2010	2011
Net income (loss) per share:			
Basic	¥ (419.09)	(64.09)	18.03
Diluted	(419.09)	(64.09)	18.03

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2009, 2010 and 2011

	Yen (Millions)		
	2009	2010	2011
Net income (loss)	¥ (74,902)	(11,454)	3,163
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(1,793)	(2,614)	(3,231)
Net unrealized gains (losses) on investment securities	(244)	776	(59)
Pension related adjustment	(4,935)	1,566	(121)
Total other comprehensive income (loss)	(6,972)	(272)	(3,411)
Total comprehensive income (loss)	¥ (81,874)	(11,726)	(248)

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2009, 2010 and 2011

	Yen (Millions)		
	2009	2010	2011
Common stock			
Balance at beginning of year	¥ 32,363	32,363	32,363
Changes in the year			
Total changes in the year	—	—	—
Balance at end of year	32,363	32,363	32,363
Capital surplus			
Balance at beginning of year	40,072	40,320	40,463
Changes in the year			
Stock option compensation expense	248	143	165
Total changes in the year	248	143	165
Balance at end of year	40,320	40,463	40,628
Retained earnings			
Balance at beginning of year	278,689	194,848	181,606
Changes in the year			
Net income (loss)	(74,902)	(11,454)	3,163
Cash dividends	(8,936)	(1,787)	(1,760)
Sale of treasury stock	(3)	(1)	(0)
Total changes in the year	(83,841)	(13,242)	1,403
Balance at end of year	194,848	181,606	183,009
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(7,615)	(14,587)	(14,859)
Changes in the year			
Other comprehensive income (loss), net of tax	(6,972)	(272)	(3,411)
Total changes in the year	(6,972)	(272)	(3,411)
Balance at end of year	(14,587)	(14,859)	(18,270)
Treasury stock			
Balance at beginning of year	(89,325)	(89,328)	(89,331)
Changes in the year			
Purchases of treasury stock	(7)	(4)	(10,267)
Sale of treasury stock	4	1	0
Total changes in the year	(3)	(3)	(10,267)
Balance at end of year	(89,328)	(89,331)	(99,598)
Total stockholders' equity			
Balance at beginning of year	254,184	163,616	150,242
Changes in the year			
Net income (loss)	(74,902)	(11,454)	3,163
Other comprehensive income (loss), net of tax	(6,972)	(272)	(3,411)
Cash dividends	(8,936)	(1,787)	(1,760)
Stock option compensation expense	248	143	165
Purchases of treasury stock	(7)	(4)	(10,267)
Sale of treasury stock	1	0	0
Total changes in the year	(90,568)	(13,374)	(12,110)
Balance at end of year	¥ 163,616	150,242	138,132

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2009, 2010 and 2011

	Yen (Millions)		
	2009	2010	2011
Cash flows from operating activities:			
Net income (loss)	¥ (74,902)	(11,454)	3,163
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,719	4,314	4,209
Deferred income taxes	20,205	(148)	425
Stock option compensation expense	248	143	165
Restructuring and impairment charges	18,930	—	—
Impairment losses on investment securities	3,510	316	512
Changes in assets and liabilities:			
Trade receivables	19,323	(5,457)	(7,645)
Inventories	17,816	(6,942)	(7,285)
Trade accounts payable	(6,879)	6,525	1,146
Other accounts payable	5,948	(5,534)	(393)
Accrued expenses	(4,893)	(1,126)	2,540
Accrued warranty expenses	(617)	(8)	(1,040)
Customer prepayments	(1,081)	24	1,276
Accrued pension and severance costs	(1,605)	1,386	225
Other	(2,365)	215	2,009
Net cash provided by (used in) operating activities	2,357	(17,746)	(693)
Cash flows from investing activities:			
(Increase) decrease in short-term investments	(26,210)	13,881	(2,446)
Purchase of available-for-sale securities	—	(389)	—
Purchase of non-marketable equity securities	(911)	—	—
Proceeds from sale of property, plant and equipment	390	287	12
Purchases of property, plant and equipment	(4,909)	(2,798)	(3,138)
Purchases of intangible assets	(645)	(215)	(323)
Other	(222)	58	67
Net cash provided by (used in) investing activities	(32,507)	10,824	(5,828)
Cash flows from financing activities:			
Purchases of treasury stock	(6)	(4)	(10,268)
Dividends paid	(8,924)	(1,796)	(1,760)
Other	0	(3)	0
Net cash used in financing activities	(8,930)	(1,803)	(12,028)
Net effect of exchange rate changes on cash and cash equivalents	(2,813)	(291)	(2,567)
Net change in cash and cash equivalents	(41,893)	(9,016)	(21,116)
Cash and cash equivalents at beginning of year	147,348	105,455	96,439
Cash and cash equivalents at end of year	¥105,455	96,439	75,323
Supplemental data:			
Cash paid during the year for:			
Income taxes	¥ 5,414	1,083	1,412
Interest	12	10	4

See accompanying notes to consolidated financial statements.

ADVANTEST CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

The Company and its consolidated subsidiaries (collectively, "Advantest") manufacture and sell semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products.

Description of the business by segment is as follows:

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC ("System-on-a-Chip") semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

(b) Principles of Consolidation

Advantest's consolidated financial statements include financial statements of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

Cash equivalents primarily consist of deposits and certificates of deposit with an original maturity of three months or less from the date of purchase. Advantest considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Short-term investments

Short-term investments consist of time deposit with fixed maturities greater than three months and Japanese money trusts with fixed maturities of three months, which are carried at cost, based on the characteristics of its fixed maturities, fixed interest rates, restriction of early redemption and non negotiability. The Japanese money trusts amounted to ¥9,000 million and ¥12,000 million at March 31, 2010 and 2011, respectively.

(e) Allowance for Doubtful Accounts

Advantest recognizes an allowance for doubtful accounts to ensure that trade receivables are not overstated due to uncollectability, which represents Advantest's best estimate of the amount of probable credit losses in Advantest's existing trade receivables. An allowance for doubtful accounts is provided at an amount calculated based on historical write off experience and a specific allowance for estimated amounts considered to be uncollectable after reviewing individual factors such as the customer's current financial position, significant changes in the semiconductor industry, other information that is publicly available and the customer's credit worthiness.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

(g) Investment Securities

Investment securities consist of debt securities, marketable and non-marketable equity securities, and investment in an affiliated company. Fair value is determined based on quoted market prices, projected discounted cash flow or other valuation techniques as appropriate.

Debt and Marketable Equity Securities

Advantest classifies its debt and marketable equity securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. A decline in the fair value of any available-for-sale security below cost that is deemed to be other than temporary results in an impairment loss. The impairment loss is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

On a periodic basis, Advantest evaluates the available-for-sale securities for possible impairment. Factors considered in assessing whether an indication of other than temporary impairment exists include: the degree of change in ratio of market prices per share to book value per share at the date of evaluation compared to the acquisition date, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors. Advantest generally has the intention and ability to retain available-for-sale securities which it determines that their impairment is not other than temporary for a period of time sufficient to allow for any anticipated recovery in market value. The impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the average cost method.

Non-marketable Equity Securities

Non-marketable equity securities are carried at cost. On a periodic basis, Advantest evaluates these investments for possible impairment. Non-marketable equity securities that have impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, is other than temporary. If the impairment is other than temporary, Advantest recognizes an impairment loss to reduce the carrying amount to the fair value and a new cost basis for the security is established.

Investment in an Affiliated Company

Investment in an affiliated company over which Advantest has the ability to exercise significant influence, but does not hold a controlling financial interest, is accounted for by the equity method. All significant intercompany profits have been eliminated.

(h) Derivative Financial Instruments

All derivative instruments in the consolidated balance sheets are stated at fair value. The accounting for changes in the fair value (that are, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the purpose for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies.

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

(i) Property, Plant and Equipment

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

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

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

(j) Intangible Assets and Other Assets

Intangible assets principally consist of goodwill and internal-use computer software. Other assets primarily consist of security deposits and others.

Advantest capitalizes certain costs incurred to purchase or develop software for internal-use. Costs incurred to develop software for internal-use are expensed as incurred during the preliminary project stage, which includes costs for making strategic decisions about the project, determining performance and system requirements and vendor demonstration cost. Costs incurred subsequent to the preliminary project stage through implementation are capitalized. Advantest also expenses costs incurred for internal-use software projects in the post implementation stage such as costs for training and maintenance.

Costs incurred to develop software to be included with and sold as part of the Company's Semiconductor Test Systems are capitalized subsequent to the attainment of technological feasibility until the product becomes available for general release to customers. Other development costs are expensed as incurred.

The cost of software is amortized on a straight-line basis over the estimated useful life, which is generally from 3 years to 5 years.

Business combinations are accounted for using the purchase method. Goodwill and other intangible assets with indefinite useful lives are not subjected to amortization and are tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment.

(k) Impairment of Long-Lived Assets

Advantest reviews impairment of long-lived assets and certain identifiable intangibles with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such circumstances, if the carrying value of the asset is less than the estimated undiscounted cash flows expected to be generated by the asset or asset group, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the fair value.

(l) Accrued Warranty Expenses

Advantest's products are generally subject to warranty, and Advantest provides an allowance for such estimated costs when product revenue is recognized. To provide for future repairs during warranty periods, estimated repair expenses over the warranty period are accrued based on the historical ratio of actual repair expenses to corresponding sales, and any facts and circumstances that occurred.

(m) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. Prior service benefit and cost, and actuarial gains and losses are recognized in accumulated other comprehensive income (loss) and are amortized using the straight-line method over the average remaining service period of active employees. The funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension plans is recognized in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) represents the unrecognized actuarial loss, and unrecognized prior service cost. These amounts will be subsequently recognized as net periodic benefit cost pursuant to Advantest's accounting policy for amortizing such amounts.

(n) Revenue Recognition

General

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

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

Sales of Products

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

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

Long-term Service Contracts

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

Leasing Income

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

Multiple Deliverables

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

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

(o) Shipping and Handling Costs

Shipping and handling costs totaled ¥819 million, ¥741 million and ¥929 million for the years ended March 31, 2009, 2010 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

(p) Research and Development Expenses

Research and development costs are expensed as incurred.

(q) Advertising Costs

Advertising costs totaled ¥410 million, ¥80 million and ¥104 million for the years ended March 31, 2009, 2010 and 2011, respectively, and are expensed as incurred.

(r) Stock-Based Compensation

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

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

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Advantest records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Advantest recognizes the financial statement effects of tax positions when it is more likely than not, based on technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon settlement. Advantest recognizes interest and penalty accruals related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

(t) Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted net income per share is calculated by dividing net income by the sum of the weighted average number of shares plus additional shares that would have been outstanding if potential dilutive shares had been issued for granted stock options.

(u) Foreign Financial Statements

The financial statements of foreign operations whose functional currency is a local currency are translated into Japanese Yen. Assets and liabilities are translated at the period-end exchange rates and revenues and expenses are translated at the average exchange rate for the period. Resulting translation adjustments are shown as a component of other comprehensive income (loss).

The financial statements of foreign operations whose functional currency is Japanese Yen are remeasured into Japanese Yen. All exchange gains and losses from remeasurement of monetary assets and liabilities denominated in the local currency are included in other income (expense) for the period in which the remeasurement is made.

(v) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated by using the applicable current rate prevailing at that date. All revenue and expenses associated with foreign currencies are translated by using the rate of exchange prevailing when such transactions occur. Those gains (losses) are included in other income (expense) in the accompanying consolidated statements of operations.

Foreign exchange gains (losses) were (¥2,296) million, ¥1,072 million and (¥508) million for the years ended March 31, 2009, 2010 and 2011, respectively.

(w) Use of Estimates

Management of Advantest has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). Significant items subject to such estimates and assumptions include valuation of trade receivables, inventories, long-lived assets and deferred tax assets, various accruals such as accrued warranty expenses, and assets and obligations related to employees retirement and severance plans. Actual results could differ from those estimates.

(x) New Accounting Standards

In October 2009, the FASB amended the accounting guidance for revenue recognition under multiple-deliverable arrangements. The guidance modifies the criteria for separating deliverables and allocating consideration in multiple-deliverable arrangements. The allocation of revenue is based on estimated selling price if neither vendor-specific objective evidence nor third-party evidence of selling price is available. The guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2011. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect to have a material impact.

In October 2009, the FASB amended accounting guidance for software revenue recognition. This guidance changes the accounting model for revenue arrangements that include both tangible products and software elements. It provides guidance on how to determine which software, if any, relating to the tangible product would be excluded from the scope of the software revenue guidance. The guidance is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. The guidance is required to be adopted by Advantest in the first quarter beginning April 1, 2011. Advantest is currently evaluating the effect that this adoption will have on its consolidated results of operations and financial condition but does not expect to have a material impact.

(y) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year presentation.

(2) Trade Receivables

Trade receivables at March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	2011
Notes	¥ 2,382	2,021
Accounts	13,794	20,838
	16,176	22,859
Less allowance for doubtful accounts	246	152
	¥15,930	22,707

(3) Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts for the years ended March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)		
	2009	2010	2011
Balance at beginning of year	¥ 45	585	246
Provision for (reversal of) allowance	558	(255)	(90)
Amount written off	(18)	(84)	(4)
Balance at end of year	¥ 585	246	152

(4) Inventories

Inventories at March 31, 2010 and 2011 were composed of the following:

	Yen (Millions)	
	2010	2011
Finished goods	¥ 5,965	5,681
Work in process	7,482	12,243
Raw materials and supplies	3,143	5,569
	¥ 16,590	23,493

(5) Property, Plant and Equipment

Property, plant and equipment at March 31, 2010 and 2011 were composed of the following:

	Yen (Millions)	
	2010	2011
Land	¥ 16,152	16,138
Buildings	28,115	28,156
Machinery and equipment	14,222	14,638
Tools, furniture and fixtures	14,737	14,130
Construction in progress	45	42
	73,271	73,104
Less accumulated depreciation	40,390	41,226
	¥ 32,881	31,878

Depreciation expense was ¥8,035 million, ¥4,101 million and ¥3,977 million for the years ended March 31, 2009, 2010 and 2011, respectively.

During the fourth quarter of the year ended March 31, 2009, Advantest made significant adverse changes to its business forecast and cash flows to be generated by its non-memory semiconductors test system business and mechatronics system business in the future mainly reflecting the deteriorated semiconductor markets including bankruptcy of major semiconductor manufacturers as well as an anticipation for a delayed recovery in the market. Accordingly, Advantest evaluated the carrying value of the long-lived assets related to its non-memory test system business and mechatronics business by projecting undiscounted cash flows of the applicable asset groups. Based on this evaluation, Advantest determined that certain long-lived assets were no longer recoverable and were in fact impaired, and wrote them down to their estimated fair value. The specific long-lived assets included in the impaired asset groups consisted of production facilities with land, buildings, machinery and equipment, tools, furniture and fixtures that were held and used primarily in our non-memory test systems and mechatronics businesses. The amounts of the impairment losses for those long-lived assets included in cost of sales and operating expenses in the accompanying consolidated statements of operations were ¥5,142 million and ¥7,943 million, respectively. Impairment losses were measured as the amount by which the carrying amount of a long lived asset exceeds its fair value. Fair value was determined by using present value techniques mainly based on expected future cash flows to be generated by those asset groups, discounted at the risk-free interest rate.

(6) Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2010 and 2011 were as follows:

	Yen (Millions)			
	2010		2011	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets subject to amortization:				
Software	¥2,929	2,366	¥2,338	1,698
Other	50	37	54	44
Total	¥2,979	2,403	¥2,392	1,742

Intangible assets not subject to amortization at March 31, 2010 and 2011 were insignificant.

Aggregate amortization expense for the years ended March 31, 2009, 2010 and 2011 was ¥684 million, ¥213 million and ¥232 million, respectively. Estimated amortization expense for the next five years ending March 31 is: ¥224 million in 2012, ¥189 million in 2013, ¥110 million in 2014, ¥32 million in 2015, and ¥15 million in 2016, respectively.

Goodwill is related to the semiconductor and component test system segment. Changes in the carrying amount of goodwill for the years ended March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)		
	2009	2010	2011
Balance at beginning of year	¥1,426	645	645
Impairment loss	(781)	—	—
Balance at end of year	¥ 645	645	645

Advantest experienced a significant decline in purchase orders of testers due to further deterioration of the semiconductor market during the fourth quarter of the year ended March 31, 2009. This sharp decline was not expected to recover in the near term. Consequently, this led to an impairment of our goodwill for a reporting unit, and we wrote it down to its estimated fair value. Fair value was measured primarily utilizing discounted cash flow valuation techniques. The amount of the impairment loss was ¥781 million, which was included in restructuring and impairment charges on the consolidated statements of operations, and the consolidated statements of cash flows for the year ended March 31, 2009. Advantest performed its annual impairment test for goodwill at the reporting unit level and identified no impairment at March 31, 2010 and 2011.

(7) Investment Securities

Debt and marketable equity securities are classified as available-for-sale securities. The acquisition cost, gross unrealized gains, gross unrealized losses and fair value at March 31, 2010 and 2011 were as follows:

	Yen (Millions)		
	2010		
	Equity securities	Debt securities	Total
Noncurrent:			
Available-for-sale:			
Acquisition cost	¥ 2,833	411	3,244
Gross unrealized gains	1,468	—	1,468
Gross unrealized losses	69	—	69
Fair value	¥ 4,232	411	4,643

	Yen (Millions)		
	2011		
	Equity securities	Debt securities	Total
Noncurrent:			
Available-for-sale:			
Acquisition cost	¥4,309	—	4,309
Gross unrealized gains	1,455	—	1,455
Gross unrealized losses	156	—	156
Fair value	¥5,608	—	5,608

Equity securities consist primarily of stocks issues by Japanese listed companies. Debt securities were redeemable at the option of Advantest, and had no contractual maturity. During the year ended March 31, 2011, all of the outstanding debt securities that were redeemable at the option of Advantest were transferred to non-marketable equity securities due to a conversion into non-marketable common stocks.

Proceeds from the sale of available-for-sale securities for the year ended March 31, 2009 were ¥30 million. No gross gains were realized on the sale of available-for-sale securities for the year ended March 31, 2009. Gross realized losses on available-for-sales securities for the year ended March 31, 2009 were ¥28 million. No proceeds from the sale of available-for-sale securities and no gross gains and losses were realized on the sale of available-for-sale securities for the year ended March 31, 2010. Proceeds from the sale of available-for-sale securities and gross realized gains on the sale of available-for-sale securities for the year ended March 31, 2011 were insignificant. No gross losses were realized on the sale of available-for-sale securities for the year ended March 31, 2011.

Net realized gains and losses of the sale of available-for-sale securities are based on the averaged cost method and are included in “other income (expense)” in the consolidated statements of operations.

For the years ended March 31, 2009, 2010 and 2011, Advantest recognized impairment losses of ¥3,022 million, ¥57 million and ¥426 million, respectively, on available-for-sale securities, which were considered other-than-temporarily impaired and wrote them down to the fair value.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2010 and 2011, were as follows:

	Yen (Millions)			
	2010			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥ 740	69	2	0

	Yen (Millions)			
	2011			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Noncurrent:				
Available-for-sale:				
Equity securities	¥2,019	130	237	26

Advantest maintains non-marketable equity securities, which are recorded at cost. The carrying amounts of non-marketable equity securities were ¥3,434 million and ¥1,824 million at March 31, 2010 and 2011, respectively. For certain non-marketable equity securities which Advantest identified events or changes in circumstances that might have had significant adverse effect on the fair value of the investments, the fair value approximates the carrying value. Advantest had not estimated the fair value of other non-marketable equity securities aggregating ¥1,417 million and ¥1,812 million at March 31, 2010 and 2011, respectively, since it was not practicable to estimate the fair value of the investments. It was because of the lack of readily determinable fair values and difficulty in estimating fair value without incurring excessive cost. Non-marketable equity securities that had impairment indicators were evaluated to determine whether the investments were impaired and the impairment, if any, was other than temporary. For the years ended March 31, 2009, 2010 and 2011, non-marketable equity securities with a purchase cost of ¥1,104 million, ¥376 million and ¥98 million were written down to their fair value of ¥616 million, ¥117 million and ¥12 million, resulting in an other-than-temporary impairment charge of ¥488 million, ¥259 million and ¥86 million, respectively, which was included in impairment losses on investment securities in the accompanying consolidated statements of operations.

(8) Derivative Financial Instruments

Derivatives

Advantest uses foreign exchange forward contracts and currency options to manage currency exposure, resulting from changes in foreign currency exchange rates, on trade receivables. However, these contracts do not qualify for hedge accounting since they do not meet the hedging criteria specified in U.S. GAAP.

Foreign exchange contracts generally have terms of several months. These contracts are used to reduce Advantest's risk associated with exchange rate fluctuations, as gains and losses on these contracts are intended to offset exchange losses and gains on underlying exposures. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).

Advantest does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

Advantest had foreign exchange contracts to exchange currencies among Japanese yen, US dollar and Euro at March 31, 2010 and 2011. The notional amounts of these contracts at March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	2011
Foreign exchange contracts	¥3,041	608

The fair value of derivative instruments not designated as hedging instruments under U.S. GAAP at March 31, 2010 and 2011 was as follows:

	Yen (Millions)			
	2010		2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Assets				
Foreign exchange contracts	Other current assets	¥ 0	Other current assets	¥24
Liabilities				
Foreign exchange contracts	Other current liabilities	¥29	Other current liabilities	¥ 6

A loss of ¥278 million was recognized in earnings on foreign exchange contracts, which was included in other income (expense) for the three months ended March 31, 2009.

The effect of derivative instruments not designated as hedging instruments under U.S. GAAP on consolidated statements of operations for the years ended March 31, 2010 and 2011 was as follows:

		Yen (Millions)	
		Amount of gain (loss) recognized in income on derivatives	
	Location of gain (loss) recognized in income on derivatives	2010	2011
Foreign exchange contracts	Other income (expense)	¥361	223

Concentration of credit risk

Derivative financial instruments contain an element of risk in the event the counterparties are unable to meet the terms of the agreements. However, Advantest minimizes risk exposure by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. Management of Advantest does not expect any counterparty to default on its obligations and, therefore, does not expect to incur any losses due to counterparty default on its obligations.

Advantest generally does not require or place collateral for these derivative financial instruments.

(9) Fair Value Measurement

Disclosure about the fair value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2010 and 2011, except for cash and cash equivalents, short-term investments, trade receivables, other current assets, trade accounts payable, accrued expenses and other current liabilities for which fair value approximate their carrying amounts. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Yen (Millions)			
	2010		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investment securities				
Available-for-sale securities	¥4,643	4,643	¥5,608	5,608
Foreign exchange contracts	0	0	24	24
Financial liabilities:				
Foreign exchange contracts	29	29	6	6

The carrying amounts of available-for-sale securities are included in the consolidated balance sheets under investment securities. The carrying amounts of foreign exchange contracts are included in other current assets and other current liabilities.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, trade receivables, other current assets, trade accounts payable, accrued expenses and other current liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments.

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

Foreign exchange contracts: The fair value of foreign exchange contracts are estimated by obtaining quotes from financial institutions.

Fair Value Hierarchy

US GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally the inputs to valuation techniques used to measure fair value are prioritized into the following three levels:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2—Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs for the asset or liability.

Assets / Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2010 and 2011, carrying amount of financial assets and liabilities that were measured at fair value on a recurring basis by level was as follows:

		Yen (Millions)		
		Fair Value Measurements at March 31, 2010		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available-for-sale equity securities	4,232	4,232	—	—
Available-for-sale debt securities	411	—	—	411
Foreign exchange contracts	0	—	0	—
Total assets measured at fair value	4,643	4,232	0	411
Financial Liabilities				
Foreign exchange contracts	29	—	29	—
Total liabilities measured at fair value	29	—	29	—

		Yen (Millions)		
		Fair Value Measurements at March 31, 2011		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Available-for-sale equity securities	5,608	5,608	—	—
Foreign exchange contracts	24	—	24	—
Total assets measured at fair value	5,632	5,608	24	—
Financial Liabilities				
Foreign exchange contracts	6	—	6	—
Total liabilities measured at fair value	6	—	6	—

The table does not include assets and liabilities which are measured at historical cost or any basis other than fair value. Advantest's financial assets and liabilities measured at fair value consist of available-for-sale debt and equity securities and foreign exchange contracts. Adjustments to fair value of available-for-sale debt and equity securities are recorded as an increase or decrease, net of tax, in accumulated other comprehensive income (loss) except where losses are considered to be other than temporary, in which case the losses are recorded in impairment losses on investment securities. Changes in fair value of foreign exchange contracts are recognized in earnings under the caption of other income (expense).

Changes in the Level 3 financial assets and liabilities measured on a recurring basis for the years ended March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	
	Debt Securities	Total
Balance at beginning of year	¥—	—
Purchases, issuances and settlements	411	411
Balance at end of year	¥ 411	411

	Yen (Millions)	
	2011	
	Debt Securities	Total
Balance at beginning of year	¥ 411	411
Other comprehensive income (loss)	(43)	(43)
Transfers out of Level 3	(368)	(368)
Balance at end of year	¥ —	—

During the year ended March 31, 2011, debt securities that were redeemable at the option of Advantest were transferred out of Level 3 due to a conversion into non-marketable common stocks.

Assets / Liabilities Measured at Fair Value on a Nonrecurring Basis

As of March 31, 2010 and 2011, carrying amount of financial assets and liabilities, which were measured at fair value on a nonrecurring basis by level during the years ended March 31, 2010 and 2011, was as follows:

		Yen (Millions)			
		Fair Value Measurements at March 31, 2010			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2010
Financial Assets					
Non-marketable equity securities	117	—	—	117	(259)
Total gains (losses) for assets held as of March 31, 2010					(259)

		Yen (Millions)			
		Fair Value Measurements at March 31, 2011			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total gains (losses) for the year ended March 31, 2011
Financial Assets					
Non-marketable equity securities	12	—	—	12	(86)
Total gains (losses) for assets held as of March 31, 2011					(86)

The fair value of non-marketable equity securities is based on quoted prices in markets that are not active at the reporting date, or present value of expected future cash flows for those investments.

(10) Leases—Lessor

Advantest provides leases that enable its customers to use semiconductor test systems. All leases are classified as operating leases. Lease terms range from 1 year to 5 years, and certain of the lease agreements are cancelable. The gross amount of machinery and equipment and the related accumulated depreciation under operating leases as of March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	2011
Machinery and equipment	¥ 5,738	6,577
Less accumulated depreciation	3,842	4,640
	¥ 1,896	1,937

Depreciation of machinery and equipment held under operating leases is included with depreciation expense. These assets are included in property, plant and equipment.

Future minimum lease income under noncancelable operating leases as of March 31, 2011 is as follows:

Year ending March 31	Yen (Millions)
2012	¥1,008
2013	599
2014	213
Total minimum lease income	¥1,820

(11) Leases—Lessee

Advantest has several noncancelable operating leases, primarily for office space and office equipment. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2009, 2010 and 2011 was ¥1,618 million, ¥1,227 million and ¥1,122 million, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2011 are as follows:

Year ending March 31	Yen (Millions)
2012	¥ 288
2013	204
2014	166
2015	123
2016	123
Thereafter	135
Total minimum lease payments	¥1,039

(12) Income Taxes

The components of income before income taxes and equity in earnings (loss) of affiliated company and provision (benefit) for income taxes as shown in the consolidated statements of operations were as follows:

	Yen (Millions)		
	2009	2010	2011
Income before income taxes and equity in earnings (loss) of affiliated company:			
The Company and domestic subsidiaries	¥ (55,246)	(13,376)	(1,130)
Foreign subsidiaries	2,485	3,450	6,681
	¥ (52,761)	(9,926)	5,551

	Yen (Millions)		
	2009	2010	2011
Provision (benefit) for income taxes:			
Current:			
The Company and domestic subsidiaries	¥ (281)	856	813
Foreign subsidiaries	2,369	818	1,160
Deferred:			
The Company and domestic subsidiaries	19,509	(272)	330
Foreign subsidiaries	397	55	49
	¥ 21,994	1,457	2,352

The Company and its domestic subsidiaries are subject to a number of income taxes, which in the aggregate resulted in statutory income tax rate of 40.4%, 40.5% and 40.4% for the years ended March 31, 2009, 2010 and 2011, respectively.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes was as follows:

	2009	2010	2011
Statutory tax rate	40.4%	40.5%	40.4%
Increase (decrease) in income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rate from the statutory rate in Japan	(0.7)	2.1	(16.2)
Tax credits	4.2	(5.5)	(13.7)
Expenses not deductible for tax purposes	(0.3)	(0.8)	2.6
Expiration of stock options	—	—	11.0
Undistributed earnings of foreign subsidiaries	2.2	1.1	3.8
Change in valuation allowance	(85.5)	(52.3)	13.0
Other, net	(2.0)	0.2	1.5
	(41.7)%	(14.7)%	42.4%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2010 and 2011 were presented below.

	Yen (Millions)	
	2010	2011
Deferred tax assets:		
Inventories	¥ 5,682	4,356
Accrued warranty expenses	1,092	681
Accrued pension and severance costs	5,621	5,732
Accrued expenses	988	1,557
Research and development expenses capitalized for tax purposes	3,362	2,245
Operating loss carryforwards	27,231	30,352
Property, plant and equipment and intangible assets	4,355	3,315
Tax credits	3,012	3,616
Other	1,579	1,626
Total gross deferred tax assets	52,922	53,480
Less valuation allowance	(51,289)	(52,082)
Net deferred tax assets	1,633	1,398
Deferred tax liabilities:		
Net unrealized gains on marketable securities	(587)	(528)
Undistributed earnings of foreign subsidiaries	(2,354)	(2,567)
Other	—	(22)
Total gross deferred tax liabilities	(2,941)	(3,117)
Net deferred tax assets (liabilities)	¥ (1,308)	(1,719)

At March 31, 2010 and 2011, deferred tax liabilities were provided for all foreign subsidiaries with undistributed earnings.

Included in other current assets and other assets were deferred tax assets of ¥543 million and ¥354 million at March 31, 2010 and 2011, respectively.

Included in other current liabilities and other liabilities were deferred tax liabilities of ¥1,851 million and ¥2,073 million at March 31, 2010 and 2011, respectively.

At March 31, 2011, Advantest had total net operating loss carry forwards for income tax purposes of ¥75,308 million which are available to reduce future income taxes. Operating losses of ¥74,646 million attributable to the Company and domestic subsidiaries in Japan will expire during the years ending March 31, 2015 and 2018. Other net operating losses of ¥654 million have no expiration dates and other net operating losses of ¥8 million will expire during the years ending March 31, 2014 and 2016. Net operating loss carryforwards utilized during the years ended March 31, 2010 and 2011 were ¥2,421 million and ¥554 million, respectively. There was no utilized amount during the year ended March 31, 2009.

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

The changes in valuation allowance for the years ended March 31 were as follows:

	Yen (Millions)		
	2009	2010	2011
Balance at beginning of year	¥ —	48,015	51,289
Additions	48,015	3,274	793
Reductions	—	—	—
Balance at end of year	¥ 48,015	51,289	52,082

During the fiscal year ended March 31, 2009, Advantest established a valuation allowance as deferred tax assets were no longer considered to be realizable based upon projections for future taxable income over which the deferred tax assets were deductible. For the year ended March 31, 2010, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which partially offset by decreases in deferred tax assets associated with inventory and property, plant and equipment. For the year ended March 31, 2011, valuation allowance increased primarily due to an increase in net operating loss carryforwards, which partially offset by decreases in deferred tax assets associated with inventory and research and development expenses capitalized for tax purposes.

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

There were no unrecognized tax benefits for the years ended March 31, 2009, 2010 and 2011.

Although Advantest believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audit settlements and any related litigation could affect the effective tax rate in the future periods. Advantest did not have any unrecognized tax benefits that would affect the effective tax rate. As of March 31, 2011, Advantest did not expect changes in its tax positions that would significantly increase or decrease unrecognized tax benefits within next 12 months.

Advantest files income tax returns in Japan and various foreign tax jurisdictions. As of March 31, 2011, Advantest had open tax years beginning April 1, 2007 for Japan, 2009 for Taiwan, and 2007 for the United States.

(13) Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss), net of tax, for the years ended March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)			
	Foreign currency translation adjustments	Net unrealized gains (losses) on securities	Pension related adjustment	Accumulated other comprehensive income (loss)
Balance at March 31, 2008	¥ (7,100)	300	(815)	(7,615)
Change during the year	(1,793)	(2,062)	(4,701)	(8,556)
Reclassification adjustments for realized portion	—	1,818	(234)	1,584
	(1,793)	(244)	(4,935)	(6,972)
Balance at March 31, 2009	¥ (8,893)	56	(5,750)	(14,587)
Change during the year	(2,614)	742	1,241	(631)
Reclassification adjustments for realized portion	—	34	325	359
	(2,614)	776	1,566	(272)
Balance at March 31, 2010	¥(11,507)	832	(4,184)	(14,859)
Change during the year	(3,231)	(311)	(401)	(3,943)
Reclassification adjustments for realized portion	—	252	280	532
	(3,231)	(59)	(121)	(3,411)
Balance at March 31, 2011	¥(14,738)	773	(4,305)	(18,270)

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Year ended March 31, 2009:			
Foreign currency translation adjustments	¥(1,793)	—	(1,793)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(3,459)	1,397	(2,062)
Less reclassification adjustments for net gains (losses) realized in earnings	3,050	(1,232)	1,818
Net unrealized gains (losses)	(409)	165	(244)
Pension related adjustment	(4,935)	—	(4,935)
Other comprehensive income (loss)	¥(7,137)	165	(6,972)
Year ended March 31, 2010:			
Foreign currency translation adjustments	¥(2,614)	—	(2,614)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	1,224	(482)	742
Less reclassification adjustments for net gains (losses) realized in earnings	57	(23)	34
Net unrealized gains (losses)	1,281	(505)	776
Pension related adjustment	1,566	—	1,566
Other comprehensive income (loss)	¥ 233	(505)	(272)
Year ended March 31, 2011:			
Foreign currency translation adjustments	¥(3,231)	—	(3,231)
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) arising during the year	(540)	229	(311)
Less reclassification adjustments for net gains (losses) realized in earnings	423	(171)	252
Net unrealized gains (losses)	(117)	58	(59)
Pension related adjustment	(121)	—	(121)
Other comprehensive income (loss)	¥(3,469)	58	(3,411)

(14) Stock-Based Compensation

Advantest has stock-based compensation plans using stock options as incentive plans for directors, executive officers, corporate auditors and selected employees.

In July 2004, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,522,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

In November 2004, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the exercise price of the July 2004 options. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

In April 2005, stock options were issued to certain employees of the Company and its foreign subsidiary under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥3,732 per share that was equal to the exercise price of the July 2004 options. The options had an exercise period of 4 years and were exercisable from April 1, 2005.

In July 2005, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,518,000. Options were granted with an exercise price of ¥4,300 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In December 2005, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 16,000. Options were granted with an exercise price of ¥4,300 per share that was equal to the exercise price of the July 2005 options. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In February 2006, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 3,980. Options were granted with an exercise price of ¥6,702 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥4,300 per share that was equal to the exercise price of the July 2005 options. The options had an exercise period of 4 years and were exercisable from April 1, 2006.

In July 2006, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,578,000. Options were granted with an exercise price of ¥5,880 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options had an exercise period of 4 years and were exercisable from April 1, 2007.

In December 2006, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 8,000. Options were granted with an exercise price of ¥6,218 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,880 per share that was equal to the exercise price of the July 2006 options. The options had an exercise period of 4 years and were exercisable from April 1, 2007.

In July 2007, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 777,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In September 2007, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 2,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,563 per share that was equal to the exercise price of the July 2007 options. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In February 2008, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 1,000. Options were granted with an exercise price of ¥5,563 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥5,563 per share that was equal to the exercise price of the July 2007 options. The options have an exercise period of 4 years and are exercisable from April 1, 2008.

In July 2008, stock options were issued to directors, executive officers, corporate auditors and certain employees of the Company and its subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 704,000. Options were granted with an exercise price of ¥2,653 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2009.

In April 2009, stock options were issued to certain employees of foreign subsidiaries under a stock option plan approved by the Board of Directors. The number of granted shares totaled 12,000. Options were granted with an exercise price of ¥2,653 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant, (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant and (3) ¥2,653 per share that was equal to the exercise price of the July 2008 options. The options have an exercise period of 4 years and are exercisable from May 1, 2009.

In July 2009, stock options were issued to directors, executive officers and corporate auditors of the Company under a stock option plan approved by the Board of Directors. The number of granted shares totaled 338,000. Options were granted with an exercise price of ¥1,844 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2010.

In July 2010, stock options were issued to directors, executive officers and corporate auditors of the Company under a stock option plan approved by the Board of Directors. The number of granted shares totaled 308,000. Options were granted with an exercise price of ¥2,089 per share that was equal to the higher of (1) 1.05 times the average price of the Company's common shares of the preceding month on the date of grant and (2) the closing price of the Company's common shares traded on the Tokyo Stock Exchange on the date of grant. The options have an exercise period of 4 years and are exercisable from April 1, 2011.

The exercise price of the stock options is subject to adjustment, if there is a stock split or consolidation of shares, or if new shares are issued or treasury stocks are sold at a price that is less than the market price.

Stock option activity during the years ended March 31, 2009, 2010 and 2011 was as follows:

	2009		2010		2011	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at beginning of year	4,515,980	¥4,940	3,938,980	¥4,804	3,060,000	¥4,647
Granted	704,000	2,653	350,000	1,872	308,000	2,089
Expired	(836,000)	3,732	(1,117,980)	4,309	(1,262,000)	5,881
Forfeited	(445,000)	4,798	(111,000)	4,854	(158,000)	5,287
Outstanding at end of year	3,938,980	4,804	3,060,000	4,647	1,948,000	3,392
Exercisable at end of year	3,265,980	¥5,247	2,722,000	¥4,995	1,640,000	¥3,636

Stock based compensation expense recognized was ¥248 million, ¥143 million and ¥165 million, which was included in selling, general and administrative expenses for the years ended March 31, 2009, 2010 and 2011, respectively. The recognized tax benefits were ¥76 million, ¥53 million and ¥61 million for the years ended March 31, 2009, 2010 and 2011, respectively. In addition, the stock options, granted during the fiscal year ended March 31, 2007 subsequent to a change in Japanese tax law effective April 1, 2006, expired unused during the fiscal year ended March 31, 2011, and the related deferred tax assets of ¥610 million were reversed. As of March 31, 2009, 2010 and 2011, a valuation allowance was recorded against substantially all related deferred tax assets.

The weighted average fair value per share for stock options that were granted during the years ended March 31, 2009, 2010 and 2011 were ¥369, ¥409 and ¥535, respectively. These figures were calculated based on the Black Scholes option pricing model by using the following weighted average estimates:

	2009	2010	2011
Expected dividend yield	2.1%	2.6%	1.6%
Risk free interest rate	0.9%	0.5%	0.2%
Volatility	37.4%	45.3%	45.4%
Expected life	3.7 years	3.8 years	3.9 years

No stock options were exercised for the years ended March 31, 2009, 2010 and 2011. The total fair value of shares vested during the years ended March 31, 2009, 2010 and 2011 was ¥858 million, ¥251 million and ¥141 million, respectively. No intrinsic value of options exercised was recognized for the years ended March 31, 2009, 2010 and 2011.

At March 31, 2011, all of the outstanding stock options were as follows:

	Outstanding			Exercisable		
Exercise price	Number of options	Weighted average exercise price	Weighted average remaining contractual life	Number of options	Weighted average exercise price	Weighted average remaining contractual life
¥1,844 - ¥2,653	1,300,000	2,309	2.7 years	992,000	2,377	2.4 years
¥5,563 - ¥6,218	648,000	5,563	1.0 years	648,000	5,563	1.0 years
	1,948,000	3,392	2.2 years	1,640,000	3,636	1.8 years

At March 31, 2011, there was no aggregate intrinsic value for the options outstanding and exercisable.

(15) Accrued Pension and Severance Costs

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

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

Information about the retirement and severance plans of Advantest for the years ended March 31 was as follows:

	Yen (Millions)		
	2009	2010	2011
Components of net periodic benefit cost:			
Service cost	¥ 1,419	1,309	1,361
Interest cost	700	745	724
Expected return on plan assets	(343)	(280)	(486)
Amortization of unrecognized:			
Net actuarial (gain) or loss	284	560	487
Prior service (benefit) cost	(210)	(176)	(176)
Other	137	—	—
Net periodic benefit cost	¥ 1,987	2,158	1,910

The following table sets forth the plans' benefit obligation, fair value of plan assets, funded status at March 31, 2010 and 2011.

	Yen (Millions)	
	2010	2011
Change in benefit obligation:		
Balance at beginning of year	¥ 32,805	33,331
Service cost	1,309	1,361
Interest cost	745	724
Actuarial (gain) or loss	(82)	(417)
Benefits paid	(1,446)	(484)
Balance at end of year	33,331	34,515
Change in plan assets:		
Balance at beginning of year	18,691	19,427
Employer contributions	689	1,606
Actual return on plan assets	1,440	(331)
Benefits paid	(1,393)	(420)
Balance at end of year	19,427	20,282
Funded status	¥ (13,904)	(14,233)

Amounts recognized in the consolidated balance sheets at March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	2011
Accrued expenses	¥ (139)	(164)
Accrued pension and severance costs	(13,765)	(14,069)
	(13,904)	(14,233)

Pension related adjustments (net of tax) recognized in accumulated other comprehensive income (loss) at March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	2011
Actuarial loss	¥ (5,153)	(5,185)
Prior service benefit	969	880
	(4,184)	(4,305)

Changes in pension related adjustments (net of tax) recognized in other comprehensive income (loss) for the year ended March 31, 2010 and 2011 were summarized as follows:

	Yen (Millions)	
	2010	2011
Current year actuarial gain (loss)	¥ 1,241	(401)
Amortization of actuarial gain	333	369
Amortization of prior service benefit and other	(8)	(89)
	1,566	(121)

The estimated prior service cost and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follow:

	Yen (Millions)
Actuarial loss	¥512
Prior service benefit	(176)
	336

Pension plans with accumulated benefit obligations in excess of plan assets at March 31, 2010 and 2011 were summarized as follows:

	Yen (Millions)	
	2010	2011
Projected benefit obligation	¥ 33,331	34,515
Accumulated benefit obligation	32,461	33,685
Fair value of plan assets	19,427	20,282

Other information about the retirement and severance plans of Advantest was as follows:

Measurement date:

The measurement date for the pension plans is March 31.

Assumptions:

Weighted-average assumptions used to determine benefit obligations as of March 31:

	2010	2011
Discount rate	2.2%	2.2%
Rate of compensation increase	3.0%	3.0%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2009	2010	2011
Discount rate	2.1%	2.3%	2.2%
Expected return on plan assets	1.5%	1.5%	2.5%
Rate of compensation increase	3.0%	3.0%	3.0%

Advantest determines the expected return based on the asset portfolio, historical returns and estimated future returns.

Plan assets:

Advantest's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants by attaining necessary long-term total returns on plan assets. Taking into consideration the expected returns, associated risks and correlations of returns between asset categories in plan assets, Advantest determines an optimal combination of equity, debt securities and other investments as Policy Asset Allocation ("PAA"). Plan assets are invested in accordance with PAA with mid-term to long-term viewpoint, which is revised periodically to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Advantest's domestic benefit plans' weighted-average asset allocation at March 31, 2010 and 2011 by asset category were as follows:

	2010	2011	Target
Equity securities	45.8%	45.3%	45.0%
Debt securities	29.4	24.9	30.0
Cash	2.0	9.5	2.0
Life insurance company general accounts	10.3	11.7	10.0
Other	12.5	8.6	13.0
	100.0%	100.0%	100.0%

The three levels of inputs that may be used to measure fair value of plan assets are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets.

Level 2: Observable inputs other than quoted prices included within Level 1 for the assets, either directly or indirectly.

Level 3: Unobservable inputs for the assets.

		Yen (Millions) Fair Value Measurements at March 31, 2010		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	384	384	—	—
Equity securities:				
Japanese companies	1,570	1,570	—	—
Pooled funds (a)	7,319	—	7,319	—
Debt securities:				
Pooled funds (b)	5,716	—	5,716	—
Hedge funds (c)	2,433	—	301	2,132
Life insurance company general accounts	2,005	—	2,005	—
Total	19,427	1,954	15,341	2,132

(a) These funds invested in listed equity securities consisting of approximately 65% Japanese listed companies and 35% foreign listed companies. This category included both long and short positions aggregating ¥2,486 million, invested in Japanese listed companies' equity.
(b) These funds invested in approximately 45% Japanese government bonds, 40% foreign government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.
(c) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

		Yen (Millions) Fair Value Measurements at March 31, 2011		
	Total	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	1,929	1,929	—	—
Equity securities:				
Japanese companies	1,436	1,436	—	—
Pooled funds (d)	7,756	—	7,756	—
Debt securities:				
Pooled funds (e)	5,044	—	5,044	—
Hedge funds (f)	1,736	—	303	1,433
Life insurance company general accounts	2,381	—	2,381	—
Total	20,282	3,365	15,484	1,433

(d) These funds invested in listed equity securities consisting of approximately 60% Japanese listed companies and 40% foreign listed companies. This category included both long and short positions aggregating ¥2,249 million, invested in Japanese listed companies' equity.
(e) These funds invested in approximately 45% foreign government bonds, 40% Japanese government bonds, 10% Japanese municipal bonds, and 5% Japanese corporate bonds.
(f) These hedge funds invested in stock price index futures / options, bond futures / options, bonds and private equity and others.

Level 1 assets are comprised principally of listed equity securities, which are valued based on quoted market prices at the reporting date for those investments.

Level 2 assets are comprised principally of pooled funds and investments in life insurance company general accounts. Pooled funds are valued at their net asset values that are calculated by the sponsors of the funds. Investments in life insurance company general accounts are valued at conversion value.

Level 3 assets are comprised of hedge funds, which are valued at their net asset values that are calculated by the sponsors of the funds.

Changes in the Level 3 plan assets for the year ended March 31, 2010 and 2011 were as follows:

	Yen (Millions)	
	2010	
	Hedge funds	Total
Balance at beginning of year	¥ 1,248	1,248
Net realized / unrealized gain (loss)	90	90
Purchases, issuances and settlements	794	794
Transfer in and / or out of Level 3	—	—
Balance at end of year	¥ 2,132	2,132

	Yen (Millions)	
	2011	
	Hedge funds	Total
Balance at beginning of year	¥2,132	2,132
Net realized / unrealized gain (loss)	97	97
Purchases, issuances and settlements	(796)	(796)
Transfer in and / or out of Level 3	—	—
Balance at end of year	¥1,433	1,433

Cash flows:

Advantest expects to contribute ¥1,719 million to its domestic defined benefit plans during the year ending March 31, 2012.

Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are estimated as follows:

Year ending March 31	Yen (Millions)
2012	¥ 717
2013	871
2014	912
2015	928
2016	1,010
2017 through 2021	7,351

During the fourth quarter of the year ended March 31, 2009, Advantest offered its employees an early retirement program and employees who applied the program terminated their services prior to March 31, 2009. Advantest recognized a liability and an expense when the employees accepted the offer and the amount was reasonably estimated. Accordingly, Advantest recorded a voluntary termination benefit of ¥5,064 million, which was included in restructuring and impairment charges in the accompanying consolidated statements of operations for the year ended March 31, 2009.

(16) Stockholders' Equity

Changes in the number of shares issued and treasury stock during the years ended March 31, 2009, 2010 and 2011 were as follows:

	Total shares of common stock	Shares of treasury stock
Number of shares as of April 1, 2008	199,566,770	20,840,721
Purchase of shares	—	3,497
Sale of shares	—	(920)
Number of shares as of March 31, 2009	199,566,770	20,843,298
Purchase of shares	—	2,112
Sale of shares	—	(232)
Number of shares as of March 31, 2010	199,566,770	20,845,178
Purchase of shares	—	5,449,721
Sale of shares	—	(80)
Number of shares as of March 31, 2011	199,566,770	26,294,819

The Corporation Law of Japan provides that an amount equal to 10% of distributions paid by the Company shall be appropriated as additional paid-in capital or a legal reserve until the total amount of the additional paid-in capital and the legal reserve equals to 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends for the years ended March 31, 2009, 2010 and 2011 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for a dividend of ¥5 per share, aggregating ¥866 million for the second-half of the year ended March 31, 2011, subsequently proposed by the Board of Directors.

The amount available for future payment of dividends was determined under the Corporation Law of Japan and amounted to ¥53,291 million at March 31, 2011.

(17) Accrued Warranty Expenses

Advantest issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period. Changes in accrued warranty expenses for the years ended March 31, 2009, 2010 and 2011 were summarized as follows:

	Yen (Millions)		
	2009	2010	2011
Balance at beginning of year	¥ 3,143	2,811	2,802
Addition	5,260	3,364	2,653
Reduction	(5,564)	(3,372)	(3,693)
Translation adjustments	(28)	(1)	(8)
Balance at end of year	¥ 2,811	2,802	1,754

(18) Operating Segment and Geographic Information

Advantest manufactures and sells semiconductor and component test system products and mechatronics-related products such as test handlers and device interfaces. Advantest also engages in research and development activities and provides maintenance and support services associated with these products. Advantest's organizational structure consists of three reportable operating segments, which are the design, manufacturing, and sale of semiconductor and component test systems, mechatronics systems and services, support and others. These reportable operating segments are determined based on the nature of the products and the markets. Segment information is prepared on the same basis that Advantest's management reviews financial information for operational decision making purposes.

The semiconductor and component test system segment provides customers with test system products for the semiconductor industry and the electronic parts industry. Product lines provided in the semiconductor and component test system segment include test systems for memory semiconductors for memory semiconductor devices and test systems for SoC semiconductors for non memory semiconductor devices.

The mechatronics system segment provides product lines such as test handlers, mechatronic-applied products, for handling semiconductor devices, device interfaces that serve as interfaces with the devices that are measured and operations related to nano-technology products.

The services, support and others segment consists of comprehensive customer solutions provided in connection with the above segments, support services, equipment lease business and others.

Fundamental research and development activities and headquarters functions are represented by Corporate.

Reportable operating segment information during the years ended March 31, 2009, 2010 and 2011 was as follows:

	Yen (Millions)				
	Semiconductor and Component Test System Business	Mechatronics System Business	Services, Support and Others	Elimination and Corporate	Total
As of and for the year ended March 31, 2009:					
Net sales to unaffiliated customers	¥ 48,629	12,208	15,815	—	76,652
Inter-segment sales	587	2,180	—	(2,767)	—
Net sales	49,216	14,388	15,815	(2,767)	76,652
Depreciation and amortization	3,893	1,813	2,668	345	8,719
Impairment charges to long-lived assets and goodwill	8,491	4,507	606	262	13,866
Operating income (loss) before stock option compensation expenses	(28,914)	(11,865)	(1,099)	(7,331)	(49,209)
Adjustment:					
Stock based compensation expense					248
Operating income (loss)					(49,457)
Expenditures for additions to long- lived assets	1,657	1,249	1,606	96	4,608
Total assets	29,449	11,017	10,773	150,820	202,059
As of and for the year ended March 31, 2010:					
Net sales to unaffiliated customers	¥ 30,168	11,219	11,838	—	53,225
Inter-segment sales	2,404	18	—	(2,422)	—
Net sales	32,572	11,237	11,838	(2,422)	53,225
Depreciation and amortization	1,364	470	1,977	503	4,314
Operating income (loss) before stock option compensation expenses	(7,042)	(1,897)	2,175	(4,732)	(11,496)
Adjustment:					
Stock based compensation expense					143
Operating income (loss)					(11,639)
Expenditures for additions to long- lived assets	942	396	1,856	231	3,425
Total assets	38,782	10,478	11,474	127,929	188,663
As of and for the year ended March 31, 2011:					
Net sales to unaffiliated customers	¥ 67,070	18,398	14,166	—	99,634
Inter-segment sales	2,263	117	—	(2,380)	—
Net sales	69,333	18,515	14,166	(2,380)	99,634
Depreciation and amortization	1,417	533	1,755	504	4,209
Operating income (loss) before stock option compensation expenses	9,857	(251)	2,133	(5,463)	6,276
Adjustment:					
Stock based compensation expense					165
Operating income (loss)					6,111
Expenditures for additions to long-lived assets	1,350	374	1,733	336	3,793
Total assets	53,570	11,780	9,226	105,736	180,312

Adjustments to operating income (loss) in Corporate principally represent corporate general and administrative expenses and research and development expenses related to fundamental research activities that are not allocated to operating segments.

Advantest uses the operating income (loss) before stock option compensation expenses for management's analysis of business segment results.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use.

Total assets included in Corporate consist of cash and cash equivalents, assets for general corporate use and assets used for fundamental research activities, which are not allocated to reportable segments.

One customer and its related entities mainly in the semiconductor and component test system segment and the mechatronics system segment accounted for approximately 24%, 20% and 20% of total consolidated net sales for the years ended March 31, 2009, 2010 and 2011, respectively. Other customer accounted for approximately 1%, 2% and 13% for the years ended March 31, 2009, 2010 and 2011, respectively. Another customer accounted for approximately 14%, 6% and 7% for the years ended March 31, 2009, 2010 and 2011, respectively.

Information as to Advantest's net sales and long-lived assets in various geographical areas was as follows:

Net sales to unaffiliated customers for the years ended March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)		
	2009	2010	2011
Japan	¥ 24,734	11,976	22,398
Americas	11,759	4,930	9,278
Europe	2,844	2,137	2,252
Asia	37,315	34,182	65,706
Total	¥ 76,652	53,225	99,634

Net sales to unaffiliated customers are based on the customer's location. Net sales indicated as Asia were generated in Taiwan, Korea and China and others in the amount of ¥10,240 million, ¥14,074 million and ¥13,001 million for the year ended March 31, 2009, ¥12,805 million, ¥10,334 million and ¥11,043 million for the year ended March 31, 2010, and ¥21,835 million, ¥20,752 million and ¥23,119 million for the year ended March 31, 2011, respectively. Substantially all net sales indicated as Americas were generated in the United States of America.

Long-lived assets as of March 31, 2009, 2010 and 2011 were as follows:

	Yen (Millions)		
	2009	2010	2011
Japan	¥ 31,723	31,067	30,696
Americas	108	219	288
Europe	634	606	598
Asia	2,979	2,434	1,815
Total	¥ 35,444	34,326	33,397

Long-lived assets are those assets located in each geographic area.

There was no individually material country with respect to long-lived assets outside Japan. Substantially all long-lived assets indicated as Americas were located in the United States of America. The significant portion of long-lived assets in Asia was located in Singapore, Taiwan and Korea.

(19) Related Party Transactions

Advantest sells products to and purchases raw materials from Fujitsu Limited, its 11.6% stockholder as of March 31, 2011 and its group companies (collectively, “Fujitsu”). The terms of sales are the same as those with third parties. Advantest purchases raw materials after receiving competitive bids from several suppliers. Advantest also purchases various software products for internal use, information system related services, research and development materials and services from Fujitsu. Advantest had the following transactions with Fujitsu as of and for the years ended March 31:

	Yen (Millions)		
	2009	2010	2011
Sales of products	¥1,659	2,085	2,461
Purchases of raw materials	2,501	4,065	4,622
Receivables	418	826	696
Payables	1,021	2,372	2,717
Purchases of software, hardware and others	60	199	442
Research and development expenses, computer rentals, maintenance and other expenses	1,839	1,056	1,779

Advantest is holding approximately 35% of common stock of e-Shuttle, Inc., a subsidiary of Fujitsu, since the initial investment, which is accounted for by equity method of accounting.

(20) Per Share Data

The following table sets forth the computation of basic and diluted net income (loss) per share as of March 31:

	Yen (Millions) except per share data		
	2009	2010	2011
Numerator:			
Net income (loss)	¥ (74,902)	(11,454)	3,163
Denominator:			
Basic weighted average shares of common stock outstanding	178,724,884	178,722,505	175,481,854
Dilutive effect of exercise of stock options	—	—	13,604
Diluted weighted average shares of common stock outstanding	178,724,884	178,722,505	175,495,458
Basic net income (loss) per share	¥ (419.09)	(64.09)	18.03
Diluted net income (loss) per share	(419.09)	(64.09)	18.03

At March 31, 2009, 2010 and 2011, Advantest had outstanding stock options into 3,938,980, 3,060,000 and 1,610,000 shares of common stock, respectively, which were anti-dilutive and excluded from the calculation of diluted net income per share but could potentially dilute net income per share in future periods.

(21) Concentrations of credit risk

Advantest is exposed to credit risk in the event of default by financial institutions to cash and cash equivalents, but such risk is considered mitigated by the high credit rating of the financial institutions.

At March 31, 2010 and 2011, Advantest had one customer and two customers with significant receivables, respectively. Receivables from these customers accounted for 14% and 36% of consolidated trade receivables at March 31, 2010 and 2011, respectively. Although Advantest does not expect that the customer will fail to meet its obligations, Advantest is potentially exposed to concentrations of credit risk if the customer failed to perform according to the terms of the contracts.

(22) Commitments and Contingent Liabilities

Advantest is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Advantest’s consolidated financial position, results of operations, or cash flows.

Commitments outstanding for the purchase of property, plant and equipment and other assets totaled ¥45 million at March 31, 2011.

(23) Pending Acquisition

On March 28, 2011, Advantest entered into a definitive agreement under which Advantest will acquire all outstanding ordinary shares of Verigy Ltd ("Verigy"), a Singapore incorporated company publicly traded in U.S., for US$15.00 per share in cash. The total acquisition price is estimated to be approximately US$1.1 billion (approximately ¥ 90.9 billion (based on the exchange rate US$1 = ¥81)), due at closing, and will be funded with existing cash and borrowings from commercial banks. The antitrust reviews in respect of the transaction by Korean, Taiwanese and the U.S. authorities have all been completed. In addition, the transaction was approved at Verigy's shareholders meeting on June 17, 2011. The transaction will be effective upon the fulfillment of certain conditions, such as the approval of Singapore High Court and the registration of the court order with the Accounting and Corporate Regulatory Authority of Singapore. We expect the effective date of the transaction to be in early July, 2011.

ITEM 19. EXHIBITS

Index to Exhibits

1.1	Amended and Restated Articles of Incorporation of the Registrant (English translation)*
1.2	Regulations of the Board of Directors of the Registrant (English translation)**
1.3	Regulations of the Board of Corporate Auditors of the Registrant (English translation)**
2.1	Share Handling Regulations of the Registrant (English translation)*
2.2	Form of Deposit Agreement among the Registrant, JPMorgan Chase Bank (as successor to Morgan Guaranty Trust Company of New York), as depositary, and the owners and beneficial owners from time to time of American Depositary Receipts***
2.3	Form of Amendment No. 1 to Deposit Agreement among the Registrant, JPMorgan Chase Bank, N.A. as depositary, and all holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt****
2.4	Form of ADR (included in Exhibit 2.3)
4.1	Implementation Agreement by and between Advantest Corporation and Verigy Ltd.
8.1	List of Principal Subsidiaries (See "Organizational Structure" in "Information on the Company")
11.1	Code of Ethics of the Registrant applicable to its directors and executive officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions*****
12.1	Certifications of the Registrant's Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
13.1	Certifications of the Registrant's Representative Director, President and Chief Executive Officer and Director and Senior Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
15.1	Consents of Independent Registered Public Accounting Firm

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* Incorporated by reference to the Company's report on Form 20-F filed with the SEC on June 26, 2009 (file no. 1-15236).

** Incorporated by reference to the Company's report on Form 20-F filed with the SEC on June 26, 2008 (file no. 1-15236).

*** Incorporated by reference to the Company's registration statement on Form 20-F filed with the SEC on September 4, 2001 (file no. 1-15236).

**** Incorporated by reference to the Post Effective Amendment to the Company's registration statement on Form F-6 Filed with the SEC on September 12, 2006 (file no. 333-13886).

***** Incorporated by reference to the Company's annual report on Form 20-F filed with the SEC on June 29, 2004 (file no. 1-15236).

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 24, 2011

ADVANTEST CORPORATION

By: /s/ Yuichi Kurita

Name: Yuichi Kurita

Title: Director, Senior Executive Officer

Exhibit 4.1

EXECUTION VERSION

IMPLEMENTATION AGREEMENT

BY AND BETWEEN

ADVANTEST CORPORATION

AND

VERIGY LTD.

Dated as of March 28, 2011

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IMPLEMENTATION AGREEMENT

This IMPLEMENTATION AGREEMENT (this **"Agreement"**) is made and entered into as of March 28, 2011, by and between Advantest Corporation, a corporation organized under the laws of Japan (**"Acquiror"**), and Verigy Ltd. (Company Registration No. 200601091C), a corporation organized under the laws of Singapore with its registered address at No. 1 Yishun Ave 7, Singapore 768923 (the **"Company"**).

RECITALS

A. WHEREAS, Acquiror proposes to acquire the entire issued share capital of the Company (the **"Acquisition"**) subject to, and Acquiror and the Company have agreed in good faith to implement the Acquisition upon, the terms and conditions set forth in this Agreement.

B. WHEREAS, the respective Boards of Directors of Acquiror and the Company have adopted, approved and declared the advisability of this Agreement, the Acquisition and the transactions contemplated hereby.

C. WHEREAS, the Board of Directors of the Company has resolved to recommend to its shareholders approval of this Agreement.

D. WHEREAS, the Board of Directors of the Company has authorized that a Scheme of Arrangement be proposed to the holders of Company Ordinary Shares under Section 210 of the Companies Act, Chapter 50 of Singapore law (the **"Scheme of Arrangement"**).

E. WHEREAS, each of Acquiror and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Acquisition and also to prescribe certain conditions to the Acquisition.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

THE TRANSACTION

Section 1.1 Structure.

(a) Subject to and upon the terms and conditions of this Agreement, the parties hereto shall effect the Acquisition by way of the Scheme of Arrangement. The Company agrees to propose the Scheme of Arrangement under which, *inter alia*, (i) all issued Company Ordinary Shares other than those held by or on behalf of Acquiror or its Subsidiaries (the **"Scheme Shares"**) will be transferred to Acquiror fully paid, free from all Liens and together with all rights, benefits and entitlements attaching thereto as of the date of this Agreement, including the right to receive and retain all dividends, rights and other distributions (if any) declared, paid or made by the Company on or after the date of this Agreement, and (ii) in consideration for the transfer of the Scheme Shares, the holders of Scheme Shares (the **"Scheme Shareholders"**) will receive a payment from Acquiror of US$15.00 in cash per share, without any interest thereon, but subject to any withholding and any other Taxes (the **"Scheme Price"**). Subject to the terms and conditions of this Agreement, the parties shall implement the Scheme of Arrangement in accordance with the requirements of Section 5.1, Section 5.2 and Section 5.3. The parties shall procure the release of the joint announcement of Acquiror and the Company of the proposed Scheme of Arrangement in the form agreed by the parties (the **"Scheme Announcement"**) on the date of this Agreement.

(b) Notwithstanding Section 1.1(a), subject to the prior written consent of the Company (which may be granted or withheld by the Company in its sole discretion), Acquiror shall have the right to elect to effect the Acquisition by way of a takeover offer pursuant to the terms and conditions set forth in Annexes I and II (the **"Offer"**) in lieu of proceeding by way of the Scheme of Arrangement, whether or not the Scheme Document has been dispatched. If the Acquiror elects to effect the Acquisition by way of an Offer, and the Company consents to such election in its sole and absolute discretion, Section 5.1 and Article VI (to the extent that such provisions relate only to the Scheme of Arrangement) will not apply but Annexes I and II will apply, and the other provisions of this Agreement, to the extent applicable to the implementation of the Acquisition by way of an Offer, will continue to apply *mutantis mutandis* to such Offer.

Section 1.2 Stock Options; Stock-Based Awards. In connection with the Acquisition, all Company Options and Company Restricted Share Units under Company Share Plans shall be treated as set forth in Section 5.11.

Section 1.3 Withholding Rights. Acquiror, and any paying agent of Acquiror, shall be entitled to deduct and withhold from any amounts payable pursuant to this Agreement to any holder of Company Ordinary Shares, Company Options or Company Restricted Share Units such amounts as Acquiror (or its paying agent) are required to deduct and withhold with respect to the making of such payment under the Code or under any provision of state, local or foreign Tax law or under any other applicable Legal Requirements, and to collect IRS Forms W-8 or W-9, as applicable, or similar information from the recipients of payments hereunder. To the extent such amounts are so deducted or withheld, the amount of such consideration shall be treated for all purposes under this Agreement as having been paid to the Person to whom such consideration would otherwise have been paid.

Section 1.4 No Liability. None of Acquiror, its paying agent or the Company shall be liable to any person in respect of any cash otherwise payable to any holder of Company Ordinary Shares, Company Options or company Restricted Share Units pursuant to this Agreement delivered to a public official pursuant to any applicable abandoned property, escheat or similar Legal Requirement. If any Company Ordinary Shares shall not have been surrendered immediately prior to the date on which any cash in respect of such shares would otherwise escheat to or become the property of any Governmental Entity, any such cash in respect of such shares shall, to the extent permitted by applicable Legal Requirement, become the property of Acquiror, free and clear of all claims or interest of any person previously entitled thereto.

Section 1.5 Lost, Stolen or Destroyed Certificates. In the event any certificates representing Company Ordinary Shares (**"Certificate"**) shall have been lost, stolen or destroyed, Acquiror or its paying agent shall issue in exchange for such lost, stolen or destroyed certificates, upon the making of an affidavit of that fact by the holder thereof, the consideration to which the holder thereof is entitled pursuant to this Article I (or in the event the Acquisition is effected by way of the Offer, Annex I); provided, however, that Acquiror may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against it or its paying agent with respect to the Certificates alleged to have been lost, stolen or destroyed.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as disclosed in the Company Designated SEC Reports or as set forth in the disclosure schedule delivered by the Company to Acquiror dated as of the date hereof (the **"Company Disclosure Schedule"**), the Company represents and warrants to Acquiror as follows:

Section 2.1 Organization; Standing; Charter Documents; Subsidiaries.

(a) Organization; Standing and Power. The Company is a public company limited by shares. Each of the Company's Subsidiaries is a corporation or other organization. Each of the Company and its Subsidiaries (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (except to the extent such concepts are not recognized or applicable under the laws of the jurisdiction in which any such entity is organized), (ii) has the requisite corporate or other organizational power and authority to own, lease and operate its properties and to carry on its business as now being conducted and (iii) is duly qualified or licensed and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary other than in such jurisdictions where the failure to be so organized, existing and in good standing or so qualified, individually or in the aggregate, has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. For purposes of this Agreement, **"Subsidiary"** when used with respect to any party, shall mean any corporation or other organization, whether incorporated or unincorporated, of which (i) such party or any other Subsidiary of such party is a general partner, manager or managing member, (ii) such party or any Subsidiary of such party owns in excess of a majority of the outstanding equity or voting securities or interests or (iii) such party or any Subsidiary of such party has the right to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization.

(b) Charter Documents. The Company has delivered or made available to Acquiror true and correct copies of (i) the memorandum and articles of association of the Company, as amended to date (the **"Company Charter Documents"**) and (ii) the certificate of incorporation and bylaws, or like organizational documents, each as amended to date (collectively, **"Subsidiary Charter Documents"**), of each Significant Subsidiary (as defined in Rule 1.02 of Regulation S-X promulgated by the SEC, a **"Significant Subsidiary"**), and each such instrument is in full force and effect. The Company is not in violation of any of the provisions of the Company Charter Documents, and each Subsidiary of the Company is not in violation of its respective Subsidiary Charter Documents.

(c) Minutes. The Company has made available to Acquiror and its representatives true and complete copies of the minutes of all meetings of the shareholders, the Board of Directors and each committee of the Board of Directors of the Company held since November 1, 2008.

(d) Subsidiaries. Section 2.1(d) of the Company Disclosure Schedule lists each Subsidiary of the Company and indicates each Significant Subsidiary of Company, identifying for all Subsidiaries the percentage of each Subsidiary's outstanding capital stock owned by the Company or another Subsidiary or affiliate of the Company. All the outstanding shares of capital stock of, or other equity or voting interests in, each such Subsidiary have been duly authorized and validly issued and are fully paid and, where applicable as a legal concept, nonassessable and are owned by the Company, a wholly-owned Subsidiary of the Company, or the Company and another wholly-owned Subsidiary of the Company, free and clear of Liens, including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests, except for restrictions imposed by applicable securities laws. Other than the Subsidiaries of the Company, the Company does not own, directly or indirectly, any securities or capital stock of, or other equity or voting interests of any nature in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any other Person, excluding securities in any publicly traded company held for investment by the Company and comprising less than one percent (1%) of the outstanding stock of such company.

Section 2.2 Capital Structure.

(a) Capital Stock. At the close of business on March 16, 2011 (the **"Reference Date"**), (i) 60,755,228 Company Ordinary Shares were issued and outstanding and (ii) 10,524,307 Company Ordinary Shares are issuable upon conversion of the Company's 5.25% Convertible Notes Due 2014 (the **"Company Convertible Notes"**). No Company Ordinary Shares are owned or held by any Subsidiary of the Company. All of the outstanding Company Ordinary Shares are, and all Company Ordinary Shares which may be issued as contemplated or permitted by this Agreement will be, when issued, duly authorized and validly issued and fully paid and not subject to any preemptive rights.

(b) Company Restricted Shares and Company Restricted Share Units. As of the close of business on the Reference Date, there are no Company Restricted Shares outstanding. Section 2.2(c) of the Company Disclosure Schedule sets forth (A) the name of each holder of Company Restricted Share Units, (B) the number of Company Ordinary Shares subject to each Company Restricted Share Unit, (C) the date on which such Company Restricted Share Unit was granted, (D) the applicable vesting and settlement and/or delivery schedule for such Company Restricted Share Unit, any provisions for the acceleration of vesting and whether the vesting is time or performance based, and (E) the extent to which such Company Restricted Share Unit has vested or settled as of the Reference Date. There are no commitments or agreements to which Company is bound obligating Company to waive its right of repurchase or forfeiture with respect to any Company Restricted Shares or Company Restricted Share Unit as a result of the Acquisition (whether alone or upon the occurrence of any additional or subsequent events). For purposes of this Agreement, **"Company Restricted Shares"** shall mean Company Ordinary Shares that are unvested or subject to a Contract pursuant to which Company has the right or obligation to repurchase, redeem or otherwise reacquire such Company Ordinary Shares, including by forfeiture, and **"Company Restricted Share Unit"** shall mean all restricted share units and rights to receive Company Ordinary Shares or an amount in cash measured by the value of a number of Company Ordinary Shares.

(c) Stock Options. As of the close of business on the Reference Date: (i) 5,121,366 Company Ordinary Shares were subject to issuance pursuant to outstanding Company Options (as defined below) to purchase Company Ordinary Shares under the applicable Company Share Plans (as defined below) (equity or other equity-based awards, whether payable in cash, shares or otherwise, whether or not granted under or pursuant to the Company Share Plans, other than Company Restricted Shares or Company Restricted Share Units, are referred to in this Agreement as **"Company Options"**), and (ii) 4,336,867 Company Ordinary Shares are reserved for future issuance under the Company Share Plans, including 746,812 shares reserved for issuance under Company's 2006 Employee Shares Purchase Plan (the **"Company Employee Shares Purchase Plan"**). Section 2.2(c) of the Company Disclosure Schedule sets forth a complete and accurate list of all stock option plans or any other plan or agreement adopted by Company that provides for the issuance of equity to any Person (the **"Company Share Plans"**). Company has made available to Acquiror complete and accurate copies of all Company Share Plans and the forms of all award agreements evidencing outstanding awards under such plans. Company has made available to Acquiror a true and complete list of each Company Option outstanding as of the Reference Date, and (1) the particular Company Share Plan or other arrangement pursuant to which such Company Option was granted, (2) the name of the holder of such Company Option, (3) the number of Company Ordinary Shares subject to such Company Option, (4) the exercise price of such Company Option, (5) the date on which such Company Option was granted, (6) the applicable vesting schedule, and the extent to which such Company Option was vested and exercisable as of the Reference Date, (7) the date on which such Company Option expires and (8) whether such Company Option is intended to qualify as a nonstatutory stock option or an "incentive stock option" within the meaning of Section 422 of the Code. All Company Ordinary Shares subject to issuance under the applicable Company Share Plans, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issued, would be duly authorized, validly issued and fully paid. All grants of Company Options were validly issued and properly approved by the Board of Directors of the Company (or a duly authorized committee or subcommittee thereof) in material compliance with all applicable Legal Requirements and recorded on the Company Financials in accordance with GAAP. As of the Reference Date, there are no outstanding or authorized stock appreciation, phantom stock, profit participation or other similar rights or equity based awards (whether payable in cash, shares or otherwise) with respect to the Company other than as set forth in Sections 2.2(b) and (c).

(d) Other Securities. Except as otherwise set forth in this Section 2.2, as of the Reference Date, there are no securities, warrants, calls, rights or Contracts to which the Company or any of its Subsidiaries is a party or by which any of them is bound obligating the Company or any of its Subsidiaries to issue (including on a deferred basis), deliver or sell, or cause to be issued, delivered or sold, or otherwise granting the Company or any of its Subsidiaries the right to have a third party issue, deliver or sell to the Company or any of its Subsidiaries, additional shares of capital stock or other voting securities of the Company or any of its Subsidiaries, or obligating the Company or any of its Subsidiaries to issue, grant, extend or enter into any such security, warrant, call, right or Contract. All outstanding Company Ordinary Shares, all outstanding Company Options, all outstanding Company Restricted Shares, all outstanding Company Restricted Share Units, and all outstanding shares of capital stock of each Subsidiary of the Company have been issued and granted in material compliance with (i) all applicable securities laws and all other applicable Legal Requirements and (ii) all requirements set forth in applicable Contracts. Except for Company Restricted Shares or shares subject to Company Restricted Share Units, as of the Reference Date, there are not any outstanding Contracts of the Company or any of its Subsidiaries to (A) repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, Company or any of its Subsidiaries or (B) dispose of any shares of the capital stock of, or other equity or voting interests in, any of its Subsidiaries. Company and its Subsidiaries have not entered into any swaps, caps, collars, floors or other derivative contracts or securities relating to interest rates, equity securities, debt securities or commodities. Neither Company nor any of its Subsidiaries is a party to any voting agreements, irrevocable proxies, voting trusts, registration rights agreements or other voting arrangements with respect to shares of the capital stock of, or other equity or voting interests in, Company or any of its Subsidiaries. For purposes of this Agreement, **"Legal Requirements"** or **"Laws"** shall mean any federal, state, local, municipal or foreign law, statute, constitution, ordinance, code, or published order, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity.

(e) No Changes. Between the Reference Date and the date of this Agreement, there has been no change in (i) the outstanding share capital of Company, (ii) the number of Company Options outstanding, (iii) the number of Company Restricted Shares outstanding, (iv) the number of shares subject to Company Restricted Share Units or (v) the number of other options, warrants or other rights to purchase Company Ordinary Shares, other than pursuant to the exercise, vesting or settlement of Company Options, Company Restricted Shares or Company Restricted Share Units outstanding as of the Reference Date, issued pursuant to Company Share Plans, pursuant to the terms of such awards as in effect on the Reference Date.

Section 2.3 Authority; Non-Contravention; Necessary Consents.

(a) Authority. The Company has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to authorize the execution and delivery of this Agreement or to consummate the Acquisition and the other transactions contemplated hereby, subject to the approval of the Scheme of Arrangement by the affirmative vote of a majority in number representing not less than seventy-five percent (75%) in value of the holders of Company Ordinary Shares, which are entitled to one (1) vote per share, present or represented and entitled to vote at the general meeting of the Company on a poll on the Scheme of Arrangement being the only vote of the holders of any class or series of Company shares or other securities necessary to approve the Scheme of Arrangement.

There are no bonds, debentures, notes or other indebtedness of Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which shareholders of Company may vote. This Agreement has been duly executed and delivered by the Company and, assuming due execution and delivery by Acquiror, constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability (i) may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting or relating to creditors' rights generally and (ii) is subject to general principles of equity.

(b) Non–Contravention. The execution and delivery of this Agreement by the Company does not, and performance of this Agreement and consummation of the transactions contemplated by this Agreement by the Company will not: (i) conflict with or violate any provision of any of the Company Charter Documents or any Subsidiary Charter Documents of any Subsidiary of the Company, (ii) subject to the approvals contemplated in Section 5.3 and compliance with the requirements set forth in or disclosed pursuant to Sections 2.3(a) and 2.3(c), conflict with or violate any material Legal Requirement applicable to any of the Company or its Subsidiaries or by which any of the Company or its Subsidiaries or any of their respective properties is bound or affected, or (iii) subject to providing the notices and obtaining the consents set forth in Section 2.3(c) of the Company Disclosure Schedule, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair the Company's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any of the properties or assets of the Company or any of their respective Subsidiaries pursuant to, any Contract (to which the Company or its Subsidiaries is a party or by which the Company or its Subsidiaries or any of their respective properties is bound or affected), except, in the case of clauses (ii) and (iii) above, for any such conflicts, breaches, defaults, impairments, alterations, rights of termination, amendments, acceleration or cancellation, Liens or violations that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on Company and its Subsidiaries, taken as a whole.

(c) Necessary Consents. No consent, approval, order or authorization of, or registration, declaration or filing with any supranational, national, state, municipal, local or foreign government, any instrumentality, subdivision, court, administrative agency or commission or other governmental entity or instrumentality, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental function (a **"Governmental Entity"**) is required to be obtained or made by the Company in connection with the execution and delivery of this Agreement or the consummation of the Acquisition and other transactions contemplated hereby, except for (i) the filing of the Scheme Documents with the Court, (ii) the Scheme Court Order and the lodgment of the Scheme Court Order (and such other information as may be required) with the Accounting and Corporate Regulatory Authority of Singapore in accordance with Section 210 of the Companies Act (Chapter 50 of Singapore), (iii) the filing of the Scheme Documents with the SEC in accordance with the Securities Exchange Act of 1934 as amended (the **"Exchange Act"**) (iv) the filing of such reports, schedules or materials under Section 13 or Rule 14a-12 under the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby and thereby, (v) such consents, clearances, approvals, orders, authorizations, registrations, declarations and filings as may be required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the **"HSR Act"**), Sherman Antitrust Act of 1890, as amended, the Clayton Act of 1914, as amended, the Federal Trade Commission Act, as amended, and all other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or significant impediments or lessening of competition or the creation or strengthening of a dominant position through merger or acquisition (collectively, **"Antitrust Laws"**) of the jurisdictions set forth in Schedule 6.1(f), and (vi) such other consents, clearances, approvals, orders, authorizations, registrations, declarations and filings with respect to any Governmental Entity the failure of which to obtain would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Company and its Subsidiaries, taken as a whole. The consents, approvals, orders, authorizations, registrations, declarations and filings set forth in (i) through (vi) are referred to herein as the **"Company Necessary Consents"** and together with Acquiror Necessary Consents are referred to as the **"Necessary Consents."**

Section 2.4 SEC Filings; Financial Statements.

(a) SEC Filings. Company has filed all required registration statements, prospectuses, reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated by reference) required to be filed by it with the SEC since November 1, 2008. Company has made available to Acquiror all such registration statements, prospectuses, reports, schedules, forms, statements and other documents in the form filed with the SEC that are not publicly available through the SEC's EDGAR database. All such required registration statements, prospectuses, reports, schedules, forms, statements and other documents are referred to herein as the **"Company SEC Reports."** As of their respective dates, the Company SEC Reports complied as to form in all material respects with the requirements of the Securities Act of 1933, as amended (the **"Securities Act"**, or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Company SEC Reports. All Company SEC Reports (x) were or will be filed on a timely basis, (y) at the time filed, were or will be prepared in compliance in all material respects with the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such Company SEC Reports, and (z) did not or will not at the time they were filed or are filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the Company's Subsidiaries is subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act. The Company has heretofore made available to Acquiror correct and complete copies of all material correspondence with the SEC occurring since November 1, 2008 that is not publicly available through the SEC's EDGAR database. As of the date hereof, there are no unresolved comments issued by the staff of the SEC with respect to any of the Company SEC Reports.

(b) Financial Statements. Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Company SEC Reports (as amended), including any Company SEC Reports filed after the date hereof until the Closing (the **"Company Financials"**), as of their respective dates: (i) complied or when filed will comply as to form in all material respects with the published rules and regulations of the SEC with respect thereto as in effect as of the time of filing, (ii) was or will be prepared in accordance with United States generally accepted accounting principles (**"GAAP"**) applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q, 8-K or any successor forms under the Exchange Act), and (iii) fairly presented or will fairly present, in all material respects, the consolidated financial position of the Company and its consolidated Subsidiaries as at the respective dates thereof and the consolidated results of the Company's operations and cash flows for the periods indicated (subject, in the case of unaudited statements, to normal year-end audit adjustments, as permitted by GAAP and the applicable rules and regulations promulgated by the SEC which were not, or are not expected to be, material in amount or effect). The balance sheet of the Company as of January 31, 2011, contained in the Company SEC Reports is hereinafter referred to as the **"Company Balance Sheet."** Neither Company nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any "off-balance sheet arrangements" (as defined in Item 303(a) of Regulation S K promulgated by the SEC).

(c) No Undisclosed Liabilities. There are no liabilities of the Company or its Subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined or otherwise, other than:

(i) liabilities disclosed or provided for in the Company Balance Sheet or in the notes thereto;

(ii) liabilities incurred in the ordinary course of business since the date of the Company Balance Sheet;

(iii) liabilities arising, or expressly permitted to be incurred, under this Agreement;

(iv) liabilities which, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on Company and its Subsidiaries, taken as a whole; and

(v) liabilities that have been disclosed in Section 2.4(c) of the Company Disclosure Schedule.

(d) Internal Controls and Procedures. The Company has established and maintains disclosure controls and procedures and internal control over financial reporting, as such terms are defined in, and as required by, Rules 13a-15 and 15d-15 under the Exchange Act. The Company's disclosure controls and procedures are designed to ensure that all material information required to be disclosed by the Company in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the **"Sarbanes-Oxley Act"**). The principal executive officer and principal financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act and any related rules and regulations promulgated by the SEC. The Company and each of its Subsidiaries has established and maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements (including the Company Financials) for external purposes in accordance with GAAP, including policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company and its Subsidiaries, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company and its Subsidiaries are being made only in accordance with authorizations of management and the Board of Directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements of the Company and its Subsidiaries. To the Knowledge of the Company, since the date of the Company's most recent periodic report filed with the SEC, neither the Company nor any of its Subsidiaries (including any Company Employee), nor the Company's independent auditors, has identified or been made aware of (A) any significant deficiency or material weakness in the design or operation of internal control over financial reporting utilized by the Company and its Subsidiaries, (B) any fraud, whether or not material, that involves the Company's management or other Company Employees, or (C) any claim or allegation regarding any of the foregoing. In connection with the periods covered by the Company Financials filed prior to the date of this Agreement, the Company has disclosed to Acquiror (I) all deficiencies and weaknesses identified in writing by the Company or the Company's independent auditors (whether current or former) in the design or operation of internal controls over financial reporting utilized by the Company and its Subsidiaries and (II) any fraud, whether or not material, that involves the Company's management or other Company Employees, or any claim or allegation regarding the foregoing.

(e) Sarbanes-Oxley Act; Nasdaq. The Company is in compliance in all material respects with (i) the applicable provisions of the Sarbanes-Oxley Act and (ii) the applicable listing and corporate governance rules and regulations of The Nasdaq Global Select Market (**"Nasdaq"**).

(f) Independent Auditors. PricewaterhouseCoopers LLP, the Company's current auditors, are and have been at all times since their engagement by the Company (i) "independent" with respect to the Company within the meaning of Regulation S-X and (ii) in compliance with subsections (g) through (l) of Section 10A of the Exchange Act (to the extent applicable) and the related rules of the SEC and the Public Company Accounting Oversight Board.

Section 2.5 Absence of Certain Changes or Events. Since the date of the Company Balance Sheet through the date hereof, the Company and its Subsidiaries have conducted their respective businesses in the ordinary course of business consistent with past practice and, since such date, there has not (i) occurred any Effect that has had or would be reasonably expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole; or (ii) been any other action taken by the Company or event that would have required the consent of Acquiror pursuant to Section 4.1 of this Agreement had such action or event occurred after the date of this Agreement.

Section 2.6 Taxes.

(a) Definitions. For the purposes of this Agreement:

(i) **"Tax"** or, collectively, **"Taxes"** shall mean any and all federal, state, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities in the nature of taxes, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts.

(ii) **"Tax Returns"** shall mean any and all reports, returns, declarations, or statements relating to Taxes (including any schedule or attachment thereto) filed or required to be filed with any Governmental Entity.

(b) Tax Returns and Audits. The Company and each of its Subsidiaries have properly filed on a timely basis all material Tax Returns that they were required to file, and all such Tax Returns were true, correct and complete in all material respects. Each of the Company and its Subsidiaries has paid on a timely basis all material Taxes that were due and payable. The most recent financial statements contained in the Company SEC Reports reflect an adequate reserve (in accordance with GAAP) for all material Taxes payable by the Company and its Subsidiaries through the date of such financial statements and all unpaid Taxes of the Company and each of its Subsidiaries for all tax periods commencing after the date of such financial statements arose in the ordinary course of business consistent with past practice. No material deficiencies for any Taxes have been asserted or assessed, or to the Knowledge of the Company, proposed, against the Company or any of its Subsidiaries, nor has the Company or any of its Subsidiaries executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any material Tax which waiver or extension remains in effect.

(c) The Company and each of its Subsidiaries have timely paid or withheld with respect to their employees (and paid over any amounts withheld to the appropriate Taxing authority to the extent due) all foreign, federal and state income taxes, Federal Insurance Contribution Act, Federal Unemployment Tax Act and other similar Taxes required to be paid or withheld and material to the Company and its Subsidiaries taken as a whole.

(d) No audit or other examination of any material Tax Return of the Company or any of its Subsidiaries is in progress as of the date hereof, nor has the Company or any of its Subsidiaries been notified in writing as of the date hereof of any request for such an audit or other examination.

(e) The Company has made available (for this purpose in the Company electronic data room or otherwise) to Acquiror copies of all material Tax Returns for the Company and each of its Subsidiaries filed for all periods beginning November 1, 2007 or later.

(f) Neither the Company nor any of its Subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (A) in the two (2) years prior to the date of this Agreement or (B) in a distribution which otherwise (i) constitutes part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) that includes the Acquisition or (ii) failed to qualify as tax-free to any party thereto and in which the Company or its Subsidiaries has, or could reasonably be expected to have, liability for Taxes (whether directly or by agreement).

(g) Neither the Company nor any of its Subsidiaries has engaged in a "reportable transaction," as set forth in Treasury Regulations section 1.6011-4(b), or any transaction that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a tax avoidance transaction and identified by notice, regulation or other form of published guidance as a "listed transaction," as set forth in Treasury Regulations Section 1.6011-4(b)(2).

(h) There is no contract, agreement, plan or arrangement to which the Company or any of its Subsidiaries is a party, including the provisions of this Agreement, covering any employee, consultant or director of the Company or any of its Subsidiaries, which, individually or collectively, would reasonably be expected to give rise to the payment of any amount that would not be deductible pursuant to Sections 404 or 162(m) of the Code.

(i) Neither the Company nor any of its Subsidiaries (A) has any actual or potential liability under Treasury Regulations Section 1.1502-6 (or any comparable or similar provision of federal, state, local or foreign law), as a transferee or successor, pursuant to any contractual obligation, or otherwise for any Taxes of any Person other than the Company or any of its Subsidiaries, or (B) is a party to or bound by any Tax indemnity, Tax sharing, Tax allocation or similar agreement.

(j) Neither the Company nor any of its Subsidiaries has made any payments, is obligated to make any payments, or is a party to any Contract that could obligate it or its successor to make any payments that may be treated as an "excess parachute payment" under Section 280G of the Code, determined without regard to Section 280G(b)(4)(B) of the Code.

Section 2.7 Intellectual Property.

(a) Definitions. For the purposes of this Agreement, the following terms have the following meanings:

(i) **"Company IP"** shall mean any Intellectual Property owned by the Company or any of its Subsidiaries and material to the conduct of the business of the Company and its Subsidiaries, taken as a whole.

(ii) **"Company IP Contract"** shall mean any Contract to which the Company or any of its Subsidiaries is a party with respect to the grant of any license or ownership interest in any Company IP (other than "shrink wrap" and similar widely available commercial end-user licenses).

(iii) **"Company Licensed IP"** shall mean any Intellectual Property licensed by the Company or any of its Subsidiaries from a third party and material to the conduct of the business of the Company and its Subsidiaries, taken as a whole.

(iv) **"Company Products"** shall mean all products or service offerings of the Company that, since November 1, 2008, have been marketed, sold, licensed, offered or distributed by the Company or its Subsidiaries, or that the Company or its Subsidiaries currently intends to market, sell, license, offer or distribute, including any products or service offerings currently under development.

(v) **"Company Registered Intellectual Property"** shall mean all of the Registered Intellectual Property owned by, or filed in the name of, the Company or any of its Subsidiaries and material to the conduct of the business of the Company and its Subsidiaries, taken as a whole.

(vi) **"Company Third Party IP Contract"** shall mean all contracts pursuant to which a third party has licensed any Company Licensed IP to the Company or its Subsidiaries.

(vii) **"Intellectual Property"** shall mean any or all of the following and all rights in, arising out of, or associated therewith: (A) all United States, international and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (B) all rights in inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, know how, technology, technical data and customer data and all documentation necessary to any of the foregoing (**"Know-How"**); (C) all works of authorship, copyrights, copyrights registrations and applications therefor, and all other rights corresponding thereto throughout the world; (D) all mask works, mask work registrations and applications therefor, and any equivalent or similar rights in semiconductor masks, layouts, architectures or topology; (E) domain names, uniform resource locators (**"URLs"**) and other names and locators associated with the Internet (collectively, **"Domain Names"**), (F) all rights in computer software, including all source code, object code, firmware, development tools, files, records and data, and all media on which any of the foregoing is recorded; (G) all rights in industrial designs and any registrations and applications therefor throughout the world; (H) all rights in trade names, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor throughout the world; (I) all rights in databases and data collections and all rights therein throughout the world; (J) all moral and economic rights of authors and inventors, however denominated, throughout the world; and (K) any similar or equivalent rights to any of the foregoing anywhere in the world.

(viii) **"Registered Intellectual Property"** shall mean all United States, international and foreign: (A) patents and patent applications (including provisional applications); (B) registered trademarks and applications to register trademarks; (C) registered copyrights and applications for copyright registration; (D) Domain Names; and (E) any other material Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded by any state, government or other public legal authority.

(b) Company Intellectual Property.

(i) Registered Intellectual Property; Proceedings. Section 2.7(b)(i) of the Company Disclosure Schedule contains a complete and accurate list of (i) all Company Registered Intellectual Property and specifies, where applicable, the jurisdictions in which each such item of Company Registered Intellectual Property has been issued or registered, the filing and/or issue dates, and the corresponding application and registration numbers and similar identifiers, and (ii) all proceedings or actions before any court or tribunal (including the United States Patent and Trademark Office (the **"PTO"**)) or equivalent authority anywhere else in the world, but excluding prosecution of any intellectual property applications) related to any Company Registered Intellectual Property.

(ii) Registration. To the Knowledge of the Company, each item of Company Registered Intellectual Property that is not an application is valid and subsisting.

(iii) Intellectual Property Contracts. Neither the Company nor any of its Subsidiaries is in material breach of any Company IP Contracts or any Company Third Party IP Contracts and, to the Company's Knowledge, no other party has materially failed to perform under any of the Company IP Contracts or Company Third Party IP Contracts. Section 2.7(b)(iii) of the Company Disclosure Schedule contains a complete and accurate list of all material Company Third Party IP Contracts and all material Company IP Contracts.

(c) Ownership.

(i) No Company IP or Company Product is as of the date hereof subject to any legal proceeding or outstanding legal decree, order, judgment or stipulation restricting in any material manner, the use, transfer, or licensing thereof by the Company or any of its Subsidiaries.

(ii) The Company or its Subsidiaries owns each item of Company IP free and clear of any security interest, pledge or mortgage, the Company or its Subsidiaries are the exclusive owners of the material Company IP.

(iii) Except where a failure to obtain such assignment would not reasonably be expected to be material, to the extent that any Intellectual Property has been developed or created independently or jointly by any Person (including employees and contractors) for which the Company or any of its Subsidiaries has, directly or indirectly, provided consideration for such development or creation, the Company or such Subsidiary, as the case may be, has a written agreement with such Person with respect thereto, and the Company or such Subsidiary, as the case may be, thereby has obtained ownership of such Intellectual Property by operation of law or by valid assignment, and has required the waiver of all non-assignable rights, including all author or moral rights.

(d) Non-Infringement. To the Knowledge of the Company, the operation of the business of the Company and its Subsidiaries, including the design, development, manufacture, use, import, sale and licensing of Company Products, has not and does not infringe or misappropriate any Intellectual Property of any third party or constitute unfair competition or trade practices under the laws of any jurisdiction and there are no claims pending or, to the Knowledge of the Company, threatened against the Company claiming that the Company Products infringe or misappropriate the Intellectual Property of any third party.

(e) Intellectual Property Contracts.

(i) Neither this Agreement nor the consummation of the transactions contemplated by this Agreement will automatically result in the breach, modification, cancellation, termination or suspension of any material Company Third Party IP Contract.

(ii) Neither this Agreement nor the transactions contemplated by this Agreement will because of a Company IP Contract result in (A) any third party being automatically granted rights or access to, or the placement in or release from escrow, of any Company IP or software covered by Company IP, or (B) the Company automatically granting to any third party any right in any Company IP.

(iii) Neither this Agreement nor the transactions contemplated by this Agreement will because of a Company IP Contract result in: (A) Acquiror or any of its Subsidiaries granting to any third party any right to or with respect to any Intellectual Property owned by, or licensed to, any of them, (B) Acquiror or any of its Subsidiaries being bound by, or subject to, any non-compete or other material restriction on the operation or scope of their respective businesses, or (C) Acquiror or any of its Subsidiaries being obligated to pay any royalties or other material amounts, or offer any discounts, to any third party in excess of those payable by, or required to be offered by, any of them, respectively, in the absence of this Agreement or the transactions contemplated hereby.

(iv) The execution, delivery and performance of this Agreement complies with all applicable laws relating to privacy and the Company's and its Subsidiaries' applicable privacy policies.

(v) Neither the Company nor any of its Subsidiaries is a member of or party to any patent pool, industry standards body, trade association or other organization pursuant to the rules of which it is obligated to license any existing or future Intellectual Property to any Person.

(f) Third-Party Infringement. As of the date hereof, there are no legal proceedings or written threats of legal proceedings in which the Company or its Subsidiaries have alleged the misappropriation or infringement of Company IP. To the Knowledge of the Company, no third party is infringing, violating or misappropriating in any material respect any of the Company IP.

(g) Trade Secret Protection. With respect to Company IP, the Company and each of its Subsidiaries have taken commercially reasonable steps to protect the rights of the Company and its Subsidiaries in the Company's and its Subsidiaries' confidential information and trade secrets and any trade secrets or confidential information of third parties provided to the Company or any of its Subsidiaries under an obligation of confidentiality.

Section 2.8 Compliance; Permits.

(a) Compliance. Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, neither the Company nor any of its Subsidiaries is in conflict with, or in default or in violation of, (i) any Legal Requirement applicable to the Company or any of its Subsidiaries or by which the Company or any of its Subsidiaries or any of their respective businesses or properties is bound or affected, or (ii) any Contract or Permit (as defined below) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or its or any of their respective businesses or properties is bound or affected. To the Knowledge of the Company, no material investigation or review by any Governmental Entity is pending or has been threatened against the Company or any of its Subsidiaries. There is no material judgment, injunction, order or decree binding upon the Company or any of its Subsidiaries which has or would reasonably be expected to have the effect of prohibiting or materially impairing (A) any business practices of the Company and its Subsidiaries, taken as a whole, or (B) the conduct of business by the Company and its Subsidiaries as currently conducted.

(b) Permits. The Company and its Subsidiaries hold all permits, licenses, variances, clearances, consents, commissions, franchises, exemptions, orders and approvals from Governmental Entities (**"Permits"**) that are required for the operation of the business of the Company and its Subsidiaries as currently conducted, other than Permits the absence of which would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole (collectively, **"Company Permits"** other than Company Environmental Permits which are covered exclusively under Section 2.14). No suspension or cancellation of any Company Permits is pending or, to the Knowledge of the Company, threatened. The Company and its Subsidiaries are in compliance in all material respects with the terms of the Company Permits.

(c) Certain Business Practices.

(i) From and after November 1, 2008, neither the Company, any Subsidiary of the Company nor any director, officer, or, to the Knowledge of the Company, employee or agent of the Company or any Subsidiary of the Company acting on behalf of the Company or any Subsidiary of the Company has (A) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful payments relating to political activity, (B) directly or indirectly, used or contemplated the use of funds, given, offered, promised, or authorized to give, any money or thing of value (except for payments permitted by 15 U.S.C. Section 78dd-2(b) or (c)) to any foreign or domestic government official or to any foreign or domestic political party or campaign (collectively, **"Government Official"**), for the purpose, with respect to subclauses (A) and (B), of influencing an act or decision of the Government Official, or inducing the Government Official to use his or her influence or position to affect any government act or decision to obtain or retain business of the Company or any Subsidiary of the Company or (C) directly or indirectly, made any unlawful payment.

(ii) From and after November 1, 2008, to the Knowledge of the Company, (A) there have been no false or fictitious entries made in the books or records of the Company or any Subsidiary of the Company relating to any illegal payment or secret or unrecorded fund, and (B) neither the Company nor any Subsidiary of the Company has established or maintained a secret or unrecorded fund.

(iii) Since November 1, 2008, the Company and each Subsidiary of the Company have conducted their export transactions in accordance in all material respects with applicable provisions of U.S. export Legal Requirements, the export Legal Requirements of the countries where it conducts business and the trade embargo and anti-boycott provisions of any applicable Legal Requirements. Without limiting the foregoing: (A) to the Knowledge of the Company, the Company and each Subsidiary of the Company have obtained all material export licenses and other approvals required for their exports of products, software and technologies from the U.S. and other countries where it conducts business; (B) to the Knowledge of the Company, the Company and each Subsidiary of the Company are in compliance in all material respects with the terms of such applicable export licenses or other approvals; and (C) as of the date of this Agreement, there are no pending or, to the Knowledge of the Company, threatened audits, investigations or claims against the Company or any Subsidiary of the Company with respect to such export licenses or other approvals.

Section 2.9 Litigation. There are no claims, suits, actions or proceedings pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries before any court, Governmental Entity, or any arbitrator (a) that seek to restrain or enjoin the consummation of the transactions contemplated hereby or (b) which, either individually or in the aggregate with all such claims, suits, actions or proceedings, have had or would reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

Section 2.10 Brokers' and Finders' Fees. Except for fees payable to Morgan Stanley & Co. Incorporated (**"Morgan Stanley"**) pursuant to an engagement letter dated July 20, 2010, as amended by letter agreement dated December 21, 2010, copies of which have been provided to Acquiror, no agent, broker, investment banker, financial advisor or other firm or Person is entitled to any broker's, finder's, financial advisor's or similar fee or commission in connection with this Agreement or any transaction contemplated hereby based upon arrangements made by or on behalf of the Company.

Section 2.11 Transactions with Affiliates. Except as set forth in the Designated Company SEC Reports, since the date of the Company's last proxy statement filed with the SEC, no event has occurred that would be required to be reported by the Company pursuant to Item 404 of Regulation S-K promulgated by the SEC.

Section 2.12 Employee Benefit Plans and Labor Matters.

(a) Definitions.

(i) **"Company Benefit Plan"** shall mean each "employee benefit plan," within the meaning of Section 3(3) of ERISA, and any other material plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, change of control pay, termination pay, deferred compensation, performance awards, equity or equity-related awards, pension benefits, retirement benefits, welfare benefits, fringe benefits or other employee benefits or remuneration of any kind, whether written or unwritten, funded or unfunded, which is maintained, contributed to, or required to be contributed to, by the Company or any ERISA Affiliate for the benefit of two or more Company Employees, or with respect to which the Company or any ERISA Affiliate has or is likely to have any material liability or obligation.

(ii) **"Company Employee"** shall mean any current or former or retired employee, consultant or director of the Company or any ERISA Affiliate, provided that references to former or retired persons only include those with respect to which the Company has or is reasonably likely to have any post-Effective Time liability or obligation.

(iii) **"ERISA Affiliate"** shall mean each Subsidiary of the Company and any other Person or entity under common control with the Company or any of its Subsidiaries within the meaning of Section 414(b), (c), (m) or (o) of the Code and the regulations issued thereunder.

(iv) **"Company Employee Agreement"** shall mean (A) each management, employment, severance, change of control, separation, retention, stay bonus, consulting, relocation, repatriation, expatriation, visa, work permit or other Contract between the Company or any ERISA Affiliate and any current, former or retired executive officer or director of the Company and (B) each management, employment, severance, change of control, separation, retention, stay bonus, consulting, relocation, repatriation, expatriation, visa, work permit or other Contract between the Company or any ERISA Affiliate and any Company Employee, other than a current, former or retired executive officer or director of the Company, in each case that is material either individually or in the aggregate with all such similar Contracts.

(b) Schedule. Section 2.12(b) of the Company Disclosure Schedule contains an accurate and complete list of each Company Benefit Plan and each Company Employee Agreement (except for (i) contracts that provide for employment that is terminable at will and that are without severance, retention, or change of control pay or benefits, in which case only forms of such contracts shall be scheduled, (ii) employment contracts for employees hired and based in locations outside the U.S., in which case only forms of such contracts shall be scheduled, unless any such contract provides for notice of termination, retention, severance or change of control pay or benefits that are greater than required by applicable Legal Requirements, (iii) individual Company Option, Company Restricted Shares and Company Restricted Share Unit agreements, in which case only forms of such individual agreements shall be scheduled, unless such individual agreements provide acceleration of vesting of awards in a manner not provided for under the applicable form(s) or that otherwise materially differ from such forms, and (iv) consulting contracts that are terminable without material cost or material liability, in which case only forms of such contracts shall be scheduled, unless any such contract provides severance, retention or change of control pay or benefits that are, in each case, greater than required by applicable Legal Requirements). Neither the Company nor any ERISA Affiliate has any plan or commitment to establish, adopt or enter into any new Company Benefit Plan or Company Employee Agreement or to modify any Company Benefit Plan or Company Employee Agreement (except to the extent required by Legal Requirements or to conform any such Company Benefit Plan or Company Employee Agreement to any applicable Legal Requirements, or as required by this Agreement) that would reasonably be expected to result in material liability to Company and its ERISA Affiliates, taken as a whole.

(c) Documents. The Company has provided or made available to Acquiror correct and complete copies of: (i) all documents embodying each Company Benefit Plan and each Company Employee Agreement required to be disclosed pursuant to Section 2.12(b) above including all amendments thereto and all related trust documents, administrative service agreements, group annuity contracts, group insurance contracts, and policies pertaining to fiduciary liability insurance covering the fiduciaries for each such Company Benefit Plan; (ii) the most recent annual actuarial valuations, if any, prepared for each Company Benefit Plan; (iii) the three (3) most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required

under ERISA or the Code in connection with each Company Benefit Plan; (iv) if any Company Benefit Plan is funded, the most recent annual and periodic accounting of Company Benefit Plan assets; (v) the most recent summary plan description together with the summary(ies) of material modifications thereto, if any, required under ERISA with respect to each Company Benefit Plan; (vi) all IRS determination, opinion, notification and advisory letters; (vii) all material communications from the Company or its ERISA Affiliates to any Company Employee or Company Employees relating to any Company Benefit Plan and any proposed Company Benefit Plans, in each case relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any liability material to the Company and its Subsidiaries, taken as a whole; (viii) all material correspondence to or from any governmental agency relating to any Company Benefit Plan; and (ix) the three (3) most recent plan years' discrimination tests for each Company Benefit Plan for which such tests are required.

(d) Benefit Plan Compliance.

(i) With respect to each Company Benefit Plan and Company Employee Agreement, no event has occurred and, to the Knowledge of the Company, there exists no condition or set of circumstances, in connection with which the Company or any of its ERISA Affiliates would be subject to any liability material to the Company and its Subsidiaries, taken as a whole, under ERISA, the Code or any other applicable Legal Requirement.

(ii) Each Company Benefit Plan and Company Employee Agreement has been, in all material respects, administered and operated in accordance with its terms, with the applicable provisions of ERISA, the Code and all other applicable Legal Requirements and the terms of any applicable collective bargaining agreements. Each Company Benefit Plan, including any material amendments thereto, that is capable of approval by, and/or registration for and/or qualification for special tax status with, the appropriate taxation, social security and/or supervisory authorities in the relevant country, state, territory or the like (each, an **"Approval"**) has received such Approval or there remains a period of time in which to obtain such Approval retroactive to the date of any material amendment that has not previously received such Approval, except for the lack of such Approvals which, individually or in the aggregate, has not resulted in and would not reasonably be expected to result in material liability to the Company and its Controlled Group Affiliates, taken as a whole. Except as required by Legal Requirements, no condition exists that would prevent the Company or Acquiror from terminating or amending any Company Benefit Plan or Company Employee Agreement at any time for any reason without material liability to the Company and its ERISA Affiliates, taken as a whole (other than ordinary administration expenses or routine claims for benefits).

(iii) No material written representation or commitment with respect to any material aspect of any Company Benefit Plan or Company Employee Agreement has been made to a Company Employee by an authorized Company Employee that is not materially in accordance with the written or otherwise preexisting terms and provisions of such Company Benefit Plans if such representation or commitment would reasonably be expected to result in material liability to the Company and its ERISA Affiliates, taken as a whole. Neither the Company nor any of its Subsidiaries has entered into any agreement, arrangement or understanding, whether written or oral, with any trade union, works council or other Company Employee representative body or any material number or category of its Company Employees which would prevent, restrict or materially impede the implementation of any lay-off, redundancy, severance or similar program within its or their respective workforces (or any part of them).

(iv) There are no unresolved claims or disputes under the terms of, or in connection with, any Company Benefit Plan or Company Employee Agreement (other than routine claims for benefits), and no action, legal or otherwise, has been commenced or, to the Knowledge of the Company, is threatened or reasonably anticipated (other than routine claims for benefits), with respect to any claim, which would reasonably be expected to result in material liability to the Company and its Controlled Group Affiliates, taken as a whole.

(e) Plan Funding. With respect to Company Benefit Plans, there are no material benefit obligations for which required contributions have not been made or accrued to the extent required by GAAP or applicable Legal Requirements and there are no material benefit obligations which have not been accounted for by reserves, or otherwise properly footnoted in accordance with the requirements of GAAP, on the financial statements of the Company. The assets of each Company Benefit Plan which is funded are reported at their fair market value on the books and records of such Company Benefit Plan.

(f) No Pension or Funded Welfare Plans. Neither the Company nor any ERISA Affiliate of the Company has ever maintained, established, sponsored, participated in or contributed to any (i) Company Benefit Plan which is or was subject to Title IV of ERISA or Section 412 of the Code, (ii) "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA), (iii) "multiple employer plan" as defined in ERISA or the Code, (iv) "funded welfare plan" within the meaning of Section 419 of the Code or (v) a multiple employer welfare arrangement, as defined under Section 3(40)(A) of ERISA (without regard to Section 514(b)(6)(B) of ERISA), established or maintained for the purpose of offering or providing welfare plan benefits to the employees of two or more employers (including one or more self-employed individuals), or to their beneficiaries. No Company Benefit Plan is funded by, associated with or related to a "voluntary employees' beneficiary association" within the meaning of Section 501(c)(9) of the Code. No Company Benefit Plan provides health benefits that are not fully insured through an insurance contract. No capital stock of the Company is used as a funding vehicle or otherwise permitted as an investment option (other than via any personal brokerage account) with respect to any Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code.

(g) Continuation Coverage. No Company Benefit Plan provides post-termination or retiree welfare benefits (whether or not insured) with respect to any Person for any reason other than coverage mandated by applicable Legal Requirements, and neither the Company nor any ERISA Affiliate has ever contracted to any Company Employee (either individually or to Company Employees as a group) or any other Person that such Company Employee(s) or other Person would be provided with post-termination or retiree welfare benefits, except to the extent required by applicable Legal Requirements or, individually or in the aggregate, as has not resulted or would not reasonably be expected to result in material liability to the Company and its ERISA Affiliates, taken as a whole.

(h) Effect of Acquisition. The execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Benefit Plan or Company Employee Agreement that will or may result in any material payment (whether of severance pay or otherwise), acceleration of any material payment, forgiveness of material indebtedness, vesting (except as required under Section 411(d)(3) of the Code), distribution, material increase in benefits or obligation to fund benefits with respect to any Company Employee. No payment or benefit which will or may be made in connection with the transactions contemplated by this Agreement (either alone or upon the occurrence of any additional or subsequent events) by the Company or any ERISA Affiliate with respect to any Company Employee or any other "disqualified individual" (as defined in Code Section 280G and the regulations thereunder) will be characterized as a "parachute payment," within the meaning of Section 280G(b)(2) of the Code. There is no contract, agreement, plan or arrangement to which the Company or any ERISA Affiliate is a party or by which it or its successor is bound to compensate any Company Employee for excise taxes paid pursuant to Section 4999 of the Code. Section 2.12(h) of the Company Disclosure Schedule lists all persons who the Company reasonably believes are "disqualified individuals" (within the meaning of Section 280G of the Code and the regulations promulgated thereunder) as determined as of the date hereof.

(i) Section 409A. Each "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) sponsored or maintained by the Company and each ERISA Affiliate has been operated since January 1, 2005 in applicable operational compliance with Section 409A of the Code and applicable IRS guidance (together, **"Section 409A"**). Since January 1, 2009, each such nonqualified deferred compensation plan has been in documentary and operational compliance with Section 409A, including the final Treasury Regulations issued thereunder. No nonqualified deferred compensation plan that was originally exempt from application of Section 409A has been "materially modified" (within the meaning of IRS Notice 2005-1) at any time after October 3, 2004. Except as set forth on Section 2.12(i)(1) of the Company Disclosure Schedule, no compensation shall be includable in the gross income of any Company Employee as a result of the operation of Section 409A of the Code with respect to any arrangements or agreements in effect on or prior to the Effective Time. Except as set forth on Section 2.12(i)(2) of the Company Disclosure Schedule, to the extent required, the Company and each of its Subsidiaries has, in all material respects, properly reported and/or withheld and remitted on amounts deferred under any Company nonqualified deferred compensation plan subject to Section 409A of the Code. Except as set forth on Section 2.12(i)(3) of the Company Disclosure Schedule, there is no contract, agreement, plan or arrangement to which the Company or any of its ERISA Affiliates is a party, including the provisions of this Agreement, covering any Company Employee, which individually or collectively is reasonably likely to require the Company or any of its ERISA Affiliates to pay a Tax gross up payment to, or otherwise indemnify or reimburse, any Company Employee for Tax-related payments under Section 409A, give rise to a Company, Acquiror, or Subsidiary Tax or other penalty or reporting obligations under Section 409A of the Code. No Company Option or other Company stock right (as defined in U.S. Treasury Department regulation 1.409A-1(l)) or other equity of the Company (y) has any feature for the deferral of compensation other than the deferral of recognition of income until the later of exercise or disposition of such option or rights, or (z) has been granted after December 31, 2004, with respect to any class of stock of the Company that is not "service recipient stock" (within the meaning of applicable regulations under Section 409A).

(j) Stock Option Grant Practices. The Company's past and current stock option grant practices (i) complied and comply with all applicable Company Share Plans, stock exchange rules and applicable Legal Requirements, (ii) have been fairly presented in accordance with GAAP in the Company Financials, and (iii) have resulted only in exercise prices that are no less than the fair market value on the date that the grants were actually authorized under applicable Legal Requirements, in each case except for any such failures, individually or in the aggregate, that have not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. As of the date of this Agreement, the Company has no ongoing internal review of any past or current stock option practice, and the Company is not aware of the existence of any reports on any such reviews completed since November 1, 2008.

(k) Labor. Neither the Company nor any of its Subsidiaries is presently a party to, or bound by, any collective bargaining agreement, trade union agreement, works council, employee representative agreement, union contract, or information or consultation agreement, other than national or industry-wide agreements, with respect to employees and no collective bargaining agreement is being negotiated by the Company or any of its Subsidiaries. To the Knowledge of the Company, there are no activities or proceedings of any labor union to organize any employees of the Company or any of its Subsidiaries. There is no labor dispute, strike or work stoppage against the Company or any of its Subsidiaries pending or, to the Knowledge of the Company, threatened or reasonably anticipated which would reasonably be expected to materially interfere with the business activities of the Company and its Subsidiaries, taken as a whole. The Company is not required to obtain any opinion or consent from any works council or other employee representative in connection with the execution of this Agreement or any transaction contemplated hereby. None of the

Company, any of its Subsidiaries or any of their respective representatives or employees has committed any unfair labor practice in connection with the operation of the respective businesses of the Company or any of its Subsidiaries, except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. There are no actions, suits, claims, labor disputes or grievances pending, or, to the Knowledge of the Company, threatened or reasonably anticipated relating to any labor, safety or discrimination matters involving any employee, including charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of its Subsidiaries have incurred any liability or obligation under the Worker Adjustment and Retraining Notification Act or any similar state or local law which remains unsatisfied that is material to the Company and its Subsidiaries, taken as a whole.

(l) Employment Matters. The Company is in compliance with all applicable foreign, federal, state and local laws, rules and regulations respecting employment (including but not limited to the classification of any Person as an employee or independent contractor), employment practices, terms and conditions of employment and wages and hours, in each case, with respect to employees, except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

(m) International Employee Matters.

(i) With respect to each Company Benefit Plan that is maintained outside the jurisdiction of the United States or primarily covers Company Employees residing or working outside the United States (a **"Company International Plan"**), (A) the Company International Plan has been established, maintained and administered in all material respects in compliance with its terms and all applicable Legal Requirements, (B) all contributions and expenses that are required to be made have been made or properly accrued, (C) with respect to any such Company International Plan that is intended to be eligible to receive favorable tax treatment under the Legal Requirements applying to such Company International Plan, all requirements necessary to obtain such favorable tax treatment have been satisfied, and (D) the Company International Plan has no unfunded liabilities that, as of the Effective Time, will not be offset by insurance or otherwise be fully accounted for on a basis which complies with International Accounting Standard 19 (IAS 19) (whether or not IAS 19 applies to the Company or, if relevant, any of its Subsidiaries). No promise has been made to any Company Employee residing or working outside the United States that his or her defined contribution benefits under any funded Company International Plan will at any point in the future equate to or not be less than any particular amount.

(ii) There is no term of employment for any Company Employee residing or working outside the United States providing that the consummation of the transactions contemplated by this Agreement shall entitle such Company Employee (A) to treat the change of control as a breach of any contract, (B) to any payment, benefit or change of terms of employment (whether or not conditioned upon the occurrence of any other event) or (C) to treat himself or herself as redundant or released from any obligation to his or her employer.

Section 2.13 Title to Properties.

(a) Leases. Section 2.13(a) of the Company Disclosure Schedule sets forth a list of all real property leases or other agreements for the occupancy of real property to which the Company or any of its Subsidiaries is a party or by which any of them is bound as of the date hereof and all amendments, guaranties and modifications thereof (each, a **"Company Lease"**). Except as set forth in the Company Leases, no party has a right to occupy any of the premises subject to a Company Lease (**"Company Leased Property"**) except for the Company or its Subsidiaries. The Company has made available to Acquiror a true and complete copy of leases for all material Company Leased Property. All such Company Leases are valid and in full force and effect against the Company or any Subsidiary of the Company party thereto and, to the Knowledge of the Company, each other party thereto, except that such enforceability (i) may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting or relating to creditors' rights generally and (ii) is subject to general principles of equity, and, with respect to the Company or any of its Subsidiaries, under any of such leases, no rental payments are past due and there is no existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default), except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

(b) Properties. Section 2.13(b) of the Company Disclosure Schedule sets forth a list of all real property owned by the Company or any of its Subsidiaries (the **"Company Owned Property"** and collectively with Company Leased Property, the **"Company Real Property"**). With respect to Company Owned Property, the Company has made available to Acquiror copies of the deeds and other instruments (as recorded) by which the Company or any of its Subsidiaries acquired such parcel of property, and copies of all title insurance policies, opinions, abstracts and surveys in the possession of the Company or any of its Subsidiaries relating thereto. There are no pending or, to the Knowledge of the Company, threatened condemnation or eminent domain actions or proceedings, or any special assessments or other activities of any public or quasi-public body that are reasonably likely to materially

adversely affect the Company's title to Company Real Property. To the Knowledge of the Company, there are no facts or conditions which would, in the aggregate, reasonably be expected to have a material and adverse effect on the transferability, financability, ownership, leasing, use, development, occupancy or operation of any Company Real Property. Neither the Company nor any Subsidiary has received any written notice from any insurance company of any defects or inadequacies in any Company Real Property or any part thereof which would reasonably be expected to materially and adversely affect the insurability of such property or the premiums for the insurance thereof, nor has any written notice been given by any insurer of any such property requesting the performance of any repairs, alterations or other work with which compliance has not been made. There are no leases, subleases, licenses or agreements, written or oral, granting to any party or parties (other than the Company or any of its Subsidiaries) the right of use or occupancy of any portion of the Company Real Property. There are no outstanding options or rights of first refusal to purchase the Company Real Property or any portion thereof or interest therein.

(c) Valid Title. The Company and each of its Subsidiaries has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in its business that are material to the Company and its Subsidiaries, taken as a whole, free and clear of any Liens, except for (i) Liens imposed by law in respect of obligations not yet due which are owed in respect of Taxes, (ii) Liens which are not material in character, amount or extent, and which do not materially detract from the value, or materially interfere with the present use, of the property subject thereto or affected thereby, (iii) statutory or common law landlord Liens or (iv) Liens upon the underlying fee interest of the Company Leased Property.

Section 2.14 Environmental Matters.

(a) For purposes of this Agreement, the following terms have the meanings provided below.

(i) **"Release"** means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the Environment (including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Materials).

(ii) **"Environment"** means any surface water, ground water, drinking water supply, land surface or subsurface strata, or indoor or outdoor air.

(iii) **"Environmental Law"** means any Legal Requirement or Permit relating to the Environment, occupational health and safety, or exposure of persons or property to Hazardous Materials, including any statute, regulation, administrative decision or order pertaining to: (A) the presence of or the treatment, storage, disposal, generation, transportation, handling, distribution, manufacture, processing, use, import, export, labeling, recycling, registration, investigation or remediation of Hazardous Materials or documentation related to the foregoing; (B) air, water and noise pollution; (C) groundwater and soil contamination; (D) the Release, threatened Release, or accidental Release into the Environment, the workplace or other areas of Hazardous Materials, including emissions, discharges, injections, spills, escapes or dumping of Hazardous Materials; (E) transfer of interests in, or control of, real property which may be contaminated; (F) right-to-know disclosures with respect to Hazardous Materials; (G) the protection of wild life, marine life and wetlands, and endangered and threatened species; (H) storage tanks, vessels, containers, abandoned or discarded barrels and other closed receptacles; and (I) health and safety of employees and other persons.

(b) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, no amount of any substance, emission, or waste that has been designated by any Governmental Entity or by any applicable Environmental Law as radioactive, toxic, hazardous, biohazardous, or a danger to health, reproduction or the environment, or a pollutant or contaminant, including PCBs, friable asbestos, petroleum, urea-formaldehyde, oil, petroleum and petroleum products (including fractions thereof), including substances listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or defined as a solid or hazardous waste pursuant to the Resource Conservation and Recovery Act of 1976, as amended, or pursuant to analogous state Legal Requirements or regulations, but excluding office and janitorial supplies properly and safely maintained (a **"Hazardous Material"**) is present as a result of the actions of the Company or any of its Subsidiaries, or, to the Knowledge of the Company, as a result of any actions of any third party or otherwise, in, on or under any real property, including the land and the improvements, ground water and surface water thereof, that the Company or any of its Subsidiaries currently owns, operates, occupies or leases. Neither the Company nor any Subsidiary has any liabilities or obligations arising from the Release of any Hazardous Materials into the Environment, except for such liabilities or obligations, individually or in the aggregate, as have not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

(c) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, the Company and its Subsidiaries are in compliance with and have at all times during the past five (5) years complied with applicable Environmental Laws.

(d) The Company and its Subsidiaries hold all Permits issued under or pursuant to Environmental Laws that are required for the operation of the business of the Company and its Subsidiaries as currently conducted, except for such Permits the absence of which, individually or in the aggregate, has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole (**"Company Environmental Permits"**). No suspension or cancellation of any of the Company Environmental Permits is pending or, to the Knowledge of the Company, threatened. The Company and its Subsidiaries are in compliance in all material respects with the terms of the Company Environmental Permits.

(e) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, no civil or criminal litigation, action, order, written notice of violation or claim or, to the Knowledge of the Company, investigation, inquiry, information request or proceeding is pending or, to the Company's Knowledge, threatened against the Company or any of its Subsidiaries arising out of Environmental Laws.

(f) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, neither the Company nor any of its Subsidiaries has entered into any agreement that may require it to guarantee, reimburse, pledge, defend, hold harmless or indemnify any other party with respect to liabilities arising out of any Environmental Laws.

(g) The Company and its Subsidiaries are in compliance in all material respects with the European Directive 2002/96/EC on waste electrical and electronic equipment and European Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment, and their respective implementing Legal Requirements.

(h) The Company and its Subsidiaries have made available to Acquiror all material environmental site assessments and audit reports prepared within the last five (5) years and in their possession, custody or control relating to premises currently or previously owned or operated by the Company or any Subsidiary.

(i) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, neither the Company nor any of its Subsidiaries have any liability or obligation arising under any Environmental Law, whether arising under theories of contract, tort, negligence, successor or enterprise liability, strict liability, or other legal or equitable theory, including (i) any failure to comply with applicable Environmental Laws and (ii) any liabilities or obligations arising from the presence of, Release or threatened Release of, or exposure of persons or property to, Hazardous Materials (collectively, **"Environmental Matters"**).

(j) Except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, no underground storage tanks are present in, on or under any real property, including the land and the improvements thereof, that the Company or any Subsidiary has at any time owned, operated, occupied or leased.

Section 2.15 Contracts.

(a) Material Contracts. For purposes of this Agreement, **"Company Material Contract"** shall mean:

(i) any "material contracts" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) with respect to the Company or its Subsidiaries;

(ii) any severance or consulting Contract or any written employment agreement providing for a guaranteed minimum term of employment (excluding, for this purpose, any offer letters entered into in the ordinary course of business consistent with past practice with employees who are terminable "at will"), in each case, under which the Company or any of its Subsidiaries may have continuing obligations as of the date hereof, with (A) any current or former executive officer or other employee of the Company who earned or is expected to earn an annual base salary in excess of $300,000 during the fiscal year ended October 31, 2010 or the fiscal year ending October 31, 2011 or (B) any member of the Company's Board of Directors;

(iii) any Contract or plan, including any share plan, stock appreciation right plan or share purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement (either alone or upon the occurrence of any additional or subsequent events) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(iv) any collective bargaining agreement, trade union agreement, work council agreement, employee representative agreement or union contract;

(v) any agreement of indemnification or any guaranty under which the Company or any of its Subsidiaries has continuing obligations as of the date hereof, other than any agreement of indemnification entered into in connection with the sale or license of Company Products in the ordinary course of business or any indemnification obligations contained in any Company Lease;

(vi) any Contract containing any covenant (A) limiting the right of the Company or any of its Subsidiaries to engage in any material line of business, to make use of any material Intellectual Property or to compete with any Person in any material line of business or geographic area, (B) granting exclusive rights, or (C) otherwise prohibiting the Company or its Subsidiaries from selling, distributing or manufacturing any material products or services or purchasing or otherwise obtaining any material software, components, parts or subassemblies in any material respect;

(vii) any Contract relating to the disposition or acquisition by the Company or any of its Subsidiaries after the date of this Agreement of a material amount of assets not in the ordinary course of business;

(viii) any Contract governing the terms of any material ownership or investments of the Company or any of its Subsidiaries in any other Person or business enterprise other than the Company's Subsidiaries (other than short-term, liquid investments), or any Contract pursuant to which the Company or its Subsidiaries has any material obligation or commitment (whether conditional or otherwise) to make any investment or acquire any ownership interest in any other Person or business enterprise other than the Company's Subsidiaries;

(ix) any material dealer, distributor, joint marketing or development agreement under which the Company or any of its Subsidiaries have continuing material obligations to jointly market any product, technology or service and which may not be canceled without penalty upon notice of ninety (90) days or less, or any agreement pursuant to which the Company or any of its Subsidiaries have continuing obligations to jointly develop any material Intellectual Property that will not be wholly owned by the Company or any of its Subsidiaries and which may not be terminated without penalty upon notice of ninety (90) days or less;

(x) any material Contract to license any third party to manufacture or reproduce any Company Products or any Contract to sell or distribute any of such Company Products, except agreements with distributors or sales representatives in the ordinary course of business consistent with past practice and terminable without penalty upon notice of ninety (90) days or less and substantially in the form previously provided to Acquiror;

(xi) any Contract containing any support, maintenance or service obligation on the part of the Company or any of its Subsidiaries, which represents a value or liability in excess of $1,000,000 on an annual basis, other than (A) those obligations that are terminable by the Company or any of its Subsidiaries on no more than sixty (60) days notice without liability or financial obligation to the Company or its Subsidiaries or (B) purchase orders with end-user customers entered into in the ordinary course of business consistent with past practice or (C) customary repair and maintenance obligations contained in any Company Lease;

(xii) any Contract for capital expenditures or the acquisition or construction of fixed assets which requires aggregate future payments in excess of $1,500,000;

(xiii) any dispute settlement agreement with continuing material obligations thereunder entered into within five (5) years prior to the date of this Agreement;

(xiv) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other Contracts relating to the borrowing of money or extension of credit, other than (A) accounts receivables and payables and (B) loans to direct or indirect wholly-owned Subsidiaries, in each case in the ordinary course of business; or

(xv) any Contract the termination or breach of which, or the failure to obtain consent in respect of which, would reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

(b) Schedule. Section 2.15(b) of the Company Disclosure Schedule sets forth a list of all Company Material Contracts to which the Company or any of its Subsidiaries is a party or is bound by as of the date hereof and which are described in Sections 2.15(a)(i) through 2.15(a)(xv) hereof other than those listed as an exhibit to the Company's most recent Annual Report on Form 10-K and other than the Company Benefit Plans and Company Employment Agreements disclosed in Section 2.12(b) of the Company Disclosure Schedule.

(c) No Breach. Each Company Material Contract is in full force and effect except to the extent it has expired since the date hereof in accordance with its terms, and except as enforceability (i) may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting or relating to creditors' rights generally and (ii) is subject to general principles of equity. Neither the Company nor any of its Subsidiaries is in violation of any provision of, or has failed to perform any act which, with or without notice, lapse of time or both would constitute a default under the provisions of, any

Company Material Contract, and neither the Company nor any of its Subsidiaries has received written notice that it has breached, violated or defaulted under, any of the terms or conditions of any Company Material Contract, in each case in such a manner as would permit any other party to cancel or terminate any such Company Material Contract, or would permit any other party to seek damages or other remedies, for any or all of such breaches, violations or defaults, except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. To the Knowledge of the Company, no third party has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time or both would constitute a material default under the provisions of, any Company Material Contract.

Section 2.16 Insurance. The Company maintains insurance policies covering the Company, its Subsidiaries and their respective employees, properties or assets, including policies of property, fire, workers' compensation, products liability, directors' and officers' liability and other casualty and liability insurance, against such losses and risks and in such amounts as are customary for the businesses in which the Company and its Subsidiaries are currently engaged. As of the date hereof, such policies are in full force and effect, no notice of cancellation has been received, and there is no existing default or event which, with the giving of notice or lapse of time or both, would constitute a default, by any insured thereunder, except, individually or in the aggregate, as has not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole.

Section 2.17 Board Approval. The Board of Directors of the Company has, by resolutions duly adopted by unanimous vote at a meeting of all directors duly called and held and not subsequently rescinded or modified in any way prior to the date hereof (the **"Company Board Approval"**), (a) determined that this Agreement, the Acquisition and the other transactions contemplated hereby are fair to, and in the best interests of, the Company and its shareholders and declared this Agreement, the Acquisition and the other transactions contemplated hereby to be advisable, (b) approved this Agreement, the Acquisition and the other transactions contemplated hereby, including the Scheme of Arrangement and the Offer, (c) recommended that the shareholders of the Company approve this Agreement, the Acquisition and the other transactions contemplated hereby, including the Scheme of Arrangement, and (d) subject to Section 5.3 and Section 5.4, directed that this Agreement, the Acquisition and the transactions contemplated hereby, including the Scheme of Arrangement, be submitted to the Company's shareholders at the Scheme Meeting.

Section 2.18 Opinion of Financial Advisor. The Company's Board of Directors has received a written opinion from Morgan Stanley, dated as of March 19, 2011, to the effect that, as of such date, the Scheme Price is fair, from a financial point of view, to the holders of Company Ordinary Shares other than the Company, Acquiror or their respective subsidiaries (the **"Fairness Opinion"**). A signed copy of such opinion will be provided to Acquiror as promptly as practicable following receipt thereof by the Company.

Section 2.19 Shell Company Status. The Company is not a "shell company," other than a "business combination related shell company," as those terms are defined in Rule 405 promulgated under the Securities Act.

Section 2.20 Rights Plan. Neither the Company nor any of its Subsidiaries has in effect a shareholder rights plan or "poison pill."

Section 2.21 Termination of LTX-Credence Merger Agreement. Prior to the execution of this Agreement: (i) the Agreement and Plan of Merger made and entered into as of November 17, 2010, by and among the Company, Alisier Limited, a corporation organized under the laws of Singapore, Lobster-1 Merger Corporation, a Massachusetts corporation and a wholly-owned subsidiary of the Company, Lobster-2 Merger Corporation, a Massachusetts corporation and a wholly-owned subsidiary of Alisier Limited, and LTX-Credence Corporation, a Massachusetts corporation (the **"LTX-Credence Merger Agreement"**) has been duly and validly terminated in accordance with its terms and (ii) the Company has no further liability or obligation under the LTX-Credence Merger Agreement, including with respect to the payment of any termination fee (as defined in the LTX-Credence Merger Agreement), if any. As of March 16, 2011, the Company has not received notice of any breach of the LTX-Credence Merger Agreement.

Section 2.22 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, and any certificate delivered by Acquiror in connection with Closing, the Company acknowledges and agrees that neither Acquiror or any other Person on behalf of Acquiror makes, nor has the Company relied upon or otherwise been induced by, any other express or implied representation or warranty with respect to Acquiror or with respect to any other information provided to or made available to Acquiror in connection with the transactions contemplated hereunder. Except as provided in Section 5.12, neither Acquiror nor any other Person will have or be subject to any liability or indemnification obligation to the Company or any other Person resulting from the distribution to the Company, or the Company's use of, any such information, including any information, documents, projections, forecasts or other material made available to the Company in certain data rooms or management presentations in expectation of the transactions contemplated in this Agreement, unless any such information is expressly included in a representation or warranty contained in this Agreement or the certificate referred to above.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF ACQUIROR

Acquiror represents and warrants to the Company as of the date hereof as follows:

Section 3.1 Organization; Standing and Power. Acquiror (i) is a corporation duly organized and validly existing under the laws of Japan, (ii) has the requisite corporate or other organizational power and authority to own, lease and operate its properties and to carry on its business as now being conducted and (iii) is duly qualified or licensed to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so organized and existing or so qualified, individually or in the aggregate, has not had and would not reasonably be expected to materially and adversely affect Acquiror's ability to effect the Acquisition.

Section 3.2 Authority; Non-Contravention; Necessary Consents.

(a) Authority. Acquiror has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Acquiror and the consummation by Acquiror of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Acquiror and no other corporate proceedings on the part of Acquiror are necessary to authorize the execution and delivery of this Agreement or to consummate the Acquisition and the other transactions contemplated hereby. This Agreement has been duly executed and delivered by Acquiror and, assuming due execution and delivery by the Company, constitutes a valid and binding obligation of Acquiror, enforceable against Acquiror in accordance with its terms, except that such enforceability (i) may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting or relating to creditors' rights generally and (ii) is subject to general principles of equity.

(b) Non–Contravention. The execution and delivery of this Agreement by Acquiror does not, and performance of this Agreement and consummation of the transactions contemplated by this Agreement by Acquiror will not: (i) conflict with or violate any provision of the Articles of Association of Acquiror, (ii) subject to the approvals contemplated in Section 5.3 and compliance with the requirements set forth in or disclosed pursuant to Section 3.2(c), conflict with or violate any material Legal Requirement applicable to Acquiror or by which Acquiror or any of its properties is bound or affected, or (iii) assuming the consents, approvals and authorizations specified in Section 3.2(c) have been received and the waiting periods referred to therein have expired, and any condition precedent to such consent, approval, authorization, or waiver has been satisfied, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair Acquiror's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any pledges, claims, liens, charges, encumbrances, options and security interests of any kind or nature whatsoever (collectively, **"Liens"**) on any of the properties or assets of Acquiror pursuant to, any agreement, contract, subcontract, settlement agreement, lease, binding understanding, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature, as in effect as of the date hereof or as may hereinafter be in effect (each, a **"Contract"**) (to which Acquiror is a party or by which Acquiror or any of its respective properties is bound or affected), except, in the case of clauses (ii) and (iii) above, for any such conflicts, breaches, defaults, impairments, alterations, rights of termination, amendments, acceleration or cancellation, Liens or violations that, individually or in the aggregate, would not reasonably be expected to materially and adversely affect Acquiror's ability to effect the Acquisition.

(c) Necessary Consents. No consent, approval, order or authorization of, or registration, declaration or filing with any Governmental Entity is required to be obtained or made by Acquiror in connection with the execution and delivery of this Agreement or the consummation of the Acquisition, and other transactions contemplated hereby, except for: (i) the filing of such reports, schedules or materials under Section 13 or Rule 14a-12 under the Exchange Act as may be required in connection with this Agreement and the transactions contemplated hereby and thereby, (ii) such consents, clearances, approvals, orders, authorizations, registrations, declarations and filings as may be required under the HSR Act and the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f), (iii) the approval of the SIC of the conditions to the Offer as set forth in Annex II, and (iv) such other consents, clearances, approvals, orders, authorizations, registrations, declarations and filings with respect to any Governmental Entity the failure of which to obtain would not, individually or in the aggregate, reasonably be expected to materially and adversely affect Acquiror's ability to effect the Acquisition. The consents, approvals, orders, authorizations, registrations, declarations and filings set forth in (i) through (iii) are referred to herein as the **"Acquiror Necessary Consents."**

Section 3.3 Litigation. There are no claims, suits, actions or proceedings pending or, to the Knowledge of Acquiror, threatened against Acquiror or any of its Subsidiaries before any court, Governmental Entity, or any arbitrator that seek to restrain or enjoin the consummation of the transactions contemplated hereby.

Section 3.4 Available Funds. Acquiror has sufficient cash resources to enable it to pay the Scheme Consideration pursuant to this Agreement.

Section 3.5 Ownership of Company Ordinary Shares. Except as set forth in Section 3.5 of the disclosure schedule delivered by Acquiror to the Company dated as of the date hereof (the **"Acquiror Disclosure Schedules"**), Acquiror, its related corporations (as such term is defined in the Companies Act, Chapter 50 of Singapore law) and their respective nominees do not own or hold, of record or beneficially, any Company Ordinary Shares or any rights to acquire or other economic interest in any Company Ordinary Shares.

Section 3.6 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, and any certificate delivered by the Company in connection with Closing or the Offer Closing, Acquiror acknowledges and agrees that neither the Company or any other Person on behalf of the Company makes, nor has Acquiror relied upon or otherwise been induced by, any other express or implied representation or warranty with respect to the Company or with respect to any other information provided to or made available to Acquiror in connection with the transactions contemplated hereunder. Except as provided in Section 5.12, neither the Company nor any other Person will have or be subject to any liability or indemnification obligation to Acquiror or any other Person resulting from the distribution to Acquiror, or Acquiror's use of, any such information, including any information, documents, projections, forecasts or other material made available to Acquiror in certain data rooms or management presentations in expectation of the transactions contemplated in this Agreement, unless any such information is expressly included in a representation or warranty contained in this Agreement or a certificate referred to above.

ARTICLE IV

CONDUCT PRIOR TO THE EFFECTIVE TIME

Section 4.1 Conduct of Business by Company.

(a) Ordinary Course. During the period from the date hereof and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time or the Acceptance Time, if applicable, Company shall, and shall cause each of its Subsidiaries to, except as otherwise expressly required by this Agreement, by Legal Requirements or by the terms of any Contract in effect on the date hereof and made available to Acquiror or to the extent that Acquiror shall otherwise consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed) (i) use commercially reasonable efforts to carry on its business in the ordinary course, in substantially the same manner as heretofore conducted and in compliance with all applicable Legal Requirements, (ii) pay its debts and taxes when due subject to good faith disputes over such debts or taxes, and pay or perform other material obligations when due, subject to good faith disputes over such obligations, and (iii) use commercially reasonable efforts to (A) preserve intact its present business organization, (B) keep available the services of its present executive officers and key employees, and (C) preserve its relationships with material customers, suppliers, licensors, licensees and others with which it has material business dealings.

(b) Required Consent. In addition, without limiting the generality of Section 4.1(a), except as required by the terms of this Agreement, by Legal Requirements or by the terms of any Contract in effect on the date hereof and made available to Acquiror or as provided in Article IV of the Company Disclosure Schedule, without the prior written consent of Acquiror (which consent shall not be unreasonably withheld, delayed or conditioned), during the period from the date hereof and continuing until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time or Acceptance Time, if applicable, Company shall not do any of the following, and shall not permit any of the Company's Subsidiaries to do any of the following:

(i) Declare, set aside or pay any dividends on or make any other actual, constructive or deemed distributions (whether in cash, stock, equity securities or property) in respect of any capital stock or split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any capital stock other than a cash management transaction between Company and a wholly-owned Subsidiary of it, or between wholly-owned Subsidiaries of Company in the ordinary course of business consistent with past practice;

(ii) Purchase, redeem or otherwise acquire, directly or indirectly, any shares of its capital stock or the capital stock of its Subsidiaries, except in connection with the withholding of shares to pay tax withholding obligations and/or exercise or purchase price, or repurchases of shares at cost in connection with the termination of the employment relationship with any Company Employee, in each case, pursuant to stock option, equity award or purchase agreements in effect on the date hereof or entered into in the ordinary course of business after the date hereof pursuant to Section 4.1(b)(iii)(C); provided, however, that nothing in this subparagraph (ii) shall prohibit Company from dissolving and/or merging into any of its Subsidiaries certain other Subsidiaries that are not material to it and its Subsidiaries, taken as a whole;

(iii) Authorize for issuance, issue, deliver, sell, pledge or otherwise encumber any shares of capital stock, or any securities convertible into shares of capital stock, or subscriptions, rights, warrants or options to acquire any shares of capital stock or any securities convertible into shares of capital stock, or enter into other agreements or commitments obligating it to issue any such securities or rights, other than: (A) issuances of Company Ordinary Shares upon the exercise of Company Options, warrants or other rights of Company or the settlement of Company Restricted Share Units existing on the date hereof in

accordance with their present terms or granted pursuant to clause (C) hereof, (B) issuances of Company Ordinary Shares to participants in any employee share purchase plan of Company pursuant to the terms thereof or (C) grants of stock options or other stock based awards (including Company Restricted Shares and Company Restricted Share Units) of, or to acquire, Company Ordinary Shares granted under the Company Share Plans in effect on the date hereof, in each case (x) in the ordinary course of business consistent with past practice, (y) with respect to stock options, granted with an exercise price no less than the fair market value of Company Ordinary Shares on the date of grant and not subject to any accelerated vesting or other provision that would be triggered solely as a result of the consummation of the transactions contemplated hereby and (z) for up to 1,600,000 Company Ordinary Shares in the aggregate (**"Company Routine Grants"**);

(iv) Propose, cause or permit any amendments to any of the Company Charter Documents or Subsidiary Charter Documents of any Subsidiary of the Company;

(v) Propose or adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of it or any of its Subsidiaries (other than the transactions contemplated hereby); provided, however, that nothing in this paragraph shall prohibit the Company from dissolving and/or merging into any of its Subsidiaries certain other Subsidiaries that are not material to it and its Subsidiaries, taken as a whole;

(vi) (A) Acquire (by merger, consolidation or acquisition of stock or assets) any other Person or any equity interest therein, or (B) acquire any material property or assets in any single transaction or series of related transactions, except for (i) transactions pursuant to existing Contracts disclosed in the Company Disclosure Schedule or (ii) transactions not in excess of $500,000 individually, or $1,000,000 in the aggregate;

(vii) Enter into any binding agreement, agreement in principle, letter of intent, memorandum of understanding or similar agreement with respect to any joint venture, joint development, strategic partnership or alliance that is material, individually or in the aggregate, to the business of the Company and its Subsidiaries, taken as a whole;

(viii) Sell, lease, exclusively license, encumber or otherwise convey or dispose of any properties or assets material to the business of the Company and its Subsidiaries, taken as a whole, except (A) sales of inventory, products or equipment in the ordinary course of business consistent with past practice or (B) the sale, lease or disposition of excess or obsolete property or assets in the ordinary course of business consistent with past practice, in each case, which are not material, individually or in the aggregate, to the business of the Company and its Subsidiaries taken as a whole;

(ix) Make any loans, advances or capital contributions to any Person, other than: (A) loans or investments by it or a wholly-owned Subsidiary of it to or in it or any wholly-owned Subsidiary of it or (B) employee loans or advances for travel and entertainment expenses made in the ordinary course of business consistent with past practice;

(x) Except as required by GAAP or applicable Legal Requirements, make any material change in its methods, principles or practices of accounting;

(xi) Make or change any material Tax election, adopt or change any accounting method in respect of Taxes that affects in any material respect the Tax liability or Tax attributes of the Company or any of its Subsidiaries, file any material amended Tax Return, enter into any closing agreement in respect of material Taxes, settle or compromise any material Tax liability or consent to any extension or waiver of any limitation period with respect to material Taxes;

(xii) Except as required by GAAP or applicable Legal Requirements, materially revalue any of its properties or assets other than in the ordinary course of business consistent with past practice;

(xiii) (A) Pay, discharge, settle or satisfy any threatened or actual litigation or any dispute that would reasonably be expected to lead to litigation (whether or not commenced prior to the date of this Agreement), other than (x) the payment, discharge, settlement or satisfaction, solely for cash in amounts (I) not exceeding $250,000 individually or $500,000 in the aggregate, in the ordinary course of business consistent with past practice, (II) as reserved against in full in the Company Balance Sheet, or (III) as covered by existing insurance policies, (y) the discharge, settlement or satisfaction of any such litigation or dispute that does not involve any payment by the Company or any of its Subsidiaries and does not impose any obligation on the Company or any of its Subsidiaries (other than a non-exclusive license of Intellectual Property that is not material to the Company and its Subsidiaries, taken as a whole), or (B) waive the benefits of, modify in any manner, amend, terminate, assign, release any Person from or knowingly fail to enforce, any confidentiality, "standstill," or similar agreement to which the Company or any of its Subsidiaries is a party or of which the Company or any of its Subsidiaries is a beneficiary;

(xiv) Write up, write down or write off the book value of any assets, individually or in the aggregate, for Company and its Subsidiaries, taken as a whole, other than (A) in the ordinary course of business consistent with past practice, (B) as may be required by GAAP or (C) otherwise not in excess of $500,000;

(xv) Take any action to render inapplicable, or to exempt any third Person (other than Acquiror) from the provisions of any applicable Legal Requirement that purports to limit or restrict business combinations or the ability to acquire or vote shares of capital stock;

(xvi) (A) Make any material increase in the amount of compensation or any material increase in the fringe benefits of, pay any bonus to or grant severance or termination pay to any Company Employee other than increases in base salary of less than three and five-tenths percent (3.5%) or grants, fringe benefit increases or payments in the ordinary course of business consistent in time and amount with past practice, (B) make any material increase in or commitment to materially increase the benefits or expand the eligibility under any Company Benefit Plan (including any severance plan or arrangement), adopt or materially amend or make any commitment to adopt or materially amend any Company Benefit Plan or make any contribution, other than regularly scheduled contributions, to any Company Benefit Plan, (C) waive any stock repurchase rights, accelerate, amend or change the period of exercisability of Company Options, Company Restricted Shares or Company Restricted Share Units, or reprice any Company Options or authorize cash payments in exchange for any Company Options, other than pursuant to arrangements in effect as of the date hereof or disclosed pursuant to this Section 4.1, (D) enter into any employment, severance, termination or indemnification agreement with any Company Employee or enter into any collective bargaining, works council or trade union agreement, (other than (i) offer letters entered into in the ordinary course of business consistent with past practice with employees who are terminable "at will," provided that any such offer letter does not provide for annual compensation in excess of $200,000 or equity awards other than Company Routine Grants, or (ii) severance agreements with non-officer Company Employees entered into in the ordinary course of business consistent with past practice), (E) grant any stock appreciation right, phantom stock award, stock-related award or performance award (whether payable in cash, shares or otherwise) to any Person (including any Company Employee), or (F) enter into any agreement with any Company Employee the benefits of which are (in whole or in part) contingent or the terms of which are materially altered upon the occurrence of a transaction involving Company of the nature contemplated hereby; provided, however, that in each case of (A) - (F), nothing herein shall be construed as prohibiting Company from granting Company Options or Company Restricted Share Units that are Company Routine Grants;

(xvii) Enter into, amend or extend any collective bargaining agreement;

(xviii) Transfer or license to any Person or otherwise extend, amend or modify in any material respect any rights to Company IP, or enter into any agreements or make other commitments to grant, transfer or license to any Person material future patent rights, in each case, other than non-exclusive licenses granted to customers, resellers and end users in the ordinary course of business consistent with past practices, or grant any exclusive rights with respect to any Intellectual Property;

(xix) Enter into any Contracts: (A) containing, or otherwise subjecting the Company or Acquiror or any of their respective Subsidiaries to, any material non-competition or material exclusivity restrictions on the operation of the business of the Company or Acquiror or any of their respective Subsidiaries; or (B) resulting in Acquiror or any of its Subsidiaries (1) granting to any third party any right to or with respect to any intellectual property owned by, or licensed to, any of them or (2) being obligated to pay any royalties or other material amounts, or offer any discounts, to any third party in excess of those payable by, or required to be offered by, any of them in the absence of this Agreement or the transactions contemplated hereby;

(xx) Incur any indebtedness for borrowed money or guarantee any such indebtedness of another Person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company or any of the Company's Subsidiaries, guarantee any debt securities of another Person, enter into any "keep well" or other agreement to maintain any financial statement condition of any other Person (other than any wholly-owned Subsidiary of it) or enter into any arrangement having the economic effect of any of the foregoing, other than (A) guarantees and letters of credit issued to suppliers of the Company or any of its Subsidiaries in the ordinary course of business, (B) loans or advances to direct or indirect wholly owned Subsidiaries in the ordinary course of business consistent with past practice or (C) in connection with the financing of ordinary course trade payables, in any such case consistent with past practice;

(xxi) Hire or promote any officer-level employee or appoint a new member of the board of directors of the Company or any of the Company's Subsidiaries;

(xxii) Forgive any loans to any of its employees, officers or directors or any employees, officers or directors of any of its Subsidiaries;

(xxiii) Make any capital expenditures other than in the ordinary course of business consistent with past practice and in an amount not in excess of $1,000,000 individually or $7,500,000 in the aggregate;

(xxiv) Enter into, modify or amend in a manner materially adverse to the Company and its Subsidiaries, taken as a whole, or terminate any Company Material Contract, or waive, release or assign any material rights or claims thereunder, in each case, in a manner materially adverse to the Company and its Subsidiaries, taken as a whole;

(xxv) Knowingly take any action that is intended or would reasonably be expected to result in any of the conditions to the Scheme of Arrangement set forth in Article VI or to the Offer set forth in Annex II not being satisfied;

(xxvi) Except as expressly contemplated by this Agreement, take any actions that would result in restructuring charges pursuant to GAAP in excess of $250,000 in the aggregate;

(xxvii) Enter into any new line of business material to the Company and its Subsidiaries, taken as a whole;

(xxviii) Fail to use commercially reasonable efforts to maintain in full force and effect insurance coverage substantially similar to insurance coverage maintained on the date hereof; or

(xxix) Agree (whether or not in writing) to take any of the actions described in (i) through (xxviii) above.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.1 Implementation of the Scheme of Arrangement.

(a) Obligations of the Company:

(i) Preparation and Filing of Scheme Document. As promptly as reasonably practicable after the execution of this Agreement , the Company shall prepare and file with the U.S. Securities and Exchange Commission (the **"SEC"**) and the High Court of the Republic of Singapore (the **"Court"**) the document containing the Scheme of Arrangement to be sent to all shareholders of the Company, an explanatory statement and notice of meeting, proxy statement and proxy form, all in such form and substance as shall be agreed by the parties hereto and in compliance with all applicable Legal Requirements, (the **"Scheme Document"**), and any other document required to be filed by the Company with the SEC, the Court, the Securities Industry Council of Singapore (**"SIC"**), or any other Governmental Entity in relation to the Scheme of Arrangement (the **"Relevant Documents"**).

(ii) Independent Financial Advisor. The Company will promptly appoint an independent financial adviser to advise the holders of Company Ordinary Shares on the Scheme of Arrangement and, if applicable, the Offer (the **"Independent Financial Advisor"**). The Scheme Documents will include the advice of the Independent Financial Advisor and the advice of the independent directors of the Company on the Scheme of Arrangement.

(iii) Dispatch of Documents. The Company shall cause its share registrar to promptly dispatch to the holders of Company Ordinary Shares the Scheme Documents (including the appropriate form of proxy for use at the Scheme Meeting) as promptly as practicable on or after the Scheme Clearance Date. As used herein, **"Scheme Clearance Date"** means the later of the date on which (i) the SEC has, orally or in writing, confirmed that it has no further comments on the Scheme Document, including the first date following the tenth (10th) calendar day following the filing of the preliminary Scheme Document if the SEC has not informed the Company that it intends to review the Scheme Document and (ii) the Court has approved the Scheme Document.

(iv) Court Order. If the Scheme of Arrangement is approved by the shareholders of the Company, the Company shall promptly apply to the Court for, and use its reasonable best efforts to obtain, the Court's approval and confirmation of the Scheme of Arrangement under Section 210 of the Companies Act, Chapter 50 of Singapore (the **"Scheme Court Order"** and the date of the Court hearing at which the Scheme Court Order is considered is herein referred to as the **"Record Date"**). If the Court refuses to approve the Scheme of Arrangement, the Company shall appeal the Court's decision to the fullest extent permitted by applicable Legal Requirements unless otherwise agreed in writing by Acquiror.

(v) ACRA Registration. As soon as reasonably practicable following the grant of the Scheme Court Order, the Company shall deliver the Scheme Court Order to the Accounting and Corporate Regulatory Authority in Singapore (**"ACRA"**) for registration. The Scheme of Arrangement shall become effective upon the lodgment of the Scheme Court Order with ACRA (the **"Effective Time"** and the date on which the Effective Time occurs is referred to herein as the **"Closing Date"**).

(vi) Directors' Responsibility. The Company shall, and shall procure that its directors shall, take responsibility for all information concerning the Company and its directors in the Scheme Document and in the letter to the shareholders of the Company to be included in the Scheme Document as required by applicable Legal Requirements.

(vii) No Withdrawal. The Company shall not withdraw the Scheme of Arrangement or allow it to lapse without the express written consent of Acquiror and will take no action which may otherwise be prejudicial to the successful completion of the Acquisition.

(viii) Notification of Circumstance. The Company will notify Acquiror of any matter or circumstance which might cause or result in any of the conditions set forth in Sections 6.1(a) through 6.1(c) to be unfulfilled or incapable of fulfillment as soon as possible after becoming aware of it and, on request from time to time, to confirm to Acquiror in writing that there are no such matters or circumstances of which it is aware (other than as previously notified).

(b) Obligations of Acquiror:

(i) Cooperation. Acquiror shall co-operate with the Company in connection with the preparation and filing of the Scheme Document and any other Relevant Document, and Acquiror shall promptly provide to the Company such information concerning its business affairs and financial statements required to be included in the Scheme Document or other Relevant Documents or in any amendments or supplements thereto.

(ii) Representation. Acquiror shall ensure that it, through its legal counsel, is represented at Court hearings convened for the purpose of Section 210 of the Companies Act, Chapter 50 of Singapore at which, if requested by the Court, Acquiror shall do all things and take all steps as are reasonably necessary to ensure the fulfillment of its obligations under this Agreement and the Scheme of Arrangement.

(iii) Satisfaction of Scheme Price. Subject to the satisfaction or waiver of the conditions in Section 6.1 and Section 6.3, Acquiror will be bound by the Scheme of Arrangement, and will pay the Scheme Price pursuant to the Scheme of Arrangement within the timeline as required under the Singapore Code.

(iv) Directors' Responsibility. Acquiror shall, and shall procure that its directors shall, take responsibility for all information concerning Acquiror provided to the Company for inclusion in the Scheme Document and in the letter to the shareholders of the Company to be included in the Scheme Document as required by applicable Legal Requirements.

(c) Waiver of the Singapore Code. As promptly as reasonably practicable after the execution of this Agreement, the Company shall use reasonable best efforts to obtain from the SIC confirmation that (i) the Singapore Code on Take-overs and Mergers (the **"Singapore Code"**) and its requirements shall not apply to the Acquisition and (ii) if the Singapore Code applies to the Acquisition, that rules 14, 15, 16, 17, 20.1, 21, 22, 28, 29 and 33.2 and note 1(b) to rule 19 of the Singapore Code shall not apply to the proposed Scheme of Arrangement, subject to any conditions the SIC may deem fit to impose. Acquiror shall cooperate in good faith with the Company's efforts to obtain such a confirmation and waiver. If such confirmation and waiver is obtained, then notwithstanding anything to the contrary contained herein, all requirements that the parties comply with the Singapore Code set forth herein shall be deemed waived.

Section 5.2 Amendment of Scheme Documents.

(a) Each of the Company and Acquiror will notify the other party promptly upon the receipt of any comments from the SEC, SIC, Court or any other Governmental Entity or its respective staff in connection with the filing of, or amendments or supplements to, the Scheme Document or other Relevant Documents.

(b) Whenever the Company or Acquiror becomes aware of the occurrence of any event which is required to be set forth in an amendment or supplement to the Scheme Document and/or other Relevant Document, the Company or Acquiror, as the case may be, will promptly inform the other party of such occurrence and cooperate in filing with the SEC, SIC, Court or any other applicable Governmental Entity or its respective staff, and/or mailing to shareholders of the Company, such amendment or supplement, and, except in the case of any portion of a filing and/or mailing made with respect to an Acquisition Proposal or a Change of Recommendation, provide the other party (and its counsel) with a reasonable opportunity to review and comment on any amendment or supplement to the Scheme Document and/or other Relevant Documents prior to filing such with the SEC, SIC, Court or any other Governmental Entity and will provide the other party with a copy of all such filings and/or mailings.

(c) Except as otherwise set forth in this Agreement, no amendment or supplement (including by incorporation by reference) to the Scheme Document and/or other Relevant Documents, shall be made without the approval of Acquiror and the Company, which approval shall not be unreasonably withheld, conditioned or delayed; provided that the Company, in connection with a Change of Recommendation, may amend or supplement the Scheme Documents and/or other Relevant Documents for the Company pursuant to a Qualifying Amendment to effect such change, and in such event, the right of approval set forth in this Section 5.2 shall apply only with respect to such information, if any, relating to the other party or its business, financial condition or results of operations, and shall be subject to the right of each party to have its Board of Directors' deliberations and conclusions be accurately described. A **"Qualifying Amendment"** means an amendment or supplement to the Scheme Documents and/or other Relevant Documents for the Company to the extent it contains (i) a Change of Recommendation, (ii) a statement of the reasons of the Board of Directors of the Company for making such Change of Recommendation and (iii) additional information reasonably related to or in anticipation of any of the foregoing.

(d) The Company shall provide Acquiror and Acquiror's counsel with copies of any correspondence that it or its counsel may receive from time to time from the SEC, SIC, Court or any other Governmental Entity with respect to the Scheme Document and/or any other Relevant Documents, as applicable, as soon as practicable after receipt of such correspondence.

(e) Without limiting the generality of the foregoing, the information supplied or to be supplied by either party hereto for inclusion or incorporation by reference in the Scheme Document and/or other Relevant Documents shall not, on the date the Scheme Document and/or other Relevant Documents (or, in each case, any amendment thereof or supplement thereto) is first mailed to shareholders of the Company, at the time of the Scheme Meeting, or as of the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Notwithstanding anything to the contrary set forth herein, no representation or warranty is made by (i) the Company with respect to statements of Acquiror or (ii) Acquiror with respect to statements of the Company, in each case, made or incorporated by reference in the Scheme Document and/or any other Relevant Document about the other party supplied by such other party for inclusion or incorporation by reference in the Scheme Document and/or such other Relevant Document.

Section 5.3 Scheme Meeting; Board Recommendation.

(a) Scheme Meeting.

(i) The Company will take all action necessary or advisable in accordance with applicable Legal Requirements and its memorandum and articles of association to apply to the Court for order(s) convening the Scheme Meeting to be held as promptly as practicable thereafter to consider the approval of this Agreement, the Scheme of Arrangement and other transactions contemplated hereby. If the Court refuses to make any order convening the Scheme Meeting, unless otherwise agreed in writing by Acquiror, the Company shall appeal the Court's decision to the fullest extent possible.

(ii) Subject to Section 5.4(d), the Company will use reasonable best efforts to (i) solicit from its shareholders votes and/or proxies in favor of the Scheme of Arrangement and the approval of this Agreement and (ii) secure the vote or consent of its shareholders required by the rules of Nasdaq or applicable Legal Requirements to obtain such approvals, including engaging one or more nationally recognized proxy solicitation firms and information agents to assist in such solicitation. The Company shall, on a daily basis at the close of business on each business day, keep Acquiror informed of the number of proxy votes received in respect of the resolutions to be proposed by the Company to its shareholders in order to effect the Scheme of Arrangement and the identity of the relevant shareholders. Notwithstanding anything to the contrary contained in this Agreement, to the extent permissible under applicable Legal Requirements, the Company may adjourn or postpone the Scheme Meeting to the extent necessary (A) to provide any necessary supplement or amendment to the Scheme Document to its shareholders in advance of the vote on the approval of the Scheme of Arrangement or the approval of this Agreement or (B) if as of the time for which the Scheme Meeting is originally scheduled (as set forth in the Scheme Document) there are insufficient shares of capital stock represented (either in person or by proxy) to approve such matters thereat or to constitute a quorum necessary to conduct the business of such Scheme Meeting. The Company shall ensure that the Scheme Meeting is duly called, noticed, convened, held and conducted, and that all proxies solicited by it in connection with the Scheme Meeting are solicited, in compliance with its memorandum and articles of association, the rules of Nasdaq and all other applicable Legal Requirements. The obligation of the Company to call, give notice of, convene and hold the Scheme Meeting in accordance with this Section 5.2 shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any Acquisition Proposal with respect to it, or by any withdrawal, amendment or modification of the recommendation of its Board of Directors with respect to this Agreement or the Scheme of Arrangement.

(b) Board Recommendation. Except to the extent expressly permitted by Section 5.4(d): (i) the Board of Directors of the Company shall (A) recommend that its shareholders vote in favor of the approval of the Scheme of Arrangement at the Scheme Meeting or (B) in the event Acquiror elects, with the prior written consent of the Company, to commence the Offer pursuant to and in accordance with the terms of this Agreement, recommend that its shareholders tender their Company Ordinary Shares to Acquiror in the Offer (the **"Recommendation"**); (ii) the Scheme Documents shall include a statement to the effect that the Board of Directors of the Company recommends that the Company's shareholders vote in favor of the approval of this Agreement and the transactions contemplated hereby, including the Scheme of Arrangement, at the Scheme Meeting; (iii) in the event Acquiror elects, with the prior written consent of the Company, to commence the Offer pursuant to and in accordance with the terms of this Agreement, the Schedule 14D-9 shall include a statement to the effect that the Board of Directors of the Company recommends that the Company's shareholders tender their shares to Acquiror in the Offer; and (iv) neither the Board of Directors of the Company nor any committee thereof shall withdraw, amend, modify, qualify or condition in a manner adverse to Acquiror or publicly propose or resolve to withdraw, amend, modify, qualify or condition in a manner adverse to Acquiror, the recommendation of the Company's Board of Directors as set forth in the preceding clauses.

Section 5.4 Acquisition Proposals.

(a) No Solicitation. From the date hereof until the earlier of the termination of this Agreement pursuant to its terms or the Effective Time, the Company agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall not authorize or permit its and its Subsidiaries' employees, agents and representatives (including any investment banker, financial advisor, attorney, accountant, agent or other representative retained by it or any of its Subsidiaries) (collectively, **"Representatives"**) to, directly or indirectly: (i) solicit, initiate, knowingly encourage or knowingly facilitate any inquiry with respect to, the making, submission or announcement of, any Acquisition Proposal relating to the Company, (ii) participate or engage in any discussions or negotiations regarding, or furnish to any Person any non-public information with respect to or for the purpose of facilitating, or knowingly take any other action to facilitate any inquiries or the making of any proposal that constitutes or could reasonably be expected to lead to, any Acquisition Proposal, (iii) terminate, amend, release or authorize the release of any Person from, or expressly waive or authorize the waiver of any provision of, any confidentiality, "standstill" or similar agreement under which it or any of its Subsidiaries has any rights or fail to enforce or cause to be enforced in all material respects each such agreement at the request of Acquiror, (iv) take any action to render inapplicable, or to exempt any third Person from, any Legal Requirement that purports to limit or restrict business combinations or the ability to acquire or vote shares of capital stock, (v) publicly approve, endorse or recommend any Acquisition Proposal relating to the Company, (vi) enter into any letter of intent or similar Contract contemplating or otherwise relating to any Acquisition Proposal or transaction contemplated thereby (other than a confidentiality agreement as contemplated by Section 5.4(c)(i)) or (vii) propose publicly or agree to any of the foregoing with respect to an Acquisition Proposal relating to the Company. The Company and its Subsidiaries and Representatives will immediately cease any and all existing activities, discussions or negotiations with any third parties conducted heretofore with respect to any Acquisition Proposal with respect to the Company.

(b) Notification of Unsolicited Acquisition Proposals.

(i) As promptly as practicable (but in any event within one (1) business day) after receipt of any Acquisition Proposal by the Company or its Representatives or any material modification of or material amendment to any Acquisition Proposal or any request of the Company or its Representatives for nonpublic information or inquiry which could reasonably be expected to lead to an Acquisition Proposal, the Company shall provide Acquiror with oral and written notice of the material terms and conditions of such Acquisition Proposal, request or inquiry, and the identity of the Person or group making any such Acquisition Proposal, request or inquiry and a copy of all written and electronic materials provided in connection with such Acquisition Proposal, request or inquiry. Upon receiving such Acquisition Proposal, request or inquiry, the Company shall provide Acquiror as promptly as practicable (but in any event within one (1) business day) oral and written notice setting forth all such information as is reasonably necessary to keep the other party hereto informed in all material respects of the status and details (including all amendments or proposed amendments) of any such Acquisition Proposal, request or inquiry and shall promptly (but in any event within one (1) business day) provide Acquiror a copy of all written and electronic materials subsequently provided in connection with such Acquisition Proposal, request or inquiry.

(ii) The Company shall provide Acquiror with one business (1) prior notice (or such lesser prior notice as is provided to the members of its Board of Directors) of any meeting of its Board of Directors at which its Board of Directors (or any committee thereof) is reasonably expected to consider any Acquisition Proposal.

(c) Superior Offers. Notwithstanding anything to the contrary contained in Section 5.4(a), in the event that the Company receives an unsolicited, *bona fide* written Acquisition Proposal from a third party that its Board of Directors has in good faith concluded (following consultation with its outside legal counsel and its financial advisors (including the Independent Financial Advisor)) is, or is reasonably likely to lead to, a Superior Offer, the Company may then take any or all of the following actions (but only (1) if the Company has not materially breached any of the provisions set forth in this Section 5.4 in connection with such Acquisition Proposal, (2) the Scheme Meeting has not occurred and (3) to the extent the Board of Directors of the Company concludes in good faith (after consultation with its outside legal counsel) that the failure to do so would be reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements):

(i) Furnish nonpublic information to the third party making such Acquisition Proposal, provided that (A) at least forty-eight (48) hours prior to furnishing any such nonpublic information to such party, it gives Acquiror written notice of its intention to furnish such nonpublic information and the identity of the Person or group making any such Acquisition Proposal and a copy of all written and electronic materials provided in connection with such Acquisition Proposal, (B) it receives from the third party an executed confidentiality agreement containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such third party on the Company's behalf, the terms of which are at least as restrictive as the terms contained in the Confidentiality Agreement provided that such agreement shall not contain terms which prevent the Company from complying with its obligations under this Agreement (including this Section 5.4), (C) contemporaneously with furnishing any such nonpublic information to such third party, it furnishes such nonpublic information to Acquiror (to the extent such nonpublic information has not been previously so furnished or made available), and (D) it does not supply such third party with any information unless specifically requested by such third party and does not in any way assist such third party to refine or supplement its request; and

(ii) Engage in negotiations with the third party with respect to the Acquisition Proposal, provided that at least forty-eight (48) hours prior to entering into negotiations with such third party, it gives Acquiror written notice of such party's intention to enter into negotiations with such third party.

(d) Change of Recommendation.

(i) Notwithstanding Section 5.2(a), in response to the receipt of a Superior Offer that has not been withdrawn, the Board of Directors of the Company may withhold, withdraw, amend, modify, qualify or condition in a manner adverse to Acquiror its Recommendation, and in the case of a Superior Offer that is a tender or exchange offer, recommend that its shareholders accept the tender or exchange offer (any of the foregoing actions, whether by a Board of Directors or a committee thereof, a **"Change of Recommendation"**), if all of the following conditions in clauses (1) through (5) are met:

(1) The Scheme Meeting has not occurred;

(2) It shall have (A) provided Acquiror with written notice of its intention to effect a Change of Recommendation (a **"Change of Recommendation Notice"**) at least five (5) business days prior to effecting a Change of Recommendation that relates to (i) a Superior Offer or (ii) any material change to the terms of a Superior Offer to which a previous Change of Recommendation Notice applies, which notice shall state expressly (I) that it has received a Superior Offer, (II) the material terms and conditions of the Superior Offer and the identity of the Person or group making the Superior Offer, and (III) that it intends to effect a Change of Recommendation and the manner in which it intends to do so (it being understood and agreed that such notice and such statement shall not constitute a Change of Recommendation), (B) provided to Acquiror a copy of all materials and information delivered or made available to the Person or group making the Superior Offer or any of its Representatives and (C) provided Acquiror with the opportunity to meet and discuss a modification of the terms and conditions of this Agreement so that the transactions contemplated hereby may be effected and so that the transaction theretofore determined to be a Superior Offer no longer constitutes a Superior Offer;

(3) Either (A) on or before the expiration of the five (5) business day period following the delivery to Acquiror of any Change of Recommendation Notice, Acquiror does not make a written offer, which shall be binding and enforceable against Acquiror and capable of acceptance by the Company (a **"Matching Bid"**), in response to such Superior Offer, or (B) following receipt of a Matching Bid within the five (5) business day period following the delivery to Acquiror of any Change of Recommendation Notice, the Board of Directors of the Company determines in good faith (at a meeting of the Board of Directors of the Company at which it consults prior to such determination with its outside legal counsel and its financial advisors (including the Independent Financial Advisor)) that after taking into account the Matching Bid, that the Superior Offer to which the Change of Recommendation Notice applies continues to be a Superior Offer;

(4) Its Board of Directors has concluded in good faith, following consultation with its outside legal counsel, that, in light of such Superior Offer and after taking into consideration the Matching Bid, if any, the failure of the Board of Directors to effect a Change of Recommendation would be reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements; and

(5) It shall not have materially breached any of the provisions set forth in this Section 5.4 (including Section 5.4(b)) in connection with such Acquisition Proposal.

(ii) In addition, and notwithstanding anything to the contrary set forth herein, at any time prior to obtaining the approval of the shareholders of the Company of this Agreement and the Scheme of Arrangement, the Board of Directors of the Company may, in response to a material development or change in circumstances occurring, arising or coming to the attention of such Board of Directors after the date hereof (and not relating to any Acquisition Proposal) (such material development or change in circumstances, an **"Intervening Event"**), make a Change of Recommendation if such Board of Directors has concluded in good faith, after consultation with its outside legal advisors, that, in light of such Intervening Event, the failure of such Board of Directors to effect such a Change of Recommendation would be reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements; provided, however, that (A) the Company shall send to Acquiror written notice of its intention to effect a Change of Recommendation, specifying in reasonable detail the reasons therefor, at least five (5) business days prior to effecting a Change of Recommendation, (B) the Company shall provide Acquiror with an opportunity to meet and discuss the basis for a Change of Recommendation, Acquiror's reaction thereto and any possible modification to the terms and conditions of this Agreement in response thereto so that the transactions contemplated hereby may be effected and (C) after such discussions, the Board of Directors of the Company concludes, after consultation with its outside legal advisors, that the failure to effect a Change of Recommendation would be reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements.

(iii) The Board of Directors of the Company shall not make any Change of Recommendation other than in compliance with and as permitted by this Section 5.4(d).

(e) Continuing Obligation to Call, Hold and Convene Scheme Meeting; No Other Vote. Notwithstanding anything to the contrary contained in this Agreement, the obligation of the Company to call, give notice of, convene and hold the Scheme Meeting, and to take a vote on the approval of this Agreement and the Scheme of Arrangement, shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any Acquisition Proposal, or by any Change of Recommendation. The Company shall not submit to the vote of its shareholders any Acquisition Proposal, or publicly propose to do so.

(f) Compliance with Tender Offer Rules; Disclosure. Nothing contained in this Agreement shall prohibit the Company or its Board of Directors from taking and disclosing to the shareholders of the Company a position contemplated by Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or from making any other disclosure to its shareholders if, in the good faith judgment of the Company's Board of Directors, after consultation with outside legal advisors, failure to make such disclosure would be inconsistent with its obligations under applicable Legal Requirements; provided, however, that the Company (with respect to statements made by the Company's Board of Directors) shall not, pursuant to Rule 14e-2(a) under the Exchange Act or Rule 14(d)-9 under the Exchange Act or as required by applicable Legal Requirements, make disclosures that would amount to a Change of Recommendation, other than pursuant to, and in accordance with the requirements of, Section 5.4(d).

(g) Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(i) **"Acquisition Proposal"** shall mean, with respect to the Company, any transaction or series of related transactions (other than the transactions contemplated by this Agreement) involving: (i) any acquisition or purchase by any Person or "group" (as defined in or under Section 13(d) of the Exchange Act), directly or indirectly, of a fifteen percent (15%) or greater interest in the total issued equity interests or voting securities of the Company, or any tender offer or exchange offer that if consummated would result in any Person or "group" (as defined in or under Section 13(d) of the Exchange Act) beneficially owning fifteen percent (15%) or more of the total issued equity interests or voting securities of the Company; (ii) any acquisition or purchase of fifty percent (50%) or more of any class of equity or other voting securities of one or more Subsidiaries of the Company, the business(es) of which, individually or in the aggregate, generate or constitute fifteen percent (15%) or more of the net revenues, net income or assets (as of or for the twelve (12) month period ending on the last day of the applicable party's most recently completed fiscal year) of the Company and its Subsidiaries, taken as a whole; (iii) any merger, consolidation, business combination or other similar transaction involving the Company or one or more of its Subsidiaries the business(es) of which, individually or in the aggregate, generate or constitute fifteen percent (15%) or more of the net revenues, net income or assets (as of or for the twelve (12) month period ending on the last day of the Company's most recently completed fiscal year) of the Company and its Subsidiaries, taken as a whole, pursuant to which the shareholders of the Company or such Subsidiary or Subsidiaries, as applicable, immediately preceding such transaction hold less than eighty-five percent (85%) of the equity interests and voting securities in the surviving or resulting entity of such transaction; (iv) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of assets of a party hereto or its Subsidiaries that generate or constitute fifteen percent (15%) or more of the net revenues, net income or assets (as of or for the twelve (12) month period ending on the last day of the applicable party's most recently completed fiscal year) of such party and its Subsidiaries, taken as a whole; (v) any liquidation, dissolution, recapitalization or other significant corporate reorganization of a party hereto or one or more of its Subsidiaries the business(es) of which, individually or in the aggregate, generate or constitute fifteen percent (15%) or more of the net revenues, net income or assets (as of or for the twelve (12) month period ending on the last day of the applicable party's most recently completed fiscal year) of such party and its Subsidiaries, taken as a whole; or (vi) any combination of the foregoing.

(ii) **"Superior Offer,"** with respect to the Company, shall mean an unsolicited, *bona fide* written offer made by a third party to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination, all or substantially all of the assets of the Company or one hundred percent (100%) of the total outstanding voting securities of the Company on terms that the Board of Directors of the Company has in good faith concluded (following consultation with its outside legal counsel and its financial adviser of nationally recognized reputation and the Independent Financial Advisor), taking into account, among other things, the legal, financial, regulatory and other aspects of the offer and the Person making the offer and the strategic and other benefits of the Acquisition, as well as any binding counter-offer or proposal made by Acquiror in accordance with Section 5.4(d)(ii) is reasonably capable of being consummated on the terms proposed, (ii) if consummated on such terms would result in a transaction that is more favorable to the Company's shareholders (in their capacities as shareholders) than the Acquisition, and (iii) is not subject to financing contingencies (and if financing is required, then such financing is fully committed to the third party making the Acquisition Proposal).

(h) Return of Information. The Company shall use its commercially reasonable efforts to have all copies of all nonpublic information it or its Subsidiaries and its and their Representatives have distributed on or prior to the date of this Agreement to other parties regarding a potential business combination transaction within the twelve (12) months prior to the date of this Agreement returned to it as soon as possible.

(i) Representatives. The Company shall inform its Representatives of the restrictions described in this Section 5.4. Any violation of the restrictions set forth in this Section 5.4 by any Representative of the Company or its Subsidiaries shall be deemed to be a breach of this Section 5.4 by the Company.

Section 5.5 Confidentiality; Access to Information; No Modification of Representations, Warranties or Covenants.

(a) Confidentiality. The parties acknowledge that Acquiror and the Company have previously executed a Confidentiality Agreement dated December 7, 2010 (the **"Confidentiality Agreement"**), which Confidentiality Agreement will continue in full force and effect in accordance with its terms.

(b) Access to Information. During the period commencing with the execution and delivery of this Agreement and ending on the earlier to occur of the Effective Time or the termination of this Agreement pursuant to its terms, the Company shall afford Acquiror and Acquiror's Representatives reasonable access during reasonable hours to its properties, books, records and personnel to obtain all information concerning its business as Acquiror may reasonably request (provided that such access shall be upon reasonable notice to the Company and shall not unreasonably interfere with the business or operations of the Company and its Subsidiaries). The Company and Acquiror shall hold all information received pursuant to this Section 5.5(b) and pursuant to Section 5.9 confidential in accordance with the terms of the Confidentiality Agreement. Notwithstanding the foregoing, this Section 5.5(b) shall not require the Company or any of its Subsidiaries to permit any inspection, provide access to or to disclose any information, that would result in (i) the waiver of any applicable attorney-client privilege; provided that such Person shall have used its reasonable best efforts to allow such inspection or disclose such information in a manner that would not result in a waiver of attorney-client privilege, or (ii) the violation of any Legal Requirements promulgated by a Governmental Entity, fiduciary duty or Contract entered into prior to the date of this Agreement; provided that the Company and its Subsidiaries shall use their reasonable best efforts to make appropriate substitute arrangements to permit reasonable disclosure under the circumstances in which the restrictions in Subclauses (i) and (ii) apply.

(c) No Modification of Representations and Warranties or Covenants. No information or knowledge obtained in any investigation or notification pursuant to this Section 5.5, Section 5.7 or Section 5.9 shall affect or be deemed to (i) modify any representation or warranty contained herein, the covenants or agreements of the parties hereto or the conditions to the obligations of the parties hereto under this Agreement, (ii) impair or otherwise prejudice in any manner rights of the party receiving such access or notice to rely upon the conditions to the obligations of such party to consummate the transactions contemplated by this Agreement, or (iii) impair or otherwise limit the remedies available to the party receiving such access or notice.

Section 5.6 Public Disclosure. Without limiting any other provision of this Agreement, Acquiror and the Company will consult with each other before issuing, and provide each other a reasonable opportunity to review, comment upon and concur with, and use its respective commercially reasonable efforts to agree on any press release or public statement with respect to this Agreement and the transactions contemplated hereby, and will not issue any such press release or make any such public statement without the prior written consent of the other party, which consent shall not be unreasonably withheld, delayed or conditioned; provided however, that a party may, without the prior written consent of the other party, issue any such press release or make such statement to the extent required by law or any listing agreement with Nasdaq or any other applicable national securities exchange or market. The parties hereto have agreed to the text of the joint press release announcing the signing of this Agreement. Notwithstanding the foregoing, (i) each of the Company and Acquiror may make any public statement in response to questions from the press, analysts, investors or those attending industry conferences and make internal announcements to employees, so long as such statements are consistent with previous press releases, public disclosures or public statements made jointly by Acquiror and the Company (or individually, if approved by the other party) and (ii) in the event that there has been a Change of Recommendation pursuant to Section 5.4(d) hereof, neither the Company nor Acquiror will have any further obligation to consult with each other, and agree, before issuing any press release or otherwise making any public statement with respect to the Acquisition, this Agreement, the Scheme Document, the Offer Documents, the Schedule 14D-9 or any Acquisition Proposal.

Section 5.7 Regulatory Matters.

(a) Regulatory Filings. The Company shall consult with Acquiror and Acquiror's counsel in determining whether any action by or in respect of, or filing with, any Governmental Entity or other third parties is required, or any actions, consents, approvals or waivers are required to be obtained from any Governmental Entities or other third parties, in connection with the consummation of the Acquisition or any other transactions contemplated by this Agreement. If and to the extent that such filings have not been made prior to the execution of this Agreement, as promptly as practicable after the date hereof, each of the Company and Acquiror shall make all filings, notices, petitions, statements, registrations, submissions of information, applications or submissions of other documents required to be made with any Governmental Entity as a condition to consummation of, or otherwise required to be filed or submitted with any Governmental Entity in connection with, the Acquisition and the other transactions contemplated hereby, including: (i) Notification and Report Forms with the United States Federal Trade Commission (the **"FTC"**) and the Antitrust Division of the United States Department of Justice (**"DOJ"**) as required by the HSR Act, and (ii) any other filings, notices, petitions,

statements, registrations, submissions of information, applications or submissions of other documents required to be filed or submitted with any Governmental Entities by or under the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f) or any other Legal Requirements relating to the Acquisition or any other transactions contemplated hereby. Each of the Company and Acquiror shall use reasonable best efforts to cause all documents that it is responsible for filing with any Governmental Entity under this Section 5.7(a) to comply in all material respects with all applicable Legal Requirements. Acquiror, the Company and their respective Subsidiaries and affiliates shall use reasonable best efforts to fully respond and substantially comply with any "second request" from the FTC or the DOJ in relation to the Notification and Report Forms filed by any of them under the HSR Act in connection with the Acquisition or any other transactions contemplated hereby, or any other similar request for additional information from any other Governmental Entity in relation to any other filings, notices, petitions, statements, registrations, submissions of information, applications or submissions of other documents filed or submitted by any of them with any Governmental Entity in connection with the Acquisition or any other transactions contemplated hereby within sixty (60) days after receipt of such "second request" or other similar request.

(b) Exchange of Information. The Company and Acquiror each shall use reasonable best efforts to promptly supply the other with any information which may be required in order to effectuate any filings or applications pursuant to Section 5.7(a). Except where prohibited by applicable Legal Requirements, and subject to the Confidentiality Agreement and applicable privileges, including the attorney-client privilege, each of Acquiror and the Company shall (i) consult with the other prior to taking a position with respect to any such filing or application, (ii) permit the other to review and discuss in advance, and consider in good faith the views of the other in connection with any analyses, appearances, presentations, memoranda, briefs, white papers, arguments, opinions and proposals (collectively, **"Briefings"**) before making or submitting any of the foregoing to any Governmental Entity by or on behalf of any party hereto in connection with any investigations or proceedings in connection with this Agreement or the transactions contemplated hereby (including under any antitrust or fair trade Legal Requirement) and (iii) coordinate with the other in preparing and exchanging such information. It is acknowledged and agreed that the parties hereto shall have, except where prohibited by applicable Legal Requirements, joint responsibility for determining the strategy for dealing with any Governmental Entity with responsibility for reviewing the Acquisition with respect to antitrust or competition issues. Subject to applicable Legal Requirements, no party hereto shall participate in any meeting with any Governmental Entity in respect of any such filings, applications, Briefings, investigation, proceeding or other inquiry without giving the other parties hereto prior notice of and an opportunity to attend and participate in such meeting; provided, however, that Acquiror may exclude the Company from any portion of any such meeting which Acquiror reasonably believes would be in the best interests of the Acquisition or that includes confidential information not directly related to the Acquisition.

(c) Notification. Each of the Company and Acquiror will notify the other promptly upon the receipt of: (i) any comments from any officials of any Governmental Entity in connection with any filings made pursuant hereto, (ii) any request by any officials of any Governmental Entity for amendments or supplements to any filings made pursuant to, or information provided to comply in all material respects with, any Legal Requirements and (iii) any notices of pending or contemplated investigations by or before a Governmental Entity relating to this Agreement, the Acquisition or any other transactions contemplated by this Agreement (including any proceedings initiated by a private party). Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to Section 5.7(a), the Company or Acquiror, as the case may be, will promptly inform the other of such occurrence and cooperate in filing with the applicable Governmental Entity such amendment or supplement.

(d) Reasonable Best Efforts. With the objective of enabling Acquiror and the Company to consummate the Acquisition and the other transactions contemplated hereby as expeditiously as possible after the date hereof (and in any event before the Termination Date), each of Acquiror and the Company will use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties hereto in doing, all things necessary, proper or advisable to (i) obtain all consents, clearances, approvals, orders, authorizations, registrations, declarations and filings that are required to be obtained under the HSR Act and all other applicable Antitrust Laws (including the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f)) that are a condition to the consummation of the Acquisition and the other transactions contemplated hereby, (ii) resolve any objections to the Acquisition or any other transactions contemplated hereby that may be raised by the FTC, DOJ or any other Governmental Entity, and (iii) avoid or eliminate each and every impediment to the Acquisition and any other transactions contemplated hereby under applicable Antitrust Laws that may be asserted by the FTC, DOJ or any other Governmental Entities, (A) vigorously contesting and defending against (to judgment and on appeal if necessary) any suits, claims, actions, investigations or proceedings, whether judicial or administrative and whether initiated by a Governmental Entity or a third party, challenging this Agreement or the consummation of the Acquisition or any other transactions contemplated hereby, and (B) seeking to have vacated, reversed, lifted or overturned any stay, injunction, judgment, decree, agency decision or other order, whether temporary, preliminary or permanent, that has been entered by any court or other Governmental Entity that delays, restricts, prevents or otherwise prohibits the consummation of the Acquisition or any other transaction contemplated hereby. Notwithstanding anything in this Agreement to the contrary, nothing contained in this Agreement shall be deemed to require Acquiror or any Subsidiary or affiliate thereof to agree to (i) any divestiture, by itself or any of its affiliates, of shares of capital stock or of any business, assets or property of the Company or its Subsidiaries or affiliates, or of Acquiror or its Subsidiaries or affiliates or any license of technology, in each case that in Acquiror's judgment would alter the benefits that Acquiror would expect to receive from the proposed Acquisition or (ii) the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and

stock that in Acquiror's judgment would alter the benefits that Acquiror would expect to receive from the proposed Acquisition. The Company shall not take or agree to take any action identified in the immediately preceding sentence without the prior written consent of Acquiror.

(e) No Application to Scheme and Offer. Notwithstanding anything to the contrary set forth herein, the provisions of this Section 5.7 shall not apply to the obligations of the parties in respect of the Scheme of Arrangement to the extent they conflict with the terms of Article I, Section 5.1, Section 5.2 and Section 5.3 or the Offer to the extent they conflict with the terms of Article I and Annex I.

Section 5.8 Reasonable Best Efforts. Subject to the express provisions of Section 5.4 and Section 5.7 hereof, and upon the other terms and subject to the conditions set forth herein, each of the parties agrees to use reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties hereto in doing, all things necessary, proper or advisable to consummate and make effective, as expeditiously as possible after the date hereof (and in any event before the Termination Date), the Acquisition and the other transactions contemplated by this Agreement, including by using reasonable best efforts to: (i) cause the conditions precedent set forth in Article VI to be satisfied, (ii) obtain all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings (including registrations, declarations and filings with Governmental Entities, if any) and, subject to the limitations set forth herein, the taking of all steps and remedies as may be necessary to avoid any suit, claim, action, investigation or proceeding by any Governmental Entity, (iii) obtain all necessary consents, approvals or waivers from third parties, including all Necessary Consents, and (iv) execute or deliver any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement. In connection with and without limiting the foregoing, the Company and its Board of Directors shall, if any takeover statute or similar Legal Requirement is or becomes applicable to the Acquisition, this Agreement or any of the transactions contemplated by this Agreement, use reasonable best efforts to ensure that the Acquisition and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to minimize the effect of such Legal Requirement on the Acquisition (including by seeking a waiver of the application of any such Legal Requirement, if available), this Agreement and the transactions contemplated hereby.

Section 5.9 Notification of Certain Matters.

(a) By Acquiror.

(i) Acquiror shall give prompt notice to Company of any representation or warranty made by it contained in this Agreement becoming untrue or inaccurate in any material respect, or any failure of Acquiror to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.

(ii) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the Effective Time and termination of this Agreement pursuant to its terms, Acquiror shall give prompt notice to Company of any material notice or other material communication received by it from any Governmental Entity in connection with the transactions contemplated by this Agreement.

(iii) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the Effective Time and termination of this Agreement pursuant to its terms, Acquiror shall promptly advise Company orally and in writing of any litigation commenced after the date hereof against Acquiror or any of its directors by any of its current or former shareholders (on their own behalf or on behalf of the Acquiror) relating to this Agreement, the Acquisition or the other transactions contemplated hereby and shall keep Company reasonably informed on a current basis regarding any such litigation. Acquiror shall give the Company the opportunity to consult regarding the defense or settlement of any such shareholder litigation and shall consider the Company's views with respect to such shareholder litigation.

(b) By Company.

(i) The Company shall give prompt notice to Acquiror of any representation or warranty made by it contained in this Agreement becoming untrue or inaccurate, or any failure of Company to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.

(ii) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the Effective Time and termination of this Agreement pursuant to its terms, Company shall give prompt notice to Acquiror of (A) any material notice or other material communication received by it from any Governmental Entity in connection with the transactions contemplated by this Agreement, (B) any notice or other written communication received by it from any Person, subsequent to the date of this Agreement and prior to the Effective Time, alleging any material breach of or material default under any Company Material Contract to which such party or any of its Subsidiaries is a party or (C) any notice or other written communication received by Company or any of its Subsidiaries from any Person, subsequent to the date of this Agreement and prior to the Effective Time, alleging that the consent of such Person material to the operation of Company and its Subsidiaries, taken as a whole, is or may be required in connection with the transactions contemplated by this Agreement.

(iii) At all times during the period commencing with the execution and delivery of this Agreement and continuing until the earlier to occur of the Effective Time and termination of this Agreement pursuant to its terms, Company shall promptly advise Acquiror orally and in writing of any litigation commenced after the date hereof against the Company or any of its directors by any of its current or former shareholders (on their own behalf or on behalf of the company) relating to this Agreement, the Acquisition or the other transactions contemplated hereby and shall keep Acquiror reasonably informed on a current basis regarding any such litigation. The Company shall give Acquiror the opportunity to consult regarding the defense or settlement of any such shareholder litigation and shall consider Acquiror's views with respect to such shareholder litigation.

Section 5.10 Third-Party Consents. As soon as practicable following the date hereof, the Company and Acquiror will each use commercially reasonable efforts to obtain any material consents, waivers and approvals under any of its or its Subsidiaries' respective Contracts required to be obtained in connection with the consummation of the transactions contemplated hereby, including those identified in Section 5.10 of the Company Disclosure Schedule; provided that this Section 5.10 shall not obligate the Company or Acquiror to obtain any consents, waivers or approvals which are conditioned upon any material payments or incurrence of other material obligations by the Company or Acquiror or any of their respective Subsidiaries.

Section 5.11 Company Equity Awards and Employee Benefits.

(a) Company RSUs. As of the Effective Time, or in the event the Acquisition is effected by way of the Offer, at the Offer Closing, except as otherwise agreed to by Acquiror and a holder of a Company Restricted Share Unit, each Company Restricted Share Unit that is issued and outstanding as of the Effective Time or Offer Closing, as applicable, shall, by virtue of the Acquisition and without any action on the part of any Company Restricted Share Unit holder, become fully vested and each Company Restricted Share Unit so vested shall thereupon be converted into the right to receive, as promptly as reasonably practicable following the Effective Time or Offer Closing, as applicable, (but no later than the maximum period permitted for such payments to qualify under the short-term deferral exception of Treasury Regulation Section 1.409A-1(b)(4)(i), except as provided by the following sentence), a cash payment with respect thereto equal to the Scheme Price, less any required withholding Taxes. Notwithstanding the foregoing, such cash payments shall, unless otherwise agreed by the Acquiror and the Company, be made on the schedule set forth in the agreement evidencing the grant of such Restricted Share Unit, if and to the extent necessary to avoid a violation and/or adverse tax consequences under Section 409A of the Code. As of the Effective Time or Offer Closing, as applicable, all Company Restricted Share Units shall no longer be outstanding and shall automatically cease to exist, and each Company Restricted Share Unit holder shall cease to have any rights with respect thereto, except, with respect to the vested Company Restricted Share Units, the right to receive the Scheme Price, less any required withholding Taxes, without interest. The Company shall take all actions necessary to effect the transactions contemplated by this Section 5.11(a) under all Company Restricted Share Unit agreements and any other plan or arrangement of the Company, including delivering all required notices, obtaining any required consents and making any determinations and/or resolutions of the Company Board of Directors or a committee thereof.

(b) Company Options.

(i) Company Options. In connection with the transactions contemplated by this Agreement, but no later than the Effective Time or, in the event the Acquisition is effected by way of the Offer, at the Offer Closing, each Company Option (whether or not vested or exercisable at the Effective Time or the Offer Closing, as applicable) excluding any Company Options under the Company Employee Shares Purchase Plan, as amended, other than Company Options held by an individual identified by Acquiror and set forth in Schedule 5.11(b) (each, an **"Identified Option Holder"**) that is unexpired, unexercised and outstanding immediately prior to the Effective Time or the Offer Closing, as applicable, will be assumed by Acquiror (each, an **"Assumed Option"**). Each such Assumed Option shall, except as otherwise agreed to by Acquiror and a holder of such Assumed Option, be subject to the same terms and conditions as applied to the related Company Option immediately prior to the Effective Time or Offer Closing, as applicable, including the vesting schedule applicable thereto, except that (i) the number of shares of Acquiror common stock or American Depository Receipts (**"ADR"**) representing shares of Acquiror common stock subject to each Assumed Option shall be determined by multiplying the number of shares of Company Common Stock subject to such Assumed Option as of immediately prior to the Effective Time or Offer Closing, as applicable, by the Exchange Ratio (with the resulting number rounded down to the nearest whole share or ADR), and (ii) the per share exercise price of the

Acquiror common stock/ADRs issuable upon the exercise of each Assumed Option shall be equal to the quotient determined by dividing the exercise price per share of Company Common Stock as of immediately prior to the Effective Time or Offer Closing, as applicable, by the Exchange Ratio, with the resulting price per share rounded up to the nearest whole cent. As soon as reasonably practicable following the Closing Date or the Offer Closing Date, as applicable, Acquiror will deliver to each holder of an Assumed Option a document evidencing the foregoing assumption of such Assumed Option by Acquiror, indicating thereon (i) the aggregate number of shares/ADRs of Acquiror common stock issuable upon the exercise thereof, (ii) the exercise price per share of such Assumed Option, and (iii) the portion of such Assumed Option that is vested and unvested as of the Closing Date or Offer Closing Date, as applicable. It is the intention of the parties that the assumption of Company Options pursuant hereto shall be effected in a manner that satisfies the requirements of Sections 409A and 424(a) of the Code and the Treasury Regulations promulgated thereunder and this provision will be construed consistent with this intent. Acquiror shall take all actions reasonably necessary or appropriate to have available for issuance or transfer a sufficient number of shares of Acquiror common stock for delivery upon exercise of the Assumed Options. For purposes of the foregoing, the term **"Exchange Ratio"** shall mean a fraction determined by dividing (x) the Scheme Price, by (y) the volume weighted average per share price of Acquiror common stock (denominated in U.S. dollars) on the New York Stock Exchange market for the ten (10) consecutive trading days immediately preceding (but not including) the Closing Date or Offer Closing Date, as applicable, in each case, rounded to four decimal places.

(ii) Other Company Options. At the Effective Time or, in the event the Acquisition is effected by way of the Offer, at the Offer Closing, each Company Option, excluding any Company Options under the Company Employee Shares Purchase Plan, as amended, held by an Identified Option Holder whether or not vested or exercisable, that is unexpired, unexercised and outstanding immediately prior to the Effective Time or the Offer Closing, as applicable, and that has a per share exercise price that is less than or equal to the Scheme Price (collectively, the **"Cashed-Out Company Options"**) shall, on the terms and subject to the conditions set forth in this Agreement, vest in full and become exercisable immediately prior to the Effective Time or Offer Closing, as applicable, and terminate in its entirety at the Effective Time or the Offer Closing, as applicable, and the holder of each Cashed-Out Company Option shall be entitled to receive therefor, at the Effective Time or the Offer Closing, as applicable, or as soon thereafter as reasonably practicable, an amount of cash equal to the product of (A) the number of Company Ordinary Shares as to which such Cashed-Out Company Option is exercisable at the Effective Time or the Offer Closing, as applicable, after giving effect to the acceleration of vesting and exercisability provided in this Section 5.11(b)(ii) and (B) the excess, if any, of (1) the Scheme Price over (2) the per share exercise price of such Cashed-Out Company Option immediately prior to the Effective Time or the Offer Closing, as applicable. To the extent that no excess, as referred to in clause (B) above, shall exist with respect to a particular Cashed-Out Company Option under the above formula, then such Cashed-Out Company Option shall be terminated and the holder thereof shall be entitled to no consideration in connection with such cancellation.

(iii) Remaining Company Options. At the Effective Time or the Offer Closing, as applicable, each Company Option held by an individual who is an Identified Option Holder that is unexpired and outstanding immediately prior to the Effective Time or the Offer Closing, as applicable, whether vested or unvested, that has a per share exercise price that is greater than the Scheme Price shall vest in full and become exercisable and shall immediately thereafter terminate in its entirety at the Effective Time or the Offer Closing, as applicable.

The Company shall take all actions necessary to effect the transactions contemplated by this Section 5.11(b) under all Company Option agreements and any other plan or arrangement of the Company, including delivering all required notices, obtaining any required consents and making any determinations and/or resolutions of the Company Board of Directors or a committee thereof. The Company and Acquiror will cooperate and coordinate with respect to any materials to be submitted to the holders of Company Options in connection with any notice or consent required under this Section 5.11(b).

(c) Service Recognition; Maintenance of Benefits. From and after the Effective Time or the Acceptance Time, if the Acquisition is effected by way of the Offer, Acquiror will cause the Company to recognize the prior service with the Company or its Subsidiaries of each employee of the Company or its Subsidiaries as of the Effective Time or the Acceptance Time, as applicable (the **"Company Current Employees"**) in connection with all employee benefit plans, programs or policies (including vacation) of the Company, or its affiliates in which Company Current Employees are eligible to participate following the Effective Time or the Acceptance Time, as applicable, for purposes of eligibility (but not for purposes of benefit accruals or benefit amounts under any defined benefit pension plan or vesting of or eligibility for future equity based awards, or to the extent that such recognition would result in duplication of benefits). From and after the Effective Time or the Acceptance Time, as applicable, Acquiror or the Company shall provide Company Current Employees salary and benefits (including health and welfare benefits but excluding equity-based awards) pursuant to employee benefit plans, programs, policies or arrangements maintained by Acquiror, the Company or any Subsidiary of Acquiror that are substantially equivalent to those provided to employees of the Company immediately preceding the Effective Time, which salary and comparable benefits shall continue until at least twelve (12) months following the Effective Time or the Acceptance Time, as applicable. From and after the Effective Time or the Acceptance Time, as applicable, Acquiror will cause the Company, to use commercially reasonable efforts to cause any pre-existing conditions or limitations and eligibility waiting periods (to

the extent that such waiting periods would be inapplicable, taking into account service with the Company) under any group health plans of Acquiror or its affiliates to be waived with respect to Company Current Employees and their dependents to the extent waived under the corresponding plan in which such Company Current Employees participated immediately prior to the Effective Time or the Acceptance Time, as applicable or, if more favorable, the plan in which they participate after the Effective Time or the Acceptance Time, as applicable.

(d) Termination of Company Purchase Plan. Prior to the Effective Time or the Acceptance Time, if applicable, the Company shall take all action that may be necessary to cause all participants' rights under all current offering periods under the Company's 2006 Employee Shares Purchase Plan to terminate on or prior to the day immediately preceding the Effective Time or the Acceptance Time, as the case may be, and to allow all participants to purchase prior to the Effective Time or the Acceptance Time, as the case may be, Company Ordinary Shares based on any purchase rights accrued as of such date as provided by the terms of the Company Employee Shares Purchase Plan. To the extent Company Ordinary Shares are not purchased as provided in the preceding sentence, no later than on the day immediately preceding the Effective Time or Acceptance Time, as the case may be, all accumulated payroll deductions allocated to each participant's account under the Company Employee Shares Purchase Plan shall be returned to each participant as provided by the terms of the Company Employee Shares Purchase Plan and no Company Ordinary Shares shall be purchased under the Company Employee Shares Purchase Plan for such final offering period. As of the close of business on the day immediately prior to the Effective Time or Acceptance Time, as the case may be, the Company shall have terminated the Company Employee Shares Purchase Plan and provided such notice of termination as may be required by the terms of the Company Employee Shares Purchase Plan. The form and substance of any such notice regarding the Company Employee Shares Purchase Plan termination shall be subject to the review and approval of Acquiror, which shall not be unreasonably withheld, conditioned or delayed.

(e) Termination of 401(k) Plans. Unless otherwise requested by Acquiror in writing prior to the Effective Time or the Acceptance Time, if the Acquisition is effected by way of the Offer, the Company shall cause to be adopted at least one (1) day prior to the anticipated closing date resolutions of the Company's Board of Directors to cease all contributions to any and all 401(k) plans maintained or sponsored by the Company or any of its Subsidiaries (collectively, the **"401(k) Plans"**), and to terminate the 401(k) Plans, effective on the day preceding the date on which the Effective Time or Acceptance Time, as applicable, occurs, but conditioned upon the occurrence of the closing. The form and substance of such resolutions shall be subject to the review and approval of Acquiror, which shall not be unreasonably withheld, conditioned or delayed. The Company shall deliver to Acquiror an executed copy of such resolutions as soon as practicable following their adoption by the Company's Board of Directors and shall fully comply with such resolutions.

Section 5.12 Indemnification

(a) Indemnity. From and after the Effective Time or the Offer Closing, if the Acquisition is effected by way of the Offer, Acquiror shall, subject to applicable Legal Requirements, cause the Company to indemnify and hold harmless each Person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time or the Offer Closing, as applicable, a director or officer of the Company or any of its Subsidiaries or any predecessor entity (the **"Indemnified Parties"**), against all claims, losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses, including attorneys' fees and disbursements, incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to the fact that the Indemnified Party is or was an officer or director of the Company or any of its Subsidiaries, whether asserted or claimed prior to, at or after the Effective Time or the Offer Closing, as applicable, according to the indemnification provisions of the Company's articles of organization and bylaws as in effect on the date of this Agreement. From and after the Effective Time or the Offer Closing, as applicable, subject to applicable Legal Requirements, (i) Acquiror shall cause the Company to, fulfill and honor in all respects the obligations of the Company pursuant to any indemnification agreement existing prior to the date hereof between the Company and any Indemnified Party (the **"Indemnification Agreements"**), true and correct copies of which have been provided to Acquiror prior to the date hereof and (ii) the memorandum and articles of association of the Company will contain provisions with respect to exculpation, advancement of expenses and indemnification that are at least as favorable to the Indemnified Parties as those contained in the memorandum and articles of association of the Company as in effect on the date hereof, which provisions will not be amended, repealed or otherwise modified for a period of six (6) years from the Effective Time or the Offer Closing, as applicable, in any manner that would adversely affect the rights thereunder of Indemnified Parties, unless such modification is required by applicable Legal Requirements. For the avoidance of doubt, and without limiting the foregoing, Acquiror acknowledges and agrees, on its own behalf and on behalf of the Company (after the Effective Time or the Offer Closing, as applicable), that:

(i) (A)(I) the Indemnified Parties may have certain rights to insurance obtained on their own behalf (collectively, the **"Individual Insurance"**), (II) the Company is the indemnitor of first resort (*i.e.*, the Company's obligations to the Indemnified Parties are primary and any obligation of the providers of the Individual Insurance to advance expenses or to provide indemnification/insurance for the same expenses or liabilities incurred by the Indemnified Parties are secondary), (III) the Company shall be required to advance the full amount of expenses incurred by the Indemnified Parties and shall be liable for the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of the Indemnification Agreements and the articles of organization and bylaws of the Company, without

regard to any rights the Indemnified Parties may have against the providers of the Individual Insurance, (IV) the Company irrevocably waives, relinquishes and releases the providers of the Individual Insurance from any and all claims against the providers of the Individual Insurance for contribution, subrogation or any other recovery of any kind, (V) no advancement or payment by the providers of the Individual Insurance on behalf of the Indemnified Parties with respect to any claim for which any of the Indemnified Parties has sought indemnification from any Company shall affect the foregoing and to the extent consistent with the terms of the Individual Insurance the providers of the Individual Insurance shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of any such Indemnified Parties against the Company; and

(1) the Indemnification Agreements provide for the advancement of expenses through a final non-appealable adjudication, and that the Company may not commence litigation or any other proceeding seeking to limit such right of advancement.

(b) Insurance. For a period of six (6) years after the Effective Time or Offer Closing, as applicable, Acquiror shall cause the Company to maintain in effect the Company's current directors' and officers' liability insurance (the **"D&O Insurance"**) covering those Persons who are covered by the D&O Insurance as of the date hereof, a complete and accurate copy of which has been provided to Acquiror, for events occurring at or prior to the Effective Time or the Offer Closing, as applicable, (including for acts or omissions occurring in connection with this Agreement and the consummation of the transactions contemplated hereby, to the extent that such acts or omissions are covered by the D&O Insurance) on terms and in amounts at least as favorable to such Persons as provided in the D&O Insurance; provided, however, that in no event shall the Company be required to expend in any one (1) year in excess of two hundred percent (200%) of the annual premium currently paid by the Company for such coverage (which the Company represents and warrants to be as set forth in Section 5.12(b) of the Company Disclosure Schedule) (and to the extent the annual premium would exceed two hundred percent (200%) of the annual premium currently paid by the Company for such coverage, Acquiror) shall cause the Company to maintain the maximum amount of coverage as is reasonably available for such two hundred percent (200%) of such annual premium). To the extent that a six (6) year "tail" policy to extend the Company's existing D&O Insurance is available at or prior to the Closing such that the lump sum payment for such coverage does not exceed two hundred fifty percent (250%) of the annual premium currently paid by the Company for such coverage, the Company may, at its option, obtain such "tail" policy. In the event that the Company purchases such "tail" policy prior to the Closing, Company shall not take any action to cause the "tail" policy to cease to be in full force and effect and such "tail" policy shall satisfy Acquiror's and the Company's obligation under this Section 5.12.

(c) Third–Party Beneficiaries. This Section 5.12 is intended to be for the benefit of, and shall be enforceable by, the Indemnified Parties and their heirs and personal representatives and shall be binding on Acquiror and the Company and its successors and assigns. The obligations under this Section 5.12 shall not be terminated, amended or otherwise modified in such a manner as to adversely affect any Indemnified Party (or any other person who is a beneficiary under the D&O Insurance or the "tail" policy referred to in Section 5.12(b) without the prior written consent of such affected Indemnified Party or other person. In the event Acquiror or the Company or its successor or assign (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each case, proper provision shall be made so that the successor and assign of Acquiror or the Company, as the case may be, honors the obligations set forth with respect to Acquiror or the Company, as the case may be, in this Section 5.12.

Section 5.13 Form S-8. Acquiror agrees to use its commercially reasonable efforts to file with the SEC, no later than 30 days after the Closing Date or Offer Closing Date, if the Acquisition is effected by way of the Offer, a registration statement on Form S-8 (or any successor form) relating to the shares of Acquiror Common Stock issuable with respect to Assumed Company Options and issuable upon settlement of Company Restricted Share Units eligible for registration on Form S-8 and shall use commercially reasonable efforts to maintain the effectiveness of such registration statement thereafter for so long as any of such options remain outstanding.

Section 5.14 Section 16 Matters. Prior to the Effective Time or the Acceptance Time, as applicable, Acquiror and the Company shall take all such steps as may be required (to the extent permitted under applicable Legal Requirements) to cause any dispositions of Company Ordinary Shares (including derivative securities with respect to the Company Ordinary Shares) resulting from the transactions contemplated by Article I of this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 5.15 Acquisition of Company Ordinary Shares. Except as expressly contemplated by this Agreement, none of Acquiror, its related corporations (as such term is defined in the Companies Act, Chapter 50 of Singapore law) or any of their respective nominees will acquire record or beneficial ownership of any Company Ordinary Shares or otherwise obtain any rights to acquire, or other economic interest in, any Company Ordinary Shares.

ARTICLE VI

CONDITIONS TO THE SCHEME OF ARRANGEMENT

Section 6.1 Conditions to the Obligations of Each Party to Effect the Scheme of Arrangement. The respective obligations of each party to this Agreement to consummate the Scheme of Arrangement shall be subject to the satisfaction (or waiver, if permissible under applicable Legal Requirements) on or prior to the Closing Date of the following conditions:

(a) Company Shareholder Approval. The Scheme of Arrangement and this Agreement shall have received the requisite approval from holders of Company Ordinary Shares in compliance with the requirements of Section 210(3) of the Companies Act, Chapter 50 of Singapore and under all other applicable Legal Requirements.

(b) Scheme Court Order. The Court shall have granted the Scheme Court Order and such Scheme Court Order shall have become final.

(c) ACRA Registration. The Company shall have completed the registration of the Scheme Court Order with ACRA.

(d) [Reserved]

(e) No Prohibitive Legal Requirements or Orders. No Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which (i) is in effect and (ii) has the effect of making the Acquisition illegal or otherwise prohibiting consummation of the Acquisition.

(f) HSR Act and Antitrust Matters. The waiting period (and any extension thereof) under the HSR Act relating to the Acquisition shall have expired or been terminated. All clearances, consents, approvals, orders or authorizations of Governmental Entities required by the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f) shall have been obtained and/or any waiting periods (and extensions thereof) applicable to the Acquisition under the Antitrust Laws of the jurisdictions set forth on Schedule 6.1(f) shall have expired or been terminated.

Section 6.2 Additional Conditions to the Obligations of the Company. The obligation of the Company to consummate the Scheme of Arrangement shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by the Company:

(a) Representations and Warranties. The representations and warranties of Acquiror contained in this Agreement shall be true and correct on and as of the Record Date and the Closing Date except (A) for failures to be true and correct that, individually or in the aggregate, have not had the effect of preventing or prohibiting Acquiror from effecting the Acquisition and fulfilling its obligations under this Agreement, (B) for changes expressly required by this Agreement and (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct, subject to the qualifications as set forth in the preceding clause (A), as of such particular date). The Company shall have received a certificate with respect to the foregoing signed on behalf of Acquiror by an authorized executive officer of Acquiror.

(b) Agreements and Covenants. Acquiror shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Closing Date, and the Company shall have received a certificate with respect to the foregoing signed on behalf of Acquiror by an authorized executive officer of Acquiror.

Section 6.3 Additional Conditions to the Obligations of Acquiror. The obligations of Acquiror to consummate and Scheme of Arrangement shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by Acquiror:

(a) Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the Record Date and the Closing Date except (A) for failures to be true and correct that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, (B) for changes expressly required by this Agreement and (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct, subject to the qualifications as set forth in the preceding clause (A), as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (x) all "Material Adverse Effect" qualifications (other than the Material Adverse Effect qualification set forth in Section 2.5) and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded (it being understood and agreed that the phrase "similar phrases" shall not be deemed to include any dollar thresholds) and (y) any update of or modification to the Company Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded). Acquiror shall have received a certificate with respect to the foregoing signed on behalf of the Company by an authorized executive officer of the Company.

(b) Agreements and Covenants. The Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing Date, and Acquiror shall have received a certificate to such effect signed on behalf of the Company by an authorized executive officer of the Company.

(c) Material Adverse Effect. No Material Adverse Effect on the Company shall have occurred since the date hereof and be continuing.

(d) No Governmental Proceedings. There shall not be any (i) pending suit, action or proceeding initiated by any Governmental Entity of competent jurisdiction challenging or seeking to restrain or prohibit the consummation of the Scheme of Arrangement or any of the other transactions contemplated by this Agreement or (ii) pending suit, action, or proceeding initiated by any Governmental Entity of competent jurisdiction seeking to require Acquiror or the Company or any of their Subsidiaries or affiliates to effect any remedial measures that Acquiror is not required to accept pursuant to Section 5.7.

(e) Contract Consents. The third party consent set forth in Schedule 6.3(e) shall have been obtained.

ARTICLE VII

TERMINATION, AMENDMENT AND WAIVER

Section 7.1 Termination. This Agreement may be terminated and the Acquisition may be abandoned at any time prior to the Effective Time, by action taken or authorized by the Board of Directors of the terminating party or parties, and except as provided below, whether before or after the requisite approvals of the shareholders of the Company:

(a) by mutual written consent duly authorized by the Boards of Directors of the Company and Acquiror;

(b) by either Acquiror or the Company if the Acquisition shall not have been consummated by 11:59 p.m. (U.S. Pacific Time) on May 18, 2012 (the operative date upon which this Agreement becomes terminable pursuant to this Section 7.1(b) being referred to herein as the **"Termination Date"**); provided further, however, that the right to terminate this Agreement pursuant to this Section 7.1(b) shall not be available to any party hereto whose action or failure to fulfill any covenant or obligation under this Agreement has been the proximate cause of or resulted in any of the conditions to the consummation of the transactions contemplated hereby set forth in Article VI having failed to be satisfied or fulfilled on or prior to the Termination Date, and such action or failure to fulfill any covenant or obligation constitutes a material breach of this Agreement;

(c) by either Acquiror or the Company if (i) a Governmental Entity shall have issued an order, decree or ruling or taken any other action (including the failure to have taken an action), in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the Acquisition, which order, decree, ruling or other action is final and nonappealable, or (ii) a Governmental Entity that is required to grant a clearance, consent, approval, order or authorization under any of the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f) shall have denied such clearance, consent, approval, order or authorization and such denial shall have become final and nonappealable; provided that the party seeking to terminate this Agreement pursuant to this Section 7.1(c) shall have complied in all material respects with its obligations under Section 5.7(d) to have any such order vacated or lifted or removed;

(d) by either Acquiror or the Company if (i) Acquiror has not commenced the Offer and (ii) either (A) the required approval of the shareholders of the Company contemplated by this Agreement shall not have been obtained by reason of the failure to obtain the required vote at the Scheme Meeting or at any adjournment or postponement thereof at which the applicable vote is taken or (B) the Court refuses to grant the Scheme Court Order (provided that the right to terminate this Agreement pursuant to this Section 7.1(d)(ii)(B) shall not be available to a party hereto if such party shall have failed to comply in all material respects with its obligations under Section 5.1(a) or Section 5.1(b), as applicable;

(e) by the Company, (i) upon a material breach by Acquiror of Section 5.7, or (ii) upon a breach by Acquiror of any representation, warranty, covenant or agreement on the part of Acquiror set forth in this Agreement (other than the covenants and agreements of Acquiror set forth in Section 5.7), or if any representation or warranty of Acquiror shall have become inaccurate, in either case such that the conditions set forth in Section 6.2(a) or Section 6.2(b) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate; provided that if such inaccuracy in any of Acquiror's representations and warranties or breach by Acquiror is curable by Acquiror prior to the Termination Date, then the Company may not terminate this Agreement under this Section 7.1(e) prior to thirty (30) days following the receipt of written notice from the Company by Acquiror of such inaccuracy or breach; provided further that Acquiror exercises commercially reasonable efforts to cure such breach through such thirty (30) day period (it being understood that the Company may not terminate this Agreement pursuant to this Section 7.1(e) if it shall have materially breached this Agreement or if such inaccuracy or breach by Acquiror is cured in all material respects within such thirty (30) day period); and

(f) by Acquiror, (i) upon a material breach by the Company of Section 5.7, or (ii) upon a breach by the Company of any representation, warranty, covenant or agreement on the part of the Company set forth in this Agreement (other than the covenants and agreements of Acquiror set forth in Section 5.7), or if any representation or warranty of the Company shall have become inaccurate, in either case such that the conditions set forth in Section 6.3(a) or Section 6.3(b) (or the conditions set forth in clause (c) of Annex II if Acquiror elects, with the prior written consent of the Company, to effect the Acquisition by way of the Offer pursuant to and in accordance with the terms of this Agreement) would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate; provided that if such inaccuracy in the Company's representations and warranties or breach by the Company is curable by the Company prior to the Termination Date, then Acquiror may not terminate this Agreement under this Section 7.1(f) prior to thirty (30) days following the receipt of written notice from Acquiror to the Company of such inaccuracy or breach; provided further that the Company exercises commercially reasonable efforts to cure such breach through such thirty (30) day period (it being understood that Acquiror may not terminate this Agreement pursuant to this Section 7.1(f) if it shall have materially breached this Agreement or if such inaccuracy or breach by the Company is cured in all material respects within such thirty (30) day period).

(g) by Acquiror if a Triggering Event shall have occurred, provided that any such termination pursuant to this Section 7.1(g) must occur within ten (10) business days after the Triggering Event. For the purposes of this Agreement, a **"Triggering Event,"** shall be deemed to have occurred if: (i) the Board of Directors of the Company or any committee thereof shall for any reason have made a Change of Recommendation, (ii) if Acquiror elects, with the prior written consent of the Company, to commence the Offer pursuant to and in accordance with this Agreement and the Company shall have failed to file the Schedule 14D-9 as required under Section 1.02(a) of Annex I, (iii) the Company shall have failed to include: (A) in the Scheme Document the unanimous recommendation of its Board of Directors in favor of the approval of the Scheme of Arrangement and this Agreement and/or (B) if Acquiror elects, with the prior written consent of the Company, to commence the Offer pursuant to and in accordance with this Agreement, in the Schedule 14D-9 the unanimous recommendation of its Board of Directors that Company shareholders tender their Company Ordinary Shares in the Offer, (iv) the Board of Directors of the Company or any committee thereof shall have approved or recommended any Acquisition Proposal, (v) the Company shall have entered into any letter of intent or similar document or any agreement, contract or commitment accepting any Acquisition Proposal (other than a confidentiality agreement as contemplated by Section 5.4(c)(i)), (vi) a tender or exchange offer relating to securities of the Company shall have been commenced by a Person unaffiliated with Acquiror and the Company shall not have sent to its security holders pursuant to Rule 14e-2 promulgated under the Securities Act, within ten (10) business days after such tender or exchange offer is first published, sent or given, a statement disclosing that the Board of Directors of the Company recommends rejection of such tender or exchange offer, (vii) the Company shall have publicly announced its intention to do any of the foregoing or (viii) the Company shall have knowingly committed a material breach of the provisions of Section 5.4 hereof.

Section 7.2 Notice of Termination; Effect of Termination. Any termination of this Agreement under Section 7.1 above will be effective immediately upon the delivery of a valid written notice of the terminating party to the other party hereto. In the event of the termination of this Agreement as provided in Section 7.1, this Agreement shall be of no further force or effect, except (a) as set forth in Section 5.5(a), this Section 7.2, Section 7.3 and Article VIII, each of which shall survive the termination of this Agreement, and (b) nothing herein shall relieve any party from liability for damages for fraud in connection with, or any intentional or willful breach of, this Agreement. No termination of this Agreement shall affect the obligations of the parties contained in the Confidentiality Agreement, which agreement shall survive termination of this Agreement in accordance with its terms.

Section 7.3 Fees and Expenses

(a) General. Except as set forth in this Section 7.3, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses whether or not the Acquisition is consummated. Notwithstanding the foregoing or anything to the contrary set forth herein, if this Agreement is terminated pursuant to (x) Section 7.1(b) solely as a result of the failure to satisfy the condition set forth in Section 6.1(f) by the Termination Date or a failure to satisfy the conditions set forth in Section 6.1(e) or Section 6.3(d) to the extent relating to anti-trust matters, (y) Section 7.1(c) or (z) Section 7.1(e), then Acquiror shall reimburse the Company promptly, but in no event later than five (5) business days, after the date of such termination, in U.S. dollar denominated immediately available funds, for U.S. $7,500,000.

(b) Payments.

(i) In the event that this Agreement is terminated by Acquiror pursuant to Section 7.1(g) (or this Agreement becomes terminable pursuant to Section 7.1(g), but the Company terminates this Agreement for another reason), then the Company shall promptly, but in no event later than two (2) business days after the date of such termination, pay Acquiror a fee equal to U.S. $7,500,000 in immediately available funds (the **"Termination Fee"**).

(ii) In the event this Agreement is terminated pursuant to Section 7.1(b) or Section 7.1(d) and following the date hereof and prior to the termination of this Agreement pursuant to Section 7.1(b) or Section 7.1(d), as the case may be, any Acquisition Proposal with respect to the Company shall have been made known to the Company or publicly disclosed and, in either case, not withdrawn, or any Person shall have publicly announced an intention (whether or not conditional) to make an Acquisition Proposal in respect of the Company which is not withdrawn, and (A) within twelve (12) months following the termination of this Agreement an Alternative Transaction involving the Company is consummated or (B) within twelve (12) months following the termination of this Agreement the Company enters into a Contract providing for an Alternative Transaction involving the Company, then the Company shall promptly pay Acquiror the Termination Fee (whether or not the transaction referenced in the preceding clause (B) is consummated), but in no event later than two (2) business days after the first to occur of (A) or (B) (it being understood that only one Termination Fee shall be payable in the event that (A) and (B) both occur).

(iii) In the event that (A) the Company shall have failed to include (x) in the Scheme Document a recommendation of the Independent Financial Advisor that holders of Company Ordinary Shares should vote in favor of the Scheme of Arrangement at the Scheme Meeting, (y) if Acquiror commences the Offer, in the Schedule 14D-9 a recommendation of the Independent Financial Advisor that holders of Company Ordinary Shares should tender their shares in the Offer or (z) the Independent Financial Advisor shall not have recommended (or shall have recommended but changed its recommendation) that holders of Company Ordinary Shares should vote in favor of the Scheme of Arrangement at the Scheme Meeting or, if Acquiror commences the Offer, should tender their shares in the Offer, and (B) this Agreement is terminated pursuant to Section 7.1(b) or Section 7.1(d), then the Company shall pay promptly, but in no event later than two (2) business days after the date of such termination, Acquiror the Termination Fee.

(iv) Interest and Costs; Other Remedies. Each of Acquiror and the Company acknowledges that the agreements contained in this Section 7.3(b) are integral parts of the transactions contemplated by this Agreement, and that, without these agreements, Acquiror would not enter into this Agreement. Accordingly, if the Company fails to pay in a timely manner the amounts due pursuant to this Section 7.3(b), and, in order to obtain such payment, Acquiror makes a claim that results in a judgment against the Company failing to pay the amounts set forth in this Section 7.3(b), the Company shall pay to Acquiror its reasonable costs and expenses (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amounts set forth in this Section 7.3(b) from the date such payment becomes due pursuant to this Section 7.3(b) to the date paid at the prime rate of Citibank, N.A. in effect on the date such payment was required to be made. Payment of the fees described in this Section 7.3(b) shall not relieve any party from any liability incurred in the event of breach of this Agreement to the extent provided in clause (b) of Section 7.2 hereof.

(v) Certain Definitions. For the purposes of this Section 7.3(b) only, **"Alternative Transaction"** with respect to the Company, shall mean the transactions contemplated by an Acquisition Proposal (other than the transactions contemplated by this Agreement); provided that for the purpose of this definition, the term **"Acquisition Proposal"** shall have the meaning assigned to such term in Section 5.4(g)(i), except that references to "15%" therein shall be deemed to be references to "50%."

Section 7.4 Amendment. Subject to applicable Legal Requirements, this Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with this Agreement and the Acquisition by the shareholders of the Company; provided, however, after such approval, no amendment shall be made which by applicable Legal Requirements or in accordance with the rules of any relevant stock exchange requires further approval by such shareholders of the Company without such further approval. This Agreement may not be amended except by execution of an instrument in writing signed on behalf of each of Acquiror, and the Company.

Section 7.5 Extension; Waiver. At any time prior to the Effective Time, any party hereto, by action taken or authorized by its Board of Directors, may, to the extent legally allowed: (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Delay in exercising any right under this Agreement shall not constitute a waiver of such right.

ARTICLE VIII

GENERAL PROVISIONS

Section 8.1 Non-Survival of Representations and Warranties. The representations and warranties of Acquiror and the Company contained in this Agreement, or any instrument delivered pursuant to this Agreement, shall terminate at the Effective Time, and only the covenants that by their terms survive the Effective Time and this Article VIII shall survive the Effective Time.

Section 8.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, (b) on the date of confirmation of receipt (or, the first (1st) business day following such receipt if the date is not a business day) of transmission by telecopy or facsimile, or (c) on the date of confirmation of receipt (or, the first (1st) business day following such receipt if the date is not a business day) if delivered by an internationally recognized courier service. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(i) if to the Company, to:

Verigy Ltd.
10100 North Tantau Avenue, MS # A200
Cupertino, California 95014-2540
Attention: General Counsel
Telephone No.: (408) 864-2900
Telecopy No.: (408) 864-2991

with copies to:

Wilson Sonsini Goodrich & Rosati, Professional Corporation
One Market Plaza
Spear Tower, Suite 3300
San Francisco, California 94105
Attention: Michael S. Ringler
Telephone No.: (415) 947-2000
Telecopy No.: (415) 947-2099

and

Wilson Sonsini Goodrich & Rosati, Professional Corporation
650 Page Mill Road
Palo Alto, California 94304
Attention: Aaron Alter
Telephone No.: (650) 493-9300
Telecopy No.: (650) 493-6811

(ii) if to Acquiror, to:

Advantest Corporation
Shin-Marunouchi Center Building,
1-6-2 Marunouchi, Chiyoda-ku.
Tokyo 100-0005, Japan
Attention: Yuichi Kurita
Board Director, CFO, Senior Executive Officer
Telephone No.: +81-3-3214-7500
Telecopy No.: +81-3-3214-7705

with copies to:

Skadden, Arps, Slate, Meagher & Flom LLP
525 University Avenue – Suite 1100
Palo Alto, California 94301
U.S.A.
Attention: Kenton J. King and Amr Razzak
Telephone No.: (650) 470-4500
Telecopy No.: (650) 470-4570

Section 8.3 Interpretation; Certain Definitions.

(a) When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. When a reference is made in this Agreement to Sections, such reference shall be to a section of this Agreement unless otherwise indicated. For purposes of this Agreement, the words **"include," "includes"** and **"including,"** when used herein, shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When reference is made herein to **"the business of"** an entity, such reference shall be deemed to include the business of such entity and its Subsidiaries, taken as a whole. When reference is made herein to a **"business day,"** such reference shall mean any day, other than a Saturday, Sunday and any day which is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in New York, New York are authorized or required by law or other governmental action to close. When reference is made in this Agreement to information that has been **"made available,"** then that shall mean that such information was either (A) included in the Company Designated SEC Documents or (B) included in the Company electronic data room no later than 2:00 p.m., Eastern Time, on the day before the date of this Agreement.

(b) For purposes of this Agreement, the term **"Company Designated SEC Reports"** shall mean the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010 and any report filed with the SEC by the Company pursuant to the Exchange Act after the date of filing of such Form 10-K filed with the SEC on the SEC's EDGAR system at least three (3) business days prior to the date of this Agreement (other than any information that is contained solely in the **"Risk Factors"** and **"Note Regarding Forward-Looking Statements"** sections of such Company SEC Reports, and other than any other forward-looking statements contained in such Company SEC Reports that are of a nature that they speculate about future developments).

(c) For purposes of this Agreement, the term **"Knowledge"** means, with respect to the Company, the actual knowledge after reasonable inquiry of the individuals listed on Section 8.3(c) of the Company Disclosure Schedule.

(d) For purposes of this Agreement, the term **"Material Adverse Effect,"** when used in connection with the Company, means any change, event, development, violation, circumstance or effect (any such item, an **"Effect"**) that, individually or when taken together with all other Effects that exist at the date of determination of the occurrence of the Material Adverse Effect, has (i) a material adverse effect on the business, operations, assets (including intangible assets), liabilities, capitalization, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole; provided, however, that in no event shall any of the following, alone or in combination, be deemed to constitute, nor shall any of the following be taken into account in determining whether there has been or will be, a Material Adverse Effect on the Company and its Subsidiaries: (A) any Effect resulting from national, regional or world economic or political conditions, except in any case to the extent the Company and its Subsidiaries, taken as a whole, are materially disproportionately affected thereby as compared to their industry peers, (B) conditions in the semiconductor industry, and Effects therein, except to the extent the Company and its Subsidiaries, taken as a whole, are materially disproportionately affected thereby as compared to their industry peers, (C) any Effect resulting from actions required to be taken by the Company pursuant to the terms of this Agreement (other than, in the case of the Company, Section 4.1(a)), (D) any Effect attributable to the announcement, performance or pendency of the Transaction or the other transactions contemplated by this Agreement, (E) a change in the stock price or trading volume of such entity, or any failure of such entity to meet published revenue or earnings projections, provided that clause (E) shall not exclude any underlying Effect which may have caused such change in stock price or trading volume or failure to meet internal or published revenue or earnings projections, (F) any adverse effect resulting from any act of terrorism, war, national or international calamity, *force majeure* or any other similar event, except in either case to the extent the Company and its Subsidiaries, taken as a whole, are materially disproportionately affected thereby as compared to their industry peers, (G) any Effect resulting from or relating to any change in generally accepted accounting requirements or principles or (H) any Effect resulting from changes in Legal Requirements, except to the extent the Company and its Subsidiaries, taken as a whole, are materially disproportionately affected thereby as compared to their industry peers.

(e) For purposes of this Agreement, the term **"Person"** shall mean any individual, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization, entity or Governmental Entity.

Section 8.4 Disclosure Schedules. The disclosure set forth in the Company Disclosure Schedule shall provide an exception to or otherwise qualify (a) the representations and warranties of the Company contained in the section or subsection of this Agreement corresponding by number to such disclosure and (b) the other representations and warranties in this Agreement to the extent it is readily apparent from a plain reading of such disclosure that such disclosure is applicable to such other representations and warranties. The parties hereby agree that no reference to or disclosure of any item or other matter in the Company Disclosure Schedule shall be construed as an admission or indication that (i) such item or other matter is material, (ii) such item or other matter is required to be referred to or disclosed in the Company Disclosure Schedule, respectively, or (iii) any breach or violation of any Legal Requirements or any Contract exists or has actually occurred.

Section 8.5 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 8.6 Entire Agreement; Third-Party Beneficiaries. This Agreement and the documents and instruments and other agreements among the parties hereto as contemplated by or referred to herein, including the Company Disclosure Schedule, (a) constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof, it being understood that the Confidentiality Agreement shall continue in full force and effect until the Closing and shall survive any termination of this Agreement and (b) are not intended to confer upon any other Person any rights or remedies hereunder, except as specifically provided, following the Effective Time, in Section 5.12.

Section 8.7 Severability. In the event that any provision of this Agreement or the application thereof becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other Persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the greatest extent possible, the economic, business and other purposes of such void or unenforceable provision.

Section 8.8 Other Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

Section 8.9 Governing Law; Specific Performance; Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the state of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof; provided, however, that (i) the Scheme of Arrangement shall be governed by the laws of the Republic of Singapore and (ii) the laws of a particular party's jurisdiction of incorporation shall govern such party's fiduciary obligations.

(b) The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement exclusively in the Delaware Court of Chancery and any state appellate court therefrom within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any state or federal court within the State of Delaware).

(c) Each of the parties hereto irrevocably agrees that any legal action or proceeding with respect to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder brought by the other party hereto or its successors or assigns, shall be brought and determined exclusively in the Delaware Court of Chancery and any state appellate court therefrom within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any state or federal court within the State of Delaware). Each of the parties hereto hereby irrevocably submits with regard to any such action or proceeding for itself and in respect of its property, generally and unconditionally, to the personal jurisdiction of the aforesaid courts and agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than the aforesaid courts. Each of the parties hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (i) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve in accordance with this Section 8.9, (ii) any claim that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (iii) to the fullest extent permitted by applicable Legal Requirements, any claim that (A) the suit, action or proceeding in such court is brought in an inconvenient forum, (B) the venue of such suit, action or proceeding is improper or (C) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 8.10 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 8.11 Assignment. No party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other parties. Notwithstanding the foregoing, the Acquiror may, without the consent of the Company, assign this Agreement or all or any portion of its rights, interests or obligations hereunder to any of Acquiror's Subsidiaries; provided, that no such assignment shall release the Acquiror from its obligations hereunder. Any purported assignment in violation of this Section 8.11 shall be void. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 8.12 Waiver of Jury Trial. EACH OF THE ACQUIROR AND THE COMPANY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF ACQUIROR OR THE COMPANY IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above.

Advantest Corporation

By: /s/ HARUO MATSUNO
Name: Haruo Matsuno
Title: President and Chief Executive Officer

Verigy Ltd.

By: /s/ JORGE TITINGER
Name: Jorge Titinger
Title: President and Chief Executive Officer

ANNEX I

THE OFFER

Section 1.01 The Offer.

(a) Commencement of the Offer. In the event Acquiror elects, with the prior written consent of the Company, to effect the Acquisition by way of an Offer pursuant to and in accordance with this Agreement, Acquiror shall commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934, as amended (together with the rules and regulations promulgated thereunder, the **"Exchange Act"**)) the Offer to purchase all of the issued Company Ordinary Shares not owned by Acquiror or its Subsidiaries, including all new Company Ordinary Shares unconditionally issued or to be issued pursuant to the valid conversion of any Company Options or Company Restricted Share Units on or before the latest date on which the Offer is no longer open for acceptances (the **"Offer Shares"**) at a price per share equal to the Scheme Price (the **"Offer Price"**) (as adjusted as provided in Section 1.01(c), if applicable).

(b) Terms and Conditions of the Offer. The obligations of Acquiror to accept for payment, and pay for, any Company Ordinary Shares tendered pursuant to the Offer are subject only to the conditions set forth in Annex II (the **"Offer Conditions"**). The Offer Conditions are for the sole benefit of Acquiror, and, subject to prior consultation with the SIC, Acquiror may waive, in whole or in part, any Offer Condition (other than the Minimum Tender Condition, as it may be adjusted pursuant to Clause (a) of Annex II) at any time and from time to time prior to the expiration of the Offer, in its sole discretion, other than the Minimum Tender Condition, which may be waived by Acquiror only with the prior written consent of the Company. Acquiror expressly reserves the right to increase the Offer Price or, subject to prior consultation with the SIC, to waive or make any other changes in the terms and conditions of the Offer; provided, however, that, notwithstanding the foregoing or anything to the contrary set forth in this Agreement or in the Offer Document, unless previously approved by the Company in writing, Acquiror shall not (i) reduce the number of Company Ordinary Shares sought to be purchased in the Offer, (ii) reduce the Offer Price, (iii) change the form of consideration payable in the Offer, (iv) amend, modify or waive the Minimum Tender Condition, (v) add to the Offer Conditions or amend, modify or supplement any Offer Condition, (vi) extend the expiration date of the Offer in any manner other than in accordance with the terms of Section 1.01(d), or (vii) amend, modify, change or supplement any terms or conditions of the Offer that would have a material and adverse effect on the Offer or the shareholders of the Company.

(c) Adjustments to Offer Price. The Offer Price shall be adjusted appropriately to reflect the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into Company Ordinary Shares), cash dividend, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Company Ordinary Shares occurring on or after the date hereof and prior to Acquiror's acceptance for payment of, and payment for, Company Ordinary Shares tendered in the Offer.

(d) Expiration and Extension of the Offer. The Offer shall initially be scheduled to expire at Midnight, New York City time, on the later of (i) the 20th business day following the commencement of the Offer (determined using Rule 14d-1(g)(3) under the Exchange Act) and (ii) the 28th day after the posting of the Offer Documents (such later date, the **"Initial Offer Expiration Date"**); provided, however, if at the Initial Offer Expiration Date or at any then scheduled expiration of the Offer thereafter, any Offer Condition is not satisfied or waived, Acquiror shall extend the Offer on one or more occasions, in consecutive increments of up to five (5) business days each (or such longer period as Acquiror and the Company may agree) and (y) Acquiror shall extend the Offer on one or more occasions for the minimum period required by any rule, regulation, interpretation or position of the SEC or the SIC or, in each case, the staff thereof applicable to the Offer; provided, however, that in no event shall Acquiror be required to extend the Offer beyond the Termination Date. The last date on which the Offer is required to be extended pursuant to this Section 1.01(d) is referred to as the **"Offer End Date"** (it being understood that under no circumstances shall the Offer End Date occur after the latest date as permitted under the Singapore Code.) Acquiror may, in its sole discretion, provide a "subsequent offering period" in accordance with Rule 14d-11 under the Exchange Act (the **"Subsequent Offering Period"**).

(e) Payment. On the terms and subject to the conditions of the Offer and this Agreement, Acquiror shall accept for payment, and pay for, all Company Ordinary Shares validly tendered and not withdrawn pursuant to the Offer promptly (and in any event within three (3) business days) after the applicable expiration date of the Offer (as it may be extended in accordance with Section 1.01(d)) and in any event in compliance with Rule 14e-1(c) promulgated under the Exchange Act, and Acquiror shall also accept for payment, and pay for, all Company Ordinary Shares as they are validly tendered during any Subsequent Offering Period. The date of payment for Company Ordinary Shares accepted for payment pursuant to and subject to the conditions of the Offer is referred to in this Agreement as the **"Offer Closing"**, and the date on which the Offer Closing occurs is referred to in this Agreement as the **"Offer Closing Date"**.

(f) Offer Documents. Acquiror shall prepare and on the date of commencement of the Offer, file with the SEC a Tender Offer Statement on Schedule TO with respect to the Offer (together with all amendments and supplements thereto, and including all exhibits thereto, the **"Schedule TO"**), which shall include, as exhibits, an offer to purchase and a related letter of transmittal, a summary advertisement and other ancillary Offer documents pursuant to which the Offer will be made (such Schedule TO and the documents attached as exhibits thereto, together with any supplements or amendments thereto, the **"Offer Documents"**) and promptly thereafter shall mail the Offer Documents to the holders of the Company Ordinary Shares as required by applicable Legal Requirements. The Company shall co-operate with Acquiror in connection with the preparation and filing of the Offer Documents with the SEC, SIC, Court or any other Governmental Entity in relation to the Offer and the Company shall promptly provide to Acquiror such information concerning the Company as may be required or reasonably requested by Acquiror for inclusion in the Offer Documents or any amendments or supplements thereto. The Company hereby consents to the inclusion in the Offer Documents of the Recommendation of the Company Board of Directors. Each of Acquiror and the Company shall promptly correct any information provided by it for use in the Offer Documents if and to the extent that such information shall have become false or misleading in any material respect. Acquiror shall take all steps necessary to cause the Offer Documents, as so corrected, to be filed with the SEC, SIC, Court or other applicable Governmental Entity and the Offer Documents, as so corrected, to be disseminated to the holders of Company Ordinary Shares, in each case as and to the extent required by applicable Legal Requirements. Acquiror shall promptly notify the Company upon the receipt of any comments from the SEC, SIC, Court or any other Governmental Entity (or their staffs) or any request from the SEC, SIC, Court or any other Governmental Entity or (their staffs) for amendments or supplements to the Offer Documents, and shall provide the Company with copies of all correspondence between Acquiror and its respective Representatives, on the one hand, and the SEC, SIC, Court or any other Governmental Entity or (their staffs), on the other hand. Acquiror shall use reasonable best efforts to respond as promptly as reasonably practicable to any comments of the SEC, SIC, Court or any other Governmental Entity or (their staffs) with respect to the Offer Documents, and Acquiror shall provide the Company and its counsel a reasonable opportunity to review and comment on any written response to any such written comments of the SEC, SIC, Court or any other Governmental Entity or (their staffs). Prior to the filing of the Offer Documents (or any amendment or supplement thereto) or the dissemination thereof to the holders of Company Ordinary Shares, or responding to any comments of the SEC, SIC, Court or any other Governmental Entity or (their staffs) with respect thereto, Acquiror shall provide the Company a reasonable opportunity to review and to propose comments on such document or response.

Section 1.02 Company Actions.

(a) Schedule 14D-9. On the date the Offer Documents are filed with the SEC, provided that, in each case, Acquiror shall have provided to the Company on a timely basis all information required to be included in the Information Statement with respect to Acquiror's designees to the Board of Directors of the Company and with respect to Acquiror's officers, directors and affiliates, the Company shall file with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 with respect to the Offer (such Schedule 14D-9, together with any supplements or amendments thereto, the **"Schedule 14D-9"**), which shall describe and make the Recommendation with respect to the Offer, and promptly thereafter shall mail the Schedule 14D-9 to the holders of the Company Ordinary Shares. The Company shall also include in the Schedule 14D-9 the Fairness Opinion and the advice of the independent financial advisor and the advice of the independent directors of the Company on the Offer. Acquiror shall promptly furnish to the Company in writing all information concerning Acquiror that may be required by applicable securities laws for inclusion in the Schedule 14D-9. Each of Acquiror and the Company shall promptly correct any information provided by it for use in the Schedule 14D-9 if and to the extent that such information shall have become false or misleading in any material respect. The Company shall take all steps necessary to cause the Schedule 14D-9, as so corrected, to be filed with the SEC and the Schedule 14D-9, as so corrected, to be disseminated to the holders of Company Ordinary Shares, in each case as and to the extent required by applicable Legal Requirements. The Company shall promptly notify Acquiror upon the receipt of any comments from the SEC, SIC, Court or any other Governmental Entity (or their staffs) or any request from the SEC, SIC, Court or any other Governmental Entity (or their staffs) for amendments or supplements to the Schedule 14D-9, and shall provide Acquiror with copies of all correspondence between the Company and its Representatives, on the one hand, and the SEC, SIC, Court or any other Governmental Entity (or their staffs), on the other hand. The Company shall use reasonable best efforts to respond as promptly as reasonably practicable to any comments of the SEC, SIC, Court or any other Governmental Entity (or their staffs) with respect to the Schedule 14D-9, and the Company shall provide Acquiror and their respective counsel a reasonable opportunity to review and comment on any written response to any such written comments of the SEC, SIC, Court or any other Governmental Entity (or their staffs). Prior to the filing of the Schedule 14D-9 (or any amendment or supplement thereto) or the dissemination thereof to the holders of Company Ordinary Shares, or responding to any comments of the SEC, SIC, Court or other Governmental Entity (or their staffs) with respect thereto, the Company shall provide Acquiror a reasonable opportunity to review and to propose comments on such document or response.

(b) Stockholder Lists. In connection with the Offer, the Company shall cause its transfer agent to furnish Acquiror promptly with mailing labels containing the names and addresses of the record holders of Company Ordinary Shares as of a recent date and of those persons becoming record holders subsequent to such date, together with lists, copies of all lists of shareholders, security position listings, computer files and all other information in the Company's possession or control regarding the beneficial owners of Company Ordinary Shares, and shall furnish to Acquiror such information (including updated lists of shareholders, security position listings and computer files) and assistance as Acquiror may reasonably request in communicating the Offer to the record and

beneficial holders of the Company Ordinary Shares. Subject to applicable Legal Requirements, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the transactions contemplated by this Agreement, Acquiror shall not use or disclose the information contained in any such labels, lists, listings and files other than in connection with the Offer and the Scheme of Arrangement and, if this Agreement shall be terminated, shall, upon request, deliver to the Company or destroy all copies of such information then in its possession or control in accordance with the Confidentiality Agreement.

Section 1.03 Directors.

(a) Composition of Company Board. Effective upon the initial acceptance for payment by Acquiror of Company Ordinary Shares pursuant to the Offer (the **"Acceptance Time,"** the use of which term herein shall not, unless the context otherwise requires, depend upon whether Acquiror shall exercise its rights under this Section 1.03(a)) and from time to time thereafter, Acquiror shall be entitled to designate from time to time such number of members of the Company Board as will give Acquiror, subject to compliance with Section 14(f) of the Exchange Act and Rule 14f-1 thereunder, representation equal to at least that number of directors, rounded up to the next whole number, that is the product of (i) the total number of directors (giving effect to the directors elected or appointed pursuant to this sentence) multiplied by (ii) the percentage that (A) the number of Company Ordinary Shares owned by Acquiror and its Subsidiaries (including Company Ordinary Shares accepted for payment pursuant to the Offer) bears to (B) the number of issued Company Ordinary Shares. Subject to applicable Legal Requirements, the Company shall take all action requested by Acquiror necessary to effect any election or appointment pursuant to this Section 1.03, including (at the election of Acquiror) (x) subject to the Company Charter Documents, increasing the size of the Company Board, and (y) obtaining the resignation of such number of its current directors as is, in each case, necessary to enable such designees to be so elected or appointed to the Company Board in compliance with applicable Legal Requirements (including, to the extent applicable prior to the Effective Time, Rule 10A-3 under the Exchange Act). From time to time after the Acceptance Time, the Company shall take all action necessary to cause the individuals so designated by Acquiror to be directors on the Company Board to constitute substantially the same percentage (rounding up where appropriate) as is on the Company Board on each committee of the Company Board to the fullest extent permitted by all applicable Legal Requirements and the rules of Nasdaq, and the Company shall take all action requested by Acquiror necessary to effect any such election or appointment.

(b) Section 14(f) of the Exchange Act. The Company shall mail to its shareholders an information statement containing the information required by Section 14(f) of the Exchange Act and Rule 14f-1 thereunder (together with any amendments or supplements thereto, the **"Information Statement"**), and the Company agrees to make such mailing concurrently with the mailing of the Schedule 14D-9, provided that, Acquiror shall have provided to the Company on a timely basis all information required to be included in the Information Statement with respect to such designees and with respect to Acquiror's officers, directors and affiliates, and if not then as soon as practicable thereafter.

(c) Effects on Continued Listing. After the Acceptance Time, the Company shall, upon Acquiror's request, take all action reasonably necessary to elect to be treated as a "controlled company" as defined by the Nasdaq.

Section 1.04 Compulsory Offer. If Acquiror receives valid acceptances pursuant to the Offer (or, subject to Acquiror's compliance with its obligations hereunder, otherwise acquires Company Ordinary Shares at or below the Offer Price during the period of the Offer), in respect of not less than 90% of the Offer Shares (other than those already held by the Acquiror, its related corporations (as such term is defined in the Companies Act, Chapter 50 of Singapore law) or their respective nominees as at the date of the Offer and excluding any Company Ordinary Shares held as treasury shares), then Acquiror shall exercise its right under the Companies Act, Chapter 50 of Singapore law, to compulsorily acquire, at the Offer Price, those Offer Shares of shareholders of the Company who have not accepted the Offer.

ANNEX II

CONDITIONS TO THE OFFER

Notwithstanding any other term of the Offer or the Agreement, Acquiror shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Acquiror's obligation to pay for or return tendered Company Ordinary Shares promptly after the termination or withdrawal of the Offer), pay for any Company Ordinary Shares tendered pursuant to the Offer unless:

(a) there shall have been validly tendered and not validly withdrawn prior to the expiration of the Offer that number of Company Ordinary Shares that would represent at least ninety percent (90%) of the Offer Shares that are not held by or on behalf of Acquiror or any of its Subsidiaries and subject to the consent of the SIC and compliance with the Singapore Code (if applicable) (the **"Minimum Tender Condition"**); provided, however, that Acquiror may, in its discretion (and notwithstanding anything to the contrary contained in this Agreement, without the consent of the Company), reduce the Minimum Tender Condition to that number of Offer Shares which, when added to the Company Ordinary Shares held by or on behalf of Acquiror and its Subsidiaries, would represent at least fifty-one percent (51%) of the voting rights attributable to the maximum potential issued Company Ordinary Shares as of the expiration of the Offer;

(b) the Agreement shall not have been terminated;

(c) the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the Acceptance Time except: (A) for failures to be true and correct that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, (B) for changes expressly required by this Agreement and (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct, subject to the qualifications as set forth in the preceding clause (A), as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (x) all "Material Adverse Effect" qualifications (other than the Material Adverse Effect qualification set forth in Section 2.5) and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded (it being understood and agreed that the phrase "similar phrases" shall not be deemed to include any dollar thresholds) and (y) any update of or modification to the Company Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded), and Acquiror shall have received a certificate with respect to the foregoing signed on behalf of the Company by an authorized executive officer of the Company;

(d) no Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which (i) is in effect and (ii) has the effect of making the Acquisition illegal or otherwise prohibiting consummation of the Acquisition;

(e) the waiting period (and any extension thereof) under the HSR Act relating to the Acquisition shall have expired or been terminated. All clearances, consents, approvals, orders or authorizations of Governmental Entities required by the Antitrust Laws of the jurisdictions set forth in Schedule 6.1(f) shall have been obtained and/or any waiting periods (and extensions thereof) applicable to the Acquisition under the Antitrust Laws of the jurisdictions set forth on Schedule 6.1(f) shall have expired or been terminated;

(f) the Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Acceptance Time, and Acquiror shall have received a certificate to such effect signed on behalf of the Company by an authorized executive officer of the Company;

(g) no Material Adverse Effect on the Company shall have occurred since the date hereof and be continuing;

(h) there shall not be any (i) pending suit, action or proceeding initiated by any Governmental Entity of competent jurisdiction challenging or seeking to restrain or prohibit the consummation of the Offer or any of the other transactions contemplated by this Agreement or (ii) pending suit, action, or proceeding initiated by any Governmental Entity of competent jurisdiction seeking to require Acquiror or the Company or any of their Subsidiaries or affiliates to effect any remedial measures that Acquiror is not required to accept pursuant to Section 5.7; and

(i) the third party consent set forth in Schedule 6.3(e) shall have been obtained.

For purposes of determining whether the Minimum Tender Condition has been satisfied, Acquiror shall have the right to include or exclude for purposes of its determination thereof shares tendered in the Offer pursuant to guaranteed delivery procedures.

The foregoing conditions shall be in addition to, and not a limitation of, the rights and obligations of Acquiror to extend, terminate or modify the Offer pursuant to the terms and conditions of this Agreement.

The foregoing conditions are for the sole benefit of Acquiror and, subject to the terms and conditions of this Agreement and the applicable rules and regulations of the SEC, SIC, Court or any other applicable Governmental Entity, may (other than the Minimum Tender Condition) be waived by Acquiror in whole or in part at any time and from time to time in its sole discretion prior to the expiration of the Offer. The failure of Acquiror at any time to exercise any of the foregoing rights prior to the expiration of the Offer shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time prior to the expiration of the Offer.

Exhibit 12.1

CERTIFICATION

I, Haruo Matsuno, certify that:

1. I have reviewed this annual report on Form 20-F of Advantest Corporation (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (and persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: June 24, 2011

ADVANTEST CORPORATION

By: /s/ HARUO MATSUNO

Name: Haruo Matsuno
Title: Representative Director, President and CEO

CERTIFICATION

I, Yuichi Kurita, certify that:

1. I have reviewed this annual report on Form 20-F of Advantest Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (and persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 24, 2011

ADVANTEST CORPORATION

By: /s/ YUICHI KURITA

Name: Yuichi Kurita
Title: Director, Senior Executive Officer

Exhibit 13.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Advantest Corporation, a Japanese corporation (the "Company"), does hereby certify that, to such officer's knowledge:

1. The accompanying Annual Report of the Company on Form 20-F for the period ended March 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 24, 2011

By: /s/ HARUO MATSUNO

Name: Haruo Matsuno
Title: Representative Director, President and CEO

Date: June 24, 2011

By: /s/ YUICHI KURITA

Name: Yuichi Kurita
Title: Director, Senior Executive Officer

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-169624) of Advantest Corporation:

(2) Registration Statement (Form S-8 No. 333-161977) of Advantest Corporation,

(3) Registration Statement (Form S-8 No. 333-153610) of Advantest Corporation,

(4) Registration Statement (Form S-8 No. 333-146218) of Advantest Corporation,

(5) Registration Statement (Form S-8 No. 333-141394) of Advantest Corporation, and

(6) Registration Statement (Form S-8 No. 333-97107) of Advantest Corporation;

of our reports dated June 24, 2011, with respect to the consolidated financial statements of Advantest Corporation and subsidiaries and the effectiveness of internal control over financial reporting of Advantest Corporation and subsidiaries, included in the Annual Report (Form 20-F) of Advantest Corporation for the year ended March 31, 2011.

/s/ Ernst & Young ShinNihon LLC

Tokyo, Japan
June 24, 2011