

Spansion Inc.  
Form S-1/A  
October 28, 2010  
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As filed with the Securities and Exchange Commission on October 28, 2010

Registration No. 333-169471

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**AMENDMENT NO. 1**  
**TO**  
**FORM S-1**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**SPANSION INC.**

(Exact name of registrant as specified in its charter)

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|  |  |   |
|--|--|---|
| <b>Delaware</b><br>(State or other jurisdiction<br>of incorporation or organization) | <b>3674</b><br>(Primary Standard Industrial<br>Classification Code Number) | <b>20-3898239</b><br>(I.R.S. Employer<br>Identification Number) |
|--|--|---|

**915 DeGuigne Drive**

**P.O. Box 3453**

**Sunnyvale, CA 94088**

**(408) 962-2500**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**John H. Kispert**

**President and Chief Executive Officer**

**Spansion Inc.**

**915 DeGuigne Drive**

**P.O. Box 3453**

**Sunnyvale, CA 94088**

**(408) 962-2500**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of the proposed sale to the public:**

**As soon as practicable after this Registration Statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer "

Accelerated filer "

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company "

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS**

**Subject to Completion, dated October 28, 2010.**

**6,750,000 Shares**

**Common Stock**

We are offering 6,750,000 shares of our common stock.

Our common stock is traded on the New York Stock Exchange under the symbol CODE. On October 27, 2010, the last reported sale price of our common stock was \$18.54 per share.

Concurrently with this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue \$200 million aggregate principal amount of unsecured notes in a private placement. The consummation of the private placement of the notes and the offering of common stock hereby will not be contingent upon the completion of the other.

***See Risk Factors on page 10 to read about factors you should consider before buying shares of our common stock.***

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Per Share

Total

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|  |    |    |
|--|----|----|
| Public Offering Price                  | \$ | \$ |
| Underwriting Discounts and Commissions | \$ | \$ |
| Proceeds, Before Expenses, to Spansion | \$ | \$ |

To the extent that the underwriters sell more than 6,750,000 shares of common stock, the underwriters have the option to purchase up to an additional 1,012,500 shares from us at the public offering price less the underwriting discount.

The underwriters expect to deliver the shares on or about , 2010.

### *Joint-Lead and Joint Bookrunning Managers*

**Morgan Stanley**

**Barclays Capital**

**Gleacher & Company**

**Needham & Company, LLC**

**Pacific Crest Securities**

**ThinkEquity LLC**

**Prospectus dated , 2010.**

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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**PROSPECTUS SUMMARY**

*This summary highlights information contained in greater detail elsewhere in this prospectus. This summary may not contain all the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including Risk Factors beginning on page 10 and our consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision. Unless otherwise indicated, the terms Spansion, we, us and our refer to Spansion Inc. and its subsidiaries.*

**Overview**

We are a leading designer, manufacturer and developer of Flash memory semiconductors. We are focused on the embedded Flash market providing our software solutions to more than 4,000 customers worldwide. Our Flash memory products primarily store data and software code for microprocessors, controllers and other programmable semiconductors which run applications in a broad range of electronics systems. These electronic systems include computing and communications, automotive and industrial, consumer and gaming, wireless and machine-to-machine, or M2M, devices. In addition to Flash memory products, we assist our customers in developing and prototyping their designs by providing software and hardware development tools, drivers and simulation models for system-level integration.

Our Flash memory solutions are incorporated in products from leading original equipment manufacturers, or OEMs, including Huawei Technologies Co., Ltd., Harman/Becker Automotive Systems GmbH, Motorola, Inc., LG Electronics, Technicolor S.A., Continental AG, Pace plc, The Bosch Group, Alpine Electronics of America, Inc., ZTE Corporation, Panasonic Corporation of North America, Sagem Télécommunications, Sharp Electronics Corporation, Pioneer Electronics (USA) Inc., and Future Designs, Inc. Our products are designed to address various voltages, interfaces and memory densities for a wide range of specific applications and customer platforms. The majority of our new product designs are based on our proprietary two-bit-per-cell MirrorBit technology which has a simpler cell architecture requiring fewer manufacturing steps, supporting higher yields and lower costs as compared to competing floating gate NOR Flash technology. As of June 27, 2010, we held over 2,300 patents.

For fiscal 2009, our total net sales were approximately \$1.4 billion as compared with total net sales of approximately \$2.3 billion for fiscal 2008. For the six months ended June 27, 2010, our total net sales were approximately \$533.0 million. According to market research firm iSuppli, in 2009, we were responsible for 31.2 percent of all NOR Flash memory sales, making us the second largest supplier of NOR Flash memory in the world.

**Our Addressable Market**

The Flash memory market can be divided into two major categories based on application: the integrated category, which includes wireless and embedded applications, and the removable storage category, which includes Flash memory cards and USB drives. Within the integrated category, we refer to portable, battery-powered communications applications as wireless and all other applications, such as consumer, telecommunications, automotive and industrial electronics, as embedded. We have focused historically on the integrated category of the Flash memory market, including wireless and embedded applications. In early 2009, we narrowed our strategic focus to the embedded portion of the Flash memory market and intend to continue to selectively engage in portions of the wireless market where we believe we can do so advantageously. The embedded Flash memory market is characterized by long design and life cycles, low capital and technology investments, stable average selling prices, or ASPs, and fragmented competition with multiple suppliers.

In addition to our focus on our traditional embedded NOR Flash memory applications, we plan to expand our presence in growing portions of the embedded Flash memory market, including embedded NOR and



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embedded NAND. We believe our proprietary MirrorBit technology, licensing partners, customer relationships and broad product portfolio will enable us to extend our leadership in the attractive embedded Flash memory markets.

### **Competitive Advantages**

***Focus on Embedded Flash Products.*** We focus on the embedded portion of the Flash memory market. In order to service this market, we leverage our broad product set and software programmability to provide a diverse range of application-specific solutions. We believe that our focus on the embedded Flash market and our superior customer service distinguishes us from our competitors who generate a large portion of their sales from other markets, such as mobile handsets and PCs.

***Customer-Centric, Application Focused Go-To-Market Strategy.*** We focus on application-specific solutions for our customers embedded Flash requirements. Our field application engineers, or FAEs, are located in close proximity to our customers' design centers across the globe. This enables us to better support our customers by enhancing our ability to anticipate customer needs and industry trends which we believe will allow us to gain market share. We believe that this application and design-win focused approach enables a deeper relationship with our customers and strengthens our position in their product lifecycles.

***Application-Specific Customizable Software.*** In addition to our advanced hardware technology, we provide customized, application specific software to our customers. Specifically, we supply customers the necessary software and hardware development tools, drivers and simulation models for system-level integration. We believe our focused software service strategy contributes to our success with OEMs.

***Leading-Edge Technology Platform.*** Our proprietary MirrorBit technology drives our lower cost, high performance product platform. MirrorBit technology is simpler, has a lower manufacturing cost and can store more data than traditional floating gate technology. We believe leveraging our MirrorBit technology will help us retain and enhance our market position from entry-level to high-end applications.

***Process Technology Leverage.*** Our MirrorBit technology provides enhanced geometric scalability when shifting to smaller process nodes in comparison to floating gate technology as it has a simpler cell architecture requiring fewer manufacturing steps and supporting higher yields. We invested over \$1.2 billion in R&D between 2006 and 2008 primarily on the development of next-generation process technologies. We have 65-nanometer products in production which currently represent only a small portion of our revenues. With the majority of our customers presently using 110- and 90-nanometer technologies, we anticipate migrating customers to 65- and 4x-nanometer and then eventually to 3x-nanometer technology over the next several years.

***Broad Product Portfolio.*** Our products and solutions deliver a combination of high performance and competitive cost for a wide range of customer platforms and applications. These product offerings support various voltages, interfaces and memory densities, enabling us to pursue diverse embedded Flash end markets which have differing density and performance requirements.

### **Our Strategy**

Our principal objective is to be the leading global supplier of embedded Flash memory products and solutions. We plan to achieve this objective by aggressively pursuing the following strategies:

***Regain Embedded Flash Market Share.*** We intend to continue to focus on regaining market share that we lost due to the negative impact of our reorganization under Chapter 11 of the U.S. Bankruptcy



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Code, or the Chapter 11 Cases. We have already begun to regain lost market share and we plan to continue regaining market share by securing new design-wins and by further deepening our relationships with our key end-customers and distribution partners through our application specific solutions, our superior customer service and continued investment in our FAEs.

***Continue Product Innovation and New Market Expansion.*** We aim to expand our products and solutions by selectively targeting embedded Flash applications within our target markets. We plan to achieve this by developing and bringing to market products that allow us to offer higher densities and faster performance. We also intend to increase our presence in high growth emerging markets such as China and India. Further, we intend to evaluate and potentially make acquisitions of technologies and products that we can integrate into our solutions in order to broaden our product portfolio functionality and accelerate growth and entry into new markets.

***Expand Addressable Market with Embedded Flash Products.*** We will continue to seek opportunities to develop and commercialize memory solutions based on our MirrorBit technology, our software and other design capabilities. We believe that our proprietary charge-trapping NAND solution is more scalable, has a simpler cell structure and offers superior performance, faster read and faster programming speeds when compared to traditional floating gate NAND Flash solutions. Our strategy is to bring our high reliability Flash solutions to support the low-density single-level cell NAND Flash market by leveraging our relationships with our partners and customers.

***Flexible, Scalable and Cost-efficient Manufacturing Strategy.*** As part of our restructuring efforts, we substantially reduced our overall manufacturing footprint. We plan to maintain our low capital intensive model by outsourcing a significant amount of manufacturing activity to our foundry partners while focusing our internal captive manufacturing capacity on products and solutions that differentiate us in terms of process technologies, product features, quality and cost. We believe that a flexible, highly scalable and low-cost operating model will enable us to respond to rapidly changing product mix and market demand.

***License our Intellectual Property.*** We intend to evaluate potential licensing arrangements with semiconductor designers and manufacturers who may integrate our MirrorBit technology into their future products and solutions. We also intend to license our process technology to third party manufacturers to help increase our external manufacturing capacity.

## **Chapter 11 Cases**

On March 1, 2009, we filed a voluntary petition for relief under the Chapter 11 Cases as part of our substantial reorganization of the company to better align our operations with the business environment. The key components of this reorganization were: revamping our management team; streamlining our operations; focusing on embedded Flash memory solutions and implementing a flexible manufacturing strategy. On April 16, 2010, the U.S. Bankruptcy Court confirmed our Plan of Reorganization and on May 10, 2010, we emerged from the Chapter 11 Cases. For more information regarding the Chapter 11 Cases and our Plan of Reorganization, see Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this prospectus.

## **Risks Affecting Us**

Our business is subject to numerous risks, which are highlighted in the section entitled Risk Factors. These risks represent challenges to the successful implication of our strategy and to the growth and future profitability of our business. Some of these risks are:

our ability to continue transforming our business after emergence from the Chapter 11 Cases and implement our new business strategy focused primarily on the embedded Flash memory market;

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a significant shift in the Flash memory market from NOR to NAND architecture;

the cyclical nature of the Flash memory market and recent severe downturns therein;

declining average selling prices over time;

our ability to accurately forecast customer demand for our products;

our ability to successfully develop, introduce and commercialize new products and technologies;

our reliance on third-party manufacturers and distributors;

our ability to successfully develop new applications and markets for our products;

inaccurate forecasting of customer demand leading to excess inventory and low gross margins; and

worldwide economic and political conditions.

### **Concurrent Notes Offering**

Concurrently with this common stock offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue \$200 million aggregate principal amount of senior unsecured notes in a private placement. The consummation of the notes private placement is conditioned upon either (a) obtaining the necessary approvals and consents from the lenders holding more than (1) 50% of the amounts outstanding under our \$450 million senior secured credit agreement, or Term Loan, and (2) 50% of the revolver commitments under our \$65 million loan and security agreement, or Revolving Credit Facility (together referred to in this prospectus as the Required Lenders) or (b) the full repayment and termination of the Term Loan and Revolving Credit Facility, in each case in accordance with its terms. We are currently negotiating with the lenders under our Term Loan and Revolving Credit Facility to, among other things, obtain the consents and approvals.

Spansion LLC intends to use all of the net proceeds from the sale of the notes to pay down amounts outstanding under the Term Loan. The notes will be offered by Spansion LLC, our principal operating company.

The concurrent offering and sale of the notes is not being registered under the Securities Act of 1933, and the notes offered thereby may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Neither this offering of common stock by Spansion Inc. nor the private placement of the notes by Spansion LLC is contingent on the completion of the other. This prospectus does not constitute an offering of the notes.

### **Corporate Information**

We were originally incorporated in Delaware in November 2005. Our principal executive offices are located at 915 DeGuigne Drive, Sunnyvale, California 94088, and our telephone number is (408) 962-2500. Our website address is [www.spansion.com](http://www.spansion.com). Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

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Spansion, the Spansion logo, and other trademarks or service marks of Spansion appearing in this prospectus are the property of Spansion. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective holders.

### **Recent Developments**

On October 26, 2010, we reported net sales of \$307.6 million, an operating loss of \$55.4 million, and a net loss of \$64.9 million for the three months ended September 26, 2010. Our cash and cash equivalents as of September 26, 2010 were \$330.0 million.

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On October 20, 2010, the claims agent appointed to resolve certain of our pre-bankruptcy claims entered into an agreement with Spansion Japan Limited, or Spansion Japan, our former subsidiary, to settle all claims asserted between Spansion Japan and the debtors estates under the Chapter 11 Cases. Spansion Japan had asserted a claim for approximately \$936 million related to damages allegedly incurred as a result of our rejection of our foundry agreement with Spansion Japan. Pursuant to the settlement agreement, the claims agent and Spansion Japan agreed on a settlement valuing the rejection damages claim at \$200 million. As part of the agreement, Citigroup Financial Products Inc., or Citi, which was not a party to this litigation, agreed to purchase the rejection damages claim from Spansion Japan for \$100 million in cash. In a separate transaction, we agreed to purchase 85 percent of this rejection damages claim from Citi for \$85 million in cash. These transactions became effective upon the final approval of the settlement agreement by the U.S. Bankruptcy Court and the Tokyo District Court, which is administering Spansion Japan's corporate reorganization proceeding in Japan. The value of any shares received under the claim will depend upon the total size of the claim pool ultimately determined in the Chapter 11 Cases.

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**THE OFFERING**

|                                       |  |
|---------------------------------------|--|
| Common stock offered by us            | 6,750,000 shares (or 7,762,500 shares if the underwriters exercise in full their over-allotment option).   |
| Shares outstanding after the offering | 66,020,916 shares (or 67,033,416 shares if the underwriters exercise in full their over-allotment option).   |
| Use of proceeds                       | We estimate that we will receive net proceeds from this offering of approximately \$117.2 million based on an assumed public offering price of \$18.54 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We are currently negotiating with the lenders under the Term Loan to modify certain terms of the Term Loan, one of which is a waiver to the requirement that we use 50% of the net proceeds from this offering to pay down the Term Loan. If we obtain this waiver, we intend to use the net proceeds from this offering for general corporate purposes. See Use of Proceeds. |
| Risk factors                          | See Risk Factors beginning on page 10 and the other information included elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.   |

New York Stock Exchange symbol CODE.

The number of shares of our common stock outstanding after this offering is based on 59,270,916 shares outstanding as of June 27, 2010, includes all of the shares issued and remaining for distribution in accordance with the Plan of Reorganization, and excludes:

3,031,436 shares of common stock issuable upon the exercise of options to purchase our common stock outstanding as of June 27, 2010 at a weighted average exercise price of \$10.51 per share;

2,969,821 shares of common stock issuable upon the vesting of restricted stock units outstanding as of June 27, 2010; and

an aggregate of 530,323 additional shares of common stock reserved for issuance under our equity incentive plans.

As of October 26, 2010, we estimate that approximately 27.9 million shares remain to be distributed in accordance with our Plan of Reorganization, and all such shares will be freely tradable following their distribution unless distributed to us or one of our affiliates. We cannot assure you as to when any of these shares will be distributed, however, we expect that:

approximately 3.4 million of such shares to be distributed in connection with a claim by ChipMOS Technologies could be distributed on or about November 25, 2010; and

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approximately 15.3 million of such shares to be distributed as a result of the settlement of the claim by Spansion Japan, which claim will be purchased from Spansion Japan by Citigroup Financial Products Inc., could be distributed on or about December 9, 2010, of which 5.3 million shares will be distributed to us, as a result of our purchase of a portion of that claim from Citigroup, and subsequently cancelled (see Summary Recent Developments ).

Except as otherwise indicated, all information in this prospectus assumes:

no exercise of the underwriters' option to purchase additional shares to cover over-allotments, if any; and

receipt of required approval from our lenders as described under Use of Proceeds.



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**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following tables present our summary historical consolidated financial and other data for our business for the periods indicated. We derived the consolidated statements of operations data for the years ended December 30, 2007, December 28, 2008 and December 27, 2009 from our audited consolidated financial statements included elsewhere in this prospectus. Fiscal 2007, 2008 and 2009 each consisted of 52 weeks. We derived the condensed consolidated statements of operations data for the six months ended June 27, 2010 and June 29, 2009 and the condensed consolidated balance sheet data as of June 27, 2010 from our unaudited consolidated financial statements included elsewhere in this prospectus. The six months ended June 27, 2010 and June 29, 2009 each consisted of 26 weeks.

Our historical results are not necessarily indicative of the results to be expected in the future, and the results for the six months ended June 27, 2010 should not be considered indicative of results to be expected for the full fiscal year. Upon emergence from the Chapter 11 Cases on May 10, 2010, or the Emergence Date, we adopted fresh start accounting as prescribed under Accounting Standards Codification (ASC) 852 *Reorganizations*, which requires us to revalue our assets and liabilities to their related fair values. As such, we adjusted our stockholders' deficit to equal the reorganization value at the Emergence Date. Items such as accumulated depreciation, accumulated deficit, accumulated other comprehensive income (loss) and allowances for doubtful debt were reset to zero. We allocated the reorganization value to the individual assets and liabilities based on their estimated fair values. Items such as accounts receivable, auction rate securities and cash, whose fair values approximated their book values, reflected values similar to those reported prior to emergence. Items such as prepaid and other current assets, inventory, property, plant and equipment, deferred income tax asset and liability, accounts payable, income tax payable, and deferred income were significantly adjusted from amounts previously reported. Because we adopted fresh start accounting at emergence and because of the significance of liabilities subject to compromise that were relieved upon emergence, the historical financial statements of the predecessor entity, or Predecessor, and the financial statements of the successor entity, or Successor, are not comparable. Refer to the notes to our financial statements included in this prospectus for further details relating to fresh start accounting.

You should read this summary consolidated financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

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|  | Successor <sup>(1)</sup><br>Period from<br>May 11, 2010<br>to June 27,<br>2010 | Predecessor <sup>(1)</sup><br>Period from<br>December 28,<br>2009 to May 10,<br>2010 | Six Months<br>Ended June<br>28, 2009 | Predecessor <sup>(1)</sup>         |   |   |
|--|--|--|--------------------------------------|------------------------------------|---|---|
|  |  |  |                                      | Year Ended<br>December 27,<br>2009 | Year Ended<br>December 28,<br>2008 <sup>(2)</sup> | Year Ended<br>December 30,<br>2007 <sup>(2)</sup> |
| <b>Consolidated Statements of Operations:</b>            |  |  |                                      |                                    |   |   |
| <i>(in thousands, except per share amounts)</i>          |  |  |                                      |                                    |   |   |
| Net sales  | \$ 124,569   | \$ 324,914   | \$ 630,000                           | \$ 1,059,408                       | \$ 1,630,573                                      | \$ 1,627,253                                      |
| Net sales to related parties                             | 4,801  | 78,705   | 145,929                              | 351,245                            | 651,230   | 873,560   |
| Total net sales  | 129,370  | 403,619  | 775,929                              | 1,410,653                          | 2,281,803   | 2,500,813   |
| Cost of sales  | 111,413  | 274,817  | 663,301                              | 1,103,757                          | 2,193,345   | 2,065,143   |
| Gross profit   | 17,957   | 128,802  | 112,628                              | 306,896                            | 88,458  | 435,670   |
| Research and development                                 | 13,420   | 35,068   | 82,635                               | 136,449                            | 431,808   | 436,785   |
| Sales, general and administrative                        | 18,259   | 68,105   | 137,817                              | 216,298                            | 253,878   | 239,317   |
| In-process research and development                      |  |  |                                      |                                    | 10,800  |   |
| Restructuring charges (credits)                          |  | (2,772)  | 38,154                               | 46,852                             | 11,161  |   |
| Asset impairment charges <sup>(3)</sup>                  |  |  |                                      | 12,538                             | 1,652,622   |   |
| Operating loss before reorganization items               | (13,722)   | 28,401   | (145,978)                            | (105,241)                          | (2,271,811)                                       | (240,432)   |
| Interest and other income (expense), net                 | 364  | (2,904)  | 2,396                                | 4,038                              | 5,200   | 32,595  |
| Interest expense <sup>(4)</sup>                          | (4,877)  | (30,573)   | (33,678)                             | (50,976)                           | (105,536)   | (87,460)  |
| Gain on deconsolidation of subsidiary <sup>(5)</sup>     |  |  | 30,100                               | 30,100                             |   |   |
| Loss before reorganization items and income taxes        | (18,235)   | (5,076)  | (147,160)                            | (122,079)                          | (2,372,147)                                       | (295,297)   |
| Reorganization items                                     |  | 370,340  | (372,299)                            | (391,383)                          |   |   |
| Income (loss) before income taxes                        | (18,235)   | 365,264  | (519,459)                            | (513,462)                          | (2,372,147)                                       | (295,297)   |
| Benefit from (provision for) income taxes <sup>(6)</sup> | 21   | (1,640)  | (429)                                | (597)                              | (62,865)  | 25,144  |
| Net income (loss)  | (18,214)   | 363,624  | (519,888)                            | \$ (514,059)                       | \$ (2,435,012)                                    | \$ (270,153)                                      |
| Net income (loss) per share                              |  |  |                                      |                                    |   |   |
| Basic  | \$ (0.31)  | \$ 2.24  | \$ (3.22)                            | \$ (3.18)                          | \$ (15.69)  | \$ (2.00)   |
| Diluted <sup>(7)</sup>                                   | \$ (0.31)  | \$ 2.24  | \$ (3.22)                            | \$ (3.18)                          | \$ (15.69)  | \$ (2.00)   |
| Shares used in per share calculation:                    |  |  |                                      |                                    |   |   |
| Basic  | 59,271   | 162,439  | 161,530                              | 161,847                            | 155,162   | 134,924   |
| Diluted <sup>(7)</sup>                                   | 59,271   | 162,610  | 161,530                              | 161,847                            | 155,162   | 134,924   |

|        |  |   |
|--------|--|---|
|        | As of<br>June 27, 2010                             |   |
| Actual | As adjusted<br>for this<br>offering <sup>(8)</sup> | As adjusted<br>for the private<br>placement |

of  
senior  
notes<sup>(9)</sup>

**Consolidated Balance Sheet:**

*(in thousands)*

|  |            |            |            |
|--|------------|------------|------------|
| Working capital  | \$ 384,265 | \$ 501,427 | \$ 499,474 |
| Total assets   | 1,467,269  | 1,584,431  | 1,582,478  |
| Long-term debt and capital lease obligations, including current portion, short term note, and notes payable to banks under revolving loans | 461,531    | 461,531    | 466,231    |
| Total stockholders' equity   | 657,956    | 775,118    | 773,165    |

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- (1) Successor refers to Spansion and its consolidated subsidiaries after the Emergence Date, after giving effect to: (i) the cancellation of shares of our Class A common stock issued prior to the Emergence Date, or the Old Common Stock; (ii) the issuance of shares of our Class A common stock, or New Common Stock, and settlement of existing debt and other adjustments in accordance with the Plan of Reorganization; and (iii) the application of fresh start accounting. Predecessor refers to Spansion and its consolidated subsidiaries up to the Emergence Date.
- (2) Statements of operations for these periods have been adjusted to reflect the change in accounting for our Exchangeable Senior Subordinated Debentures. See Management's Discussion and Analysis of Financial Condition and Results of Operations Adoption of New Accounting Pronouncements Accounting for Convertible Debt Instruments.
- (3) The asset impairment charge for fiscal 2009 includes pre-tax impairment on an equity investment and loan to an investee. The asset impairment charge for fiscal 2008 includes pre-tax impairment related to long-lived assets held for use of \$1.6 billion, and impairment related to goodwill and intangible assets of \$20.8 million and \$53.5 million, respectively.
- (4) Contractual interest expense for the year ended December 27, 2009 and six months ended June 28, 2009 was \$89.4 million and \$48.0 million.
- (5) The gain on deconsolidation of subsidiary represents the difference between the carrying value of our investment in and receivables from Spansion Japan immediately before deconsolidation and the estimated fair value of our retained non-controlling interest in Spansion Japan, which was zero then and as of December 27, 2009.
- (6) The provision for income taxes in fiscal 2009 includes a decrease of \$457.9 million in valuation allowances against deferred tax assets in Spansion Japan resulting from the deconsolidation of Spansion Japan in March 2009. However, the decrease in the amount of deferred tax assets had no impact on the provision for income taxes since the deferred tax assets had a full valuation allowance. The provision for income taxes in fiscal 2008 includes an increase of \$457.9 million in valuation allowances against deferred tax assets in Spansion Japan. This increase occurred because we did not believe it was more likely than not that these deferred tax assets would be realized in these jurisdictions. The increase in valuation allowance resulted in a \$64.5 million income tax expense associated with deferred tax assets of Spansion Japan.
- (7) Diluted net loss per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is anti-dilutive.
- (8) Adjusted to reflect the application of the net proceeds from this offering. See Use of Proceeds elsewhere in this prospectus.
- (9) As further adjusted to reflect the application of the net proceeds from this offering and the net proceeds from the concurrent notes private placement by Spansion LLC as described in Use of Proceeds. The consummation of the notes private placement is conditioned upon either (a) obtaining the necessary approvals and consents from the Required Lenders or (b) the full repayment and termination of the Term Loan and Revolving Credit Facility, in each case in accordance with its terms. The notes private placement and the offering of our common stock hereby will not be contingent upon the completion of the other.

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### **RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before making a decision to invest in our common stock. If any of such risks actually occur, our business, operating results, financial condition or growth prospects could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and liquidity.*

#### **Risks Related to Our Business**

**We are in the process of transforming our business and implementing a new business strategy. If we are unsuccessful in doing so, we may be materially adversely affected.**

Shortly after the Chapter 11 Cases commenced, we began implementing a new business strategy focused primarily on exiting a large portion of the wireless Flash memory market in order to reduce significantly our engineering expenses. We remain dedicated to, and focused on, the embedded portion of the Flash memory market and intend to continue to selectively engage in portions of the wireless market where we believe we can do so advantageously. The embedded market is more mature than the wireless market and is expected to grow more slowly than some other sectors of the semiconductor industry. In addition, the embedded market historically has been, and we anticipate that it will continue to be, subject to rapid selling price reductions. If we are unable to successfully address these challenges and execute this new business strategy, our business will be materially adversely affected.

In addressing these challenges, our new business strategy has involved, and will continue to involve, cost containment, in particular with respect to our workforce and we will continue to make judgments as to whether we should further reduce, relocate or otherwise change our workforce. Costs incurred in connection with such workforce changes, should they occur, may be higher than estimated. In addition, such workforce changes may impair our ability to achieve our current or future business objectives. In addition, any workforce changes may not be effected on the planned timetable and may result in the recording of additional charges. Similarly, any decision by us to further limit investment in, or exit or dispose of parts of, our business may result in the recording of additional charges. As part of our review of our restructured business, we look at the recoverability of tangible and intangible assets. Future market conditions may indicate these assets are not recoverable based on changes in forecasts of future business performance and the estimated useful life of these assets, and this may trigger further write-downs of these assets which may have a material adverse effect on our business, results of operations and financial condition.

Our new business strategy may also include considering strategic transactions, such as acquisitions, divestitures, joint ventures, alliances or co-production programs, as such opportunities arise. We may not be able to effect any strategic transaction or if we enter into transactions, we may not realize the benefits we anticipate. Moreover, in the case of acquisitions, the integration of separate companies involves a number of integration risks. Consummating any acquisitions, divestitures, joint ventures, alliances or co-production programs could result in the incurrence of additional transaction-related expenses, as well as unforeseen contingent liabilities, which could materially adversely affect us.

**Our business has been characterized by selling prices that decline over time, which can negatively affect our results of operations.**

Historically, the selling prices of our products have decreased during the products' lives, and we expect this trend to continue. When our selling prices decline, our net sales and gross margins also decline unless we are able to compensate by selling more units and thereby reducing our manufacturing costs per unit or by introducing

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and selling new, higher margin products with higher densities and/or advanced features. If the selling prices for our products continue to decline, our operating results could be materially adversely affected.

During downturns, periods of extremely intense competition, or the presence of oversupply in the industry, the selling prices for our products have declined at a high rate over relatively short time periods as compared to historical rates of decline. We are unable to predict selling prices for any future periods and may experience unanticipated, sharp declines in selling prices for our products. When such pricing declines occur, we may not be able to mitigate the effects by selling more or higher margin units, or by reducing our manufacturing costs. In such circumstances, our operating results could be materially adversely affected.

**The Flash memory market is highly cyclical and has experienced severe downturns that have materially adversely affected, and may in the future materially adversely affect, our business.**

The Flash memory market is highly cyclical and in the past has experienced severe downturns, generally as a result of wide fluctuations in supply and demand, constant and rapid technological change, continuous new product introductions and price erosion. Our financial performance has been, and may in the future be, adversely affected by these downturns. We have incurred substantial losses in past downturns, including the most recent downturn, due principally to:

substantial declines in selling prices, particularly due to competitive pressures and an imbalance in product supply and demand; and

a decline in demand for end-user products that incorporate our products.

Our historical financial information is not necessarily indicative of what our results of operations, financial condition or cash flows will be in the future. If our net sales decline in the future, or if these or other similar conditions continue or occur again in the future, we would likely be materially adversely affected.

If demand for consumer products, industrial products or mobile phones utilizing Flash memory declines, as we experienced during the worldwide global recession, our business could be materially adversely affected. Also, if the functionality of successive generations of such products does not require increasing Flash memory density or if such products no longer require the type of Flash memory product we produce due to alternative technologies or otherwise, our operating results would be materially adversely affected.

**We cannot be certain that the Chapter 11 Cases will not adversely affect our operations going forward.**

Although we emerged from the Chapter 11 Cases on May 10, 2010, we cannot provide assurance that our prior bankruptcy will not adversely affect our future operations. Our suppliers and vendors could stop providing supplies or services to us or provide such supplies or services only on unfavorable terms such as cash on delivery, cash on order or other terms that could have an adverse impact on our short-term cash flows. In addition, the fact that we recently emerged from the Chapter 11 Cases may adversely affect our ability to retain existing customers, attract new customers and maintain contracts that are critical to our operations.

We lost a significant amount of market share while in bankruptcy as certain customers were unwilling to work with a vendor in bankruptcy and others reduced their dependence on us by shifting their business to other vendors. There can be no assurance as to whether we will be able, or how long it may take, to regain all or any portion of that lost market share.

**If we are unable to attract and retain qualified personnel at reasonable costs, we may not be able to achieve our business objectives.**

We are dependent on the experience and industry knowledge of our senior management and other key employees to execute our current business plans and lead us throughout the implementation of the Plan of Reorganization. Competition for certain key positions and specialized technical and sales personnel in the high-technology industry remains strong. The Chapter 11 Cases, along with workforce reductions, created uncertainty

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that led to an increase in unwanted attrition and additional challenges in attracting and retaining new qualified personnel. We have lost many key employees with long tenures and broad knowledge about our technology and historical operations and we are at risk of losing or being unable to hire talent critical to a successful reorganization and ongoing operation of our business. If we are not able to attract, recruit or retain qualified employees (including as a result of headcount or salary reductions), we may not have the personnel necessary to successfully implement the Plan of Reorganization and our new business strategy, and our business, results of operations and financial condition could be materially adversely impacted.

### **Restrictive covenants may adversely affect our operations.**

Our Term Loan and Revolving Credit Facility contain, and if the concurrent notes private placement is consummated, the indenture governing the notes will contain, various covenants that limit our ability to, among other things:

incur or assume additional debt or provide guarantees in respect of obligations of other persons;

pay dividends or distributions or redeem or repurchase capital stock;

prepay, redeem or repurchase debt;

make certain investments, including investment in our unrestricted subsidiaries;

create or permit liens;

restrict dividends, loans or asset transfers from our subsidiaries;

sell or otherwise dispose of assets, including capital stock of subsidiaries;

consolidate or merge with or into, or sell substantially all of our assets to, another person; and

enter into transactions with affiliates.

In addition, the restrictive covenants in our Term Loan and Revolving Credit Facility require us to maintain specified financial ratios, including a maximum consolidated leverage ratio and a minimum consolidated interest coverage ratio. Our ability to meet those financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet them. A breach of any of the provisions, covenants, financial tests or ratios under our debt instruments could prevent us from borrowing under our Revolving Credit Facility and result in an event of default under the applicable agreement, which in turn could trigger cross-defaults under other debt instruments, including the indenture governing our concurrent notes private placement (if the concurrent notes private placement is consummated), any of which would materially adversely affect us. Upon the occurrence of an event of default under our Term Loan or Revolving Credit Facility, the lenders could elect to declare all amounts outstanding under our these facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under these facilities could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our Term Loan and Revolving Credit Facility. If the lenders under our facilities accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay these credit facilities and our other indebtedness, including the notes, or borrow sufficient funds to refinance such indebtedness. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to us.

### **Our reliance on third-party manufacturers entails risks that could materially adversely affect us.**

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We have in the past and plan in the future to enter into foundry, subcontractor and other arrangements with third parties to meet demand for our products. Third-party manufacturers we have used in the past or expect to use in the future for foundry and other manufacturing services include Texas Instruments, or TI, Fujitsu Semiconductors Limited, or FSL, Elpida Memory, Inc., or Elpida, and Semiconductor Manufacturing



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International Corporation, or SMIC. We also use independent contractors to perform some of the assembly, testing and packaging of our products, including ChipMOS Technologies Limited. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs. Third-party manufacturers are generally under no obligation to provide us with any specified minimum quantity of product. We also depend on these manufacturers to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis at acceptable prices. In addition, we rely on these manufacturers to invest capital into their facilities and process technologies to meet our needs for new products using advanced process technologies. Given our recent emergence from the Chapter 11 Cases and the current volatility and disruption in the capital and credit markets worldwide, we cannot assure you that they will make the investments in their facilities previously contemplated. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements and may not be able to attain qualification from our customers, which is required prior to production of products at a third party facility for a particular customer. In addition, any significant change in the payment terms we have with these manufacturers could adversely affect us.

In the past, Spansion Japan Limited, then a wholly-owned subsidiary of Spansion LLC, or Spansion Japan, facilitated distribution of our products in Japan, manufactured and supplied sorted and unsorted silicon wafers for us, and provided sort services to us. In August 2010, we entered into a new foundry agreement with TI as a result of TI's purchase of two wafer fabrication facilities and equipment from Spansion Japan. Accordingly, we rely on TI to manufacture wafers for and supply sort services to us. A sudden and unanticipated reduction or cessation of the supply of goods and services from TI would likely be disruptive and have a material adverse impact on our results of operations.

Third party manufacturers with whom we contract also make products for other companies, including certain of our competitors, and/or for themselves and could choose to prioritize capacity for themselves or other customers beyond any minimum guaranteed amounts, reduce deliveries to us or, in the absence of price guarantees, increase the prices they charge us on short notice, such that we may not be able to pass cost increases on to our customers. The likelihood of this occurring may be greater as a result of the Chapter 11 Cases. We may be unable to secure an alternative supply for specific products in a short timeframe or at all at an acceptable cost to satisfy our production requirements. In addition, we may be required to incur additional development, manufacturing and other costs to establish alternative sources of supply. Other risks associated with our increased dependence on third-party manufacturers include: their ability to adapt to our proprietary technology, reduced control over delivery schedules, quality assurance, manufacturing yields and cost, misappropriation of our intellectual property, reduced ability to manage inventory and parts and risks associated with operating in foreign countries. If we are unable to secure sufficient or reliable suppliers of wafers or obtain the necessary assembly, testing and packaging services, our ability to meet customer demand for our products may be adversely affected, which could have a material adverse effect on us.

### **We rely on Fujitsu Semiconductors Limited to distribute our products in Japan.**

We currently rely on FSL through its subsidiary, Fujitsu Electronics Inc., to distribute our products to customers in Japan, which is an important geographic market for us. Under our distribution agreement with FSL, FSL has agreed to use its best efforts to promote the sale of our products in Japan and to other customers served by FSL. In the event that we reasonably determine that FSL's sales performance in Japan and to those customers served by FSL is not satisfactory based on specified criteria, then we have the right to require FSL to propose and implement an agreed-upon corrective action plan. If we reasonably believe that the corrective action plan is inadequate, we can take steps to remedy deficiencies ourselves through means that include appointing another distributor as a supplementary distributor to sell products in Japan and to customers served by FSL. Pursuing these actions would be costly and disruptive to the sales of our products in Japan. If FSL's sales performance in Japan is unsatisfactory or if we are unable to successfully maintain our distribution agreement and relationship with FSL and we cannot timely find a suitable supplementary distributor, we could be materially adversely affected.

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Under the terms of our distribution agreement with FSL, either party may terminate the distribution agreement, either in whole or in part, for convenience upon 60 days written notice to the other party. If FSL unexpectedly terminates its distribution agreement with us, or otherwise ceases its support of our customers in Japan, we would be required to develop and rely on a relationship with another distributor or establish our own local sales organization and support functions. We cannot be certain that we will be successful in selling our products to customers currently served by FSL or new customers. If customers currently served by FSL, or potential new customers, refuse to purchase our products directly from us or from another distributor, or either it or we are not successful in distributing our products, our sales in Japan may decline, and we could be materially adversely affected.

### **Inaccurate forecasting of customer demand could materially and adversely affect our business, results of operations and financial results and may lead to excess inventory and poor gross margins.**

Although our manufacturing cycle times are relatively lengthy, often in excess of ten weeks, we nevertheless compete in a market where suppliers' ability to respond quickly to new orders is a competitive differentiator. Thus, we must forecast customer demand and produce requisite amounts of our products in order to fill current and future orders even though demand is volatile and difficult to predict.

To forecast demand and value inventory, we consider, among other factors, the inventory on hand, historical customer demand data, backlog data, competitiveness of product offerings, market conditions and product life cycles. If we are unable to accurately assess these factors and anticipate future demand or market conditions, inventory write-downs may be required and would be reflected in cost of sales in the period the write-down is made. Similarly, when customers change orders booked with us, our planned manufacturing capacity may be greater or less than actual demand, resulting in less than optimal capacity usage. When this occurs, we adjust our production levels but such adjustments may not prevent our production of excess inventory. An inability to address challenges like the ones described above would have a negative impact on our gross margin in that period. Moreover, inaccurate forecasting could also result in excess or obsolete inventory that would reduce our margins or shortages in inventory that would cause us to fail to meet customer demand. If we are unable to produce the types and quantities of products required by our customers in the timeframes and on the delivery schedules required by our customers, we may lose customers or, in certain circumstances, be liable for losses incurred by our customers, which would materially adversely affect our business and financial results.

### **Industry overcapacity could require us to take actions which could have a material adverse effect on us.**

Semiconductor companies with their own manufacturing facilities and specialist semiconductor foundries, which are subcontractors that manufacture semiconductors designed by others, have added significant capacity in recent years and during the first half of 2010 a number of companies announced plans to do so again. In 2008, the significant excess capacity led to oversupply and a downturn in the memory industry. The contraction of the worldwide economy, especially in the fourth quarter of 2008 and continuing into 2009, further compounded industry overcapacity. Fluctuations in the growth rate of industry capacity relative to the growth rate in demand for Flash memory products can contribute to cyclicality in the Flash memory market, which has in the past and may in the future negatively impact our selling prices and materially adversely affect us.

It is difficult to predict future growth or decline in the markets we serve, making it very difficult to estimate requirements for production capacity. If our target markets do not grow as we anticipate, we may under-utilize our manufacturing capacity or we may be contractually obligated to purchase minimum quantities of certain products from our subcontractors. This may result in write-downs or write-offs of inventories and losses on products the demand for which is lower than we anticipate. In addition, during periods of industry overcapacity, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity, which can exacerbate the difficulty in forecasting capacity requirements and may result in increased inventory levels.

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Many of our costs are fixed. Additionally, pursuant to some of our subcontractor and foundry arrangements with third parties we may incur and pay penalties as a result of our agreements to pay for a certain amount of product even if we do not accept delivery of all of such amount. Accordingly, during periods in which we under-utilize our manufacturing capacity as a result of reduced demand for some of our products, our costs cannot be reduced in proportion to the reduced net sales for such periods. When this occurs, our operating results may be materially adversely affected.

### **A further significant shift in the Flash memory market to NAND architecture would materially adversely affect us.**

Flash memory products are generally based on either NOR or NAND architecture. To date, our Flash memory products have been based on NOR architecture which are typically produced at a higher cost-per-bit than NAND-based products. We are developing our NAND architectures based on MirrorBit charge trapping technology primarily to address embedded applications currently served by NAND-based products or potentially served by NAND-based products in the future, but we cannot be certain that our NAND products will satisfactorily address those market needs.

Since 2004, industry sales of NAND-based Flash memory products increased as a percentage of total Flash memory sales compared to sales of NOR-based Flash memory products, resulting in NAND vendors in aggregate gaining a greater share of the overall Flash memory market and NOR vendors in aggregate losing overall market share. We expect the Flash memory market trend of decreasing market share for NOR-based Flash memory products relative to NAND-based Flash memory products to continue for the foreseeable future.

Customers manufacturing products for embedded applications may increasingly choose floating gate NAND-based Flash memory products over our NOR or NAND Flash memory products based on MirrorBit technology. If this occurs, our sales may be materially adversely affected. Moreover, some of our competitors are able to manufacture floating gate NAND-based Flash memory products on 300-millimeter wafers produced at a lower cost than we can currently achieve. In addition, some of our competitors may choose to utilize more advanced manufacturing process technologies than we may have available in order to offer competitive products at lower costs or with higher densities.

In addition, even if products based on NAND architecture are unsuccessful in displacing products based on NOR architecture, the average selling price for our products may be adversely affected by a significant decline in the price for NAND-based Flash memory products. Such a decline may result in downward price pressure in the overall Flash memory market affecting the price we can obtain for our NOR-based Flash memory products, which would adversely affect us. We believe such downward pricing pressure was a factor in the significant declines in the selling prices of our products in 2007 and 2008. If the prices for NAND Flash memory products similarly decline in the future, we may be materially adversely affected.

### **If we fail to successfully develop new applications and markets for our products, our future operating results would be materially adversely affected.**

We are developing new applications and opportunities for our products beyond our traditional customer base and in some cases plan to deploy our Flash memory solutions beyond current Flash memory markets. However, some of these opportunities require that we succeed in creating, marketing, gaining customer acceptance of, and deploying these new system architectures into, a customer base where we do not have historic business relationships and where our solution is required to replace established and proven solutions. In some cases our solutions rely on third parties to contribute a significant and necessary component of the solution without which the solution will not be viable. If we are unsuccessful in our attempts to bring new products to market due to our failures or those of third parties, experience significant delays in generating sales, fail to establish their value or face competition from third parties or incumbent suppliers that result in lower margins than expected, our future operating results would be materially adversely affected.

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**We cannot be certain that we will have sufficient resources to invest in the level of research and development required to remain competitive or that our substantial research and development investments will lead to timely improvements in technology needed to successfully develop, introduce and commercialize new products and technologies.**

The Flash memory industry is highly competitive and subject to rapid technological change. In order to compete, we are required to make substantial investments in research and development for product design, process technologies and production techniques in an effort to design and manufacture advanced Flash memory products. For example, in fiscal 2007 and 2008, our research and development expenses were approximately \$436.8 million and \$431.8 million, or approximately 17 and 19 percent of our total net sales, respectively. As a result of our new business strategy, research and development expenses for fiscal 2009 were \$136.4 million, or approximately 10 percent of our total net sales. We cannot assure you that we will have sufficient resources independently or through joint development agreements to maintain the level of investment in research and development that is required for us to remain competitive, which could materially adversely affect us.

As part of our reorganization, our strategy has changed to increasingly seek to share research and development costs with third parties. For example, we recently entered into a joint development agreement with Elpida for the development of products based on NAND architecture. However we cannot assure you that we will be able to negotiate such arrangements for more of our research and development needs, or that such arrangements will result in commercially successful technology and products in a timely manner or at all. We will be dependent on the third parties in such agreements to continue to invest financial and skilled human resources, and we cannot assure you that such third parties will make the necessary investments, the absence of which would materially adversely affect our business.

Our success depends to a significant extent on our ability to develop, qualify, produce, introduce and gain market acceptance of new product designs and improvements that provide value to Flash memory customers. Our ability to develop and qualify new products and related technologies to meet evolving industry requirements at prices acceptable to our customers and on a timely basis is critical to our competitiveness in our target markets. If we are delayed in developing or qualifying new products or technologies, we could be materially adversely affected.

**Competitors may introduce new memory or other technologies that may make our Flash memory products uncompetitive or obsolete.**

Our competitors are working on a number of new competitive technologies, including FRAM, MRAM, polymer, charge trapping and phase-change based memory technologies. If such products are successfully developed and commercialized as a viable alternative to MirrorBit or floating gate Flash memory, these other products could pose a competitive threat to existing Flash memory companies, including us. In addition, some of the licensees and customers of Saifun Semiconductors Ltd., or Saifun, which we purchased in 2008 and renamed Spansion Israel Ltd., are our competitors or work with our competitors and possess licenses from Saifun for intellectual property associated with charge trapping Flash memory technology. Use of this charge trapping intellectual property or use of independently developed charge trapping Flash memory technology by our competitors, if successfully developed and commercialized, may allow these competitors to develop Flash memory products that may compete with our products based on MirrorBit technology. If we are unable to compete with these new technologies, we may be materially adversely affected.

**Intense competition in the Flash memory market could materially adversely affect us.**

Our principal NOR Flash memory competitors are Micron Technology, Inc., or Micron, Macronix International Co., Ltd., or Macronix, Winbond Electronics Corp. and Samsung Electronics Co., Ltd., or Samsung. Additional NOR Flash memory competitors include Microchip Technology Inc., EON Silicon Solution Inc., Atmel Corporation and Toshiba Corporation, or Toshiba.

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We increasingly compete with NAND Flash memory manufacturers where NAND Flash memory has the ability to replace NOR Flash memory in customer applications. Our principal NAND Flash memory competitors include Samsung and Micron. In the future, our principal NAND Flash memory competitors may include Elpida Memory, Inc., Hynix Semiconductor Inc., Toshiba, Powerchip Technology Corporation, Macronix and Intel Corporation.

The Flash memory market is characterized by intense competition. The basis of competition is cost, selling price, performance, quality, customer relationships and ability to provide value-added solutions. In particular, in the past our competitors have aggressively priced their products, which resulted in decreased selling prices for our products and adversely impacted our results of operations. Some of our competitors, including Samsung and Toshiba, are more diversified than we are and may be able to sustain lower operating margins in their Flash memory business based on the profitability of their other, non-Flash memory businesses. In addition, capital investments by competitors in the past have resulted in substantial industry manufacturing capacity and announced capital investments planned for the future may further contribute to a competitive pricing environment. Some of our competitors are able to manufacture floating gate NAND-based Flash memory products on 300-millimeter wafers at lower cost than to which we may have access or may choose to utilize more advanced manufacturing process technologies than we will have to offer products competitive to ours at a lower cost or higher density. Moreover, our NAND-based Flash memory products based on our proprietary MirrorBit technology may not have the price, performance, quality and other features necessary to compete successfully for these applications.

We expect competition in the Flash memory market to intensify as existing manufacturers introduce new products, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share. The competition we face intensified during the Chapter 11 Cases as our ability to compete was reduced. If our competitors, many of whom have greater financial resources than us, increase their focus on the Flash memory products or segments of the Flash memory markets that generate a significant portion of our net sales we could be materially adversely affected.

Competitive pressures may also increase if NOR memory vendors merge, if NAND memory vendors acquire NOR businesses or other NAND businesses, or if our competitors otherwise consolidate their operations. For example, on April 8, 2010, Microchip Technology announced that it had completed its acquisition of Silicon Storage Technology, Inc.; and on May 7, 2010, Micron announced that it had completed its acquisition of Numonyx Holdings B.V. Furthermore, we face increasing competition from NAND Flash memory vendors targeting the embedded portion of the Flash memory market.

To compete successfully, we must decrease our manufacturing costs and develop, introduce and sell products at competitive prices that meet our customers' demands. If we are unable to compete effectively, we could be materially adversely affected.

**Unless we maintain manufacturing efficiency, we may not become profitable and our future profitability could be materially adversely affected.**

The Flash memory industry is characterized by rapid technological changes. For example, new manufacturing process technologies using smaller feature sizes and offering better performance characteristics are generally introduced every one to two years. The introduction of new manufacturing process technologies allows us to increase the functionality of our products while at the same time optimizing performance parameters, and increasing storage capacity. In addition, the reduction of feature sizes enables us to produce smaller chips offering the same functionality and thereby considerably reduces the cost per bit. In order to remain competitive, it is essential that we secure the capabilities to develop and qualify new manufacturing process technologies. For example, our leading Flash memory products must be manufactured at 65-nanometer and more advanced process technologies. If we are delayed in transitioning to these technologies and other future technologies, we could be materially adversely affected.

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Manufacturing our products involves highly complex processes that require advanced equipment. Our manufacturing efficiency is an important factor in achieving profitability, and we cannot be sure that we will be able to maintain or increase our manufacturing efficiency to the same extent as our competitors. For example, we continuously modify our manufacturing processes in an effort to improve yields and product performance and decrease costs. We are continuing to transition to 65-nanometer process technology for the manufacture of some of our products. During periods when we are implementing new process technologies, manufacturing facilities may not be fully productive. We may fail to achieve acceptable yields or may experience product delivery delays as a result of, among other things, capacity constraints, delays in the development of new process technologies, changes in our process technologies, upgrades or expansion of existing facilities, impurities or other difficulties in the manufacturing process. Any of these occurrences could adversely impact our relationships with customers, cause harm to our reputation in the marketplace, cause customers to move future business to our competitors or cause us to make financial concessions to our customers.

Improving our manufacturing efficiency in future periods is dependent on our ability to:

develop advanced process technologies and advanced products that utilize those technologies;

successfully transition to advanced process technologies;

continue to reduce test times;

ramp product and process technology improvements rapidly and effectively to commercial volumes;

achieve acceptable levels of manufacturing wafer output and yields, which may decrease as we implement more advanced technologies; and

maintain our quality controls and rely upon the quality and process controls of our suppliers.

**Our ability to generate sufficient operating cash flows depends in part on maintaining our expense reduction efforts.**

Our business is capital intensive and our ability to generate operating cash flows depends in large part on the maintenance of our low cost strategy. In response to decreasing cash balances of the Predecessor prior to the Chapter 11 Cases and as part of our strategy going forward, we intend to continue our low cost strategy, which historically included salary reductions, capital expenditure reductions, headcount freezes and reductions, cutting research and development projects; and reducing administrative expenses. Some cost cutting activities may require initial cost outlays before the cost reductions are realized. We cannot assure you that we will be able to achieve anticipated expense reductions. If our expense reduction efforts are unsuccessful, our operating results and business may be materially adversely affected. Furthermore, in certain instances our cost reductions may make it more difficult for us to succeed in the extremely competitive environment in which we operate.

**Our working capital, investments and capital requirements may require us to seek additional financing, which may not be available to us.**

Our debt instruments may not be sufficient for our future working capital, investments and capital requirements. We also may not be able to access additional financing resources due to a variety of reasons, including the restrictive covenants in the Term Loan, the Revolving Credit Facility or the indenture that will govern the senior notes to be issued by Spansion LLC in the concurrent private placement, if consummated, and the lack of available capital due to the tight nature of global credit markets. If our financing requirements are not met by the Term Loan and the Revolving Credit Facility and we are unable to access additional financing, our business, operations, financial condition and cash flows will be materially adversely affected.



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**If we cannot adequately protect our technology or other intellectual property in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures, we may lose a competitive advantage and incur significant expenses as a result of litigation and other claims.**

We rely on a combination of protections provided by contracts, including confidentiality and non-disclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from third-party infringement or from misappropriation in the United States and abroad. Any patent owned or licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted under these patents or licenses may not provide a competitive advantage to us. Furthermore, patent applications that we file may not result in issuance of a patent or, if a patent is issued, the patent may not be issued in a form that is advantageous to us. Despite our efforts to protect our intellectual property rights, others may independently develop similar products, duplicate our products or design around our patents and other intellectual property rights. In addition, it is difficult to monitor compliance with, and enforce, our intellectual property rights on a worldwide basis in a cost-effective manner. Foreign laws may provide less intellectual property protection than is afforded in the United States. Our efforts to protect our intellectual property in the United States and abroad, through lawsuits such as those that have been filed between us and Samsung, may be time-consuming and costly. If we cannot adequately protect our technology or other intellectual property rights in the United States and abroad, we may be materially adversely affected.

We are currently party to various lawsuits brought by third parties alleging that we infringe their intellectual property rights. In the future, third parties may bring additional actions against us based on similar allegations. To resolve such claims, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that we will be able to obtain all of the necessary licenses on satisfactory terms, if at all. These parties have filed or may in the future file lawsuits against us seeking damages (potentially including treble damages for willful infringement) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products, increase the costs of selling some of our products, or cause damage to our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, would have a material adverse effect on us. We could decide, in the alternative, to redesign our products or to resort to litigation to challenge or defend such claims, either of which could be expensive and time-consuming and may have a material adverse effect on us.

We expect to attempt to negotiate agreements and arrangements with third parties for the license of intellectual property and technology that are important to our business. We also expect to continue to apply for new patents as our success in negotiating patent cross-license agreements with other industry participants will depend in large part upon the strength of our patent portfolio relative to that of the third party with which we are negotiating. If we are unable to negotiate agreements or arrangements for intellectual property, or to obtain patents, necessary for the success of our business, we may be materially adversely affected.

We provide indemnities relating to non-infringement of patents and other intellectual property indemnities to certain of our customers in connection with the delivery, design, manufacture and sale of our products. If we incur substantial costs in connection with any claim pursuant to such indemnification, our business, results of operations and financial condition could be materially adversely affected.

**If essential equipment or adequate supplies of satisfactory materials are not available to manufacture our products, we could be materially adversely affected.**

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for



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another or one piece of equipment for another. Some raw materials we use in the manufacture of our products are available from a limited number of suppliers or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as gold for which prices on the world markets have fluctuated significantly during recent periods. Our manufacturing operations also depend upon the quality and usability of the materials we use in our products, including raw materials and wafers we receive from our suppliers. If the materials we receive from our suppliers do not meet our manufacturing requirements or product specifications, are not obtained in a timely manner or if there are significant increases in costs of materials, we may be materially adversely affected.

We also rely on purchasing commercial memory die such as PSRAM from third-party suppliers to incorporate these die into multi-chip package products. The availability of these third-party purchased commercial die is subject to market availability, and the process technology roadmaps and manufacturing capacities of our vendors. In addition, some of our suppliers may also be our competitors. Interruption of supply from a competitor that is a supplier or otherwise or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure these materials, or if the materials we receive from our suppliers do not meet our production requirements or product specifications, we may have to reduce our manufacturing operations or our manufacturing yields may be adversely affected. Such a reduction and yield issues have in the past and could in the future have a material adverse effect on us.

### **Costs related to defective products could have a material adverse effect on us.**

One or more of our products may be found to be defective or we may initiate voluntary recalls of products after they have been shipped to customers in volume. We generally provide a limited warranty with respect to our products. Accordingly, if we recall products or are forced to replace defective products, the cost of product replacements or product returns may be substantial, and our reputation with our customers could be damaged. In addition, we could incur substantial costs to implement modifications to fix defects. Any of these problems could materially adversely affect us.

### **Worldwide economic and political conditions and risks may adversely affect demand for our products and have a material adverse effect on us.**

We operate in more than ten countries and we derive a majority of our net sales outside the United States. For example, a significant portion of our planned wafer fabrication capacity for existing and future products is provided by third parties located in Japan and China, and nearly all final test and assembly of our products is performed at our facilities in Malaysia and Thailand and by third parties in China, Taiwan and Japan. Our business depends on the overall worldwide economic conditions and the economic and business conditions within our customers' industries. Our business may also be affected by economic factors that are beyond our control, such as downturns in economic activity in a specific country or region. A further weakening of the worldwide economy or the economy of individual countries or the demand for our customers' products may cause a greater decrease in demand for our products, which could materially adversely affect us.

We could also be significantly and adversely affected by geopolitical concerns and world events, such as wars and terrorist attacks. Our net sales and financial results have been and could be negatively affected to the extent such geopolitical concerns continue or similar events occur or are anticipated to occur. Terrorist attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive, which could materially adversely affect us.

The political and economic risks associated with our sales to, and operations in, foreign countries include:

expropriation;

changes in political or economic conditions;

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compliance with U.S. and international laws involving international operations, including the Foreign Corrupt Practices Act and export control laws;

changes in tax laws, trade protection measures and import or export licensing requirements;

difficulties in protecting our intellectual property;

difficulties in achieving headcount reductions;

changes in foreign currency exchange rates;

restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;

changes in freight and interest rates;

disruption in air transportation between the location of our facilities; and

loss or modification of exemptions for taxes and tariffs.

In particular, consequences of military action in the Middle East have in the past, and may in the future, adversely affect demand for our products and our relationship with various third parties with which we collaborate. Our subsidiary, Spansion Israel, conducts business in Israel, which is affected and surrounded by unstable political, economic and military conditions. We cannot predict the effect of continued or increased violence, or the effect of military action in that region. Continued armed conflicts or political instability in the region would harm business conditions and could adversely affect the combined company's results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may limit our ability to make sales in those countries, and, as a global company, may limit our own ability to efficiently administer our worldwide resources.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. economy and worldwide financial markets.

**Unfavorable currency exchange rate fluctuations could adversely affect us.**

As a result of our foreign operations, we have sales, expenses, assets and liabilities that are denominated in Japanese yen and other foreign currencies. For example:

some of our costs are denominated in Japanese yen, Thai baht and Malaysian ringgit;

sales of our products to, and purchases from, TI are denominated in both U.S. dollars and Japanese yen; and

some fixed asset purchases are denominated in Japanese yen and European Union euros. Consequently, movements in exchange rates could cause our net sales and expenses to fluctuate, affecting our results of operations and cash flows. We currently have not entered into any currency hedging contracts and in the future we may not be able to enter into them on acceptable terms, if at all.

**We are subject to a variety of environmental laws that could result in liabilities.**

Our properties and many aspects of our business operations are subject to various domestic and international environmental laws and regulations, including those relating to materials used in our products and manufacturing processes; chemical use and handling; waste minimization; discharge of pollutants into the environment; the treatment, transport, storage and disposal of solid and hazardous wastes; and remediation of contamination. Certain of these laws and regulations require us to obtain permits for our operations, including permits related to the discharge of air pollutants and wastewater. From time to time, our facilities are subject to investigation by governmental regulators. Environmental compliance obligations and liability risks are inherent in many of our manufacturing and other activities. Any failure to comply with applicable environmental laws, regulations or

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permits may subject us to a range of consequences, including fines, suspension of production, alteration of manufacturing processes, sales limitations, and criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at or under our facilities, or for other environmental or natural resource damage. Certain environmental laws, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or the Superfund Act, impose joint and several liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and costs related to damages to natural resources. Liability can attach even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. These environmental laws also can result in liability for persons, like us, who arrange for hazardous substances to be sent to disposal or treatment facilities, in the event such facilities are found to be contaminated. Such persons can be responsible for cleanup costs at a disposal or treatment facility, even if they never owned or operated the contaminated facility. One of our properties is listed on the U.S. Environmental Protection Agency's Superfund National Priorities List. However, other parties currently are responsible for all investigation, cleanup and remediation activities. Although we have not been named a responsible party at this site, if we were so named, costs associated with the cleanup of the site could have a material adverse effect upon us. We have not been named a responsible party at any Superfund or other contaminated site. If we were ever so named, costs associated with the cleanup of the site could be material. Additionally, contamination that has not yet been identified could exist at one or more of our facilities, and identification of such contamination could have a material adverse effect on us.

Our business is subject to complex and dynamic environmental regulatory schemes. While we have budgeted for reasonably foreseeable environmental expenditures, we cannot assure you that environmental laws will not change or become more stringent in the future. Future environmental regulations could require us to procure expensive pollution abatement or remediation equipment; to modify product designs; or to incur other expenses associated with compliance with such regulations. For example, the European Union and China recently began imposing stricter requirements regarding reduced lead content in semiconductor packaging. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, or liabilities arising from past or future releases of, or exposure to, hazardous substances, will not have a material adverse effect on our business.

### **Our business, worldwide operations and the operations of our suppliers could be subject to natural disasters and other business disruptions, which could harm our future net sales and financial condition and increase our costs and expenses.**

Our worldwide operations and business could be subject to natural disasters and other business disruptions, such as a world health crisis, fire, earthquake, tsunami, volcano eruption, flood, hurricane, power loss, power shortage, telecommunications failure or similar events, which could harm our future net sales and financial condition and increase our costs and expenses. Our corporate headquarters are located near major earthquake fault lines in California and TI's wafer fabrication facilities, Fujitsu's manufacturing facilities and Elpida's manufacturing facilities are located near major earthquake fault lines in Japan. Also, our assembly and test facilities located in Malaysia and Thailand and our subcontractors assembly and test facilities in China and other countries in Asia may be affected by tsunamis. In the event of a major earthquake or tsunami, we could experience loss of life of our employees, destruction of facilities or other business interruptions. If such business disruptions result in cancellations of customer orders or contribute to a general decrease in economic activity or demand for our products, or directly impact our marketing, manufacturing, financial, and logistics functions, our results of operations and financial condition could be materially adversely affected.

Furthermore, the operations of our suppliers could be subject to natural disasters and other business disruptions, which could cause shortages and price increases in various essential materials, which are required to manufacture our products or commercial memory die such as PSRAMs for incorporation into our multi-chip packages, or MCP, products. If we are unable to procure an adequate supply of materials that are required for us to manufacture our products, or if the operations of our other suppliers of such materials are affected by an event

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that causes a significant business disruption, we may have to reduce our manufacturing operations. Such a reduction could in the future have a material adverse effect on us.

### **Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.**

We prepare our financial statements in accordance with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, and various bodies formed to interpret and create appropriate accounting policies. A change in those policies or other requirements with respect to the reporting of financial statements can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced.

For example, the SEC has released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards, or IFRS. Under the proposed roadmap, we may be required to prepare financial statements in accordance with IFRS. The SEC announced it will make a determination in 2011 regarding the mandatory adoption of these new standards. It is unclear at this time how the Commission will propose GAAP and IFRS be harmonized if the proposed changes are adopted. If adopted, we will need to develop new systems and controls around IFRS principles. Since this would be a new endeavor, the specific costs associated with this conversion is uncertain and could have a material impact on our results of operations.

### **AMD and Fujitsu may continue to use all of our intellectual property and the intellectual property they have transferred to us.**

In connection with our reorganization as Spansion LLC in June 2003, Advanced Micro Devices, Inc., or AMD, and Fujitsu transferred approximately 400 patents and patent applications to us. In addition, AMD and Fujitsu contributed additional patents to us at the time of our initial public offering. However, both AMD and Fujitsu have retained license rights under the patents they contributed to us. In addition, under their respective patent cross-license agreements with us, AMD and Fujitsu have also obtained licenses to our present and future patents with effective filing dates prior to June 30, 2013, although the scope of patents under license can be impacted by a change in control of the parties or their semiconductor groups. These licenses continue until the last to expire of the patents under license expires and provide AMD and Fujitsu with licenses to all of our present and future patents in existence through such cross-license termination date. In addition, we have granted a non-exclusive, perpetual, irrevocable fully paid and royalty-free license under our rights, other than patent and trademark rights, in our technology to each of AMD and Fujitsu. Under our non-competition agreement, both AMD and Fujitsu have agreed that they will not directly or indirectly engage in a business, and have agreed to divest any acquired business, that manufactures or supplies standalone semiconductor devices (including single chip, multiple chip or system devices) containing certain Flash memory, which is the business in which we primarily compete. With respect to each of AMD and Fujitsu, this non-competition restriction will last until May 10, 2012. After the expiration of the non-competition restriction period, should either AMD or Fujitsu decide to re-enter the Flash memory business, it could use our present and future patents and technologies licensed by us to AMD and Fujitsu to compete against us. If either AMD or Fujitsu were to compete with us, we could be materially adversely affected.

## **Risks Related to this Offering**

### **Our stock price may be volatile, and stockholders may lose all or part of their investment.**

The market price of shares of our common stock has been volatile and may in the future be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

actual or anticipated changes in our operating results;

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changes in financial estimates by securities analysts;

fluctuations in the valuation of companies perceived to be comparable to us;

announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives; and

stock price and volume fluctuations attributable to inconsistent trading volume levels or other factors.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of shares of our common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could materially adversely affect us.

### **Future sales of shares of our common stock by existing stockholders could depress the price of our common stock.**

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly and could decline below the public offering price. In addition, one or more creditors that has or will receive shares of our common stock in accordance with the Plan of Reorganization in satisfaction of claims may seek to sell our common stock in order to achieve liquidity with respect to its claims against the bankruptcy estate. Some of our creditors' claims remain under dispute. Following the resolution or settlement of any of these claims, we will distribute shares of common stock to the applicable creditor, and the creditor would be able to sell these shares at any time. The sale of a large number of shares by one or more of our stockholders or the announcement of any resolution or settlement of a large claim or large share distribution to one of our former creditors could adversely affect our stock price.

As of October 26, 2010, we estimate that approximately 27.9 million shares remain to be distributed in accordance with our Plan of Reorganization, and all such shares will be freely tradable following their distribution unless distributed to us or one of our affiliates. We cannot assure you as to when any of these shares will be distributed, however, we expect that:

approximately 3.4 million of such shares to be distributed in connection with a claim by ChipMOS Technologies could be distributed on or about November 25, 2010; and

approximately 15.3 million of such shares to be distributed as a result of the settlement of the claim by Spansion Japan, which claim will be purchased from Spansion Japan by Citigroup Financial Products Inc., could be distributed on or about December 9, 2010, of which 5.3 million shares will be distributed to us, as a result of our purchase of a portion of that claim from Citigroup, and subsequently cancelled (see Summary - Recent Developments).

Based on shares outstanding as of June 27, 2010 (which includes shares that may be distributed in connection with the claims described above), upon completion of this offering, we will have outstanding approximately 66,020,916 shares of Class A common stock, assuming no exercise of the underwriters' overallotment option, all of which will be immediately freely tradeable, without restriction, in the public market, except for 7,833,900 shares held by our affiliates and which will be subject to a 90-day lock-up agreement with the underwriters.

Representatives of the underwriters may, in their sole discretion, release the signers of these agreements from their obligations thereunder prior to the expiration of the lock-up agreements. In addition, as of June 27, 2010, 6,001,257 shares subject to outstanding equity awards under our 2010 Equity Incentive Plan, and 530,323 shares reserved for future issuance thereunder will become eligible for sale in the public market, subject to



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certain legal and contractual limitations. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the price of our common stock could decline substantially.

### **If we issue additional shares of common stock to raise capital, it may have a dilutive effect on your investment.**

If we raise additional capital through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of us. Moreover, any new equity or equity-linked securities we issue could have rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

### **If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.**

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

### **Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that successfully increase the value of your investment.**

Our management will have broad discretion to use half of the net proceeds to us from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not be successful in applying the net proceeds from this offering in ways that increase the value of your investment. We expect to use the discretionary net proceeds to us from this offering for working capital and other general corporate purposes. We may also use a portion of the discretionary net proceeds for the acquisition of businesses, solutions and technologies that we believe are complementary to our own, although we have no agreements or understandings with respect to any acquisition at this time. Until we use the net proceeds to us from this offering, we plan to invest them, and these investments may not yield a favorable rate of return. If we do not invest or apply the net proceeds from this offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

### **We currently do not intend to pay dividends on our common stock and, consequently, our stockholders' only opportunity to achieve a return on their investment is through appreciation in the price of our common stock.**

We currently do not plan to pay dividends on shares of our common stock for the foreseeable future and are currently prohibited from doing so by the terms of our Term Loan and Revolving Credit Facility. Similar prohibitions will be applicable under the indenture that will govern the senior notes to be issued by Spansion LLC in the concurrent private placement, if consummated. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries. Our common stock will rank junior as to payment of dividends to any series of preferred stock that we may issue in the future. Generally, unless full dividends including any cumulative dividends still owing on all outstanding shares of any preferred stock have been paid, no dividends will be declared or paid on our common stock. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates.

### **Any future issuance of our preferred stock could adversely affect holders of our common stock.**

Our board of directors is authorized to issue shares of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any



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such series of shares of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up of our affairs, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

### **Provisions in our corporate governance documents as well as Delaware law may delay or prevent an acquisition of us that stockholders may consider favorable.**

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include restrictions on the ability of our stockholders to remove directors, a classified board of directors and limitations on action by our stockholders by written consent. In addition, our board of directors has the right to issue preferred stock without stockholder approval, which could be used to make an acquisition of us more difficult. Although we believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics and thereby provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with our board of directors, these provisions apply even if the offer may be considered beneficial by some stockholders.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

our ability to successfully transform our business and implement our new business strategy;

the impact of the current economic climate on our business;

the rate of growth in the industries into which our products are sold;

our ability to maintain or increase our average selling price and lower our average costs;

the accuracy of our forecasts of customer demand for our products;

our ability to attract new customers;

the continued ability of FSL to distribute our products in Japan;

our ability to successfully enter new markets and manage our international expansion;

the impact of fluctuations in currency exchange rates;

the effects of increased competition or new memory or other technologies on our business;

our ability to successfully develop new applications and markets for our products;

our ability to maintain manufacturing efficiency;

our ability to protect our intellectual property;

costs associated with defending intellectual property infringement and other claims;

the availability of adequate supplies of satisfactory materials essential to manufacture our products;

the effects of natural or man-made catastrophic events; and

other risk factors included under **Risk Factors** in this prospectus.

In addition, in this prospectus, the words **believe**, **may**, **will**, **estimate**, **continue**, **anticipate**, **intend**, **expect**, **predict**, **potential** and other similar expressions, as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Forward-looking statements speak only as of the date of this prospectus. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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### **USE OF PROCEEDS**

We estimate that the net proceeds to us from the sale of the shares of common stock offered by us will be approximately \$117.2 million (or approximately \$135.0 million if the underwriters' overallotment option is exercised in full) based on an assumed public offering price of \$18.54 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We are currently negotiating with the lenders under the Term Loan to modify certain terms of the Term Loan, one of which is a waiver to the requirement that we use 50% of the net proceeds from this offering to pay down the Term Loan. If we obtain this waiver, we intend to use the net proceeds from this offering for general corporate purposes, including working capital, sales and marketing activities, general and administrative matters and capital expenditures. We may also use a portion of the remaining net proceeds for the acquisition of, or investment in, technologies, solutions or businesses that complement our business. We have no present understandings, commitments or agreements to enter into any acquisitions or investments. Our management will have broad discretion over the uses of the discretionary portion of the net proceeds from this offering. Pending these uses, we intend to invest the net proceeds from this offering in short-term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper and guaranteed obligations of the U.S. government. We cannot predict whether the proceeds invested will yield a favorable return.

Concurrently with this offering, Spansion LLC intends to issue \$200 million aggregate principal amount of senior unsecured notes in a private placement and apply all of the net proceeds from the sale of the notes to pay down amounts outstanding under our Term Loan. The consummation of the notes private placement is conditioned upon either (a) obtaining the necessary approvals and consents from the Required Lenders under each of the Term Loan and the Revolving Credit Facility or (b) the full repayment and termination of the Term Loan and Revolving Credit Facility, in each case in accordance with its terms. The consummation of the notes private placement and the offering of common stock hereby will not be contingent upon the completion of each other.

The Term Loan is a five-year senior secured loan agreement of \$450 million that matures on February 8, 2015. Interest on the Term Loan accrues at a rate per annum, reset quarterly, equal to the London Interbank Offered Rate, or LIBOR, but in any case not less than 2.00 percent, plus 5.50 percent. As of June 27, 2010, the interest rate on the Term Loan was 7.50 percent. Proceeds of the Term Loan, together with cash on hand and the proceeds from the rights offering, or Rights Offering, that we conducted in early 2010 were used to discharge in full the claims of the holders of our Senior Secured Floating Rate Notes, other administrative expense claims and priority claims and the fees and expenses related to the Term Loan, the Revolving Credit Facility and the Rights Offering, in each case in accordance with the Plan of Reorganization.

### **DIVIDEND POLICY**

We have never paid any cash dividends on our common stock and have no present plans to do so. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. The terms of our Term Loan and Revolving Credit Facility limit our ability to pay cash dividends on any shares of our common stock. Similar prohibitions will be applicable under the indenture that will govern the notes to be issued by Spansion LLC in the concurrent private placement, if consummated. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries, including the restrictions under our Term Loan and Revolving Credit Facility. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as our earnings levels, capital requirements, overall financial condition and any other factors deemed relevant by our board.

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**Table of Contents****MARKET PRICE OF COMMON STOCK**

Pursuant to the Plan of Reorganization, all outstanding shares of our Class A common stock outstanding prior to the Emergence Date were cancelled effective May 10, 2010. Our new Class A common stock issued in accordance with the Plan of Reorganization was initially listed on the NYSE Amex LLC from May 18, 2010 to June 23, 2010. On June 23, 2010, the Class A common stock was transferred from the NYSE Amex to The New York Stock Exchange, or NYSE, under the symbol CODE. The following table sets forth the high and low sales prices of our new Class A common stock per share, as reported by the NYSE Amex and the NYSE, as applicable.

|   | <b>High</b> | <b>Low</b> |
|---|-------------|------------|
| <b>Fiscal Year Ending December 26, 2010</b> |             |            |
| Second Quarter (from May 18, 2010)          | \$ 20.00    | \$ 15.12   |
| Third Quarter                               | \$ 17.96    | \$ 13.73   |
| Fourth Quarter (through October 27, 2010)   | \$ 19.94    | \$ 15.12   |

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of June 27, 2010:

on an actual basis;

on an adjusted basis, giving effect to the sale by us of 6,750,000 shares of Class A common stock, at an assumed public offering price of \$18.54 per share, and our application of the estimated net proceeds from this offering as described in "Use of Proceeds"; and

on an as further adjusted basis to give further effect to the concurrent private placement of senior notes by Spansion LLC assuming the sale of the notes is completed and the net proceeds therefrom are applied as described in "Use of Proceeds".

You should read this table together with the information under "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Capital Stock," and with our consolidated financial statements and related notes included elsewhere in this prospectus.

|  | <b>As of June 27, 2010</b>                             |  |  |
|--|--|--|--|
|  | <b>Actual</b>  | <b>As adjusted for this offering (Unaudited)</b> | <b>As further adjusted for the private placement of senior notes</b> |
|  | <b>(in thousands, except share and per share data)</b> |  |  |
| Cash and cash equivalents and short-term investments   | \$ 280,030   | \$ 397,192                                       | \$ 395,239   |
| Total long-term debt and capital lease obligations, net of current portion   | \$ 461,531   | \$ 461,531                                       | \$ 466,231   |
| Stockholders' equity:  |  |  |  |
| Preferred stock, par value \$0.001 per share, 50,000,000 authorized, no shares issued and outstanding, actual and as adjusted  |  |  |  |
| Class A common stock, par value \$0.001 per share, 150,000,000 shares authorized; 59,270,916 shares issued and outstanding, actual; 66,020,916 shares issued and outstanding, as adjusted <sup>(1)</sup> | 59   | 66   | 66   |
| Class B common stock, \$0.001 par value per share, 1 share authorized, 1 share issued and outstanding, actual and as adjusted <sup>(2)</sup>   |  |  |  |
| Additional paid-in capital   | 675,886  | 793,041  | 793,041  |
| Accumulated deficit  | (18,214)   | (18,214)   | (20,167)   |
| Accumulated other comprehensive income   | 225  | 225  | 225  |
| Total stockholders' equity   | \$ 657,956   | \$ 775,118                                       | \$ 773,165   |
| Total capitalization   | \$ 1,119,487   | \$ 1,236,649                                     | \$ 1,239,396   |

(1) Outstanding shares of Class A common stock information set forth above excludes:

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- (a) 3,031,436 shares of Class A common stock issuable upon the exercise of stock options outstanding as of June 27, 2010 at a weighted average exercise price of \$10.51 per share;
- (b) 2,969,821 shares of Class A common stock issuable upon the vesting of restricted stock units outstanding as of June 27, 2010; and

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- (c) an aggregate of 530,323 additional shares of Class A common stock reserved for issuance under our equity incentive plans.
- (2) The one share of Class B common stock entitles the holder, acting as a separate class, to vote for up to two directors to serve on our Board of Directors. See Description of Capital Stock.



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**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following tables present our summary historical consolidated financial and other data for our business for the periods indicated. We derived the consolidated statements of operations data for the years ended December 30, 2007, December 28, 2008 and December 27, 2009 and the consolidated balance sheet data as of December 28, 2008 and December 27, 2009 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the consolidated statements of operations data for the years ended December 25, 2005 and December 31, 2006 and the consolidated balance sheet data as of December 25, 2005, December 31, 2006 and December 30, 2007 from our audited consolidated financial statements not included in this prospectus. Fiscal 2005, 2007, 2008 and 2009 each consisted of 52 weeks. Fiscal 2006 consisted of 53 weeks.

We derived the condensed consolidated statements of operations data for the six months ended June 27, 2010 and June 29, 2009 and the condensed consolidated balance sheet data as of June 27, 2010 from our unaudited consolidated financial statements included elsewhere in this prospectus. The condensed consolidated balance sheet data as of June 29, 2009 is derived from our unaudited consolidated financial statements not included in this prospectus. The six months ended June 27, 2010 and June 29, 2009 each consisted of 26 weeks.

Our historical results are not necessarily indicative of the results to be expected in the future, and the results for the six months ended June 27, 2010 should not be considered indicative of results to be expected for the full fiscal year. Upon emergence from the Chapter 11 Cases on May 10, 2010, we adopted fresh start accounting as prescribed under Accounting Standards Codification (ASC) 852 *Reorganizations*, which requires us to revalue our assets and liabilities to their related fair values. As such, we adjusted our stockholders' deficit to equal the reorganization value at the emergence date. Items such as accumulated depreciation, accumulated deficit, accumulated other comprehensive income (loss) and allowances for doubtful debt were reset to zero. We allocated the reorganization value to the individual assets and liabilities based on their estimated fair values. Items such as accounts receivable, auction rate securities and cash, whose fair values approximated their book values, reflected values similar to those reported prior to emergence. Items such as prepaid and other current assets, inventory, property, plant and equipment, deferred income tax asset and liability, accounts payable, income tax payable, and deferred income were significantly adjusted from amounts previously reported. Because we adopted fresh start accounting at emergence and because of the significance of liabilities subject to compromise that were relieved upon emergence, the historical financial statements of the Predecessor and the financial statements of the Successor are not comparable. Refer to the Notes to our financial statements included in this prospectus for further details relating to fresh start accounting.

You should read this summary financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

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|  | Six Months Ended<br>June 27, 2010   |  | Predecessor <sup>(1)</sup>           |                                    |   |   |   |                                    |
|--|---|--|--------------------------------------|------------------------------------|---|---|---|------------------------------------|
|  | Successor <sup>(1)</sup><br>Period from<br>May 11,<br>2010<br>to<br>June 27, 2010 | Predecessor <sup>(1)</sup><br>Period from<br>December 28,<br>2009 to<br>May 10, 2010 | Six Months<br>Ended<br>June 28, 2009 | Year Ended<br>December 27,<br>2009 | Year Ended<br>December 28,<br>2008 <sup>(2)</sup> | Year Ended<br>December 30,<br>2007 <sup>(2)</sup> | Year Ended<br>December 31,<br>2006 <sup>(2)</sup> | Year Ended<br>December 25,<br>2005 |
| <b>Consolidated<br/>Statements of<br/>Operations:</b>      |   |  |                                      |                                    |   |   |   |                                    |
| <i>(in thousands, except per share amounts)</i>            |   |  |                                      |                                    |   |   |   |                                    |
| Net sales  | \$ 124,569  | \$ 324,914   | \$ 630,000                           | \$ 1,059,408                       | \$ 1,630,573                                      | \$ 1,627,253                                      | \$ 1,310,479                                      | \$                                 |
| Net sales to related parties/members                       | 4,801   | 78,705   | 145,929                              | 351,245                            | 651,230   | 873,560   | 1,268,795   | 2,002,805                          |
| Total net sales  | 129,370   | 403,619  | 775,929                              | 1,410,653                          | 2,281,803   | 2,500,813   | 2,579,274   | 2,002,805                          |
| Cost of sales  | 111,413   | 274,817  | 663,301                              | 1,103,757                          | 2,193,345   | 2,065,143   | 2,063,639   | 1,809,929                          |
| Gross profit   | 17,957  | 128,802  | 112,628                              | 306,896                            | 88,458  | 435,670   | 515,635   | 192,876                            |
| Research and development                                   | 13,420  | 35,068   | 82,635                               | 136,449                            | 431,808   | 436,785   | 342,033   | 292,926                            |
| Sales, general and administrative                          | 18,259  | 68,105   | 137,817                              | 216,298                            | 253,878   | 239,317   | 264,358   | 184,833                            |
| In-process research and development                        |   |  |                                      |                                    | 10,800  |   |   |                                    |
| Restructuring charges (credits)                            |   | (2,772)  | 38,154                               | 46,852                             | 11,161  |   |   |                                    |
| Asset impairment charges <sup>(3)</sup>                    |   |  |                                      | 12,538                             | 1,652,622   |   |   |                                    |
| Operating loss before reorganization items                 | (13,722)  | 28,401   | (145,978)                            | (105,241)                          | (2,271,811)                                       | (240,432)   | (90,756)  | (284,883)                          |
| Interest and other income (expense), net                   | 364   | (2,904)  | 2,396                                | 4,038                              | 5,200   | 32,595  | 11,681  | 3,173                              |
| Interest expense <sup>(4)</sup>                            | (4,877)   | (30,573)   | (33,678)                             | (50,976)                           | (105,536)   | (87,460)  | (74,156)  | (45,032)                           |
| Gain on deconsolidation of subsidiary <sup>(5)</sup>       |   |  | 30,100                               | 30,100                             |   |   |   |                                    |
| Income (loss) before reorganization items and income taxes | (18,235)  | (5,076)  | (147,160)                            | (122,079)                          | (2,372,147)                                       | (295,297)   | (153,231)   | (326,742)                          |
| Reorganization items                                       |   | 370,340  | (372,299)                            | (391,383)                          |   |   |   |                                    |
| Income (loss) before income taxes                          | (18,235)  | 365,264  | (519,459)                            | (513,462)                          | (2,372,147)                                       | (295,297)   | (153,231)   | (326,742)                          |
| Benefit from (provision for) income taxes <sup>(6)</sup>   | 21  | (1,640)  | (429)                                | (597)                              | (62,865)  | 25,144  | 2,215   | 22,626                             |
| Net income (loss)  | \$ (18,214)   | \$ 363,624   | \$ (519,888)                         | \$ (514,059)                       | \$ (2,435,012)                                    | \$ (270,153)                                      | \$ (151,016)                                      | \$ (304,116)                       |

Net income (loss) per share

|       |    |        |    |      |    |        |    |        |    |         |    |        |    |        |    |        |
|-------|----|--------|----|------|----|--------|----|--------|----|---------|----|--------|----|--------|----|--------|
| Basic | \$ | (0.31) | \$ | 2.24 | \$ | (3.22) | \$ | (3.18) | \$ | (15.69) | \$ | (2.00) | \$ | (1.17) | \$ | (4.15) |
|-------|----|--------|----|------|----|--------|----|--------|----|---------|----|--------|----|--------|----|--------|

|                        |    |        |    |      |    |        |    |        |    |         |    |        |    |        |    |        |
|------------------------|----|--------|----|------|----|--------|----|--------|----|---------|----|--------|----|--------|----|--------|
| Diluted <sup>(7)</sup> | \$ | (0.31) | \$ | 2.24 | \$ | (3.22) | \$ | (3.18) | \$ | (15.69) | \$ | (2.00) | \$ | (1.17) | \$ | (4.15) |
|------------------------|----|--------|----|------|----|--------|----|--------|----|---------|----|--------|----|--------|----|--------|

Shares used in per share calculation:

|       |        |         |         |         |         |         |         |        |
|-------|--------|---------|---------|---------|---------|---------|---------|--------|
| Basic | 59,271 | 162,439 | 161,530 | 161,847 | 155,162 | 134,924 | 128,965 | 73,311 |
|-------|--------|---------|---------|---------|---------|---------|---------|--------|

|                        |        |         |         |         |         |         |         |        |
|------------------------|--------|---------|---------|---------|---------|---------|---------|--------|
| Diluted <sup>(7)</sup> | 59,271 | 162,610 | 161,530 | 161,847 | 155,162 | 134,924 | 128,965 | 73,311 |
|------------------------|--------|---------|---------|---------|---------|---------|---------|--------|

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|  | Successor <sup>(1)</sup> |                      |  | Predecessor <sup>(1)</sup>             |  |                      |
|--|--------------------------|----------------------|--|--|--|----------------------|
|  | June 27,<br>2010         | December 27,<br>2009 | December<br>28,<br>2008 <sup>(1)</sup> | December<br>30,<br>2007 <sup>(1)</sup> | December<br>31,<br>2006 <sup>(1)</sup> | December 25,<br>2005 |
| <b>Consolidated Balance Sheet:</b>   |                          |                      |  |  |  |                      |
| <i>(in thousands)</i>  |                          |                      |  |  |  |                      |
| Working capital (deficit)  | \$ 384,265               | \$ 553,023           | \$ (1,183,337)                         | \$ 592,518                             | \$ 1,085,027                           | \$ 881,902           |
| Total assets   | 1,467,269                | 1,437,977            | 1,773,872                              | 3,813,863                              | 3,547,726                              | 3,301,965            |
| Long-term debt and capital lease obligations, including current portion, short term note, and notes payable to banks under revolving loans | 461,531                  | 64,150               | 1,442,782                              | 1,294,189                              | 1,004,036                              | 759,613              |
| Liabilities subject to compromise  |                          | 987,127              |  |  |  |                      |
| Total stockholders' equity (deficit)   | 657,956                  | (857,693)            | (450,647)                              | 1,737,810                              | 1,957,780                              | 1,921,977            |

- (1) Successor refers to Spansion and its consolidated subsidiaries after the Emergence Date, after giving effect to: (i) the cancellation of shares of our Class A common stock issued prior to the Emergence Date, or the Old Common Stock; (ii) the issuance of shares of New Common Stock, and settlement of existing debt and other adjustments in accordance with the Plan of Reorganization; and (iii) the application of fresh start accounting. Predecessor refers to Spansion and its consolidated subsidiaries up to the Emergence Date.
- (2) Statement of operations and balance sheet data for these periods have been adjusted to reflect the change in accounting for our Exchangeable Senior Subordinated Debentures. See Management's Discussion and Analysis of Financial Condition and Results of Operations Adoption of New Accounting Pronouncements Accounting for Convertible Debt Instruments.
- (3) The asset impairment charge for fiscal 2009 includes pre-tax impairment on an equity investment and loan to an investee. The asset impairment charge for fiscal 2008 includes pre-tax impairment related to long-lived assets held for use of \$1.6 billion, and impairment related to goodwill and intangible assets of \$20.8 million and \$53.5 million, respectively.
- (4) Contractual interest expense for the year ended December 27, 2009 and six months ended June 28, 2009 was \$89.4 million and \$48.0 million, respectively.
- (5) The gain on deconsolidation of subsidiary represents the difference between the carrying value of our investment in and receivables from Spansion Japan immediately before its deconsolidation in March 2009 and the estimated fair value of our retained non-controlling interest in Spansion Japan, which was zero then and as of December 27, 2009. See Management's Discussion and Analysis of Financial Condition and Results of Operations Creditor Protection Proceedings Background for further details regarding the deconsolidation of Spansion Japan.
- (6) The provision for income taxes in fiscal 2009 includes a decrease of \$457.9 million in valuation allowances against deferred tax assets in Spansion Japan resulting from the deconsolidation of Spansion Japan in March 2009. However, the decrease in the amount of deferred tax assets had no impact on the provision for income taxes since the deferred tax assets had a full valuation allowance. The provision for income taxes in fiscal 2008 includes an increase of \$462.6 million in valuation allowances against deferred tax assets in Spansion Japan. This increase occurred because we did not believe it was more likely than not that these deferred tax assets would be realized in these jurisdictions. The increase in valuation allowance resulted in a \$64.5 million income tax expense associated with deferred tax assets of Spansion Japan.
- (7) Diluted net loss per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is anti-dilutive.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. The following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors or elsewhere in this prospectus. See the disclosure in Special Note Regarding Forward-Looking Statements elsewhere in this prospectus.*

#### **Overview**

We are a leading designer, manufacturer and developer of Flash memory semiconductors. We are focused on the embedded Flash market providing our solutions to more than 4,000 customers worldwide. Our Flash memory devices primarily store data and code for microprocessors, controllers and other programmable semiconductors which run the applications in a broad range of electronics systems. These systems include computing and communications, automotive and industrial, consumer and gaming, wireless and machine-to-machine, or M2M, devices. In addition to Flash memory semiconductor products, we assist our customers in developing and prototyping their designs by providing software and hardware development tools, drivers and simulation models for system-level integration.

We are headquartered in Sunnyvale, California, with research and development, manufacturing, assembly and sales operations in the United States, Asia, Europe and the Middle East. The history of our company, and key milestones in our development are as follows:

In 1993, we were organized as a Flash memory manufacturing joint venture of Advanced Micro Devices, Inc., or AMD, and Fujitsu Limited, or Fujitsu, named Fujitsu AMD Semiconductor Limited, or FASL.

In 2003, AMD and Fujitsu reorganized the business as a standalone Flash memory company called FASL LLC, later renamed Spansion LLC, by integrating the manufacturing joint venture with other Flash memory assets of AMD and Fujitsu.

In December 2005, we reorganized from Spansion LLC into Spansion Inc., a Delaware corporation, and completed a \$500 million initial public offering of our common stock.

In March 2008, we completed the acquisition of Saifun Semiconductor Ltd., or Saifun, a provider of intellectual property solutions for non-volatile memory, or NVM. Prior to the acquisition, Saifun had licensed its intellectual property to semiconductor manufacturers that use this technology to develop and manufacture a variety of stand-alone and embedded NVM products.

In 2007 and 2008, a series of events including steep average selling price, or ASP, declines, incursion of NAND into the cell phone market, difficulty in ramping production of newer technology products, depressed cash flow from operations, continued large capital expenditure requirements associated with our wafer fabrication facilities, or fabs, loss of liquidity in our investment in auction rate securities and ultimately the contraction of available credit led to a drain on our liquidity.

On March 1, 2009, we filed a voluntary petition for relief under the Chapter 11 Cases. On February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC, filed a proceeding under the Corporate Reorganization Law of Japan. As we no longer controlled Spansion Japan, we deconsolidated the financial results of Spansion Japan effective March 2009.

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On April 16, 2010, we received confirmation of the Plan of Reorganization from the U.S. Bankruptcy Court and on May 10, 2010, we emerged from the Chapter 11 Cases.

On May 17, 2010, our common stock began trading on NYSE AMEX, and on June 23, 2010, our listing was transferred to the New York Stock Exchange.

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For fiscal 2009, our total net sales were approximately \$1.4 billion as compared with total net sales of approximately \$2.3 billion for fiscal 2008. For the six months ended June 27, 2010, total net sales were approximately \$533 million. The decrease in net sales was primarily attributable to our decision to exit a large portion of the wireless market, as well as a reduction in market share resulting from being in the Chapter 11 Cases for approximately 14 months. There can be no assurance as to whether or how long it may take to regain all or any portion of that lost market share.

We have a highly diversified customer base with over 4,000 customers. We serve our customers worldwide directly or through our distributors who buy products from us and resell them to OEMs and original design manufacturers, or ODMs, either directly or through distributors. No OEM, ODM or contract manufacturer accounted for more than 10 percent of our net sales for fiscal 2009 or the first six months of 2010.

### **Corporate Reorganization Program**

Beginning in March 2009, we began a substantial reorganization of the company to better align our operations with the business environment. The key components of this reorganization were:

**New Management Team.** In early 2009, we began revamping our management team to execute on a new vision for the company. Our new senior management team has substantial industry experience. John H. Kispert joined us as President and Chief Executive Officer with 15 years experience in the semiconductor industry, with a broad-based background spanning executive, financial and operational roles. Randy W. Furr joined us as Executive Vice President and Chief Financial Officer with 25 years experience in the technology sector, with a background as a financial and operations executive.

**Operational Streamlining.** We have significantly reduced our overall headcount by reducing corporate redundancy, outsourcing certain functions, exiting unprofitable businesses and leveraging our human resources more effectively. In 2008, our total headcount globally was 8,700. As of June 27, 2010, our total headcount was 3,333. In the future, we will seek to opportunistically outsource or relocate business functions when it can be cost effective to do so. We also significantly curtailed research and development expenses, from \$431.8 million, or approximately 19 percent of net sales, in fiscal 2008 to \$136.4 million, or approximately 10 percent of net sales, in fiscal 2009, as we intend to focus on leveraging our previous investment in process technologies.

**Focus on Embedded Solutions.** Historically, we addressed both the wireless and embedded portions of the NOR Flash memory market. During the first quarter of 2009, we changed our strategy to focus on delivering solutions to our embedded customers and to selectively engage in portions of the wireless market where we can do so advantageously. As part of our reorganization, we also chose to increase our strategic focus on customer service and quality through our application specific software and solutions. As such, we expect net sales derived from wireless customers to remain significantly below the levels we experienced before the decision to refocus our business.

**Flexible Manufacturing Strategy.** We have significantly reduced the total amount of manufacturing assets that we control and own. In 2008, we owned and operated three fabs worldwide. As of June 30, 2010, we own and operate one fab, located in Austin, Texas. We consider manufacturing process technology to be one of our core competencies and we believe we are able to port that technology to manufacturing partners for a portion of our wafer supply without sacrificing the quality of our products, substantially increasing supply lead times or significantly increasing cost. We currently have manufacturing relationships with third party manufacturers, including Elpida, Fujitsu, SMIC and Texas Instruments.

In the second quarter of 2010, we delivered sequential quarterly revenue growth after adjusting for the write off of deferred revenue as part of fresh start accounting. These results were driven by increasing unit demand in our broad-based embedded Flash business, as well as increasingly stable ASPs. We continuously evaluate our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. Measures which we

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believe are key indicators of our performance include product design activity, average density of product sold, ASP per unit, yield and gross margin. We also track design wins with existing and new customers as an indicator of future sales.

### **Factors Affecting Our Performance**

***Declining ASPs.*** Historically, the selling prices of our products have decreased during the products' lifetime. When our selling prices decline, our net sales and gross margins also decline unless we are able to compensate by selling more units thereby reducing our manufacturing costs per product or introducing and selling new, higher margin products with higher densities and/or advanced features. As part of our reorganization, we have maintained a narrow focus on embedded NOR Flash memory products.

***Reliance on Third-Party Manufacturers.*** As we move to a flexible and cost-efficient manufacturing strategy, we plan to obtain foundry, subcontractor and other arrangements with third party manufacturers to meet demand. If these manufacturers are not able to meet our near-term or long-term manufacturing requirements or not able to attain qualification in time from our customers, we may be unable to fulfill our orders thereby losing customers and adversely affecting our business.

***Legal Expenses.*** We continue to encounter legal expenses substantially due to increased litigation and, to a lesser extent, continued expenses related to the Chapter 11 Cases and the corporate reorganization proceeding of Spansion Japan, which, together with the Chapter 11 Cases, we refer to in this prospectus as the Creditor Protection Proceedings. These events have impacted and will continue to impact our results of operations. For example, in each of the first two quarters of fiscal 2010, we incurred significant legal expenses, such as \$9.7 million and \$4.6 million of legal expenses related to our Samsung cases.

### **Circumstances Leading to the Commencement of Creditor Protection Proceedings in 2009**

A variety of external economic factors contributed to the decline in our operating performance prior to our seeking relief under the Chapter 11 Cases, such as persistent oversupply in the Flash memory industry compounded by the global economic recession, which significantly reduced demand for our products beginning in the fourth quarter of 2008 and continues to negatively impact demand. These two factors were further complicated by our inability to obtain the additional external financing necessary to meet capital expenditure needs and operational costs in a market characterized by swift technological advances and constantly changing manufacturing processes.

Our strategy was historically based on aggressive revenue and market share growth, leveraging advanced technology, and low cost, high-volume manufacturing. In our 2006 long range planning cycle, forecasted revenue growth supported the construction of a \$1.2 billion advanced wafer fabrication facility called SP1. Debt financing was arranged and construction on SP1 commenced in early 2007.

Although we continued to increase our NOR memory market segment share, steep ASP declines during the first half of 2007 negatively affected revenue and operating cash flow. At that time, we anticipated an improvement in the market environment for the second half of 2007 and aggressively continued the construction of SP1 and incurred associated capital expenditures with the ultimate goal of significant cost reductions that would enhance our competitive position.

During the second half of 2007, the ASP environment stabilized relative to earlier in the year. However, we faced customer qualification issues resulting in a shortfall of anticipated revenue and increased inventory levels which contributed to our failure to meet financial performance targets in the second half of 2007. For fiscal 2007, cash flow from operations was \$216.3 million, which was significantly lower than anticipated. Driven by the facilitization of SP1 and investments in our research and development facilities, our capital spending in 2007 was approximately \$1.1 billion.



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Our 2008 operating plan included capital expenditures of approximately \$535.0 million, of which approximately 80 percent was expected to occur in the first half of the year in order to complete the phase 1 facilitization of SP1. Upon completion of the first phase, SP1 was anticipated to generate approximately \$300 million in revenue in 2008.

In the first quarter of 2008, we lost liquidity in our investment in \$121.9 million of AAA/Aaa-rated auction rate securities, or ARS, because the auctions in which these ARS were traded failed. Throughout the second and third quarters of 2008, the credit markets continued to deteriorate and we intensified our cash management efforts. Operationally, the ramp-up of SP1 was delayed due to slower than expected customer qualifications and a sharp decline in the Japanese wireless market. In the third quarter of 2008, we engaged investment bankers and capital restructuring advisors to evaluate the situation and to accelerate plans to improve liquidity. Multiple initiatives were launched and/or accelerated, including efforts to sell production facilities, raise capital and seek liquidity options for the ARS.

In the fourth quarter of 2008, the macroeconomic environment deteriorated significantly, causing a sharp decline in worldwide demand for consumer goods, and consequently a sharp reduction of demand for our products. Furthermore, continued tightening of credit availability and general market liquidity initiatives curtailed our ability to execute the liquidity initiatives launched in the third quarter of 2008. As these events unfolded, we intensified our strategic restructuring efforts to include, among other things, pursuing a potential sale of some or all of our assets. The sharp decline in demand, coupled with our inability to execute liquidity initiatives limited our ability to generate sufficient funding for our operations and meet our debt servicing requirements, ultimately leading to the Creditor Protection Proceedings.

### **Creditor Protection Proceedings Background**

On March 1, 2009, Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International, Inc., and Cerium Laboratories LLC, or, collectively, the Debtors, each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware, or the Chapter 11 Cases.

Prior to the Debtors' filing of the Chapter 11 Cases, on February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC, filed a proceeding under the Corporate Reorganization Law of Japan, or the Spansion Japan Proceeding, to obtain protection from Spansion Japan's creditors. On March 3, 2009 the Tokyo District Court approved the filing of the Spansion Japan Proceeding and appointed the incumbent representative director of Spansion Japan as trustee. As a result, we no longer controlled Spansion Japan despite our 100 percent equity ownership interest and, effective March 3, 2009, we deconsolidated Spansion Japan and have accounted for our interest in Spansion Japan as a cost basis investment.

In this prospectus, we refer to the Chapter 11 Cases and the Spansion Japan Proceeding collectively as the Creditor Protection Proceedings.

Upon emergence from the Chapter 11 Cases on May 10, 2010, or the Emergence Date, we adopted fresh start accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852 Reorganizations. The adoption of fresh start accounting results in our becoming a new entity for financial reporting purposes. Accordingly, our condensed consolidated financial statements on or after May 10, 2010 are not comparable to our condensed consolidated financial statements prior to that date.

We qualified for fresh start accounting, in accordance with ASC 852, due to:

the reorganization value of the Debtors' assets immediately before the date of confirmation being less than the total of all their post-petition liabilities and allowed claims; and

holders of existing voting shares immediately before confirmation receiving less than 50 percent of the voting shares of the post-emerged company.

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Reorganization value is the value attributed to the reorganized entity, in addition to the expected net realizable value of those assets that will be disposed of before reorganization occurs. This reorganization value is viewed as the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. Reorganization value is generally determined by discounting future cash flows. Immediately prior to the Emergence Date, the Debtors' reorganization value of \$1.2 billion was less than the sum of post-petition liabilities of \$617 million and allowed claims of \$939 million.

Also, holders of Class A common stock outstanding prior to the Emergence Date, or Old Common Stock, did not receive any consideration for their shares nor any predetermined allocation of Class A common stock of the Successor, or New Common Stock. Holders of New Common Stock issued by the Successor after the Emergence Date primarily include unsecured creditors who have received or will receive shares of New Common Stock in settlement of their allowed claims, and participants in a rights offering that we conducted in February 2010, as described below under Effectiveness of the Plan of Reorganization and Exit Financing.

### **Effectiveness of the Plan of Reorganization and Exit Financing**

Under the Plan of Reorganization, most holders of allowed general, unsecured claims against the Predecessor received or will receive New Common Stock in satisfaction of their claims. Holders of allowed general, unsecured claims subject to a low payout threshold received cash in satisfaction of their claims. Holders of Senior Secured Floating Rate Notes, or FRNs, received cash of approximately \$638 million to fully discharge their claims. The \$638 million was primarily provided by the exit financing discussed below.

Pursuant to the Plan of Reorganization, the holders of allowed claims were offered the right to purchase a total of 12,974,496 shares of New Common Stock upon emergence from the Chapter 11 Cases at a price of \$8.43 per share. The number of shares available to each eligible claimant was based on each claimant's proportionate allowed claim. In connection with this rights offering, or the Rights Offering, we entered into a Backstop Rights Purchase Agreement with Silver Lake Sumeru Fund, L.P., or Silver Lake, whereby Silver Lake committed to purchase the remaining balance of Rights Offering shares not otherwise subscribed for by the Rights Offering participants. Based on the agreement, Silver Lake purchased 3,402,704 shares of New Common Stock that had not been subscribed for by the Rights Offering participants. As of May 10, 2010, we had received net proceeds of approximately \$104.9 million through the Rights Offering that was used in full to partially discharge the FRN claims.

On February 9, 2010, we closed a five-year senior secured loan agreement, or the Term Loan, of \$450 million with a group of lenders. The proceeds of the Term Loan, together with cash proceeds from other sources of cash available to us, were used in full to partially discharge the remaining balance of the FRN claims.

On May 10, 2010, we entered into a senior revolving credit facility agreement with Bank of America and other financial institutions, or the Revolving Credit Facility, in an aggregate amount of up to \$65 million to fund bankruptcy related expenses and ongoing working capital. As of June 27, 2010, we had not drawn under this facility.

The Plan of Reorganization contemplates the distribution of 65.8 million shares of New Common Stock, consisting of: (i) 46,247,760 shares to holders of allowed general, unsecured claims; (ii) 12,974,496 shares to subscribers of the Rights Offering; and (iii) 6,580,240 shares reserved for issuance to eligible employees in connection with grants of stock options and restricted stock units (RSUs) under our new 2010 Equity Incentive Award Plan, or 2010 Plan. As of June 27, 2010, 6,049,917 stock options and RSUs under the 2010 Plan had been granted to our employees and 530,323 shares were eligible for future grants.

In accordance with the Plan of Reorganization, holders of Old Common Stock, or stock options exercisable for Old Common Stock and RSUs which convert into Old Common Stock, outstanding as of May 10, 2010 did not receive any distributions, and their equity interests were cancelled on May 10, 2010.

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### **Spansion Japan Matters**

Until May 24, 2010, Spansion Japan continued in its historical role as a distributor of our products in Japan. Effective May 24, 2010, we purchased the distribution business from Spansion Japan and since that time, we have been distributing our products in Japan through our newly formed, wholly owned subsidiary, Nihon Spansion Limited, or NSL. Effective June 27, 2010, Spansion Japan's Plan of Reorganization, or POR, was confirmed by the Tokyo District Court. The POR provides for Spansion Japan to redeem shares held by its shareholders without consideration, cancel such shares and issue new shares to unsecured creditors. According to the POR, the redemption, cancellation and new issuance is scheduled to take place at the end of September 2010. Until that time, we will continue to be the 100 percent equity owner of Spansion Japan. However, since we have not controlled Spansion Japan despite our equity ownership interest since March 3, 2009, we continue to account for our interest in Spansion Japan as a cost basis investment.

### **Ongoing Chapter 11 Matters Resolution of Outstanding Claims**

Pursuant to the Plan of Reorganization, a claims agent was appointed to analyze and, at the claims agent's discretion, contest outstanding disputed claims amounting to \$1.5 billion as of the Emergence Date, which included the \$936 million general unsecured proof of claim filed by Spansion Japan as a result of the November 19, 2009 foundry agreement rejection order. We accrued our best estimate of the liability which is included in the \$939 million of liabilities subject to compromise as of the Emergence Date. Since these claims are being handled by the claims agent and are under the jurisdiction of the U.S. Bankruptcy Court, the sole recourse of persons asserting these claims is to receive shares reserved under the Plan of Reorganization and, therefore, any outcome of the claims adjudication process will have no direct impact on the Successor or the number of our outstanding shares of common stock.

### **Basis of Presentation**

The consolidated financial statements included in this prospectus have been prepared under U.S. GAAP and the rules and regulations of the SEC and are presented on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Predecessor consolidated financial statements do not purport to reflect or provide for the outcome of the Chapter 11 Cases. In particular, such consolidated financial statements do not purport to show: (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, the amounts that will ultimately be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholders accounts, the effect of any changes that may be made in our capitalization; or (d) as to operations, the effect of any changes that may be made in our business.

The condensed consolidated financial statements included in this prospectus have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Article 10 of Regulation S-X. The condensed consolidated financial statements and notes thereto are unaudited. In our opinion, these financial statements contain all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of our operating results, financial position and cash flows. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year ending December 26, 2010.

In preparing the Condensed Consolidated Financial Statements for the Predecessor, we applied ASC 852 which requires that the financial statements for periods subsequent to the Chapter 11 filing distinguish transactions and events that were directly associated with the reorganization from the ongoing operations of the business. Accordingly, professional fees associated with the Chapter 11 Cases and certain gains and losses resulting from reorganization of our business have been reported separately as reorganization items. In addition, interest expense has been reported only to the extent that it was paid during the Chapter 11 Cases or that it is probable that it will be an allowed priority, secured, or unsecured claim under the Chapter 11 Cases. Interest income earned during the Chapter 11 Cases is reported as a reorganization item.

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Upon emergence from the Chapter 11 Cases, we adopted fresh start accounting in accordance with ASC 852. The adoption of fresh start accounting results in our becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 10, 2010 are not comparable to the Condensed Consolidated Financial Statements prior to that date. Our Consolidated Statements of Operations for the fiscal quarter ended June 27, 2010 were, and subsequent periods through fiscal year 2013 will be, split into Predecessor and Successor financial statements for as long as any Predecessor financial statements are disclosed.

Fresh start accounting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's reorganization value to its assets and liabilities pursuant to ASC 805 *Business Combinations* and ASC 820 *Fair Value Measurements and Disclosures*. The excess reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill on the Condensed Consolidated Balance Sheet. Deferred taxes are determined in conformity with ASC 740 *Income Taxes*. For additional information regarding the impact of fresh start accounting on our Condensed Consolidated Balance Sheet as of June 27, 2010, see Note 2 to our Condensed Consolidated Financial Statements included elsewhere in this prospectus.

Furthermore, effective March 3, 2009, we deconsolidated Spansion Japan because, despite our 100 percent equity ownership interest, we no longer controlled Spansion Japan due to the appointment of a trustee in the Spansion Japan Proceeding. Since March 3, 2009, we have accounted for our interest in Spansion Japan as a cost basis investment. Transactions between Spansion Japan and us after March 3, 2009, have been reflected as transactions with a third party.

With the exception of Spansion Japan as described above, the condensed consolidated financial statements include all of our accounts and those of our wholly owned subsidiaries, and all intercompany accounts and transactions have been eliminated.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our net sales, inventories, asset impairments, stock-based compensation expense, legal reserve and income taxes. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

As a result of our emergence from the Chapter 11 Cases, we adopted fresh start accounting in accordance with ASC 852 and ASC 805. The adoption of fresh start accounting resulted in our becoming a new entity for financial reporting purposes. Accordingly, the consolidated financial statements on or after May 10, 2010 are not comparable to the consolidated financial statements prior to that date. For more information, see Basis of Presentation.

Our critical accounting policies incorporate our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. We believe the following critical accounting policies are significant to the presentation of our financial statements and require difficult, subjective and complex judgments.

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### ***Estimates of Sales Returns and Allowances***

From time to time we may accept sales returns or provide pricing adjustments to customers who do not have contractual return or pricing adjustment rights. We record a provision for estimated sales returns and allowances on product sales in the same period that the related revenues are recorded, which primarily impacts gross margin. We base these estimates on historical sales returns, allowances, historical price reductions, market activity and other known or anticipated trends and factors. These estimates are subject to management's judgment, and actual provisions could be different from our estimates and current provisions, resulting in future adjustments to our revenues and operating results.

### ***Impairment of Long-Lived Assets including Acquisition-Related Intangible Assets***

We consider quarterly whether indicators of impairment of long-lived assets and intangible assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset, significant changes in the extent or manner in which an asset is used or an adverse change in our overall business climate. If these or other indicators are present, we test for recoverability of the asset (asset group) by determining whether the estimated undiscounted cash flows attributable to the asset (asset group) in question are less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the asset (asset group) over its respective fair value. Significant judgment is involved in determining whether impairment is measured at the individual asset or at an asset group level.

Our manufacturing processes are vertical in nature and we have had multiple foundry, assembly and test facilities. As a result, the cash flows of our assets and liabilities below the entity level are not largely independent of one another and we concluded impairment should be evaluated at the single entity-wide asset group (i.e., consolidated Spansion) level. Fair value is determined by discounted future cash flows, appraisals or other methods. Significant judgment is involved in estimating future cash flows and deriving the discount rate to apply to the estimated future cash flows and in evaluating the results of appraisals or other valuation methods. If the asset (asset group) determined to be impaired is to be held and used, we recognize an impairment loss through a charge to our operating results which also reduces the carrying basis of the related asset or assets in an asset group. The adjusted carrying value of the related asset (asset group) establishes a new cost basis and accumulated depreciation is reset to zero. The asset (asset group) is depreciated or amortized over the remaining estimated useful life of the asset. We also must make subjective judgments regarding the remaining useful life of the asset. If the asset (asset group) determined to be impaired is held for sale, we measure the new carrying value of the asset (asset group) at fair value less estimated cost to dispose, with the impairment loss being charged to operations.

### ***Income Taxes***

We operate as Spansion Inc., which is a taxable entity for U.S. federal tax reporting purposes. Our foreign subsidiaries are wholly owned and are taxable as corporations in their respective foreign countries of formation. In determining taxable income for financial statement reporting purposes, we must make estimates and judgments. These estimates and judgments are applied in the calculation of specific tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes. The recognition and measurement of current and deferred income tax assets and liabilities impact our tax provision.

We must assess the likelihood that we will be able to recover our deferred tax assets. Unless recovery of these deferred tax assets is considered more likely than not, we must increase our provision for taxes by recording a charge to income tax expense, in the form of a valuation allowance against those deferred tax assets for which we believe it is not more likely than not they will be realized. We consider past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

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In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment by the relevant tax jurisdiction. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result.

***Stock-Based Compensation Expenses***

We estimated the fair value of our stock-based awards to employees using the Black-Scholes-Merton option pricing model, which requires the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. Stock-based compensation expense recognized during a period is based on the higher of the grant-date fair value of the portion of share-based payment awards that is ultimately expected to vest, or actually vest, during the period. Compensation expense for all share-based payment awards was recognized using the straight-line attribution method reduced for estimated forfeitures.

We estimate volatility based on our recent historical volatility and the volatilities of our competitors who are in the same industry sector with similar characteristics (guideline companies) because of the lack of historical realized volatility data on our business. We have used the simplified calculation of expected life since our initial public offering on December 21, 2005 and continue to use this method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term of share options since our initial public offering. If we determined that another method used to estimate expected volatility or expected life was more reasonable than our current methods, or if another method for calculating these input assumptions was prescribed by authoritative guidance, the fair value calculated for share-based awards could change significantly. Higher volatility and longer expected lives result in an increase to share-based compensation determined at the date of grant. In addition, we are required to develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Prior to the fourth quarter of fiscal 2007, we did not have sufficient historical forfeiture experience related to our own stock-based awards and therefore, estimated our forfeitures based on the average of our own fiscal 2006 forfeiture rate and historical forfeiture rates for AMD, as we believed these forfeiture rates to be the most indicative of our own expected forfeiture rate. Beginning the fourth quarter of fiscal 2007, we estimated forfeitures based on a four-year weighted average of our own forfeiture rates. These estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

***Inventory Valuation***

At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand. These projections assist us in determining the carrying value of our inventory and are also used for near-term factory production planning. We write off inventories that we consider obsolete and adjust remaining specific inventory balances to approximate the lower of our standard manufacturing cost or market value. Among other factors, management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. If we anticipate future demand or market conditions to be less favorable than our previous projections, additional inventory write-downs may be required and would be reflected in cost of sales in the period the write-down is made. This would have a negative impact on our gross margin in that period. We recorded an inventory write down of approximately \$253.2 million in the fourth quarter of fiscal 2008 as a result of a weak economic outlook and an associated reduction in demand from previous forecasts. In the future we could have additional material write downs of inventory. If in any period we are able to sell inventories that were not valued or that had been written down in a previous period, related revenues would be recorded without any offsetting charge to cost of sales, resulting in a net benefit to our gross margin in that period.

**Table of Contents*****Revenue Recognition for Distribution Arrangements***

We sell to distributors and provide such distributors certain rights of return, stock rotation and price protection as discussed below. We defer the recognition of revenue and related product costs on these sales as deferred income on shipments until the merchandise is resold by our distributors. We also sell some of our products to certain distributors under sales arrangements with terms that do not allow for rights of returns or price protection on unsold products held by them. In these instances, we recognize revenue when we ship the product directly to the distributors.

Rights of return are granted whereby we are obligated to repurchase inventory from a distributor upon termination of the distributor's sales agreement with us. However, we are not required to repurchase the distributor's inventory under certain circumstances, such as the failure to return the inventory in saleable condition or we may only be required to repurchase a portion of distributor's inventory, for example when distributor has terminated the agreement for its convenience.

Stock rotation rights are provided to distributors when we have given written notice to the distributor that a product is being removed from our published price list. The distributor has a limited period of time to return the product. All returns are for credit only; the distributor must order a quantity of products, the dollar value of which equals or exceeds the dollar value of the products being returned. Some distributors are also offered quarterly stock rotation. Such stock rotation is limited to a certain percentage of the previous three months' net shipments.

A general price protection is granted to a distributor if we publicly announce a generally applicable price reduction relating specifically to certain products, whereby the distributor is entitled to a credit equal to the difference between the price paid by the distributor and the newly announced price. Price protection adjustments are provided to distributors solely for those products that: 1) are shipped by us to the distributor during the period preceding the price reduction announcement by us, 2) are part of the distributor's inventory at the time of the announcement, and 3) are located at geographic territories previously authorized by us.

In addition, if in our sole judgment, a distributor demonstrates that it needs a price lower than the current published price list in order to secure an order from the distributor's customers, we may, but we have no obligation to, grant the distributor a credit to our current published price. The distributor must submit the request for a reduction in price prior to the sale of products to its customer. If the request is approved and the sale occurs, the distributor must make a claim with the proof of resale to end customers for a credit within a specified time period.

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of December 27, 2009 and December 28, 2008 are as follows:

|   | December 27, 2009 | December 28, 2008 |
|---|-------------------|-------------------|
|   | (in thousands)    |                   |
| Deferred revenue                            | \$ 90,465         | \$ 62,183         |
| Less: deferred costs of sales               | (36,308)          | (31,845)          |
| Deferred income on shipments <sup>(1)</sup> | \$ 54,157         | \$ 30,338         |

- (1) The deferred income of \$63.0 million and \$35.3 million on the consolidated balance sheet as of December 27, 2009 and December 28, 2008 included \$8.8 million and \$4.9 million of deferred revenue related to our licensing revenue that was excluded in the table above, respectively.

Our distributors provide us with periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of our products they still have in stock. We use estimates and apply judgments to reconcile distributors' reported inventories to their activities.

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### ***Fair Value of Auction Rate Securities and Put Option***

At December 27, 2009, we held \$100.3 million of Auction Rate Securities (ARS) valued at fair value (\$107.1 million at par). The ARS, for which the underlying assets are student loans, have credit ratings of AAA and Aaa. For more information, see Note 4 to our Consolidated Financial Statements included elsewhere in this prospectus.

Historically, the fair value of our ARS investments has approximated face value due to the frequent auction periods, generally every seven to 28 days, which provided liquidity to these investments. However, subsequent to February 2008, all auctions involving these securities have failed. The result of a failed auction is that these ARS will continue to pay interest in accordance with their terms at each respective auction date; however, liquidity of the securities will be limited until there is a successful auction, the issuer redeems the securities, the securities mature or until such time as other markets for these ARS investments develop. We cannot be certain regarding the amount of time it will take for an auction market or other markets to develop. Accordingly, we have concluded that the estimated fair value of the ARS no longer approximates the face value primarily due to the lack of liquidity.

In November 2008, we accepted an offer to participate in an ARS settlement from UBS Bank USA, or UBS, our broker, providing us the right, but not the obligation, to sell to UBS up to 100 percent of our ARS at par, commencing June 30, 2010. Our right to sell the ARS to UBS commencing June 30, 2010 through July 2, 2012 represents a put option for a payment equal to the par value of the ARS.

At December 27, 2009, there was insufficient observable ARS market information available to determine the fair value of our ARS investments. Therefore, we estimated the fair values of our ARS investments at December 27, 2009 using a discounted cash flow (DCF) methodology. Significant assumptions considered in the DCF models were the credit quality of the instruments, the percentage and the types of guarantees (such as FFELP), the probability of the auction succeeding or the security being called prior to final maturity, and an illiquidity discount factor. The key assumptions used in the discounted cash flow analysis to determine the fair values as of December 27, 2009 were the discount factor to be applied and the period over which the cash flows would be expected to occur. The discount factor used was based on the three-month LIBOR (0.25 percent as of December 27, 2009) adjusted by 85 basis points (bps) to reflect the current market conditions for instruments with similar credit quality at the date of the valuation. In addition, the discount factor was incrementally adjusted for an illiquidity discount of 125 bps to reflect the risk in the marketplace for these investments that has arisen due to the lack of an active market for these instruments. We applied this discount factor over the expected life of the estimated cash flows of our ARS with projected interest income of 1.36 percent per annum. The projected interest income is based on a trailing 12-month average 91-day T-bill rate at 0.16 percent as of December 27, 2009 plus 120 bps, which is the average annual yield of our ARS assuming auctions continue to fail.

We used a DCF model to estimate the fair value of our put option as of December 27, 2009. The valuation model is based on the following key assumptions:

A discount rate based on the 6-month U.S. Treasury Bill Rate (0.17 percent as of December 27, 2009), adjusted by 50 bps to reflect the credit risk associated with the put option; and

An expected life of 6 months.

If different assumptions were used for the various inputs to the valuation approach including, but not limited to, assumptions involving the estimated lives of the ARS investments, the estimated cash flows over those estimated lives, and the estimated discount rates, especially the illiquidity discount rate, applied to those cash flows, the estimated fair value of these investments could be significantly higher or lower than the fair value we determined as of December 27, 2009.



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***Goodwill and Intangible Assets***

Goodwill represents the excess of our enterprise value upon emergence over the fair value of our net tangible and identifiable intangible assets acquired. We recorded goodwill in the second quarter of fiscal 2010 in connection with fresh start accounting (refer to Note 2 and Note 9 for further details relating to fresh start accounting and valuation of Goodwill). In accordance with the provisions of ASC 350 *Intangibles, Goodwill and Other*, goodwill amounts are not amortized, but rather are tested for impairment at the reporting unit level at least annually, or more frequently if there are indicators of impairment present. We have determined that we have a single reporting unit and we will perform an annual goodwill impairment analysis as of the fourth quarter of each fiscal year, with the first annual testing to be carried out in the fourth quarter of fiscal year 2010.

We recorded intangible assets in the second quarter of fiscal 2010 in connection with fresh start accounting. We will consider quarterly whether indicators of impairment relating to the intangible assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an intangible asset, significant changes in the extent or manner in which an intangible asset is used or an adverse change in our overall business climate. If these or other indicators are present, we test for recoverability of the intangible asset by determining whether the estimated undiscounted cash flows attributable to the intangible asset in question is less than its carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the intangible asset over its respective fair value.

***Estimates relating to Litigation Reserve***

Upon emergence and as part of fresh start accounting, we implemented our litigation reserve policy whereby we would record, on a rolling four quarter basis, the estimated litigation costs that we expect to incur in defending ourselves in connection with ongoing lawsuits in accordance with the provisions of ASC 450 *Contingencies*. Considerable judgment is necessary to estimate these costs and an accrual is made when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

**Combined Quarterly Financial Results of the Predecessor and Successor**

For purposes of management's discussion and analysis of the results of operations, we combined the results of operations for (1) the period from March 29, 2010 to May 10, 2010 of the Predecessor with the period from May 10, 2010 to June 27, 2010 of the Successor and (2) the period from December 28, 2009 to May 10, 2010 of the Predecessor with the period from May 10, 2010 to June 27, 2010 of the Successor. We then compare the combined results of operations for the six months ended June 27, 2010 with the corresponding periods in the prior year.

We believe the combined results of operations for the six months ended June 27, 2010 provide management and investors with a more meaningful perspective on our ongoing financial and operational performance and trends than if we did not combine the results of operations of the Predecessor and the Successor in this manner. Similarly, we combine the financial results of the Predecessor and the Successor when discussing our sources and uses of cash for the six months ended June 27, 2010.

**Table of Contents****Results of Operations for the Six Months Ended June 27, 2010***Comparison of Net Sales, Gross Margin, Operating Expenses, Interest and Other Income, Net, Interest Expense and Income Tax Provision*

The following is a summary of operating results for the six months ended June 27, 2010 and June 28, 2009. Please refer to the Condensed Consolidated Statements of Operations in Item 1 for the split between Predecessor and Successor periods.

|                                       | Successor<br>Period from<br>May 11,<br>2010 to<br>June 27,<br>2010 | Six Months Ended<br>Predecessor<br>Period<br>from Dec.<br>28, 2009 to<br>May 10,<br>2010 | Combined<br><br>June 27,<br>2010 | Predecessor<br><br>June 28,<br>2009 | Variance<br>in<br>Dollars | Variance in<br>Percent |
|---------------------------------------|--|--|----------------------------------|-------------------------------------|---------------------------|------------------------|
| Total net sales                       | \$ 129,370   | \$ 403,619   | \$ 532,989                       | \$ 775,929                          | \$ (242,940)              | (31)%                  |
| Cost of sales                         | 111,413  | 274,817  | 386,230                          | 663,301                             | (277,071)                 | (42)%                  |
| Gross margin                          | 14%  | 32%  | 28%                              | 15%                                 |                           |                        |
| Research and development              | 13,420   | 35,068   | 48,488                           | 82,635                              | (34,147)                  | (41)%                  |
| Sales, general and administrative     | 18,259   | 68,105   | 86,364                           | 137,817                             | (51,453)                  | (37)%                  |
| In-process research and development   |  |  |                                  |                                     |                           | 0%                     |
| Restructuring charges (credits)       |  | (2,772)  | (2,772)                          | 38,154                              | (40,926)                  | (107)%                 |
| Operating gain (loss)                 | (13,722)   | 28,401   | 14,679                           | (145,978)                           | 160,657                   | (110)%                 |
| Gain on deconsolidation of subsidiary |  |  |                                  | 30,100                              | (30,100)                  | (100)%                 |
| Interest and other income, net        | 364  | (2,904)  | (2,540)                          | 2,396                               | (4,936)                   | (206)%                 |
| Interest expense                      | (4,877)  | (30,573)   | (35,450)                         | (33,678)                            | (1,772)                   | 5%                     |
| Reorganization items                  |  | 370,340  | 370,340                          | (372,299)                           | 742,639                   | (199)%                 |
| Provision for income taxes            | (21)   | 1,640  | 1,619                            | 429                                 | 1,190                     | 277%                   |

*Total Net Sales*

Total net sales for the six months ended June 27, 2010 decreased by approximately 31 percent or \$242.9 million compared to total net sales for the six months ended June 28, 2009. Shortly after commencement of the Chapter 11 Cases, we began exiting a large portion of the wireless market. This product portfolio adjustment was substantially completed by the beginning of the second quarter of fiscal 2010, resulting in a reduction in wireless net sales of \$181.9 million, or 55.5%, from the six months ended June 28, 2009. Our wireless products are generally sold as multi-chip packages (MCPs) and consequently have higher ASPs than embedded products. The resulting product mix shift caused a lowering of ASPs by 16 percent for the first six months of fiscal 2010. In addition, \$37.0 million of the overall decrease was attributable to deferred revenue lost as a result of fresh start accounting required for the Successor. The additional decline in net sales was principally due to additional market share lost as a result of the Chapter 11 Cases.

*Gross Margin*

Our gross margin increased by 13 percentage points for the six months ended June 27, 2010, compared to the six months ended June 28, 2009. The increase in gross margin was primarily due to an increase in factory utilization and efficiency from restructuring and consolidation of back-end manufacturing operations, better pricing from suppliers, and a product mix shift from wireless to embedded products. The overall increase was partially offset by a decrease in ASPs as discussed above, fresh start accounting related adjustments in the

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Successor including approximately \$18.6 million amortization of inventory mark-up, approximately \$27.7 million loss of deferred margin, approximately \$13.6 million of higher depreciation and amortization expense and approximately \$0.8 million gain from the sale of our test facility located in Suzhou, China.

### *Research and Development (R&D)*

Research and development expenses for the six months ended June 27, 2010 decreased by approximately 41 percent, compared to the corresponding period in fiscal 2009. The decrease in R&D was primarily due to: (i) approximately \$21.3 million in lower R&D-related building and operating expense attributable to the closure of our SDC; (ii) savings of approximately \$6.1 million in labor costs as a result of our restructuring efforts in fiscal 2009; (iii) approximately \$4.9 million lower costs for R&D services sourced from Spansion Japan due to contract renegotiation; and (iv) approximately \$2.0 million less expense due to the transfer of our Milan R&D operations to Elpida in February 2010.

For the Predecessor period from March 29, 2010 to May 10, 2010, R&D expenses in the Predecessor of approximately \$12.1 million included, among other items, approximately \$6.2 million of labor costs; approximately \$2.1 million of expenses relating to outside service providers; approximately \$0.9 million of material costs and approximately \$1.4 million of building and other allocated operating expenses.

R&D expenses in the Successor of approximately \$13.4 million included, among other items, approximately \$5.3 million of labor costs; approximately \$2.4 million of expenses relating to outside service providers; approximately \$1.5 million of material costs and approximately \$1.5 million of building and other allocated operating expenses. The impact of fresh start accounting on R&D for the six months ended June 27, 2010 was immaterial.

### *Sales, General and Administrative (SG&A)*

SG&A expense for the six months ended June 27, 2010 decreased by 37 percent, compared to the corresponding period in fiscal 2009. The decrease in SG&A expense was primarily due to: (i) approximately \$28.7 million lower expenses incurred on litigation, patent, trademark and other related matters; (ii) approximately \$12.1 million decrease in provision for doubtful accounts; (iii) savings of approximately \$7.7 million in labor costs; and (iv) the elimination of SG&A expenses attributable to Spansion Japan as a result of deconsolidation of Spansion Japan on March 3, 2009. We incurred approximately \$4.3 million of Spansion Japan SG&A expenses for the first two months of fiscal 2009 before deconsolidation whereas we incurred no such expenses in fiscal 2010. The overall decrease is partially offset by: (i) an increase of approximately \$3.8 million in accrued bonuses primarily related to our 2010 performance-based bonus plan; and (ii) an increase of approximately \$1.2 million expense due to the start-up of our new office in Kawasaki, Japan during the second quarter of fiscal 2010. The impact of fresh start accounting on SG&A for the six months ended June 27, 2010 was immaterial.

From March 29, 2010 to May 10, 2010, SG&A expenses in the Predecessor of approximately \$20.5 million included among other items, approximately \$8.0 million of labor costs, approximately \$7.4 million of expenses relating to outside service providers and approximately \$1.6 million of building and other allocated operating expenses.

SG&A expenses in the Successor of approximately \$18.3 million included among other items, approximately \$9.0 million of labor costs; approximately \$5.0 million of expenses relating to outside service providers and approximately \$1.9 million of building and other allocated operating expenses. The impact of fresh start accounting on SG&A for the six months ended June 27, 2010 was immaterial.

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### *Restructuring Charges*

Restructuring charges for Predecessor from December 28, 2009 to May 10, 2010 decreased by approximately \$40.9 million, compared to the six months ended June 28, 2009. The decrease in restructuring charges was primarily due to: (i) approximately \$31.0 million of lower cash settled restructuring charges on employee severance pay and benefits, professional fees, and relocation of property, plant and equipment in the second quarter of fiscal 2010; (ii) approximately \$5.5 million gain on sale of SDC fixed assets and approximately \$5.2 million gain from the November 2009 sale of our Suzhou plant recorded in the first half of fiscal 2010. There were no restructuring charges in the Successor.

### *Gain on Deconsolidation of Subsidiary*

Effective March 3, 2009, we deconsolidated Spansion Japan and recognized a one-time gain of approximately \$30.1 million, which represents the difference between the carrying value of our investment in Spansion Japan immediately before deconsolidation (100 percent of Spansion Japan's stockholder's deficit) and the estimated fair value of our retained non-controlling interest in Spansion Japan (zero). We did not have a similar gain during the six months ended June 27, 2010.

### *Interest and Other Income, Net*

Interest and other income, net, decreased by approximately \$4.9 million for the six months ended June 27, 2010 compared to the corresponding period of fiscal 2009. The decrease was mainly due to approximately \$3.0 million in impairment charges on certain investments in privately held companies during the second quarter of fiscal 2010 in the Predecessor. In addition, interest and other income, net, was lower due to a decrease in our average investment portfolio yield as a result of a decrease of approximately \$85.0 million on our investment in the ARS, which earned higher interest as compared to the yields on our cash and cash equivalents.

### *Interest Expense*

Interest expense increased by approximately \$1.8 million for the six months ended June 27, 2010, compared to the corresponding period in fiscal 2009.

In the Predecessor, the increase was primarily due to interest expense of approximately \$9.9 million and amortization of financing costs of approximately \$11.2 million on our Term Loan, partially offset by decreases due to the following:

- (i) a decrease of approximately \$7.1 million in interest expenses for Senior Notes and Exchangeable Senior Subordinated Debentures as interest expenses on these obligations were accrued only through the Petition Date as a result of the Chapter 11 Cases;
- (ii) a decrease of approximately \$2.8 million in interest expense for FRNs due to a decrease in interest rate from 4.6 percent in the six months ended June 28, 2009 to 3.4 percent in the Predecessor period from December 28, 2010 through May 10, 2010;
- (iii) a decrease of approximately \$3.4 million in interest expense related to capital leases as a result of lease buy-outs, terminations upon expiration of lease term and lease rejections as a result of reorganization efforts; and
- (iv) a decrease of approximately \$2.2 million in interest expense as a result of the deconsolidation of Spansion Japan effective March 3, 2009.

In the Successor, an increase in interest expense of approximately \$3.9 million on our Term Loan was offset by a corresponding decrease in interest expense on the FRNs, which were fully paid off in May 2010.

The average interest rate on our debt portfolio was 6.3 percent for the six months ended June 27, 2010, compared to 4.4 percent for the corresponding period in fiscal 2009.



**Table of Contents***Reorganization Items*

Reorganization items of approximately \$370.3 million for the six months ended June 27, 2010 primarily consist of a gain of approximately \$434.0 million which resulted from discharge of pre-petition obligations and approximately \$22.5 million gain which resulted from approved settlement of rejected capital leases and various license agreements. The overall gain was partially offset by approximately \$59.5 million in professional fees, approximately \$12.7 million of debt financing cost write-off, approximately \$10.8 million in adjustments related to accrued claims and cancellation of old equity incentive plans and approximately \$7.0 million of withholding tax liability in foreign subsidiaries. Reorganization items of approximately \$372.3 million for the six months ended June 28, 2009 primarily consist of approximately \$355.3 million in provisions for expected allowed claims and approximately \$17.1 million in professional fees. There were no reorganization items in the Successor.

*Income Tax Provision*

We recorded income tax expense of approximately \$1.6 million for the six months ended June 27, 2010 as compared to income tax expense of approximately \$0.4 million for the six months ended June 28, 2009. The income tax expense recorded in both periods primarily related to tax provisions in profitable foreign locations.

Due to emergence from bankruptcy, in the six months ended June 27, 2010, we also recorded an increase of \$12.0 million in deferred tax liabilities, consisting of previously unrecognized tax benefits of \$10.0 million and interest and penalties of \$2.0 million in connection with certain intercompany arrangements.

As of June 27, 2010, all of our U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The valuation allowance is based on our assessment that it is more likely than not that the deferred tax assets will not be realizable in the foreseeable future.

**Other Items**

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of June 27, 2010 and December 27, 2009 are as follows:

|   | <b>Successor<br/>June 27, 2010</b> | <b>Predecessor<br/>December 27, 2009</b> |
|---|------------------------------------|--|
|   | <b>(in thousands)</b>              |  |
| Deferred revenue                                | \$ 35,731                          | \$ 90,465                                |
| Less: deferred costs of sales                   | (28,541)                           | (36,308)                                 |
| Deferred income on shipments <sup>(1) (2)</sup> | \$ 7,190                           | \$ 54,157                                |

- (1) The deferred income of \$8.0 million and \$63.0 million on the consolidated balance sheet as of June 27, 2010 and December 27, 2009, respectively, included \$0.9 million and \$8.8 million of deferred revenue related to licensing revenue that was excluded in the table above.
- (2) In connection with our adoption of fresh start accounting as of May 10, 2010, an adjustment of \$27.7 million was made to reduce deferred income on shipments to the fair value of our related performance obligations which include primarily price protection and stock rotation.

**Table of Contents****Results of Operations for Fiscal 2009, Fiscal 2008 and Fiscal 2007*****Comparison of Net Sales, Gross Margin, Operating Expenses, Interest and Other Income, Net, Interest Expense, Reorganization Items and Income Tax (Provision) Benefit***

The following is a summary of gross margin; operating expenses; interest and other income, net; interest expense and income tax (provision) benefit for fiscal 2009, fiscal 2008 and fiscal 2007.

|                                       | December 27,<br>2009 | Year Ended<br>December 28,<br>2008<br>(in thousands) | December 30,<br>2007 |
|---------------------------------------|----------------------|--|----------------------|
| Net sales                             | \$ 1,410,653         | \$ 2,281,803   | \$ 2,500,813         |
| Cost of sales                         | 1,103,757            | 2,193,345  | 2,065,143            |
| Gross margin                          | 22%                  | 4%   | 17%                  |
| Research and development              | 136,449              | 431,808  | 436,785              |
| Sales, general and administrative     | 216,298              | 253,878  | 239,317              |
| In-process research and development   |                      | 10,800   |                      |
| Restructuring charges                 | 46,852               | 11,161   |                      |
| Asset impairment charges              | 12,538               | 1,652,622  |                      |
| Operating loss                        | (105,241)            | (2,271,811)  | (240,432)            |
| Gain on deconsolidation of subsidiary | 30,100               |  |                      |
| Interest and other income, net        | 4,038                | 5,200  | 32,595               |
| Interest expense                      | (50,976)             | (105,536)  | (87,460)             |
| Reorganization items                  | (391,383)            |  |                      |
| Income tax (provision) benefit        | (597)                | (62,865)   | 25,144               |

***Total Net Sales***

Total net sales in fiscal 2009 decreased 38 percent compared to total net sales in fiscal 2008. The decrease in total net sales was primarily attributable to a 34 percent decrease in unit shipments. The decrease in unit shipments was largely due to (i) a decrease in customer demand for our products, spurred by a worldwide decrease in demand for Flash memory in addition to loss of business as a result of our filing for bankruptcy, and (ii) our strategic decision to exit a large portion of the wireless market. Partially offsetting the decrease in overall demand was an increase in customer purchases of buffer inventory in the period just prior to and after commencement of the Chapter 11 Cases.

Total net sales in fiscal 2008 decreased nine percent compared to total net sales in fiscal 2007. The decrease in total net sales was primarily attributable to an approximately six percent decrease in unit shipments and an approximately three percent decrease in blended ASPs. The decrease in unit shipments was primarily due to a sharp decline in the Japanese wireless market and a significant deterioration in the macroeconomic environment in the fourth quarter of 2008. This caused a decline in the worldwide demand for consumer goods, and consequently a reduction in demand for our products. The decrease in blended ASPs was primarily the result of price declines in the overall Flash memory market during fiscal 2008.

***Gross margin***

Our gross margin increased by approximately 18 percent in fiscal 2009 compared to gross margin in fiscal 2008. Our gross margin in fiscal 2008 was lower primarily due to (i) the \$253.2 million write-down of inventory in 2008, which is described below and (ii) certain fixed overhead costs and underutilization charges relating primarily to an advanced wafer fabrication facility in Aizu-Wakamatsu, Japan (SP1) in fiscal 2008 that did not fully reoccur in fiscal 2009 because we deconsolidated Spansion Japan in the first quarter of fiscal 2009. Gross margin in fiscal 2009 was also higher due to a decrease in depreciation expense resulting from the write-down of certain manufacturing assets at the end of fiscal 2008. The increase in gross margin due to the aforesaid factors





