ADVANTEST CORP
Form 20-F
June 27, 2013
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As filed with the Securities and Exchange Commission on June 27, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended March 31, 2013

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)

Hiroshi Nakamura, (81-3) 3214-7500, (81-3) 3214-7711,

Shin-Marunouchi Center Building

1-6-2, Marunouchi

Chiyoda-ku

Tokyo 100-0005

Japan

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

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

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

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

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

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

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

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

Title of class:	Outstanding as of March 31, 2013:
Common Stock	173,793,082
American Depositary Shares each representing one share of Common Stock	899,562

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

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

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As used in this annual report, the term fiscal preceding a year means the twelve-month period ended March 31 of the year subsequent to the year referred to. For example, fiscal 2012 refers to the twelve-month period ended March 31, 2013. 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 = ¥94.05. This was the approximate exchange rate in Japan on March 31, 2013.

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

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

Cautionary Statement with Respect to Forward-Looking Statements

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. SELECTED FINANCIAL DATA

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

U.S. GAAP Selected Consolidated Financial Data

The following selected financial data have been derived from Advantest s audited consolidated financial statements. These consolidated financial statements were prepared under U.S. GAAP. Advantest s U.S. GAAP audited consolidated financial statements for fiscal 2010, fiscal 2011 and fiscal 2012 were included in its Japanese Securities Reports filed with the Director General of the Kanto Local Finance Bureau.

	Year ended March 31,					
	2009	2010	2011	2012	2013	2013
	(in millions, except per share and share data)					(in thousands, except per share and share data)
Consolidated Statement of Income Data:						
Net sales	¥76,652	¥53,225	¥99,634	¥ 141,048	¥132,903	$1,413,110
Operating income (loss)	(49,457)	(11,639)	6,111	837	80	851
Income (loss) before income taxes and equity in earnings (loss) of affiliated company	(52,761)	(9,926)	5,551	(3,442)	(1,293)	(13,748)

Net income (loss)	(74,902)	(11,454)	3,163	(2,195)	(3,821)	(40,627)
Net income (loss) per share						
Basic	(419.09)	(64.09)	18.03	(12.67)	(22.03)	(0.23)
Diluted	(419.09)	(64.09)	18.03	(12.67)	(22.03)	(0.23)
Basic weighted average shares outstanding	178,724,884	178,722,505	175,481,854	173,271,717	173,478,054	173,478,054
Diluted weighted average shares outstanding	178,724,884	178,722,505	175,495,458	173,271,717	173,478,054	173,478,054

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	As of March 31,					
	2009	2010	2011	2012	2013	2013
			(in millions)			(in thousands)
Consolidated Balance Sheet Data:						
Total assets	¥ 202,059	¥ 188,663	¥ 180,312	¥ 219,226	¥ 225,515	$ 2,397,820
Short term debt				25,000		
Corporate bonds					25,000	265,816
Common stock	32,363	32,363	32,363	32,363	32,363	344,104
Stockholders equity	163,616	150,242	138,132	131,552	141,241	1,501,765

	As of March 31,					
	2009	2010	2011	2012	2013	2013
			(in millions, except per share data)			(in thousands)
Other Data:						
Capital expenditures	¥ 4,608	¥ 3,425	¥ 3,793	¥ 6,984	¥ 12,592	$ 133,886
Research and development expenses	23,713	17,896	21,197	30,303	33,062	351,536
Net cash provided by (used in) operating activities	2,357	(17,746)	(693)	12,302	(2,215)	(23,551)
Net cash provided by (used in) investing activities	(32,507)	10,824	(5,828)	(37,670)	(11,498)	(122,254)
Net cash provided by (used in) financing activities	(8,930)	(1,803)	(12,028)	9,887	(2,914)	(30,984)
Operating margin(1)	(64.52%)	(21.87%)	6.13%	0.59%	0.06%	
Net income margin(2)	(97.72%)	(21.52%)	3.17%	(1.56%)	(2.88%)	

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

Dividends

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

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The following table sets forth the dividends paid by the Company for each of the periods shown, which are the six months ended on that date. The U.S. dollar equivalent for the dividends shown are based on the exchange rate in Japan on each record date shown.

Six months ended/Record date	Dividend per Share Yen	Dividend per Share Dollars
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
September 30, 2011	5.0	0.07
March 31, 2012	10.0	0.12
September 30, 2012	10.0	0.13
March 31, 2013	10.0	0.11

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 = ¥94.05. This was the approximate exchange rate in Japan on March 31, 2013.

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 14, 2013 was $1.00 = 94.34. 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 March 31,	At end of period	Average (of month-end rates)	High	Low
		(¥ per $1.00)		
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
2012	82.41	78.86	85.26	75.72
2013	94.16	83.26	96.16	77.41

Month ended	High	Low
	(¥ per $1.00)	
December 31, 2012	¥ 86.64	¥ 81.86
January 31, 2013	91.28	86.92
February 28, 2013	93.64	91.38
March 31, 2013	96.16	93.32
April 30, 2013	99.61	92.96

May 31, 2013	103.52	97.28

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3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

3.D. RISK FACTORS

Risks Related to Advantest s Business

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

Advantest s business depends largely upon the capital expenditures of semiconductor manufacturers, foundries and test houses. These companies, in turn, determine their capital expenditure and investment levels largely based on current and anticipated market demand for semiconductors and products incorporating semiconductors. Such demand is influenced significantly by the overall condition of the global economy. Historically, the percentage reduction in capital expenditures by semiconductor manufacturers during downturns in the semiconductor industry, including investment in semiconductor test systems, has typically been much greater than the percentage reduction in worldwide sales of semiconductors. The semiconductor industry has been highly cyclical with recurring periods of excess inventory, which often have had a severe effect on the semiconductor industry s demand for semiconductor test systems, including those of Advantest. In particular, the market for memory semiconductors shows higher demand volatility as compared to the market for non memory semiconductors. In fiscal 2012, net sales of test systems for memory semiconductors decreased by 6.9% from 24.5% in fiscal 2011; however, Advantest continues to derive significant sales from test systems for memory semiconductors of 17.6% in the semiconductor and component test systems. Therefore, any downturn in the memory semiconductor market may continue to adversely affect Advantest s business and results of operations.

The worldwide semiconductor market contracted by 2.8% and 9.0% in 2008 and 2009, respectively, compared to the previous year, reflecting the global economic downturn that stemmed from the financial crisis. After the negative growth in 2008 and 2009, the market significantly recovered in 2010, growing by 31.8% compared to 2009, primarily due to a surge in demand for electronic equipment in developing nations. In 2011, due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products, the semiconductor market only increased by 0.4% compared to 2010. In 2012, the semiconductor market decreased by 2.7% compared to 2011, due to factors such as the prolonged stagnation in the European economy caused by the debt crisis in the Southern European countries and the slowdown in the Chinese economy, which had been supporting the global economy. Worldwide sales of memory semiconductors declined by 19.9% in 2008, mainly due to a substantial reduction in capital expenditure by semiconductor manufacturers in response to 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 as in 2008. In 2010, primarily due to a steady demand for mobile DRAM test systems for mobile devices, worldwide sales of memory semiconductors increased by 55.4% compared to 2009. In 2011, worldwide sales decreased by 12.7% compared to 2010 due to a drop in the price of DRAM triggered by a downturn in demand for PCs and similar devices. In 2012, sales continued to decrease by 6.2% compared to 2011 due to the ongoing weakness in demand for PCs and similar devices. 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-

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type devices, and other consumer electronics. In 2011, worldwide sales of non memory semiconductors further increased by 4.4% compared to 2010, due to continuing robust demand for smartphones, tablet-type devices, and similar devices. In 2012, although sales of test systems for communications semiconductors and LCD drivers remained strong due to continued robust demand in the mobile devices market, worldwide sales of non memory semiconductors decreased by 1.8% compared to 2011 due to the downturn in sales of other electronic devices.

The significant volatility in demand for semiconductors is affected by various factors such as:

- the overall state of the global economy;
- levels of investment in communications infrastructure and trends of demand in communication devices such as tablet-type devices and smartphones;
- 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;
- demand in the automobile industry; and
- trends in the semiconductor industry.

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 in fiscal 2008 decreased by 58.1% as compared with fiscal 2007 to ¥76,652 million. In fiscal 2009, the semiconductor manufacturers gradually resumed capital expenditures as semiconductor prices rose and equipment utilization rates climbed. Despite the gradual recovery in fiscal 2009, Advantest s net sales in fiscal 2009 decreased by 30.6%, as compared to fiscal 2008, to ¥53,225 million, primarily due to the drop in orders seen in the second half of 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. In fiscal 2011, Advantest expanded sales to meet areas of increasing demand growth such as test equipment for application processors, CMOS image sensors, and other non memory semiconductor sectors. In addition, after the completion of the acquisition of Verigy Ltd. (Verigy) in July 2011, Advantest has enhanced sales promotion to customers in the U.S. and Europe and has provided products tailored to better meet increasing customer demand in the communications semiconductor market. As a result of the above, Advantest s net sales in fiscal 2011 increased by 41.6%, as compared to fiscal 2010, to ¥141,048 million. However, cumulative costs associated with the Verigy acquisition and impairment losses on investment securities led to a year-on-year decline in earnings, and Advantest recorded a net loss in fiscal 2011 of ¥2,195 million. In this environment, Advantest actively marketed semiconductor testing equipment for mobile communications-related semiconductor applications the largest segment for testing equipment and as a result, the company successfully gained market share. However, the gain in market share could not fully offset the decrease in demand for semiconductor testing equipment resulting from capital expenditure constraints of semiconductor manufacturers experiencing a slowdown in the semiconductor market. As a result of the above, Advantest s net sales in fiscal 2012 decreased by 5.8%, as compared to fiscal 2011, to ¥132,903 million. The product mix in sales also worsened, leading to a net loss in fiscal 2012 of ¥3,821 million.

Advantest believes that its results are significantly impacted by the significant volatility in demand in 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. With respect to semiconductor prices in recent years, even though prices for certain products such as DRAM appear to have bottomed out, they 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.

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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 lines 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 creates 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:

- test solutions of non memory semiconductors that incorporate more advanced memory semiconductors, logic and analog circuits;
- test solutions of power semiconductors that control small and large motor drives;
- solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages, with TSV technology;
- mechatronics-related products which transport devices faster, more accurately and more stably;
- test solutions of testing technologies that employ self-test circuit designs incorporated into semiconductor chips;
- test solutions 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; and
- total solutions that allow customers to reduce their testing costs.

Advantest also believes demand for its products, including semiconductor and component test systems, is affected by the level of demand for personal computers, high-speed wireless and wireline data services, digital consumer products and communication devices such as tablet-type devices and smartphones. 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 these 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

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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.

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 a supplier becomes unable to provide components or parts in the volumes needed and at acceptable prices, or if a supplier withdraws from business thereby stopping production or sales of custom or general components and parts that Advantest uses or will use in the future, Advantest would have to identify and procure acceptable replacements. Advantest may lose its capacity to supply test systems if it becomes unable to 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., LTX-Credence Corporation, DHK Solution Corporation, UniTest Inc. and EXICON Ltd. 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 increasing 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 may not realize the full anticipated benefits of the integration with Verigy

Advantest acquired Verigy in July 2011 and fully integrated with Verigy in April 2012. Advantest believes that the integration with Verigy enables it to better satisfy customer needs through the development and sale of a

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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 semiconductor market.

However, integrating the business of two different companies is complex, and unifying certain operating processes will require more time. Furthermore, the integration may not realize the anticipated benefits even if operating processes are successfully unified. The difficulties in integrating the two businesses may arise during various stages of the integration, including the following:

- consolidation of the two companies differing research and development, manufacturing, sales, maintenance processes and their systems;
- the elimination of inefficiencies that may arise out of overlapping departments and processes between the two companies; and
- the integration of two companies with differing corporate cultures and languages.

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

Advantest has also granted stock options to employees that Advantest took over from Verigy in July 2011. If the employees exercise their stock options on a large scale, voting rights of Advantest s shareholders, total assets per share and share price may be diluted as a result.

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 such major customers 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 20% in fiscal 2010, approximately 29% in fiscal 2011 and approximately 14% in fiscal 2012. Sales to Advantest s five largest customers accounted for approximately 49% of its total sales in fiscal 2010, approximately 56% in fiscal 2011 and approximately 37% in fiscal 2012. 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 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.

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, personal computers, mobile devices such as tablet-types devices and smartphones 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.

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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.

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 2012 net sales, 89.4% were from products sold to overseas customers. Most of Advantest s products are manufactured in Japan, but approximately 59% of Advantest s net sales in fiscal 2012 were derived from currencies other than the Japanese yen, predominantly the U.S. dollar. If the Japanese yen becomes strong 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, thereby reducing its profitability overall. 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.

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If Advantest s main facilities for research and development, production or information technology systems for 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 in March 2011, 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-response 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 2012, 67.1% 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, 15.5% from the Americas and 6.8% 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, including further turmoil in connection with the European debt crisis, 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.

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We have recorded a significant amount of goodwill and other long-lived assets which may become impaired in the future

Advantest may be required to record an impairment charge for the difference between the carrying amount of long-lived assets and the implied fair value of long-lived assets if circumstances indicate that impairment may have occurred and the carrying amount of the assets may not be recoverable. Advantest has recorded a significant amount of goodwill on its consolidated balance sheet in accordance with U.S. GAAP and goodwill is tested for impairment at least annually. If the testing performed indicates that the carrying amount of reporting unit goodwill exceeds, the implied fair value of that goodwill, Advantest recalculates the fair value of each reporting unit goodwill and an impairment loss shall be recognized in an amount equal to that excess. Therefore, depending on the expected future cash flow of long-lived assets or business operations to which goodwill relates, Advantest may be required to record a significant impairment charge, which could have a material adverse effect on Advantest s financial condition and results of operations.

Advantest may not be able to recover its capital expenditures

Advantest continues to make capital expenditures. From fiscal 2012 through fiscal 2013, Advantest built a new factory in South Korea in order to increase its share of sales to major Korean customers. The factory began operating in May 2013. Advantest may not be able to recover the capital expenditures for such projects within the assumed timeframe, or at all, if it cannot achieve the assumed volume of sales due to customers cutting back on capital expenditures or if intense competition with competitors results in a reduction in unit prices. In such event, the asset would be subject to impairment, which may have an adverse impact on Advantest s profitability.

If a natural disaster comparable to the Great East Japan Earthquake were to occur, Advantest s business may suffer

If a natural disaster comparable to the Great East Japan Earthquake, which struck on March 11, 2011, were to occur, resulting in suppliers facilities being destroyed, the supply of public utilities such as electricity, gas, and water to suppliers facilities being cut, or there is a shortage of necessary energy supply for domestic industry, Advantest may not be able to procure necessary components or parts, and may be unable to meet market demand for the supply of its products. Furthermore, market trends for the semiconductor industry, and finished products that are closely related to semiconductors, such as household electric appliances, various computer equipment and automobiles, may become uncertain. Advantest s business may be adversely affected as a result of these factors.

If a large quantity of radioactive material is released as a result of substantial damage to a nuclear power plant caused by an aftershock or a tsunami similar to the accident that occurred at the Fukushima Daiichi Nuclear Power Station, and Advantest s products are contaminated with radioactive substances, the radiation levels where Advantest s major production facilities are located exceed national radiation standards, or electricity supply becomes unstable for long periods of time due to a shut-down of 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 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 and mechatronics system;

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

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order cancellations or postponement of capital expenditures by customers;

delays in collection of accounts receivable, increases in losses resulting from bad debt or increases in provisions for doubtful receivables, 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 and mechatronics systems, Advantest uses fluorinated liquid which use is not currently regulated by laws. 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 with or expand sales of 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 may 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.

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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.

Damage, interference or interruption to Advantest s information technology networks and systems could hinder business continuity and lead to substantial costs or harm Advantest s reputation

Advantest relies on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including confidential data, and to carry out and support a variety of business activities, including manufacturing, research and development, supply chain management, sales and accounting. Advantest has the Information Security Committee and Legal and General Affairs Department to create policies on information security measures. The IT section builds and operates the information and technology network and system based on the above-mentioned policies. However, attacks by hackers or computer viruses, wrongful use of the information security system, careless use, accidents or disasters could undermine the defenses established by Advantest and disrupt business continuity, which could not only risk leakage or tampering of information but could also result in a legal claim, litigation, damages liability or an obligation to pay fines. If this were to occur, Advantest s reputation could be harmed, Advantest could incur substantial costs, and it may have a material adverse effect upon Advantest s financial condition and results of operation.

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 due to product defects 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, could result in claims for damages and could have a material adverse effect upon Advantest s business results and financial condition.

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.

A holder of ADSs has fewer rights than a shareholder has, and 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

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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.

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Advantest applies its capital expenditures chiefly to developing new products, streamlining production, expanding its production capacity and capital leases to its customers. Advantest s capital expenditures were ¥3.8 billion, ¥7.0 billion and ¥12.6 billion in fiscal 2010, 2011 and 2012, respectively. The fiscal 2012 amount includes capital expenditures to build the new factory in Korea.

On July 4, 2011, Advantest acquired all of the outstanding shares of common stock of Verigy at US$ 15.00 per share, pursuant to which Verigy became a wholly-owned subsidiary of Advantest. The total purchase price was ¥78.7 billion. In April 2012, Advantest reorganized its subsidiaries and fully integrated with Verigy.

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 Inc., located at 3061 Zanker Rd., San Jose, CA 95134 U.S.A.

4.B. BUSINESS OVERVIEW

Overview

As of June 27, 2013, Advantest is comprised of the Company and its 34 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.

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Sales by Segment

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

	Fiscal 2010		Fiscal 2011		Fiscal 2012	
Segment	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**	**Sales (in millions)**	**%**
Semiconductor and Component Test System Segment	¥ 69,333	69.6	¥ 105,608	74.9	¥ 101,119	76.1
Mechatronics System Segment	18,515	18.6	20,616	14.6	13,653	10.3
Services, Support and Others Segment	14,166	14.2	18,807	13.3	20,077	15.1
Intercompany transactions elimination	(2,380)	(2.4)	(3,983)	(2.8)	(1,946)	(1.5)
Total Net Sales	¥ 99,634	100.0%	¥ 141,048	100.0%	¥ 132,903	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 communication devices such as tablet-type devices and smartphones;
- 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, electronic books and application products for automobiles;
- the increasing levels of wireless high-speed data transmission worldwide reflecting the expansion of the mobile device industry;
- the increasing demand for electronic devices that incorporate semiconductor and communications technologies in developing countries;
- the development of higher speed and high capacity communications infrastructure; 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.

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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 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. Sales in 2011 increased compared to the previous year, by approximately $1.2 billion or 0.4% to approximately $299.5 billion, mainly due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. Sales in 2012 decreased compared to the previous year, by approximately $8.0 billion or 2.7% to approximately $291.6 billion, because the effects of the debt crisis in Southern European countries brought about a further sense of stagnation. The following table sets forth the size of the market for memory semiconductors, non memory semiconductors and all semiconductors between 2008 and 2012 and the projected market size between 2013 and 2015 as compiled and estimated by WSTS as of June 2013.

	Actual Year ended December 31,					Projections for Years ending December 31,		
	2008	2009	2010	2011	2012	2013	2014	2015
	(in millions)							
Memory	$ 46,348	$ 44,797	$ 69,614	$ 60,749	$ 56,995	$ 60,360	$ 62,182	$ 63,946
Non memory	202,255	181,516	228,701	238,772	234,567	237,406	250,724	260,957
Total	$ 248,603	$ 226,313	$ 298,315	$ 299,521	$ 291,562	$ 297,766	$ 312,906	$ 324,903

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 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 compared to the previous year, due to a surge in demand for electronic equipment in developing nations. In 2011, the market only increased slightly compared to the previous year due to the global economic recession and natural disasters such as the Great East Japan Earthquake and the floods in Thailand reducing production activities of electronic products. The market for memory semiconductors decreased by 6.2% in 2012 as compared with 2011, after which it is expected to grow by approximately 6% in 2013, by approximately 3% in 2014 and by approximately 3% in 2015, according to estimates by WSTS. WSTS expects that the market for memory semiconductors will grow to approximately $63.9 billion in 2015. 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

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other high-end semiconductors. WSTS estimates that the non memory semiconductor market will grow by approximately 1% in 2013, by approximately 6% in 2014 and by approximately 4% in 2015. WSTS expects that the market for non memory semiconductors will grow to approximately $261.0 billion in 2015. Advantest believes that the demand for non memory semiconductors will depend on consumer products such as smartphones and tablet-type devices, and will continue to 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.

Furthermore, Advantest believes that technical innovation and a growth in demand for semiconductors used in vehicles, such as electronic control units and on-board LANs, in connection with the increasing use of electronics in the automobile industry may have a big impact on the semiconductor industry and electronic components industry.

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:

- increase in demand for, and improvements in technology for, communication devices such as tablet-type devices and smartphones;
- 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;
- 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; and
- the move from vehicles with internal combustion engines to hybrid or electric vehicles partially or wholly driven by electric motors in response to society s increasing call for environmental measures and greater energy efficiency.

Demand for personal computers, servers, smartphones and tablet-type devices with higher performance and capabilities are also driving changes in the memory semiconductor sector. This demand is causing manufacturers to shift to the production of the DDR4-SDRAM high-speed data transfer memory semiconductor, and to further expand production of lower power LPDDR2/3 for mobile devices and 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.

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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 300 mm 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. 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. Furthermore, semiconductors that use TSV (Through-Silicon Via) technology, a via that penetrates the Si chip, has reached the stage of practical application. 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.

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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, on July 4, 2011, Advantest acquired Verigy, pursuant to which Verigy became a wholly-owned subsidiary of Advantest. In April 2012, Advantest reorganized its subsidiaries and fully integrated with Verigy. 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;
- in addition to Advantest s existing technologies, actively utilizing Verigy s technologies, including the high-frequency test technology or the per-site processor architecture, and promoting product development that utilizes the strengths of both companies;

developing testing solutions for complexed IC incorporating RF, logic and memory chips in a single package in order to achieve IC with advanced 3D integration as well as downsizing and technical advantages with TSV technology;

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 2012 the market for test systems for non memory semiconductors was approximately six 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.

Furthermore, through its integration with Verigy, Advantest aims to utilize the strengths of both companies to rapidly develop efficient, low cost products to break into the low-end non memory device market and high-speed telecommunications market that were previously difficult to enter into.

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 continue 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. In addition, in Europe, the U.S. and Asia, Advantest is further expanding its customer base and strengthening technical support and services by utilizing offices near the customer base of Verigy (now acquired by Advantest). These offices also facilitate Advantest s efforts to continue conducting collaborative development activities with leading semiconductor manufacturers.

Advantest acquired Verigy, then Advantest reorganized its subsidiaries and integrated with Verigy

On July 4, 2011, Advantest acquired all of the outstanding shares of common stock of Verigy, a leading manufacturer of semiconductor test systems, which became a wholly-owned subsidiary of Advantest. In April 2012, Advantest reorganized its subsidiaries and fully integrated with

Verigy, and currently sells Verigy s products under the Advantest brand. The purpose of this acquisition and 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.

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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 intends to 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 2012, 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 2010	Fiscal 2011	Fiscal 2012
		(in millions)	
Test systems for memory semiconductors	¥ 30,016	¥ 25,913	¥ 17,751
Test systems for non memory semiconductors	39,317	79,695	83,368
Total	¥ 69,333	¥ 105,608	¥ 101,119

Test Systems for Memory Semiconductors

Advantest s test systems for memory semiconductors are test systems designed to test high-speed/high performance and low power consumption DRAM semiconductors used in personal computers, servers, smartphones and tablet-type devices as well as flash memory semiconductors used in digital consumer products and communication devices such as smartphones.

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

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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 62%, 57% (which includes Verigy for 2011) and 63% in 2010, 2011 and 2012, respectively, as a result of increasing capital expenditure in test systems for DRAM semiconductors. 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, the T5700 series, HSM series and V6000 series.

T5500 Series. The T5588 is a test system for mass production suitable for testing speeds of up to 800 Mbps for DDR3-SDRAM cell testing and LPDDR. The T5503 and T5503A are memory semiconductor test systems suitable for the mass production of DDR3-SDRAM, LPDDR2 and LPDDR3 (1 Gbps-2 Gbps class high-speed memory semiconductors). The T5511, which is the top of the range model in the T5500 series, is a memory semiconductor test system which can handle testing speeds of up to 8 Gbps and is suitable for the evaluation and production of ultra-high-speed memory semiconductors such as DDR4-SDRAM and GDDR. The T5500 series are Advantest s best selling line of test systems used for the back end testing of DRAM semiconductors.

T5300 Series. The T5383 is a test system for the front-end testing of DRAM semiconductors and for the 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

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back-end 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 memory 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. As a result, by specializing in NAND-type flash memories Advantest introduced the T5773 memory test system, which enabled a significant reduction in testing costs compared to existing products. The T5700 series will provide effective solutions that will enable everything from design to mass production of flash memories.

HSM Series. The HSM series are test systems developed by Verigy for the research and development and mass production of high-speed DRAM. The products in this series are capable of test speeds from 2 Gps to 8 Gps. Products can be upgraded by exchanging certain parts or modules, allowing users to set up an optimal system in a timely manner for minimal cost as memory device speeds increase.

V6000 Series. The V6000 series are test systems developed by Verigy for the research and development and mass production of flash memory. The V6000 series as a test system for flash memories is capable of industry class-leading test speeds of 880 Mbps. The test systems are made so that they can be attached to both wafer probers and handlers, and can be switched to back end or front end lines depending on the user s needs. As the test systems have multiple test controllers, they can realize high productivity in MCP-type memory device testing as well as flash memory.

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, test systems for image sensor 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 was approximately 18% in 2010, approximately 47% (which includes Verigy for 2011) as a result of the integration with Verigy in 2011 and reached approximately 50% in 2012.

Advantest s main product lines of test systems for non memory semiconductors are the T2000, the V93000 series and the T6300 series.

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. Mainframes for the T2000 may be chosen to meet customers needs. Furthermore, Advantest developed the EPP (Enhanced Performance Package) which is a new system option. Advantest believes that introducing EPP compatible modules into the market will help customers reduce testing costs and testing development time.

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V93000 Series. The V93000 series are non memory semiconductor test systems developed by Verigy, using a test module structure. These products feature test processor per pin architecture and scalable platform and as a result of higher performance and lower test costs, Advantest believes that these products are capable of expanding their share of the non memory semiconductor test system market. The main modules in the lineup are the top of the line 12.8 Gbps digital module, 6 GHz BW analog module, 6 GHz RF module and DC module.

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.

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 and M6243 test handlers for test systems for memory semiconductors, including DDR3-SDRAM, can handle up to 512 semiconductors at a time. Their 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 and M6243 have 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 Hcial highlights (hereafter referred to as financial statements) are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2014 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.*

PricewaterhouseCoopers LLP

New York, New York

February 26, 2015

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The Gabelli Healthcare & Wellness^{Rx} Trust

Additional Fund Information (Unaudited)

The business and affairs of the Fund are managed under the direction of the Fund s Board of Trustees. Information pertaining to the Trustees and officers of the Fund is set forth below. The Fund s Statement of Additional Information includes additional information about the Fund s Trustees and is available without charge, upon request, by calling 800-GABELLI (800-422-3554) or by writing to The Gabelli Healthcare & Wellness^{Rx} Trust at One Corporate Center, Rye, NY 10580-1422.

Name, Position(s) Address[1] and Age	Term of Office and Length of Time Served[2]	Number of Funds in Fund Complex Overseen by Trustee	Principal Occupation(s) During Past Five Years	Other Directorships Held by Trustee[5]
INTERESTED TRUSTEE[3] :				
Mario J. Gabelli, CFA Trustee and Chief Investment Officer Age: 72	Since 2007***	28	Chairman, Chief Executive Officer, and Chief Investment Officer Value Portfolios of GAMCO Investors, Inc., and Chief Investment Officer Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc.; Director/ Trustee or Chief Investment Officer of other registered investment companies in the Gabelli/ GAMCO Fund Complex; Chief Executive Officer of GGCP, Inc.	Director of Morgan Group Holdings, Inc. (holding company); Chairman of the Board and Chief Executive Officer of LICT Corp. (multimedia and communication services); Director of CIBL, Inc. (broadcasting and wireless communications); Director of ICTC Group, Inc. (communications); Director of RLJ Acquisition Inc. (blank check company) (2011-2012)

INDEPENDENT TRUSTEES[6]:

Anthony J. Colavita[4] Trustee Age: 79	Since 2007*	37	President of the law firm of Anthony J. Colavita, P.C.	
James P. Conn[4] Trustee Age: 76	Since 2007**	21	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd. (1992-1998)	Director of First Republic Bank (banking) through January 2008
Vincent D. Enright Trustee Age: 71	Since 2007***	17	Former Senior Vice President and Chief Financial Officer of KeySpan Corporation (public utility) (1994-1998)	Director of Echo Therapeutics, Inc. (therapeutics and diagnostics) (2008-2014); Director of the LGL Group, Inc. (diversified manufacturing) (2011-2014)
Robert Kolodny, MD Trustee Age: 70	Since 2007*	2	Physician; Principal of KBS Management LLC (investment adviser) since 2006; General Partner of KBS Partnership, KBS II Investment Partnership, KBS III Investment Partnership, KBS IV Limited Partnership, KBS New Dimensions, L.P., KBS Global Opportunities, L.P., and KBS VII Limited Partnership (private investment partnerships) since 1981; Medical Director and Chairman of the Board of the Behavioral Medicine Institute since 1983	
Kuni Nakamura Trustee Age: 46	Since 2012**	14	President of Advanced Polymer, Inc. (chemical wholesale company); President of KEN Enterprises, Inc.	
Anthonie C. van Ekris Trustee	Since 2007***	20	Chairman and Chief Executive Officer of BALMAC International, Inc. (commodities and	

Age: 80	futures trading)

The Gabelli Healthcare & Wellness^{Rx} Trust

Additional Fund Information (Continued) (Unaudited)

Name, Position(s) Address[1] and Age	Term of Office and Length of Time Served[2]	Number of Funds in Fund Complex Overseen by Trustee	Principal Occupation(s) During Past Five Years	Other Directorships Held by Trustee[5]
Salvatore J. Zizza Trustee Age: 69	Since 2007*	31	Chairman of Zizza & Associates Corp. (financial consulting); Chairman of Metropolitan Paper Recycling, Inc. (recycling) (since 2005); Chairman of Harbor Diversified, Inc. (pharmaceuticals) (since 1999); Chairman of BAM (semiconductor and aerospace manufacturing) (since 2000); Chairman of Bergen Cove Realty Inc. (since 2002)	Director and Vice Chairman of Trans-Lux Corporation (business services); Director and Chairman of Harbor Diversified, Inc. (pharmaceuticals); Chairman of Bion Environmental Technologies (technology) (2005- 2007); Director, Chairman, and CEO of General Employment Enterprises (staffing services) (2009-2012)

The Gabelli Healthcare & Wellness^{Rx} Trust

Additional Fund Information (Continued) (Unaudited)

Name, Position(s) Address[1] and Age	Term of Office and Length of Time Served[2]	Principal Occupation(s) During Past Five Years
OFFICERS:		
Agnes Mullady President and Treasurer Age: 56	Since 2007	President and Chief Operating Officer of the Open-End Fund Division of Gabelli Funds, LLC since September 2010; Senior Vice President of GAMCO Investors, Inc. since 2009; Vice President of Gabelli Funds, LLC since 2007; Officer of all of the registered investment companies in the Gabelli/GAMCO Fund Complex
Andrea R. Mango Vice President and Secretary Age: 42	Since November 2013	Counsel of Gabelli Funds, LLC; Corporate Vice President within the Corporate Compliance Department of New York Life Insurance Company 2011-2013; Vice President and Counsel of Deutsche Bank 2006-2011
Richard Walz Chief Compliance Officer Age: 55	Since November 2013	Chief Compliance Officer of the Gabelli/GAMCO Fund Complex; Chief Compliance Officer of AEGON USA Investment Management LLC 2011-2013; Chief Compliance Officer of Cutwater Asset Management 2004-2011
Carter W. Austin Vice President Age: 48	Since 2007	Vice President and/or Ombudsman of closed-end funds within the Gabelli/GAMCO Fund Complex; Senior Vice President of Gabelli Funds, LLC since 2015
Wayne C. Pinsent, CFA Vice President and Ombudsman Age: 29	Since 2011	Vice President and Ombudsman of closed-end funds within the Gabelli/GAMCO Fund Complex; Research Analyst for G.research, Inc. since 2010; Marketing for GAMCO Investors Inc. 2008- 2010
Adam E. Tokar	Since 2007	Vice President and Ombudsman of Gabelli Global Utility and Income Trust, 2011; Assistant Vice President and Ombudsman of

Vice President Age: 34		The Gabelli Healthcare & Wellness^{Rx} Trust 2007-2010
David I. Schachter Vice President Age: 61	Since 2007	Vice President and/or Ombudsman of closed-end funds within the Gabelli/GAMCO Fund Complex; Senior Vice President of Gabelli Funds, LLC since 2015

[1] Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.

[2] The Fund s Board of Trustees is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

* - Term expires at the Fund s 2015 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

**- Term expires at the Fund s 2016 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

***- Term expires at the Fund s 2017 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.

[3] Interested person of the Fund as defined in the 1940 Act. Mr. Gabelli is considered an interested person because of his affiliation with Gabelli Funds, LLC which acts as the Fund s investment adviser.

[4] Represents holders of the Fund s Preferred Shares.

[5] This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934, as amended, i.e., public companies, or other investment companies registered under the 1940 Act.

[6] Trustees who are not interested persons are considered Independent Directors.

THE GABELLI HEALTHCARE & WELLNESS[RX] TRUST

INCOME TAX INFORMATION (Unaudited)

December 31, 2014

Cash Dividends and Distributions

	Payable Date	Record Date	Total Amount Paid Per Share	Ordinary Investment Income	Long-Term Capital Gains
Common Shares					
	03/24/14	03/17/14	$0.12000	$0.01970	$0.10030
	06/23/14	06/16/14	0.12000	0.02290	0.09710
	09/23/14	09/16/14	0.12000	0.02290	0.09710
	12/19/14	12/12/14	0.26000	0.04970	0.21030
			$0.62000	$0.11520	$0.50480
5.760% Series A Cumulative Preferred Shares					
	03/26/14	03/19/14	$0.36000	$0.06040	$0.29960
	06/26/14	06/19/14	0.36000	0.07040	0.28960
	09/26/14	09/19/14	0.36000	0.07040	0.28960
	12/26/14	12/18/14	0.36000	0.07040	0.28960
			$1.44000	$0.27160	$1.16840
5.875% Series B Cumulative Preferred Shares					
	12/26/14	12/18/14	$0.37535	$0.07337	$0.30198

A Form 1099-DIV has been mailed to all shareholders of record which sets forth specific amounts to be included in your 2014 tax returns. Ordinary distributions include net investment income and realized net short-term capital gains. Ordinary income is reported in box 1a of Form 1099-DIV. Capital gain distributions are reported in box 2a of Form 1099-DIV.

The long term gain distributions for the fiscal year ended December 31, 2014 were $10,811,241, or the maximum amount.

Corporate Dividends Received Deduction, Qualified Dividend Income, and U.S. Government Securities Income

In 2014, the Fund paid to common, 5.760% Series A Cumulative Preferred, and 5.875% Series B Cumulative Preferred shareholders ordinary income dividends of $0.1152, $0.2716, and $0.0734 per share, respectively. For 2014, 78.97% of the ordinary dividend qualified for the dividend received deduction available to corporations, 100% of the ordinary income distribution was deemed qualified dividend income, and 0.00% of ordinary income distribution was qualified interest income. The Fund designates 100% of the ordinary income distribution as qualified short-term capital gain pursuant to the American Jobs Creation Act of 2004. The percentage of ordinary income dividends paid by the Fund during 2014 derived from U.S. Government securities was 0.00%. Such income is exempt from state and local taxes in all states. However, many states, including New York and California, allow a tax exemption for a portion of the income earned only if a mutual fund has invested at least 50% of its assets at the end of each quarter of its fiscal year in U.S. Government securities. The Fund did not meet this strict requirement in 2014. The percentage of

U.S. Government securities held as of December 31, 2014 was 11.94%.

THE GABELLI HEALTHCARE & WELLNESS^{RX} TRUST

INCOME TAX INFORMATION (Unaudited) (Continued)

December 31, 2014

Historical Distribution Summary

	Investment Income (b)	Short-Term Capital Gains (b)	Long-Term Capital Gains	Return of Capital (a)	Total Distributions	Adjustment to Cost Basis (c)
Common Shares						
2014		$0.11520	$0.50480		$0.62000	
2013	$0.00890	0.22580	0.67530		0.91000	
2012	0.04784	0.27724	0.76208	$0.02284	1.11000	$0.02284
2011						
2010						
2009						
2008	0.01140	0.03860			0.05000	
2007	0.01150	0.03850			0.05000	
5.760% Series A Cumulative Preferred Shares						
2014		$0.27160	$1.16840		$1.44000	
2013	$0.01400	0.35720	1.06880		1.44000	
2012	0.06060	0.35160	1.02780		1.44000	
2011			1.44000		1.44000	
2010		0.50800			0.50800	
5.875% Series B Cumulative Preferred Shares						
2014		$0.07337	$0.30198		$0.37535	

(a) Non-taxable.

(b) Taxable as ordinary income for Federal tax purposes.

(c) Decrease in cost basis.

All designations are based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to designate the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.

AUTOMATIC DIVIDEND REINVESTMENT

AND VOLUNTARY CASH PURCHASE PLANS

Enrollment in the Plan

It is the policy of The Gabelli Healthcare & Wellness^{Rx} Trust to automatically reinvest dividends payable to common shareholders. As a registered shareholder, you automatically become a participant in the Fund s Automatic Dividend Reinvestment Plan (the Plan). The Plan authorizes the Fund to credit shares of common stock to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their stock certificates to Computershare Trust Company, N.A. (Computershare) to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Healthcare & Wellness^{Rx} Trust

c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

Shareholders requesting this cash election must include the shareholder s name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of street name and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in street name at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of shares of common stock distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund s common stock is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued shares of common stock valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund s common stock. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange (NYSE) trading day, the next trading day. If the net asset value of the common stock at the time of valuation exceeds the market price of the common stock, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common stock in the open market, or on the NYSE or elsewhere, for the participants accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common stock exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

Voluntary Cash Purchase Plan

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund s shares at the then current market price. Shareholders may send an amount from $250 to $10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each shareholder who participates $0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 30170, College Station, TX 77842 3170 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address, and account number. The cost to liquidate shares is $2.50 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days written notice to participants in the Plan.

THE GABELLI HEALTHCARE & WELLNESS^{Rx} TRUST

AND YOUR PERSONAL PRIVACY

Who are we?

The Gabelli Healthcare & Wellness^{Rx} Trust is a closed-end management investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC, which is affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries that provide investment advisory or brokerage services for a variety of clients.

What kind of non-public information do we collect about you if you become a Fund shareholder?

When you purchase shares of the Fund on the New York Stock Exchange, you have the option of registering directly with our transfer agent in order, for example, to participate in our dividend reinvestment plan.

Information you give us on your application form. This could include your name, address, telephone number, social security number, bank account number, and other information.

Information about your transactions with us. This would include information about the shares that you buy or sell; it may also include information about whether you sell or exercise rights that we have issued from time to time. If we hire someone else to provide services like a transfer agent we will also have information about the transactions that you conduct through them.

What information do we disclose and to whom do we disclose it?

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, www.sec.gov.

What do we do to protect your personal information?

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the Fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

THE GABELLI HEALTHCARE & WELLNESS^{Rx} TRUST

One Corporate Center

Rye, NY 10580-1422

Portfolio Management Team Biographies

Mario J. Gabelli, CFA, is Chairman and Chief Executive Officer of GAMCO Investors, Inc. that he founded in 1977 and Chief Investment Officer Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School and Honorary Doctorates from Fordham University and Roger Williams University.

Jeffrey J. Jonas, CFA, joined Gabelli in 2003 as a research analyst. He focuses on companies in the cardiovascular, healthcare services, and pharmacy benefits management sectors, among others. He also serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Fund Complex. Mr. Jonas was a Presidential Scholar at Boston College, where he received a BS in Finance and Management Information Systems.

Kevin V. Dreyer joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. He currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Fund Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

We have separated the portfolio managers commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio managers commentary is unrestricted. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at www.gabelli.com.

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading Specialized Equity Funds, in Monday s The Wall Street Journal. It is also listed in Barron s Mutual Funds/Closed End Funds section under the heading Specialized Equity Funds.

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting www.gabelli.com.

The NASDAQ symbol for the Net Asset Value is XXGRX.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may from time to time purchase its common shares in the open market when the Fund s shares are trading at a discount of 10% or more from the net asset value of the shares. The Fund may also, from time to time, purchase its preferred shares in the open market when the preferred shares are trading at a discount to the liquidation value.

THE GABELLI HEALTHCARE & WELLNESS[RX] TRUST

One Corporate Center

Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)

f 914-921-5118

e info@gabelli.com

GABELLI.COM

Vincent D. Enright
Former Senior Vice President &
Chief Financial Officer,
KeySpan Corp.

Robert C. Kolodny, MD
Physician,
Principal of KBS
Management LLC

Kuni Nakamura
President,
Advanced Polymer, Inc.

Anthonie C. van Ekris
Chairman,
BALMAC International, Inc.

Salvatore J. Zizza
Chairman,
Zizza & Associates Corp.

David I. Schachter
Vice President

Adam E. Tokar
Vice President

INVESTMENT ADVISER

Gabelli Funds, LLC
One Corporate Center
Rye, New York 10580-1422

CUSTODIAN

The Bank of New York Mellon

COUNSEL

Willkie Farr & Gallagher LLP

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.

GRX Q4/2014

Item 2. Code of Ethics.

(a) The registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.

(c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.

(d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item s instructions.

Item 3. Audit Committee Financial Expert.

As of the end of the period covered by the report, the registrant s Board of Trustees has determined that Vincent D. Enright is qualified to serve as an audit committee financial expert serving on its audit committee and that he is independent, as defined by Item 3 of Form N-CSR.

Item 4. Principal Accountant Fees and Services.

Audit Fees

(a) The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant s annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years are $30,000 for 2013 and $30,900 for 2014.

Audit-Related Fees

(b) The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant s financial statements and are not reported under paragraph (a) of this Item are $0 for 2013 and $0 for 2014.

Tax Fees

(c) The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning are $3,380 for 2013 and $3,480 for 2014. Tax fees represent tax compliance services provided in connection with the review of the Registrant s tax returns.

All Other Fees

(d) The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item are $7,500 for 2013 and $50,000 for 2014. All other fees represent services provided in review of registration statements and preferred share offering.

(e)(1) Disclose the audit committee s pre-approval policies and procedures described in paragraph (c)(7) of Rule 2-01 of Regulation S-X.

Pre-Approval Policies and Procedures. The Audit Committee (Committee) of the registrant is responsible for pre-approving (i) all audit and permissible non-audit services to be provided by the independent registered public accounting firm to the registrant and (ii) all permissible non-audit services to be provided by the independent registered public accounting firm to the Adviser, Gabelli Funds, LLC, and any affiliate of Gabelli Funds, LLC (Gabelli) that provides services to the registrant (a Covered Services Provider) if the independent registered public accounting firm s engagement related directly to the operations and financial reporting of the registrant. The Committee may delegate its responsibility to pre-approve any such audit and permissible non-audit services to the Chairperson of the Committee, and the Chairperson must report to the Committee, at its next regularly scheduled meeting after the Chairperson s pre-approval of such services, his or her decision(s). The Committee may also establish detailed pre-approval policies and procedures for pre-approval of such services in accordance with applicable laws, including the delegation of some or all of the Committee s pre-approval responsibilities to the other persons (other than Gabelli or the registrant s officers). Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the permissible non-audit services were not recognized by the registrant at the time of the engagement to be non-audit services; and (ii) such services are promptly brought to the attention of the Committee and approved by the Committee or Chairperson prior to the completion of the audit.

(e)(2) The percentage of services described in each of paragraphs (b) through (d) of this Item that were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X are as follows:

(b) N/A

(c) 100%

(d) 100%

(f) The percentage of hours expended on the principal accountant s engagement to audit the registrant s financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant s full-time, permanent employees was 0%.

(g) The aggregate non-audit fees billed by the registrant s accountant for services rendered to the registrant, and rendered to the registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant was $246,060 for 2013 and $304,860 for 2014.

(h) The registrant s audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to the registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed registrants.

The registrant has a separately designated audit committee consisting of the following members: Vincent D. Enright.

Item 6. Investments.

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The Proxy Voting Policies are attached herewith.

The Voting of Proxies on Behalf of Clients

Rules 204(4)-2 and 204-2 under the Investment Advisers Act of 1940 and Rule 30b1-4 under the Investment Company Act of 1940 require investment advisers to adopt written policies and procedures governing the voting of proxies on behalf of their clients.

These procedures will be used by GAMCO Asset Management Inc., Gabelli Funds, LLC, Gabelli Securities, Inc., and Teton Advisors, Inc. (collectively, the Advisers) to determine how to vote proxies relating to portfolio securities held by their clients, including the procedures that the Advisers use when a vote presents a conflict between the interests of the shareholders of an investment company managed by one of the Advisers, on the one hand, and those of the Advisers; the principal underwriter; or any affiliated person of the investment company, the Advisers, or the principal underwriter. These procedures will not apply where the Advisers do not have voting discretion or where the Advisers have agreed to with a client to vote the client s proxies in accordance with specific guidelines or procedures supplied by the client (to the extent permitted by ERISA).

I. Proxy Voting Committee

The Proxy Voting Committee was originally formed in April 1989 for the purpose of formulating guidelines and reviewing proxy statements within the parameters set by the substantive proxy voting guidelines originally published in 1988 and updated periodically, a copy of which are appended as Exhibit A. The Committee will include representatives of Research, Administration, Legal, and the Advisers. Additional or replacement members of the Committee will be nominated by the Chairman and voted upon by the entire Committee.

Meetings are held as needed basis to form views on the manner in which the Advisers should vote proxies on behalf of their clients.

In general, the Director of Proxy Voting Services, using the Proxy Guidelines, recommendations of Institutional Shareholder Corporate Governance Service (ISS), other third-party services and the analysts of Gabelli & Company, Inc., will determine how to vote on each issue. For non-controversial matters, the Director of Proxy Voting Services may vote the proxy if the vote is (1) consistent with the recommendations of the issuer s Board of Directors and not contrary to the Proxy Guidelines; (2) consistent with the recommendations of the issuer s Board of Directors and is a non-controversial issue not covered by the Proxy Guidelines; or (3) the vote is contrary to the recommendations of the Board of Directors but is consistent with the Proxy Guidelines. In those instances, the Director of Proxy Voting Services or the Chairman of the Committee may sign and date the proxy statement indicating how each issue will be voted.

All matters identified by the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department as controversial, taking into account the recommendations of ISS or other third party services and the analysts of Gabelli & Company, Inc., will be presented to the Proxy Voting Committee. If the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department has identified the matter as one that (1) is controversial; (2) would benefit from deliberation by the Proxy Voting Committee; or (3) may give rise to a conflict of interest between the Advisers and their clients, the Chairman of the Committee will initially determine what vote to recommend that the Advisers should cast and the matter will go before the Committee.

A. Conflicts of Interest.

The Advisers have implemented these proxy voting procedures in order to prevent conflicts of interest from influencing their proxy voting decisions. By following the Proxy Guidelines, as well as the recommendations of ISS, other third-party services and the analysts of Gabelli & Company, the Advisers are able to avoid, wherever possible, the influence of potential conflicts of interest. Nevertheless, circumstances may arise in which one or more of the Advisers are faced with a conflict of interest or the appearance of a conflict of interest in connection with its vote. In general, a conflict of interest may arise when an Adviser knowingly does business with an issuer, and may appear to have a material conflict between its own interests and the interests of the shareholders of an investment company managed by one of the Advisers regarding how the proxy is to be voted. A conflict also may exist when an Adviser has actual knowledge of a material business arrangement between an issuer and an affiliate of the Adviser.

In practical terms, a conflict of interest may arise, for example, when a proxy is voted for a company that is a client of one of the Advisers, such as GAMCO Asset Management Inc. A conflict also may arise when a client of one of the Advisers has made a shareholder proposal in a proxy to be voted upon by one or more of the Advisers. The Director of Proxy Voting Services, together with the Legal Department, will scrutinize all proxies for these or other situations that may give rise to a conflict of interest with respect to the voting of proxies.

B. **Operation of Proxy Voting Committee**

For matters submitted to the Committee, each member of the Committee will receive, prior to the meeting, a copy of the proxy statement, any relevant third party research, a summary of any views provided by the Chief Investment Officer and any recommendations by Gabelli & Company, Inc. analysts. The Chief Investment Officer or the Gabelli & Company, Inc. analysts may be invited to present their viewpoints. If the Director of Proxy Voting Services or the Legal Department believe that the matter before the committee is one with respect to which a conflict of interest may exist between the Advisers and their clients, counsel will provide an opinion to the Committee concerning the conflict. If the matter is one in which the interests of the clients of one or more of Advisers may diverge, counsel will so advise and the Committee may make different recommendations as to different clients. For any matters where the recommendation may trigger appraisal rights, counsel will provide an opinion concerning the likely risks and merits of such an appraisal action.

Each matter submitted to the Committee will be determined by the vote of a majority of the members present at the meeting. Should the vote concerning one or more recommendations be tied in a vote of the Committee, the Chairman of the Committee will cast the deciding vote. The Committee will notify the proxy department of its decisions and the proxies will be voted accordingly.

Although the Proxy Guidelines express the normal preferences for the voting of any shares not covered by a contrary investment guideline provided by the client, the Committee is not bound by the preferences set forth in the Proxy Guidelines and will review each matter on its own merits. Written minutes of all Proxy Voting Committee meetings will be maintained. The Advisers subscribe to ISS, which supplies current information on companies, matters being voted on, regulations, trends in proxy voting and information on corporate governance issues.

If the vote cast either by the analyst or as a result of the deliberations of the Proxy Voting Committee runs contrary to the recommendation of the Board of Directors of the issuer, the matter will be referred to legal counsel to determine whether an amendment to the most recently filed Schedule 13D is appropriate.

II. Social Issues and Other Client Guidelines

If a client has provided special instructions relating to the voting of proxies, they should be noted in the client s account file and forwarded to the proxy department. This is the responsibility of the investment professional or sales assistant for the client. In accordance with Department of Labor guidelines, the Advisers policy is to vote on behalf of ERISA accounts in the best interest of the plan participants with regard to social issues that carry an economic impact. Where an account is not governed by ERISA, the Advisers will vote shares held on behalf of the client in a manner consistent with any individual investment/voting guidelines provided by the client. Otherwise the Advisers will abstain with respect to those shares.

III. Client Retention of Voting Rights

If a client chooses to retain the right to vote proxies or if there is any change in voting authority, the following should be notified by the investment professional or sales assistant for the client.

-Operations

-Legal Department

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-Proxy Department

-Investment professional assigned to the account

In the event that the Board of Directors (or a Committee thereof) of one or more of the investment companies managed by one of the Advisers has retained direct voting control over any security, the Proxy Voting Department will provide each Board Member (or Committee member) with a copy of the proxy statement together with any other relevant information including recommendations of ISS or other third-party services.

IV. Voting Records

The Proxy Voting Department will retain a record of matters voted upon by the Advisers for their clients. The Advisers will supply information on how an account voted its proxies upon request.

A letter is sent to the custodians for all clients for which the Advisers have voting responsibility instructing them to forward all proxy materials to:

[Adviser name]

Attn: Proxy Voting Department

One Corporate Center

Rye, New York 10580-1433

The sales assistant sends the letters to the custodians along with the trading/DTC instructions. Proxy voting records will be retained in compliance with Rule 204-2 under the Investment Advisers Act.

V. Voting Procedures

1. Custodian banks, outside brokerage firms and clearing firms are responsible for forwarding proxies directly to the Advisers.

Proxies are received in one of two forms:

- Shareholder Vote Authorization Forms (VAFs) - Issued by Broadridge Financial Solutions, Inc. (Broadridge) VAFs must be voted through the issuing institution causing a time lag. Broadridge is an outside service contracted by the various institutions to issue proxy materials.
- Proxy cards which may be voted directly.

2. Upon receipt of the proxy, the number of shares each form represents is logged into the proxy system according to security.

3. In the case of a discrepancy such as an incorrect number of shares, an improperly signed or dated card, wrong class of security, etc., the issuing custodian is notified by phone. A corrected proxy is requested. Any arrangements are made to insure that a

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proper proxy is received in time to be voted (overnight delivery, fax, etc.). When securities are out on loan on record date, the custodian is requested to supply written verification.

4. Upon receipt of instructions from the proxy committee (see Administrative), the votes are cast and recorded for each account on an individual basis.

Records have been maintained on the Proxy Edge system. The system is backed up regularly.

Proxy Edge records include:

Security Name and Cusip Number

Date and Type of Meeting (Annual, Special, Contest)

Client Name

Adviser or Fund Account Number

Directors Recommendation

How GAMCO voted for the client on each issue

5. VAFs are kept alphabetically by security. Records for the current proxy season are located in the Proxy Voting Department office. In preparation for the upcoming season, files are transferred to an offsite storage facility during January/February.

6. Shareholder Vote Authorization Forms issued by Broadridge are always sent directly to a specific individual at Broadridge.

7. If a proxy card or VAF is received too late to be voted in the conventional matter, every attempt is made to vote on one of the following manners:

VAFs can be faxed to Broadridge up until the time of the meeting. This is followed up by mailing the original form.

When a solicitor has been retained, the solicitor is called. At the solicitor s direction, the proxy is faxed.

8. In the case of a proxy contest, records are maintained for each opposing entity.

9. Voting in Person

a) At times it may be necessary to vote the shares in person. In this case, a legal proxy is obtained in the following manner:

Banks and brokerage firms using the services at Broadridge:

The back of the VAF is stamped indicating that we wish to vote in person. The forms are then sent overnight to Broadridge. Broadridge issues individual legal proxies and

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sends them back via overnight (or the Adviser can pay messenger charges). A lead-time of at least two weeks prior to the meeting is needed to do this. Alternatively, the procedures detailed below for banks not using Broadridge may be implemented.

Banks and brokerage firms issuing proxies directly:
The bank is called and/or faxed and a legal proxy is requested.

All legal proxies should appoint:

Representative of [Adviser name] with full power of substitution.

b) The legal proxies are given to the person attending the meeting along with the following supplemental material:

A limited Power of Attorney appointing the attendee an Adviser representative.
A list of all shares being voted by custodian only. Client names and account numbers are not included. This list must be presented, along with the proxies, to the Inspectors of Elections and/or tabulator at least one-half hour prior to the scheduled start of the meeting. The tabulator must qualify the votes (i.e. determine if the vote have previously been cast, if the votes have been rescinded, etc. vote have previously been cast, etc.).
A sample ERISA and Individual contract.
A sample of the annual authorization to vote proxies form.
A copy of our most recent Schedule 13D filing (if applicable).

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Appendix A

Proxy Guidelines

PROXY VOTING GUIDELINES

GENERAL POLICY STATEMENT

It is the policy of **GAMCO Investors, Inc.** to vote in the best economic interests of our clients. As we state in our Magna Carta of Shareholders Rights, established in May 1988, we are neither *for* nor *against* management. We are for shareholders.

At our first proxy committee meeting in 1989, it was decided that each proxy statement should be evaluated on its own merits within the framework first established by our Magna Carta of Shareholders Rights. The attached guidelines serve to enhance that broad framework.

We do not consider any issue routine. We take into consideration all of our research on the company, its directors, and their short and long-term goals for the company. In cases where issues that we generally do not approve of are combined with other issues, the negative aspects of the issues will be factored into the evaluation of the overall proposals but will not necessitate a vote in opposition to the overall proposals.

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BOARD OF DIRECTORS

The advisers do not consider the election of the Board of Directors a routine issue. Each slate of directors is evaluated on a case-by-case basis.

Factors taken into consideration include:

- Historical responsiveness to shareholders

This may include such areas as:

-Paying greenmail

-Failure to adopt shareholder resolutions receiving a majority of shareholder votes

- Qualifications
- Nominating committee in place
- Number of outside directors on the board
- Attendance at meetings
- Overall performance

SELECTION OF AUDITORS

In general, we support the Board of Directors recommendation for auditors.

BLANK CHECK PREFERRED STOCK

We oppose the issuance of blank check preferred stock.

Blank check preferred stock allows the company to issue stock and establish dividends, voting rights, etc. without further shareholder approval.

CLASSIFIED BOARD

A classified board is one where the directors are divided into classes with overlapping terms. A different class is elected at each annual meeting.

While a classified board promotes continuity of directors facilitating long range planning, we feel directors should be accountable to shareholders on an annual basis. We will look

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at this proposal on a case-by-case basis taking into consideration the board s historical responsiveness to the rights of shareholders.

Where a classified board is in place we will generally not support attempts to change to an annually elected board.

When an annually elected board is in place, we generally will not support attempts to classify the board.

INCREASE AUTHORIZED COMMON STOCK

The request to increase the amount of outstanding shares is considered on a case-by-case basis.

Factors taken into consideration include:

Future use of additional shares

-Stock split

-Stock option or other executive compensation plan

-Finance growth of company/strengthen balance sheet

-Aid in restructuring

-Improve credit rating

-Implement a poison pill or other takeover defense

Amount of stock currently authorized but not yet issued or reserved for stock option plans

Amount of additional stock to be authorized and its dilutive effect

We will support this proposal if a detailed and verifiable plan for the use of the additional shares is contained in the proxy statement.

CONFIDENTIAL BALLOT

We support the idea that a shareholder s identity and vote should be treated with confidentiality.

However, we look at this issue on a case-by-case basis.

In order to promote confidentiality in the voting process, we endorse the use of independent Inspectors of Election.

CUMULATIVE VOTING

In general, we support cumulative voting.

Cumulative voting is a process by which a shareholder may multiply the number of directors being elected by the number of shares held on record date and cast the total number for one candidate or allocate the voting among two or more candidates.

Where cumulative voting is in place, we will vote against any proposal to rescind this shareholder right.

Cumulative voting may result in a minority block of stock gaining representation on the board. When a proposal is made to institute cumulative voting, the proposal will be reviewed on a case-by-case basis. While we feel that each board member should represent all shareholders, cumulative voting provides minority shareholders an opportunity to have their views represented.

DIRECTOR LIABILITY AND INDEMNIFICATION

We support efforts to attract the best possible directors by limiting the liability and increasing the indemnification of directors, except in the case of insider dealing.

EQUAL ACCESS TO THE PROXY

The SEC s rules provide for shareholder resolutions. However, the resolutions are limited in scope and there is a 500 word limit on proponents written arguments. Management has no such limitations. While we support equal access to the proxy, we would look at such variables as length of time required to respond, percentage of ownership, etc.

FAIR PRICE PROVISIONS

Charter provisions requiring a bidder to pay all shareholders a fair price are intended to prevent two-tier tender offers that may be abusive. Typically, these provisions do not apply to board-approved transactions.

We support fair price provisions because we feel all shareholders should be entitled to receive the same benefits.

Reviewed on a case-by-case basis.

GOLDEN PARACHUTES

Golden parachutes are severance payments to top executives who are terminated or demoted after a takeover.

We support any proposal that would assure management of its own welfare so that they may continue to make decisions in the best interest of the company and shareholders even if the decision results in them losing their job. We do not, however, support excessive golden parachutes. Therefore, each proposal will be decided on a case-by- case basis.

Note: Congress has imposed a tax on any parachute that is more than three times the executive s average annual compensation.

ANTI-GREENMAIL PROPOSALS

We do not support greenmail. An offer extended to one shareholder should be extended to all shareholders equally across the board.

LIMIT SHAREHOLDERS RIGHTS TO CALL SPECIAL MEETINGS

We support the right of shareholders to call a special meeting.

CONSIDERATION OF NONFINANCIAL EFFECTS OF A MERGER

This proposal releases the directors from only looking at the financial effects of a merger and allows them the opportunity to consider the merger s effects on employees, the community, and consumers.

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As a fiduciary, we are obligated to vote in the best economic interests of our clients. In general, this proposal does not allow us to do that. Therefore, we generally cannot support this proposal.

Reviewed on a case-by-case basis.

MERGERS, BUYOUTS, SPIN-OFFS, RESTRUCTURINGS

Each of the above is considered on a case-by-case basis. According to the Department of Labor, we are not required to vote for a proposal simply because the offering price is at a premium to the current market price. We may take into consideration the long term interests of the shareholders.

MILITARY ISSUES

Shareholder proposals regarding military production must be evaluated on a purely economic set of criteria for our **ERISA** clients. As such, decisions will be made on a case-by-case basis.

In voting on this proposal for our non-**ERISA** clients, we will vote according to the client s direction when applicable. Where no direction has been given, we will vote in the best economic interests of our clients. It is not our duty to impose our social judgment on others.

NORTHERN IRELAND

Shareholder proposals requesting the signing of the MacBride principles for the purpose of countering the discrimination of Catholics in hiring practices must be evaluated on a purely economic set of criteria for our **ERISA** clients. As such, decisions will be made on a case-by-case basis.

In voting on this proposal for our non-**ERISA** clients, we will vote according to client direction when applicable. Where no direction has been given, we will vote in the best economic interests of our clients. It is not our duty to impose our social judgment on others.

OPT OUT OF STATE ANTI-TAKEOVER LAW

This shareholder proposal requests that a company opt out of the coverage of the state s takeover statutes. Example: Delaware law requires that a buyer must acquire at least 85% of the company s stock before the buyer can exercise control unless the board approves.

We consider this on a case-by-case basis. Our decision will be based on the following:

- State of Incorporation
- Management history of responsiveness to shareholders
- Other mitigating factors

POISON PILL

In general, we do not endorse poison pills.

In certain cases where management has a history of being responsive to the needs of shareholders and the stock is very liquid, we will reconsider this position.

REINCORPORATION

Generally, we support reincorporation for well-defined business reasons. We oppose reincorporation if proposed solely for the purpose of reincorporating in a state with more stringent anti-takeover statutes that may negatively impact the value of the stock.

STOCK OPTION PLANS

Stock option plans are an excellent way to attract, hold and motivate directors and employees. However, each stock option plan must be evaluated on its own merits, taking into consideration the following:

- Dilution of voting power or earnings per share by more than 10%
- Kind of stock to be awarded, to whom, when and how much
- Method of payment

Amount of stock already authorized but not yet issued under existing stock option plans

SUPERMAJORITY VOTE REQUIREMENTS

Supermajority vote requirements in a company s charter or bylaws require a level of voting approval in excess of a simple majority of the outstanding shares. In general, we oppose supermajority-voting requirements. Supermajority requirements often exceed the average level of shareholder participation. We support proposals approvals by a simple majority of the shares voting.

LIMIT SHAREHOLDERS RIGHT TO ACT BY WRITTEN CONSENT

Written consent allows shareholders to initiate and carry on a shareholder action without having to wait until the next annual meeting or to call a special meeting. It permits action to be taken by the written consent of the same percentage of the shares that would be required to effect proposed action at a shareholder meeting.

Reviewed on a case-by-case basis.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

PORTFOLIO MANAGERS

Mario J. Gabelli, CFA, is Chairman and Chief Executive Officer of GAMCO Investors, Inc. that he founded in 1977 and Chief Investment Officer Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School and Honorary Doctorates from Fordham University and Roger Williams University.

Kevin V. Dreyer joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. He currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

Jeffrey J. Jonas, CFA, joined Gabelli in 2003 as a research analyst. He focuses on companies in the cardiovascular, healthcare services, and pharmacy benefits management sectors, among others. He also serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Jonas was a Presidential Scholar at Boston College, where he received a BS in Finance and Management Information Systems.

MANAGEMENT OF OTHER ACCOUNTS

The table below shows the number of other accounts managed by the portfolio managers and the total assets in each of the following categories: registered investment companies, other paid investment vehicles and other accounts as of December 31, 2014. For each category, the table also shows the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on account performance.

Name of Portfolio Manager or Team Member	Type of Accounts	Total No. of Accounts Managed	Total Assets	No. of Accounts where Advisory Fee is Based on Performance	Total Assets in Accounts where Advisory Fee is Based on Performance
Mario J. Gabelli	Registered Investment Companies:	26	26.3B	6	5.3B
	Other Pooled Investment Vehicles:	15	634.6M	13	626.7M
	Other Accounts:	1,658	18.7B	23	2.4B
Kevin V. Dreyer	Registered Investment Companies:	6	8.0B	2	2.4B
	Other Pooled Investment Vehicles:	0	0	0	0
	Other Accounts:	323	1.2B	1	9.2B
Jeff Jonas	Registered Investment Companies:	3	6.0B	1	2.4B
	Other Pooled Investment Vehicles:	0	0	0	0
	Other Accounts:	44	65.8M	2	24.7M

POTENTIAL CONFLICTS OF INTEREST

Actual or apparent conflicts of interest may arise when a Portfolio Manager also has day-to-day management responsibilities with respect to one or more other accounts. These potential conflicts include:

ALLOCATION OF LIMITED TIME AND ATTENTION. Because the portfolio managers manage many accounts, they may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if they were to devote all of their attention to the management of only a few accounts.

ALLOCATION OF LIMITED INVESTMENT OPPORTUNITIES. If the portfolio managers identify an investment opportunity that may be suitable for multiple accounts, the Fund may not be able to take full advantage of that opportunity because the opportunity may be allocated among all or many of these accounts or other accounts managed primarily by other portfolio managers of the Adviser, and their affiliates.

SELECTION OF BROKER/DEALERS. Because of Mr. Gabelli s indirect majority ownership interest in G.research, Inc., he may have an incentive to use G.research to execute portfolio transactions for a Fund.

PURSUIT OF DIFFERING STRATEGIES. At times, the portfolio managers may determine that an investment opportunity may be appropriate for only some of the accounts for which they exercises investment responsibility, or may decide that certain of these accounts should take differing positions with respect to a particular security. In these cases, the portfolio managers may execute differing or opposite transactions for one or more accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment of one or more of their accounts.

VARIATION IN COMPENSATION. A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the accounts that they manage. If the structure of the Adviser s management fee or the portfolio manager s compensation differs among accounts (such as where certain accounts pay higher management fees or performance-based management fees), the portfolio managers may be motivated to favor certain accounts over others. The portfolio managers also may be motivated to favor accounts in which they have an investment interest, or in which the Adviser, or its affiliates have investment interests. In Mr. Gabelli s case, the Adviser s compensation and expenses for the Fund are marginally greater as a percentage of assets than for certain other accounts and are less than for certain other accounts managed by Mr. Gabelli, while his personal compensation structure varies with near-term performance to a greater degree in certain performance fee based accounts than with on-performance based accounts. In addition, he has investment interests in several of the funds managed by the Adviser and its affiliates.

The Adviser, and the Funds have adopted compliance policies and procedures that are designed to address the various conflicts of interest that may arise for the Adviser and their staff members. However, there is no guarantee that such policies and procedures will be able to detect and prevent every situation in which an actual or potential conflict may arise.

COMPENSATION STRUCTURE FOR MARIO J. GABELLI

Mr. Gabelli receives incentive-based variable compensation based on a percentage of net revenues received by the Adviser for managing the Trust. Net revenues are determined by deducting from gross investment management fees the firm s expenses (other than Mr. Gabelli s compensation) allocable to this Trust. Five closed-end registered investment companies (including this Trust) managed by Mr. Gabelli have arrangements whereby the Adviser will only receive its investment advisory fee attributable to the liquidation value of outstanding preferred stock (and Mr. Gabelli would only receive his percentage of such advisory fee) if certain performance levels are met.

Additionally, he receives similar incentive based variable compensation for managing other accounts within the firm and its affiliates. This method of compensation is based on the premise that superior long-term performance in managing a portfolio should be rewarded with higher compensation as a result of growth of assets through appreciation and net investment activity. The level of compensation is not determined with specific reference to the performance of any account against any specific benchmark. One of the other closed-end registered investment companies managed by Mr. Gabelli has a performance (fulcrum) fee arrangement for which his compensation is adjusted up or down based on the performance of the investment company relative to an index. Mr. Gabelli manages other accounts with performance fees. Compensation for managing these accounts has two components. One component is based on a percentage of net revenues to the investment adviser for managing the account. The second component is based on absolute performance of the account, with respect to which a percentage of such performance fee is paid to Mr. Gabelli. As an executive officer of the Adviser s parent company, GBL, Mr. Gabelli also receives ten percent of the net operating profits of the parent company. He receives no base salary, no annual bonus, and no stock options.

COMPENSATION STRUCTURE FOR PORTFOLIO MANAGERS OF THE ADVISER OTHER THAN MARIO GABELLI

The compensation of the Portfolio Managers for the Fund is structure to enable the Adviser to attract and retain highly qualified professionals in a competitive environment. The Portfolio Managers receive a compensation package that includes a minimum draw or base salary, equity-based incentive compensation via awards of restricted stock, and incentive-based variable compensation based on a percentage of net revenue received by the Adviser for managing a Fund to the extent that the amount exceeds a minimum level of compensation. Net revenues are determined by deducting from gross investment management fees certain of the firm s expenses (other than the respective Portfolio Manager s compensation) allocable to the respective Fund (the incentive-based variable compensation for managing other accounts is also based on a percentage of net revenues to the investment adviser for managing the account). This method of compensation is based on the premise that superior long-term performance in managing a portfolio should be rewarded with higher compensation as a result of growth of assets through appreciation and net investment activity. The level of equity-based incentive and incentive-based variable compensation is based on an evaluation by the Adviser s parent, GBL, of quantitative and qualitative performance evaluation criteria. This evaluation takes into account, in a broad sense, the performance of the accounts managed by the Portfolio Manager, but the level of compensation is not determined with specific reference to the performance of any account against any specific benchmark. Generally, greater consideration is given to the performance of larger accounts and to longer term performance over smaller accounts and short-term performance.

OWNERSHIP OF SHARES IN THE FUND

Mario J. Gabelli, Kevin V. Dreyer, and Jeffrey J. Jonas each owned over $1,000,000, $50,001-$100,000 and $50,001-$100,000, respectively, of shares of the Trust as of December 31, 2014.

(b) Not applicable.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

REGISTRANT PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)		(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs		(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs	
Month #107/01/14 through	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152
07/31/14	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
Month	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152
#208/01/14								
through	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
08/31/14								
Month #309/01/14 through	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152
09/30/14	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
Month #410/01/14 through	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152
10/31/14	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
Month #511/01/14 through	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152
11/30/14	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
Month #612/01/14	Common	N/A	Common	N/A	Common	N/A	Common	19,942,152

through								
12/31/14	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	1,200,000
Total	Common	N/A	Common	N/A	Common	N/A		N/A
	Preferred Series A	N/A	Preferred Series A	N/A	Preferred Series A	N/A		

Footnote columns (c) and (d) of the table, by disclosing the following information in the aggregate for all plans or programs publicly announced:

a. The date each plan or program was announced The notice of the potential repurchase of common and preferred shares occurs quarterly in the Fund s quarterly report in accordance with Section 23(c) of the Investment Company Act of 1940, as amended.

b. The dollar amount (or share or unit amount) approved Any or all common shares outstanding may be repurchased when the Fund s common shares are trading at a discount of 10% or more from the net asset value of the shares.

Any or all preferred shares outstanding may be repurchased when the Fund s preferred shares are trading at a discount to the liquidation value of $25.00.

c. The expiration date (if any) of each plan or program The Fund s repurchase plans are ongoing.

d. Each plan or program that has expired during the period covered by the table The Fund s repurchase plans are ongoing.

e. Each plan or program the registrant has determined to terminate prior to expiration, or under which the registrant does not intend to make further purchases. The Fund s repurchase plans are ongoing.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant s Board of Trustees, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

Item 11. Controls and Procedures.

(a) The registrant s principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant s second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Code of ethics, or any amendment thereto, that is the subject of disclosure required by Item 2 is attached hereto.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes- Oxley Act of 2002 are attached hereto.

(12.other) Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Gabelli Healthcare & Wellness^{Rx} Trust

By (Signature and Title)* /s/ Agnes Mullady
Agnes Mullady, Principal Executive Officer and Principal Financial Officer

Date 3/09/2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Agnes Mullady
Agnes Mullady, Principal Executive Officer and Principal Financial Officer

Date 3/09/2015

* Print the name and title of each signing officer under his or her signature.