

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(1) Summary of Significant Accounting Policies and Practices**

**(a) Description of Business**

Advantest Corporation (the “Company”) and its subsidiaries (hereafter collectively referred to as “Advantest”) are engaged in the design, manufacture, and sale of automated test equipment for semiconductors. Advantest has a diverse product line that meets the needs of semiconductor manufacturers, as well as assembly and test services companies worldwide, for sophisticated systems that test the operation and performance of different types of semiconductors. Advantest equips its automated test equipment with sophisticated, yet easy-to-use, operating systems and testing software. Advantest supports its products and customers through a worldwide customer service network staffed by trained technical and maintenance personnel.

Advantest also designs, manufactures, and sells standard and customized measuring instruments that are used by the communications, electric equipment and systems industries. These instruments are used by Advantest’s customers to improve time-to-market, lower costs of manufacturing and improve the quality of their products.

The Company was incorporated on July 1, 1954 under the name of Takeda Riken Industry Co., Ltd. as a limited liability, joint-stock company in Japan under the Commercial Code of Japan. Takeda Riken Industry Co., Ltd. changed its legal name to Advantest Corporation in 1985.

**(b) Principles of Consolidation**

The Company and its domestic subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of the country of their domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(c) *Cash Equivalents***

Cash equivalents consist of overnight deposits and certificates of deposit with an initial term of less than three months. For purposes of the statements of cash flows, Advantest considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**(d) *Inventories***

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

**(e) *Investments in Affiliated Companies***

Investments in affiliated companies owned 20% to 50%, where Advantest exercises significant influence, are accounted for on the equity method.

**(f) *Investment Securities***

Investment securities at March 31, 2001 and 2002 consist of equity securities. Advantest classifies its equity securities in one of two categories: trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. All equity securities not included in trading are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses from sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend income is recognized when earned.

As of March 31, 2001 and 2002, all equity securities held by Advantest are classified as available-for-sale.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(g) *Derivative Financial Instruments***

Derivative financial instruments are accounted for under Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities”, and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133”. SFAS No. 133, as amended, standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under SFAS No. 133, as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, 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, on the reason for holding it. 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.

Foreign exchange forward contracts are used to manage currency exposure, resulting from changes in foreign currency exchange rates, on trade accounts receivable. Advantest regularly enters into these contracts in U.S. dollars to hedge its non-Japanese currency net monetary exposures. However, these contracts do not qualify for hedge accounting since they do not meet the hedging criteria contained in SFAS No. 133. Advantest does not engage in currency speculation.

Foreign exchange forward contracts generally have maturities of less than two months. These contracts are used to reduce Advantest’s risk associated with exchange rate movements, 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 forward contracts are recognized in earnings under the caption of other income (expense).

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(h) *Property, Plant and Equipment***

Property, plant and equipment is stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments.

Depreciation is computed principally using the declining-balance method except for buildings and machinery and equipment under capital leases for the Company and its domestic subsidiaries and the straight-line method over estimated useful lives of the assets for foreign subsidiaries. Buildings are principally depreciated using the straight-line method over their estimated useful lives. Depreciation for machinery and equipment under capital leases is computed using the straight-line method over the lease term. The depreciation period ranges from 3 years to 50 years for buildings, 2 years to 10 years for machinery and equipment, and 2 years to 20 years for furniture and fixtures.

Depreciation expense was ¥7,537 million, ¥8,293 million and ¥8,938 million (\$67,077 thousand) in the years ended March 31, 2000, 2001 and 2002, respectively.

**(i) *Intangible Assets and Other Assets***

Intangible assets principally consist of licenses, goodwill and computer software for internal-use, including computer software under capital leases. Other assets consist of investments, security deposits and prepaid expenses, of which no one individual item was material to the consolidated financial statements of Advantest.

Certain costs incurred to purchase or develop software for internal-use during the application development stage are capitalized. With respect to internal-use software costs, Advantest expenses costs incurred during the preliminary project stage which includes costs for making strategic decisions about the project, determining performance and system requirements, and vendor demonstration costs. Advantest also expenses costs incurred for internal-use software in the post-implementation stage such as training and maintenance costs. Costs incurred to establish the technological feasibility of software products to be sold as part of the automated test equipment are recorded as research and development costs in the consolidated statements of income. Costs incurred subsequent to establishing technological feasibility with respect to such software have also been expensed by Advantest as such costs have been insignificant.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 5 years. Advantest assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

based on projected discounted future operating cash flows using a discount rate reflecting Advantest's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. Goodwill of ¥800 million and ¥645 million (\$4,841 thousand), net of accumulated amortization, as of March 31, 2001 and 2002 is included in intangible assets.

The cost of software is amortized straight-line over the estimated useful life, which is generally five years. The cost of computer software under capital leases is amortized straight-line over the lease term. The remaining weighted average life of intangible assets at March 31, 2002 is three years. Amortization expense for the years ended March 31, 2000, 2001 and 2002 was ¥1,038 million, ¥1,884 million and ¥2,043 million (\$15,332 thousand), respectively.

**(j) Revenue Recognition**

Automated test equipment

Revenue from sales of automated test equipment which require installation work is recognized when the related installation work is completed and the equipment is accepted by the customer. Revenue from sales of parts for automated test equipment such as backup boards, which do not require installation work 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.

Measuring instruments

Revenue from sales of measuring instruments which do not require installation work by Advantest is recognized upon shipment if the terms of the sale are FOB shipping point and upon delivery if the terms are FOB destination. Revenue from sales of measuring instruments which require installation work is recognized when the related installation work is completed and the instrument is accepted by the customer. Advantest utilizes distributors to market certain of its measuring instruments which do not require installation work. Advantest recognizes revenues from sales of measuring instruments to distributors upon shipment or delivery of instruments to the distributors.

Service fee

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

Operating lease

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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

**(k) *Shipping and Handling Costs***

Shipping and handling costs totaled ¥1,468 million, ¥1,917 million and ¥927 million (\$6,957 thousand) for the years ended March 31, 2000, 2001 and 2002, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

**(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 prepare 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.

**(m) *Research and Development***

Research and development costs are expensed as incurred.

**(n) *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 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.

**(o) *Stock-Based Compensation***

Advantest applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock-based compensation plans. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, Advantest has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(p) *Accrued Pension and Severance Cost***

The Company and certain of its subsidiaries have retirement and severance defined benefit plans covering substantially all of their employees. The benefits are based on years of service and the employee's compensation and vest after one year of service. Prior service cost that results from amendments to the plan is amortized over the average remaining service period of the employees expected to receive benefits. Unrecognized net gain and loss is amortized over the average remaining service life of employees expected to receive benefits. See note 15 to the consolidated financial statements for further discussion.

**(q) *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 to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**(r) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of***

Advantest accounts for long-lived assets in accordance with the provisions of SFAS No. 121. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed 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 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**(s) *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 and warrants.

**(t) *Segment Information***

Advantest discloses information regarding segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

No. 131 establishes standards for reporting of financial information about operating segments in annual financial statements.

**(u) *Translation of Foreign Financial Statements***

Foreign currency financial statements have been translated in accordance with SFAS No. 52, "Foreign Currency Translation". Under SFAS No. 52, the balance sheet accounts of non-Japanese subsidiaries, which are denominated in currencies other than the Japanese yen, are translated at rates of exchange prevailing at end of year. Revenue and expense accounts are translated at average rates of exchange in effect during the year. Resulting translation adjustments are included as a separate component of other comprehensive income (loss).

**(v) *Foreign Currency Transactions***

Assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet date. All revenue and expenses associated with foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of income.

**(w) *New Accounting Standards***

In June 2001, the Financial Accounting Standards Board ("the FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS No. 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS No. 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

Advantest adopted the provisions of SFAS No. 141 and SFAS No. 142 on April 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized. Goodwill and intangible assets acquired in business

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

combinations completed before July 1, 2001 continued to be amortized through March 31, 2002.

SFAS No. 141 requires Advantest to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, Advantest is required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by June 30, 2002.

In connection with the transitional impairment evaluation, SFAS No. 142 will require Advantest to perform an assessment of whether there is an indication that goodwill is impaired as of April 1, 2002. To accomplish this, Advantest must (1) identify its reporting units, (2) determine the carrying amount of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (3) determine the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by September 30, 2002. If the carrying amount of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than March 31, 2003. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in Advantest's consolidated statement of income. The adoption of SFAS No. 141 did not have a material effect on Advantest's consolidated financial position and results of operations. Management does not anticipate that the adoption of SFAS No. 142 will have a material effect on Advantest's consolidated financial position and results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. Advantest is required to adopt the provisions of SFAS No. 143 on April 1, 2003. Currently, the effect on Advantest's consolidated financial statements of adopting SFAS No. 143 has not been determined.

In August 2001, the FASB issued SFAS No. 144 which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Assets to Be Disposed Of” and the accounting and reporting provisions of APB Opinion No. 30, “Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”, for the disposal of a segment of a business (as previously defined in APB Opinion No. 30). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of APB Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142. Advantest adopted the provision of SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did not have a material effect on Advantest’s consolidated financial position and results of operations.

**(x) *Reclassifications***

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform presentation used for the year ended March 31, 2002.

**(2) U.S. Dollar Amounts**

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. For this purpose, the rate of ¥133.25 per U.S.\$1, the approximate current exchange rate at March 31, 2002, was used for the translation of the accompanying financial results of Advantest as of and for the year ended March 31, 2002.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(3) Allowance for Doubtful Accounts**

Changes in the allowance for doubtful accounts are as follows:

		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
		<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>
Balance at beginning of year	¥	159	159	261	\$ 1,959
Amount utilized		-	(141)	(9)	(68)
Provision for doubtful accounts		<u>-</u>	<u>243</u>	<u>281</u>	<u>2,109</u>
Balance at end of year	¥	<u>159</u>	<u>261</u>	<u>533</u>	\$ <u>4,000</u>

**(4) Inventories**

Inventories are composed of the following:

		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
		<b>2001</b>	<b>2002</b>		<b>2002</b>
Finished goods	¥	18,981	12,018	\$	90,191
Work in process		39,748	28,267		212,135
Raw materials		<u>23,490</u>	<u>12,603</u>		<u>94,582</u>
	¥	<u>82,219</u>	<u>52,888</u>	\$	<u>396,908</u>

Advantest recognized inventory write-downs in cost of sales of ¥7,535 million and ¥20,150 million (\$151,220 thousand) for the years ended March 31, 2001 and 2002, respectively. The write-downs of ¥20,150 million (\$151,220 thousand) for the year ended March 31, 2002 consist of ¥19,841 million (\$148,901 thousand) derived from discontinuation of products lines, including those lines that are being replaced by new product lines, and ¥309 million (\$2,319 thousand) due to declines in net realizable value of Advantest's inventory located at customer sites.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(5) Property, Plant and Equipment**

Property, plant and equipment is composed of the following:

		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
		<b>2001</b>	<b>2002</b>		<b>2002</b>
Land	¥	17,977	18,501	\$	138,844
Buildings		44,161	49,969		375,002
Machinery and equipment		23,550	24,145		181,201
Furniture and fixtures		25,164	27,609		207,197
Construction in progress		<u>3,792</u>	<u>1,491</u>		<u>11,189</u>
		114,644	121,715		913,433
Less accumulated depreciation		<u>(59,310)</u>	<u>(63,227)</u>		<u>(474,499)</u>
	¥	<u>55,334</u>	<u>58,488</u>	\$	<u>438,934</u>

**(6) Investment Securities**

Marketable securities consist of equity securities with an aggregate fair value of ¥3,365 million and ¥2,131 million (\$15,992 thousand), gross unrealized gains, which are determined based on the specific-identification method, of ¥897 million and ¥531 million (\$3,985 thousand), gross unrealized losses of ¥723 million and ¥454 million (\$3,407 thousand), and acquisition cost of ¥3,191 million and ¥2,054 million (\$15,414 thousand) as of March 31, 2001 and 2002, respectively.

Proceeds from sale of available-for-sale securities were ¥222 million for the year ended March 31, 2000. Gross realized gains were ¥74 million, ¥102 million and ¥71 million (\$533 thousand) for the years ended March 31, 2000, 2001 and 2002, respectively. Gross realized losses were ¥1,265 million (\$9,493 thousand) for the year ended March 31, 2002.

Advantest maintains long-term investment securities, included in marketable securities and other investments, issued by nonpublic companies, which are recorded at cost. In addition, the fair values of such securities were not readily determinable.

**(7) Derivative Financial Instruments**

Derivative financial instruments are utilized by Advantest primarily to reduce foreign currency exchange risk. Advantest does not hold or issue financial instruments for trading purposes. Advantest generally does not require or place collateral for these financial instruments.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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.

At March 31, 2001 and 2002, Advantest had foreign exchange forward contracts to receive Japanese yen for U.S. dollars. The notional amounts of these contracts were ¥5,105 million and ¥1,845 million (\$13,846 thousand) at March 31, 2001 and 2002, respectively. The fair values of these contracts at March 31, 2001 and 2002 are shown in note 8 to the consolidated financial statements. These contracts do not qualify for hedge accounting since they do not meet the hedging criteria contained in SFAS No. 133. Changes in the fair values are recognized in earnings under the caption of other income (expense).

**(8) Fair Value of Financial Instruments**

The following table presents the carrying amounts and estimated fair values of Advantest's financial instruments at March 31, 2001 and 2002. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

		<b>Yen (Millions)</b>			
		<b>2001</b>		<b>2002</b>	
		<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:					
Investment securities for which it is:					
Practicable to estimate fair value	¥	3,365	3,365	2,131	2,131
Not practicable to estimate fair value		3,083	3,083	5,515	5,515
Financial liabilities:					
Foreign exchange forward contracts		66	66	15	15
Long-term debt including current installments		31,254	32,258	26,911	27,645

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<b>U.S. Dollars (Thousands)</b>	
	<b>2002</b>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Investment securities for which it is:		
Practicable to estimate fair value	\$ 15,992	15,992
Not practicable to estimate fair value	41,388	41,388
Financial liabilities:		
Foreign exchange forward contracts	113	113
Long-term debt including current installments	201,959	207,467

The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions.

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

Cash and cash equivalents, trade accounts receivable, other current assets, trade accounts payable, and accrued expenses (nonderivatives): The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment securities: The fair values of equity investments are based on quoted market prices at the reporting date for those investments. It was not practicable to estimate the fair value of nonpublic companies; those investments are carried at their original cost.

Long-term debt: The fair value of Advantest's long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to Advantest for similar debt instruments of comparable maturities by financial institutions.

**(9) Leases - Lessor**

Advantest provides leases that enable its customers to acquire automated test equipment. 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 on operating leases as of March 31, 2001 and 2002 were as follows:

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
		<b><u>2001</u></b>	<b><u>2002</u></b>		<b><u>2002</u></b>
Machinery and equipment	¥	2,905	4,525	\$	33,959
Less accumulated depreciation		<u>(739)</u>	<u>(1,582)</u>		<u>(11,873)</u>
	¥	<u>2,166</u>	<u>2,943</u>	\$	<u>22,086</u>

Future minimum rental income from equipment on noncancelable operating leases as of March 31, 2002 is as follows:

<b><u>Year ending March 31</u></b>		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
2003	¥	1,033		\$	7,752
2004		399			2,995
2005		<u>85</u>			<u>638</u>
Total minimum lease income	¥	<u>1,517</u>		\$	<u>11,385</u>

**(10) Leases - Lessee**

Advantest is obligated under various capital leases for certain machinery and equipment and software that expire at various dates during the next four years. At March 31, 2001 and 2002, the gross amount of machinery and equipment and software, and the related accumulated depreciation and amortization recorded under capital leases were as follows:

		<b>Yen (Millions)</b>			<b>U.S. Dollars (Thousands)</b>
		<b><u>2001</u></b>	<b><u>2002</u></b>		<b><u>2002</u></b>
Machinery and equipment	¥	1,689	1,094	\$	8,210
Software		<u>500</u>	<u>365</u>		<u>2,739</u>
		2,189	1,459		10,949
Less accumulated depreciation and amortization		<u>(1,373)</u>	<u>(1,082)</u>		<u>(8,120)</u>
	¥	<u>816</u>	<u>377</u>	\$	<u>2,829</u>

Depreciation and amortization of assets held under capital leases are included with depreciation and amortization expense.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Future minimum capital lease payments as of March 31, 2002 are as follows:

<u>Year ending March 31</u>	<u>Yen</u> <u>(Millions)</u>	<u>U.S. Dollars</u> <u>(Thousands)</u>
2003	¥ 267	\$ 2,004
2004	117	878
2005	17	128
2006	<u>3</u>	<u>23</u>
Total minimum lease payments	404	3,033
Less amount representing interest (at rates ranging from 1.64% to 5.82%)	<u>(11)</u>	<u>(83)</u>
Present value of net minimum capital lease payments	393	2,950
Less current installments	<u>(259)</u>	<u>(1,944)</u>
Obligations under capital leases, excluding current installments	¥ <u>134</u>	\$ <u>1,006</u>

Advantest also has several noncancelable operating leases, primarily for computer and office equipment that expire over the next 7 years. Rent expense, including rental payments for cancelable leases, for the years ended March 31, 2000, 2001 and 2002 was ¥2,067 million, ¥2,339 million and ¥2,838 million (\$21,298 thousand), respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2002 are as follows:

<u>Year ending March 31</u>	<u>Yen</u> <u>(Millions)</u>	<u>U.S. Dollars</u> <u>(Thousands)</u>
2003	¥ 431	\$ 3,235
2004	386	2,897
2005	280	2,101
2006	255	1,914
2007	224	1,681
Later years	<u>62</u>	<u>465</u>
Total minimum lease payments	¥ <u>1,638</u>	\$ <u>12,293</u>

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(11) Long-Term Debt**

Long-term debt at March 31, 2001 and 2002 consists of the following:

	<b>Yen (Millions)</b>		<b>U.S. Dollars (Thousands)</b>
	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2002</u></b>
Secured notes payable, due 2002 to 2008 with annual interest rates ranging from 1.05% to 4.125% in 2001 and 2002	¥ 254	211	\$ 1,584
Unsecured 0.95% bonds, due May 30, 2001	4,300	-	-
Unsecured 1.05% bonds, due January 27, 2004	2,200	2,200	16,510
Unsecured 0.88% bonds, due February 5, 2005	4,500	4,500	33,771
Unsecured 1.88% bonds, due December 14, 2005	<u>20,000</u>	<u>20,000</u>	<u>150,094</u>
Total long-term debt	31,254	26,911	201,959
Less current installments	<u>(4,343)</u>	<u>(43)</u>	<u>(323)</u>
Long-term debt, excluding current installments	¥ <u>26,911</u>	<u>26,868</u>	\$ <u>201,636</u>

The Company's unsecured 1.05% bonds and 0.88% bonds were issued with detachable warrants in connection with one of Advantest's stock-based compensation plans. As described in note 14 to the consolidated financial statements, upon issuance of each bond, the Company purchased all detachable warrants from the underwriter and distributed such warrants to the directors and selected employees of the Company and its subsidiaries. No gain or loss was recognized on the sale and purchase of the warrants. For financial reporting purpose, these transactions were accounted for as the issuance of debt to third parties and separately as the issuance of warrants to directors and employees.

At March 31, 2002, property, plant and equipment with a carrying amount of ¥428 million (\$3,212 thousand) was pledged as collateral for certain debt obligations in the amount of ¥67 million (\$502 thousand).

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2002 are as follows:

<u>Year ending March 31</u>	<u>Yen (Millions)</u>	<u>U.S. Dollars (Thousands)</u>
2003	¥ 43	\$ 323
2004	2,243	16,833
2005	4,543	34,094
2006	20,042	150,409
Later years, through 2008	<u>40</u>	<u>300</u>
Total long-term debt	¥ <u>26,911</u>	\$ <u>201,959</u>

**(12) Income Taxes**

The components of income (loss) before income taxes and provision for income taxes as shown in the consolidated statements of income are as follows:

	<u>2000</u>	<u>Yen (Millions) 2001</u>	<u>2002</u>	<u>U.S. Dollars (Thousands) 2002</u>
Income (loss) before income taxes:				
The Company and domestic subsidiaries	¥ 22,495	63,910	(41,956)	\$ (314,866)
Foreign subsidiaries	<u>10,999</u>	<u>22,423</u>	<u>3,476</u>	<u>26,086</u>
	¥ <u>33,494</u>	<u>86,333</u>	<u>(38,480)</u>	<u>\$ (288,780)</u>
Provision for income taxes:				
Current:				
The Company and domestic subsidiaries	¥ 10,473	29,715	97	\$ 728
Foreign subsidiaries	4,023	6,715	1,137	8,533
Deferred:				
The Company and domestic subsidiaries	(1,456)	(3,312)	(15,905)	(119,362)
Foreign subsidiaries	<u>(451)</u>	<u>94</u>	<u>97</u>	<u>728</u>
	¥ <u>12,589</u>	<u>33,212</u>	<u>(14,574)</u>	<u>\$ (109,373)</u>

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income, which in the aggregate, resulted in a normal tax rate of approximately 41.6% for the years ended March 31, 2000, 2001 and 2002.

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Normal tax rate	41.6%	41.6%	(41.6)%
Increase (reduction) in income taxes resulting from:			
Earnings of foreign subsidiaries taxed at different rate from the normal rate in Japan	(2.2)	(2.4)	(1.1)
Tax credits utilized	(1.1)	(0.7)	(0.1)
Expenses not deductible for tax purposes	0.5	0.2	0.2
Change in valuation allowance	-	-	0.7
Excessive reporting of taxable income due to elimination of intercompany profit	-	-	2.6
Other, net	<u>(1.2)</u>	<u>(0.2)</u>	<u>1.4</u>
	<u>37.6%</u>	<u>38.5%</u>	<u>(37.9)%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2001 and 2002 are presented below.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<b>Yen</b>		<b>U.S.</b>
	<b>(Millions)</b>		<b>Dollars</b>
	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>(Thousands)</u></b>
			<b><u>2002</u></b>
Deferred tax assets:			
Inventory adjustments principally due to:			
Valuation	¥ 3,073	9,447	\$ 70,897
Intercompany profit	1,613	95	713
Investments in affiliates	-	269	2,019
Accrued warranty expenses	1,765	775	5,816
Accrued business taxes	2,190	6	45
Accrued pension and severance cost	4,864	5,147	38,627
Other accrued expenses	1,638	1,316	9,876
Property, plant and equipment –			
Intercompany profit	1,125	827	6,206
Research and development expenses			
capitalized for tax purposes	2,914	4,818	36,158
Operating loss carryforward	-	11,511	86,386
Other	<u>1,000</u>	<u>2,040</u>	<u>15,310</u>
Total gross deferred tax assets	20,182	36,251	272,053
Less valuation allowance	<u>-</u>	<u>269</u>	<u>2,019</u>
Net deferred tax assets	<u>20,182</u>	<u>35,982</u>	<u>270,034</u>
Deferred tax liabilities:			
Net unrealized gains on marketable securities	73	32	240
Depreciation	310	512	3,842
Other	<u>437</u>	<u>134</u>	<u>1,006</u>
Total gross deferred tax liabilities	<u>820</u>	<u>678</u>	<u>5,088</u>
Net deferred tax assets	¥ <u>19,362</u>	<u>35,304</u>	\$ <u>264,946</u>

Management of Advantest intends to reinvest certain undistributed earnings of the Company's foreign subsidiaries for an indefinite period of time. As a result, no provision for income taxes has been made on undistributed earnings of these subsidiaries not expected to be remitted in the foreseeable future, aggregating ¥5,850 million (\$43,902 thousand) as of March 31, 2002.

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.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Advantest will realize the benefits of these deductible differences, net of the existing valuation allowance, at March 31, 2002. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

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

The accumulated balances for each classification of other comprehensive income (loss) are as follows:

		<b>Yen (Millions)</b>		
		<u>Foreign currency translation adjustments</u>	<u>Net unrealized gains on securities</u>	<u>Accumulated other comprehensive income (loss)</u>
Balance at April 1, 1999	¥	(4,811)	249	(4,562)
Change during the year		(3,037)	689	(2,348)
Reclassification adjustments for realized portion		—	(24)	(24)
		<u>(3,037)</u>	<u>665</u>	<u>(2,372)</u>
Balance at March 31, 2000		(7,848)	914	(6,934)
Change during the year		5,212	(713)	4,499
Reclassification adjustments for realized portion		—	(99)	(99)
		<u>5,212</u>	<u>(812)</u>	<u>4,400</u>
Balance at March 31, 2001		(2,636)	102	(2,534)
Change during the year		1,440	(453)	987
Reclassification adjustments for realized portion		—	363	363
		<u>1,440</u>	<u>(90)</u>	<u>1,350</u>
Balance at March 31, 2002	¥	(1,196)	12	(1,184)

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

		<b>U.S. Dollars (Thousands)</b>		
		<u>Foreign currency translation adjustments</u>	<u>Net unrealized gains on securities</u>	<u>Accumulated other comprehensive income (loss)</u>
Balance at March 31, 2001	\$	(19,782)	765	(19,017)
Change during the year		10,807	(3,400)	7,407
Reclassification adjustments for realized portion		—	<u>2,724</u>	<u>2,724</u>
		<u>10,807</u>	<u>(676)</u>	<u>10,131</u>
Balance at March 31, 2002	\$	<u>(8,975)</u>	<u>89</u>	<u>(8,886)</u>

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The related tax effects allocated to each component of other comprehensive income (loss) are as follows:

	<b>Yen (Millions)</b>		
	<u>Before- tax amount</u>	<u>Tax (expense) or benefit</u>	<u>Net-of-tax amount</u>
<b>Year ended March 31, 2000:</b>			
Foreign currency translation adjustments	¥ (3,037)	-	(3,037)
Net unrealized gains on securities:			
Net unrealized gains arising during the year	1,180	(491)	689
Less reclassification adjustments for net gains realized in earnings	<u>(41)</u>	<u>17</u>	<u>(24)</u>
Net unrealized gains	<u>1,139</u>	<u>(474)</u>	<u>665</u>
Other comprehensive income (loss)	¥ <u>(1,898)</u>	<u>(474)</u>	<u>(2,372)</u>
<b>Year ended March 31, 2001:</b>			
Foreign currency translation adjustments	¥ 5,212	-	5,212
Net unrealized gains on securities:			
Net unrealized gains arising during the year	(1,221)	508	(713)
Less reclassification adjustments for net gains realized in earnings	<u>(170)</u>	<u>71</u>	<u>(99)</u>
Net unrealized gains	<u>(1,391)</u>	<u>579</u>	<u>(812)</u>
Other comprehensive income (loss)	¥ <u>3,821</u>	<u>579</u>	<u>4,400</u>
<b>Year ended March 31, 2002:</b>			
Foreign currency translation adjustments	¥ 1,440	-	1,440
Net unrealized gains on securities:			
Net unrealized gains arising during the year	(753)	300	(453)
Less reclassification adjustments for net gains realized in earnings	<u>622</u>	<u>(259)</u>	<u>363</u>
Net unrealized gains	<u>(131)</u>	<u>41</u>	<u>(90)</u>
Other comprehensive income (loss)	¥ <u>1,309</u>	<u>41</u>	<u>1,350</u>

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<b>U.S. Dollars (Thousands)</b>		
	Before- tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>Year ended March 31, 2002:</b>			
Foreign currency translation adjustments	\$ 10,807	-	10,807
Net unrealized gains on securities:			
Net unrealized gains arising during the year	(5,651)	2,251	(3,400)
Less reclassification adjustments for net gains realized in earnings	<u>4,668</u>	<u>(1,944)</u>	<u>2,724</u>
Net unrealized gains	<u>(983)</u>	<u>307</u>	<u>(676)</u>
Other comprehensive income (loss)	\$ <u>9,824</u>	<u>307</u>	<u>10,131</u>

**(14) Stock-Based Compensation**

Advantest has two types of stock-based compensation plans as incentive plans for directors and selected employees. One plan uses stock options and the other plan uses bonds with detachable warrants.

In June 1998, the Company's shareholders approved a stock option plan for directors and certain employees. Under the stock option plan, the total number of shares authorized for grant totaled 415,000. Options are granted with an exercise price equal to the higher of (1) 1.05 times the average price of the preceding month on the date of each grant, (2) 1.05 times the closing price of the Company's shares traded on the Tokyo Stock Exchange on the date of each grant, and (3) the average price of the treasury stock acquired in the markets, and have an exercise period of 4 years. The options vest immediately.

In May 1997, January 2000 and February 2001, the Company issued unsecured bonds with detachable warrants. Simultaneously with the issuance of the unsecured bonds, the Company purchased all of the detachable warrants from the underwriter and distributed such warrants to the directors and selected employees of the Company and its subsidiaries. By exercising a warrant, directors and selected employees can purchase the shares of the Company, the number of which is 654,014 shares, 99,000 shares and 319,500 shares at the strike price of ¥6,533, ¥21,840 and ¥14,018 for warrants issued in May 1997, January 2000 and February 2001, respectively. Warrants are granted with an exercise price equal to 1.05 times the closing price of the Company's shares traded on the Tokyo Stock Exchange on the date of each grant. Under each plan, 5,934 warrants, 990 warrants and 3,195 warrants in May 1997, January 2000, and February 2001, respectively, were issued. The warrants vest immediately, and are exercisable up to 4 years from the date of grant. For financial reporting purposes, these transactions were accounted for as the issuance of debt to third

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

parties and separately as the issuance of warrants to directors and employees. The issuance of the warrants to directors and employees was accounted for under APB Opinion No. 25.

The per share weighted average fair value of stock options and warrants granted during the years ended March 31, 2000 and 2001 was ¥8,216 and ¥5,624 on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: the year ended March 31, 2000 - expected dividend yield of 0.18%, risk-free interest rate of 0.6%, volatility of 53.5%, and an expected life of 4 years; the year ended March 31, 2001 - expected dividend yield of 0.37%, risk-free interest rate of 0.6%, volatility of 58.1%, and an expected life of 4 years.

Advantest applies APB Opinion No. 25 in accounting for its stock option plan and warrants plan and, accordingly, no compensation cost has been recognized for its stock options and warrants in the consolidated financial statements. Had Advantest determined compensation cost based on the fair value at the grant date for its stock options and warrants under SFAS No. 123, Advantest's net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	<b>Yen (Millions) except for per share data</b>			<b>U.S. Dollars (Thousands) except for per share data</b>
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>
Net income (loss):				
As reported	¥ 20,905	53,121	(23,906)	\$ (179,407)
Pro forma	20,092	51,324	(23,906)	(179,407)
Basic net income (loss) per share:				
As reported	210.63	534.44	(240.38)	(1.80)
Pro forma	202.44	516.36	(240.38)	(1.80)
Diluted net income (loss) per share:				
As reported	209.99	533.24	(240.38)	(1.80)
Pro forma	201.82	515.21	(240.38)	(1.80)

Stock option and warrant activity during the years ended March 31, 2000, 2001 and 2002 is as follows:

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	Number of <u>shares</u>	<u>Yen</u> Weighted average <u>exercise price</u>	<u>U.S. Dollars</u> Weighted average <u>exercise price</u>
Balance at April 1, 1999	845,277	¥ 6,933	
Granted	99,000	21,840	
Exercised	(436,586)	(6,683)	
Expired	<u>(110)</u>	(6,533)	
Balance at March 31, 2000	507,581	10,156	
Granted	319,500	14,018	
Exercised	(39,603)	(7,030)	
Expired	<u>(441)</u>	(6,533)	
Balance at March 31, 2001	787,037	11,883	\$ 96
Exercised	(44,537)	(6,533)	(49)
Expired	<u>(3,300)</u>	(15,914)	(119)
Balance at March 31, 2002	<u>739,200</u>	12,187	91

At March 31, 2002, the range of exercise prices and weighted-average remaining contractual life of outstanding options and warrants, all of which are exercisable, was as follows:

<u>Yen</u>	Number	Weighted average
<u>Exercise price</u>	<u>outstanding</u>	<u>remaining contractual life</u>
¥ 7,471	324,000	1.0 years
14,018	317,000	2.8 years
21,840	<u>98,200</u>	1.8 years
	<u>739,200</u>	

**(15) Accrued Pension and Severance Cost**

The Company and certain of its subsidiaries have unfunded retirement and severance plans. On terminating employment, substantially all employees of the Company and the subsidiaries are entitled to lump-sum payments based on the employees' compensation and years of service.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The Company and its domestic subsidiaries also have contributory funded defined benefit pension plans which, pursuant to the Welfare Pension Insurance Law of Japan, are administered on behalf of the Japanese government and cover substantially all employees. The Company and its domestic subsidiaries and their employees contribute to the governmental welfare pension program. Additional contributions are made to the program by the participating employers into the program. Benefits under these plans are based on the employees' years of service and compensation. The Company and its domestic subsidiaries' funding policy is to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of these plans consist primarily of equity securities and fixed income securities.

Information about the retirement and severance plans of Advantest are as follows:

		<b>Yen</b>		<b>U.S. Dollars</b>
		<b>(Millions)</b>		<b>(Thousands)</b>
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2002</b>
Components of net periodic benefit cost:				
Service cost	¥ 2,175	2,183	2,364	\$ 17,741
Interest cost	885	896	1,003	7,527
Expected return on plan assets	(964)	(660)	(619)	(4,645)
Amortization of unrecognized:				
Net transition obligation	214	214	214	1,606
Net actuarial gain	-	(279)	(52)	(390)
Prior service cost	-	-	(27)	(203)
Net periodic benefit cost	¥ <u>2,310</u>	<u>2,354</u>	<u>2,883</u>	\$ <u>21,636</u>
	<b>2000</b>	<b>2001</b>	<b>2002</b>	
Weighted average assumptions as of				
March 31:				
Discount rate	3.0%	3.0%	2.5%	
Expected return on plan assets	5.5%	3.0%	3.0%	
Rate of compensation increase	3.3%	3.3%	3.3%	

The following table sets forth the plan's benefit obligation, fair value of plan assets, funded status at March 31, 2001 and 2002.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<u>Yen (Millions)</u>		<u>U.S. Dollars</u>
	<u>2001</u>	<u>2002</u>	<u>(Thousands)</u>
			<u>2002</u>
Change in benefit obligation:			
Balance at beginning of year	¥ 29,879	33,428	\$ 250,867
Service cost	2,183	2,364	17,741
Interest cost	896	1,003	7,527
Employee contributions	341	349	2,619
Actuarial gain or loss	287	4,373	32,818
Benefits paid	(265)	(1,526)	(11,452)
Acquisition	567	-	-
Plan amendment	<u>(460)</u>	<u>(1,528)</u>	<u>(11,467)</u>
Balance at end of year	33,428	38,463	288,653
Change in plan assets:			
Balance at beginning of year	22,016	20,620	154,747
Employer contributions	1,290	1,377	10,334
Employee contributions	341	349	2,619
Actual return on plan assets	(2,894)	(1,291)	(9,689)
Benefits paid	<u>(133)</u>	<u>(328)</u>	<u>(2,462)</u>
Balance at end of year	<u>20,620</u>	<u>20,727</u>	<u>155,549</u>
Funded status	12,808	17,736	133,104
Unrecognized prior service cost	460	1,960	14,709
Unrecognized net transition obligation	(641)	(427)	(3,205)
Unrecognized net actuarial gain or loss	<u>606</u>	<u>(5,729)</u>	<u>(42,994)</u>
Accrued pension and severance cost recognized in the consolidated balance sheets	¥ <u>13,233</u>	<u>13,540</u>	\$ <u>101,614</u>

The accumulated benefit obligation of ¥29,077 million and ¥30,756 million (\$230,814 thousand) at March 31, 2001 and 2002, respectively, did not exceed the sum of the fair value of plan assets and accrued pension and severance cost recognized in the consolidated balance sheets.

During the year ended March 31, 2002, Advantest reduced its number of employees by approximately 600 through a voluntary early retirement program offered to employees in Japan, lay-offs of employees in foreign locations and the consolidation of several business operations. Advantest recorded additional severance costs of ¥1,590 million (\$11,932 thousand) related to severance packages of the employees that accepted early retirement and lay-offs and classified such charge in cost of sales and selling, general and

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

administrative expenses. The classification was dependent on whether employees related to manufacturing activities or other activities. At March 31, 2002, Advantest had paid approximately ¥514 million (\$3,857 thousand) of the liability. The remaining amount was paid in April 2002. The effect of the consolidation of several business operations was insignificant.

**(16) Stockholders' Equity**

Changes in the number of shares issued and treasury stock during the years ended March 31, 2000, 2001 and 2002 are as follows:

	<u>Total shares of common stock</u>	<u>Shares of treasury stock</u>
Number of shares as of April 1, 1999	99,350,380	415,718
Exercise of warrants	366,586	-
Exercise of stock options	-	(70,000)
Purchase of shares	-	39,267
Sale of shares	<u>-</u>	<u>(39,800)</u>
Number of shares as of March 31, 2000	99,716,966	345,185
Exercise of warrants	18,603	-
Exercise of stock options	-	(21,000)
Purchase of shares	-	11,410
Sale of shares	<u>-</u>	<u>(11,500)</u>
Number of shares as of March 31, 2001	99,735,569	324,095
Exercise of warrants	47,816	-
Purchase of shares	-	3,859
Sale of shares	<u>-</u>	<u>(2,300)</u>
Number of shares as of March 31, 2002	<u>99,783,385</u>	<u>325,654</u>

The Commercial Code of Japan provided that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until such reserve equals 25% of common stock. The Commercial Code of Japan, amended effective on October 1, 2001, provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Cash dividends for the years ended March 31, 2000, 2001 and 2002 represent dividends paid out during those years. The accompanying consolidated financial statements do not include any provision for the dividend for the second half-year of ¥15 (\$0.11) per share, aggregating ¥1,492 million (\$11,197 thousand), subsequently proposed by the Board of Directors in respect of the year ended March 31, 2002.

Cash dividends per share are computed based on dividends declared with respect to earnings for the periods.

The amount available for dividends under the Commercial Code of Japan is based on the amount recorded in the Company's books of account and amounted to ¥135,595 million (\$1,017,598 thousand) at March 31, 2002.

**(17) Noncash Financing and Investing Activities**

Obligations under capital leases of ¥393 million, ¥151 million and ¥11 million (\$83 thousand) were incurred in the years ended March 31, 2000, 2001 and 2002, respectively, when Advantest entered into leases for new machinery and equipment and software.

**(18) Operating Segment and Geographic Information**

In accordance with SFAS No. 131, Advantest has two operating and reportable segments, which are the design, manufacturing, and marketing of automated test equipment and measuring instruments. These operating segments are determined based on the nature of the products and the markets. Automated test equipment is used to confirm that a semiconductor functions properly during the semiconductor manufacturing process at sites of manufactures of semiconductor or test houses. Automated test equipment consists of semiconductor test systems, test handlers or probers, semiconductor device interfaces and software. Test handlers or probers, semiconductor device interfaces and software are always with or incorporated in automated test equipment. Measuring instruments are used primarily by manufacturers of equipment and components and service providers of the fiber optic communications industry, the wireless communications industry and the electronics industry. Fundamental research and development activities and headquarters functions are represented by Corporate.

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<b>Yen (Millions)</b>			
	<u>Automated test equipment</u>	<u>Measuring instruments</u>	<u>Corporate</u>	<u>Total</u>
<b>As of and for the year ended</b>				
<b>March 31, 2000:</b>				
Net sales to unaffiliated customers	¥ 135,728	22,850	-	158,578
Depreciation and amortization	6,322	889	1,694	8,905
Operating income (loss)	40,723	(68)	(5,853)	34,802
Expenditures for additions to long-lived assets	4,486	739	4,401	9,626
Total assets	163,215	21,730	135,947	320,892
<b>As of and for the year ended</b>				
<b>March 31, 2001:</b>				
Net sales to unaffiliated customers	241,499	35,013	-	276,512
Depreciation and amortization	7,438	785	1,991	10,214
Operating income (loss)	86,413	6,672	(8,180)	84,905
Expenditures for additions to long-lived assets	9,562	1,657	5,114	16,333
Total assets	230,389	34,528	142,514	407,431
<b>As of and for the year ended</b>				
<b>March 31, 2002:</b>				
Net sales to unaffiliated customers	74,206	21,038	-	95,244
Depreciation and amortization	7,562	1,105	2,622	11,289
Operating income (loss)	(20,104)	(7,826)	(9,175)	(37,105)
Expenditures for additions to long-lived assets	7,718	1,936	4,804	14,458
Equity in losses of affiliates	(794)	-	-	(794)
Total assets	146,790	20,000	140,772	307,562
Equity investments	1,425	-	-	1,425

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	<b>U.S. Dollars (Thousands)</b>			
	<u>Automated test equipment</u>	<u>Measuring instruments</u>	<u>Corporate</u>	<u>Total</u>
<b>As of and for the year ended</b>				
<b>March 31, 2002:</b>				
Net sales to unaffiliated customers	\$ 556,893	157,884	-	714,777
Depreciation and amortization	56,750	8,293	19,677	84,720
Operating income (loss)	(150,874)	(58,732)	(68,855)	(278,461)
Expenditures for additions to long-lived assets	57,921	14,529	36,053	108,503
Equity in losses of affiliates	(5,959)	-	-	(5,959)
Total assets	1,101,614	150,094	1,056,450	2,308,158
Investments in affiliates	10,694	-	-	10,694

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.

Additions to long-lived assets included in Corporate consist of purchases of software and fixed assets for general corporate use of ¥2,005 million, ¥4,703 million and ¥1,940 million (\$14,559 thousand) for the years ended March 31, 2000, 2001 and 2002, respectively.

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. Total assets in Corporate include cash and cash equivalents of ¥101,411 million, ¥98,689 million and of ¥83,052 million (\$623,280 thousand) as of March 31, 2000, 2001 and 2002, respectively. Assets for general corporate use of ¥28,244 million, ¥19,590 million and of ¥19,008 million (\$142,649 thousand) as of March 31, 2000, 2001 and 2002, respectively.

One customer and its related entities in the automated test equipment segment accounted for approximately 17% of total consolidated net sales for the year ended March 31, 2000. One customer and its related entities and another customer and its related entities in the automated test equipment segment accounted for approximately 18% and 11% of total consolidated net sales for the year ended March 31, 2001, respectively. One customer and its related entities in the automated test equipment segment accounted for approximately 16% of total consolidated net sales for the year ended March 31, 2002.

Information as to Advantest's net sales and long-lived assets in various geographical areas is as follows:

Net sales to unaffiliated customers for the years ended March 31, 2000, 2001 and 2002 are as follows:

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

		<b>Yen (Millions)</b>		<b>U.S. Dollars (Thousands)</b>
		<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Japan	¥	66,128	78,649	37,748
North America		22,817	40,700	19,143
Europe		8,373	17,227	8,284
Asia		<u>61,260</u>	<u>139,936</u>	<u>30,069</u>
Total	¥	<u>158,578</u>	<u>276,512</u>	<u>95,244</u>
	\$			<u>283,287</u>
				<u>143,662</u>
				<u>62,169</u>
				<u>225,659</u>

Net sales from unaffiliated customers are based on the customer's location. Long-lived assets are those assets located in each geographic area. Net sales indicated as Asia are generated in Korea, Singapore and Taiwan in the amount of ¥7,687 million, ¥32,792 million and ¥20,781 million, and ¥34,579 million, ¥56,466 million and ¥48,891 million, and ¥9,734 million (\$73,051 thousand), ¥15,020 million (\$112,713 thousand) and ¥5,315 million (\$39,887 thousand) for the years ended March 31, 2000, 2001 and 2002, respectively. Substantially all net sales indicated as North America are generated in the United States of America.

Long-lived assets as of March 31, 2000, 2001 and 2002 are as follows:

		<b>Yen (Millions)</b>		<b>U.S. Dollars (Thousands)</b>
		<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Japan	¥	52,362	57,943	56,191
North America		1,136	1,506	2,440
Europe		817	788	1,124
Asia		<u>1,309</u>	<u>2,000</u>	<u>5,630</u>
Total	¥	<u>55,624</u>	<u>62,237</u>	<u>65,385</u>
	\$			<u>421,697</u>
				<u>18,311</u>
				<u>8,435</u>
				<u>42,251</u>

There is no individually material country with respect to long-lived assets outside Japan. Substantially all long-lived assets indicated as North America are located in the United States of America

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(19) Related Party Transactions**

Advantest sells products and purchases raw materials from its 21% owner and its group companies. 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 pieces of software and information system related services from related parties. Advantest had the following transactions with these related parties as of and for the years ended March 31:

		<u>Yen</u> <u>(Millions)</u>		<u>U.S. Dollars</u> <u>(Thousands)</u>
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2002</u>
Sales of products	¥ 11,334	9,816	1,296	\$ 9,724
Purchases of raw materials	9,282	16,366	4,726	35,466
Accounts receivable	9,404	6,714	467	3,505
Accounts payable	4,184	5,806	507	3,805
Purchases of software and hardware	2,062	1,961	1,306	9,804
Computer rentals, maintenance and other	278	399	802	6,018

Advantest also has various capital lease contracts with a related company. Obligations under capital leases with this related company as of March 31, 2002 were ¥199 million (\$1,493 thousand).

**ADVANTEST CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**(20) Basic and Diluted Net Income (Loss) per Share**

The following table sets forth the computation of basic and diluted net income (loss) per share as of March 31:

	<b>Yen (Millions) except for per share data</b>			<b>U.S. Dollars (Thousands) except for per share data</b>
	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2002</u></b>
Numerator:				
Net income (loss)	¥ <u>20,905</u>	<u>53,121</u>	<u>(23,906)</u>	\$ <u>(179,407)</u>
Denominator:				
Basic weighted average shares	99,249,719	99,394,909	99,453,203	
Dilutive effect of exercise of stock options and warrants	<u>303,500</u>	<u>223,652</u>	-	
Diluted weighted average shares	<u>99,553,269</u>	<u>99,618,561</u>	<u>99,453,203</u>	
Basic net income (loss) per share	¥ 210.63	534.44	(240.38)	\$ (1.80)
Diluted net income (loss) per share	209.99	533.24	(240.38)	(1.80)

**(21) Concentration**

As of and for the years ended March 31, 2000, 2001 and 2002, five customers accounted for approximately 22%, 31% and 20%, respectively, of accounts receivable and approximately 37%, 41% and 37%, respectively, of net sales.