

Spansion Inc.
Form S-1
October 10, 2006
Table of Contents

As filed with the Securities and Exchange Commission on October 10, 2006.

Registration No. 333 -

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SPANSION INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3674
(Primary Standard Industrial
Classification Code Number)
915 DeGuigne Drive

20-3898239
(I.R.S. Employer
Identification Number)

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)

Bertrand F. Cambou

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 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, 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. _____

CALCULATION OF REGISTRATION FEE

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Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price Per Share ⁽²⁾	Proposed Maximum Aggregate Offering Price ⁽²⁾	Amount of Registration Fee ⁽³⁾
Class A Common Stock, \$0.001 par value	40,250,000 shares	\$15.32	\$616,630,000	\$65,979

(1) Includes 5,250,000 shares of common stock subject to the underwriters' over-allotment option to purchase additional shares.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended.

(3) Calculated pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock on The Nasdaq Global Market on October 6, 2006.

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 this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 10, 2006.

PROSPECTUS

35,000,000 Shares

Spansion Inc.

Class A Common Stock

\$ per share

Our two largest stockholders, AMD Investments, Inc., an indirect wholly owned subsidiary of Advanced Micro Devices, Inc., and Fujitsu Limited, are selling all 35,000,000 of the shares of Class A common stock in this offering. We have granted the underwriters an option to purchase up to 5,250,000 additional shares of our Class A common stock to cover over-allotments. We will not receive any proceeds from the sale of shares of our Class A common stock by the selling stockholders. Our Class A common stock is listed on The Nasdaq Global Market under the symbol SPSN. The last reported sale price of our Class A common stock on October 4, 2006 was \$15.86 per share.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to Selling Stockholders (before expenses)	\$	\$
The underwriters expect to deliver the shares to purchasers on or about _____, 2006.		

Citigroup

Credit Suisse

JPMorgan

Morgan Stanley

Banc of America Securities LLC
, 2006

Lehman Brothers

Table of Contents

You should rely only on the information contained in this prospectus or in any related free writing prospectus. Neither we nor the underwriters have authorized anyone to provide you with information that is different from that contained in this prospectus. We and the selling stockholders named in this prospectus are offering to sell shares of Class A common stock and seeking offers to buy shares of Class A common stock only in jurisdictions where offers and sales are permitted. You should assume that the information in this prospectus is accurate only as of the date on the front cover of this prospectus or other earlier date stated in this prospectus. Our business, financial condition, results of operations and prospects may have changed since such date.

TABLE OF CONTENTS

	Page
<u>Summary</u>	1
<u>Risk Factors</u>	10
<u>Forward-Looking Statements</u>	30
<u>Use of Proceeds</u>	31
<u>Price Range of Our Common Stock and Dividend Policy</u>	32
<u>Capitalization</u>	33
<u>Selected Historical Consolidated Financial Data</u>	34
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Business</u>	61
<u>Management</u>	84
<u>Principal and Selling Stockholders</u>	98
<u>Certain Relationships and Related Party Transactions</u>	100
<u>Description of Capital Stock</u>	108
<u>Shares Eligible for Future Sale</u>	115
<u>Certain U.S. Federal Tax Considerations for Non-U.S. Holders</u>	116
<u>Underwriting</u>	120
<u>Legal Matters</u>	124
<u>Experts</u>	124
<u>Available Information</u>	124
<u>Index to Consolidated Financial Statements</u>	F-1

Spansion®, the Spansion logo, MirrorBit® and ORNAND are our trademarks. Other names are for informational purposes only and may be trademarks of their respective owners.

Table of Contents

SUMMARY

This summary highlights material information found in greater detail elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in shares of our common stock. You should read this entire prospectus carefully, including Risk Factors and our financial statements and the accompanying notes, before making an investment decision.

In this prospectus, unless the context otherwise requires: (1) references to we, us, Spansion, our and our company refer to Spansion Inc. (2) references to AMD and Fujitsu refer to Advanced Micro Devices, Inc. or, if the context requires, AMD Investments, Inc. and Fujitsu Limited, respectively; (3) unless otherwise specified as Class B, Class C or Class D common stock, references to common stock refer to Spansion Inc.'s Class A common stock; and (4) references to our customers refer to our direct customers and customers of our distributor Fujitsu.

Throughout this prospectus, our fiscal periods ended March 31, 2003, December 28, 2003, December 26, 2004 and December 25, 2005 are referred to as fiscal 2002, 2003, 2004 and 2005. In fiscal 2002, we used a fiscal year beginning April 1, 2002 and ending March 31, 2003, which consisted of 52 weeks. In connection with our reorganization effective June 30, 2003, we adopted a fiscal year ending the last Sunday of December. Fiscal 2003 was therefore a transition period beginning April 1, 2003 and ending December 28, 2003, during which we operated as Fujitsu AMD Semiconductor Limited for the first three months and then operated as Spansion LLC for the final six months. Fiscal 2003 consisted of approximately 39 weeks. Fiscal 2004 ended December 26, 2004 and consisted of 52 weeks. Fiscal 2005 ended December 25, 2005 and consisted of 52 weeks. The six months ended June 26, 2005 and July 2, 2006 consisted of 26 weeks and 27 weeks.

Our Company

Overview

We are one of the largest Flash memory providers and the largest company in the world dedicated exclusively to designing, developing, manufacturing, marketing and selling Flash memory, a critical semiconductor component of nearly every electronic product and one of the fastest growing segments of the semiconductor industry. Our Flash memory is integrated into a broad range of electronic products, including mobile phones, consumer electronics, automotive electronics, networking and telecommunications equipment, personal computers and PC peripherals. Our Flash memory products are incorporated in products from original equipment manufacturers, or OEMs, in each of these markets, including all of the top ten mobile phone OEMs, all of the top ten consumer electronics OEMs and all of the top ten automotive electronics OEMs. We operate four Flash memory wafer fabrication facilities, or fabs, four assembly and test sites and a development fab, known as our Submicron Development Center, or SDC. We are headquartered in Sunnyvale, California, with Japanese headquarters in Kawasaki, Japan.

For the first six months of fiscal 2006, our net sales were \$1.2 billion and our net loss was \$101 million. For fiscal 2005, our net sales were \$2.0 billion and our net loss was \$304 million. According to market research firm iSuppli, in the first six months of 2006, we were the largest supplier of NOR Flash memory, with a 29 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with a 12 percent market share, based on net sales. In 2005, based on iSuppli data, we were the second largest supplier of NOR Flash memory, with a 26 percent market share, and we were one of the largest suppliers for the overall Flash memory market, with an 11 percent market share, based on end sales of our products by AMD and Fujitsu, who acted as our sole distributors. We believe we owe our position to our leading-edge technology, including our proprietary MirrorBit technology, our broad product portfolio derived through continued customer-centric innovation and our systems-level solutions, advanced manufacturing capabilities and customer relationships.

Table of Contents

The Flash memory market is very capital intensive and requires that suppliers make significant capital expenditures in order to remain competitive. In the first two quarters of fiscal 2006, our capital expenditures totaled \$291 million, and we expect our total capital expenditures for fiscal 2006 to be between \$650 million and \$800 million. We have historically funded our capital expenditures through equity and debt financing and operating cash flow. In addition to capital expenditures, our primary future cash needs on a recurring basis will be for working capital and debt service. As of July 2, 2006, we had \$619 million principal amount of outstanding debt. Should we require additional funding, we may need to raise the required additional funds through bank borrowings or public or private sales of debt or equity.

Our Industry

Consumers are increasingly demanding access to digital content through sophisticated communications equipment, consumer electronic products and automotive electronics. People now expect to instantly access, store and interact with multimedia content, including photos, music, video and text files using such products as mobile phones, digital cameras, DVD players, set top boxes, or STBs, MP3 players and automotive electronics such as navigation systems. The primary semiconductor component used to store and access this kind of digital content is Flash memory and, as a result, Flash memory has become one of the most critical components of electronic products. Most electronic products use Flash memory to store important program instructions, known as code, as well as multimedia or other digital content, known as data. Code storage allows the basic operating instructions, operating system software or program code to be retained, which allows an electronic product to function, while data storage allows digital content, such as multimedia files, to be retained. There are two major architectures of Flash memory in the market today: NOR Flash memory, which is used for code and data storage in mobile phones and primarily for code storage in consumer electronics, and NAND Flash memory, which is primarily used for data storage in removable memory applications, such as Flash memory cards and USB drives, and is increasingly being used in some high-end mobile phones and embedded applications.

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. Within the integrated category, portable, battery-powered communications applications are referred to as wireless and all other applications, such as consumer, industrial, telecommunications and automotive electronics, are referred to as embedded. Within the removable storage category, applications include Flash memory cards and USB drives. Based on iSuppli data, the wireless portion of the integrated category, which primarily consists of mobile phones, represented the largest market for NOR Flash memory in fiscal 2005. Sales in the wireless portion of the integrated category represented a majority of our sales in fiscal 2005 and in the first six months of fiscal 2006, and sales in the embedded portion of the integrated category represented the balance of our sales. We do not yet sell any products in the removable storage category.

Overall, the Flash memory market has grown significantly over the past eight years, from worldwide sales of \$2.9 billion in 1998 to \$18.6 billion in 2005. iSuppli projects that the integrated category of the Flash memory market will reach sales of \$25.9 billion in 2010 from \$12.1 billion in 2005, representing a compound annual growth rate of approximately 17 percent, and that the removable storage category will reach sales of \$8.6 billion in 2010 from \$6.5 billion in 2005, representing a compound annual growth rate of approximately six percent. We believe much of this growth in the Flash memory market will be driven by growth in unit shipments and Flash memory content of mobile phones, growth in unit shipments and Flash memory content for embedded applications and proliferation of removable storage products.

Flash memory is used across a wide spectrum of applications. Within each of the integrated and removable storage categories of the Flash memory market, customer and application needs are influenced by whether the application will predominantly require code storage, data storage or a combination of the two. Traditional criteria by which Flash memory customers evaluate Flash memory products include density, or a Flash memory product's

Table of Contents

storage capacity, cost per bit, performance, reliability and power consumption. In addition to having product-specific requirements, we believe Flash memory customers will increasingly seek Flash memory providers that have the ability to add value beyond the Flash memory component itself.

Our Strengths

We believe we have the attributes that are necessary for long-term success in the Flash memory market, including the following:

Largest Dedicated Flash Memory Player with a Leading Market Position. With total assets of \$3.3 billion as of December 25, 2005, net sales of \$2.0 billion for fiscal 2005 and a global team of approximately 9,200 employees as of October 1, 2006, we are one of the largest Flash memory providers and the largest company focused exclusively on the design, development, manufacture, marketing and sale of Flash memory. According to iSuppli, in the first six months of 2006, we were the largest supplier of NOR Flash memory, with a 29 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with a 12 percent market share, based on net sales. In 2005, based on iSuppli data, we were the second largest NOR Flash memory supplier, with a 26 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with an 11 percent market share, based on end customer sales.

Proprietary MirrorBit Technology. Our proprietary MirrorBit technology is capable of storing two to four bits of data in a single memory cell, providing up to four times the storage capacity per cell of single-level cell floating gate technology. Our two-bit-per-cell MirrorBit technology allows us to offer a broad range of product configurations and capabilities, including high read performance and superior reliability. Compared to competing floating gate MLC NOR technology, two-bit-per-cell MirrorBit technology has a simpler cell architecture requiring fewer manufacturing steps and supporting higher yields, resulting in lower costs. We have also demonstrated working silicon of our four-bit-per-cell MirrorBit technology called MirrorBit Quad. With densities, die size and a cost structure comparable to floating gate MLC NAND at an equivalent process technology node, we believe MirrorBit Quad will allow us to compete in portions of the integrated and removable categories that would otherwise be served by floating gate MLC NAND Flash memory. In addition, the ability to easily integrate logic with our MirrorBit technology will enable us to create new types of Flash memory product not available in the market today. We believe MirrorBit is a differentiated technology that will help us to retain and enhance our leadership position from entry-level to high-end applications.

Broad Product Offerings. We currently produce the industry's broadest range of NOR-based Flash memory products using both floating gate and MirrorBit technologies. Our traditional NOR Flash memory product portfolio ranges from 1 megabit to 1 gigabit, with voltages from 1.8 volts to 5.0 volts and a breadth of performance options. We have also developed our MirrorBit ORNAND architecture which combines some of the best attributes of NOR and NAND architectures. We currently offer a 1-gigabit MirrorBit ORNAND product and are sampling a 512-megabit product. We also plan to offer a 2-gigabit MirrorBit ORNAND products in the fourth quarter of fiscal 2006. We also plan to offer four-bit-per-cell MirrorBit Quad solutions of up to 16 gigabits by the end of fiscal 2007 to address data storage portions of the integrated category. With MirrorBit NOR, MirrorBit ORNAND and MirrorBit Quad, our MirrorBit technology can address nearly all applications in the integrated category, as well as a number of applications in the removable storage category.

Customer-Centric Innovation. We work with customers to identify evolving needs and new applications in order to develop innovative products and features.

Advanced Manufacturing, Lithography and Packaging Capabilities. We have developed advanced Flash memory manufacturing capabilities. We operate four dedicated manufacturing Flash memory wafer fabs and a development fab to accelerate the introduction of next-generation technologies. In addition, we have leading-

Table of Contents

edge packaging capabilities that better position us to capitalize on emerging trends such as demand for smaller form factors and complete memory subsystems.

Systems-Level Solutions, Alliances and Support. We have invested significant systems and engineering resources to establish alliances with other semiconductor and software companies, create innovative development tools and testing environments and bring our significant memory subsystems expertise to customers.

Our Strategy

Our goal is to leverage our proprietary MirrorBit technology, broad product offerings, customer-centric innovation, systems-level solutions, manufacturing capabilities and strong market position to grow our leadership position in the integrated category of the Flash memory market and enter new markets. To achieve these goals, we are pursuing the following key strategies:

Capitalize on Our Leadership Position. We plan to use our position as a market leader to increase our share in the integrated category of the Flash memory market.

Bridge the NOR/NAND Divide. We have developed a new architecture called ORNAND based on our MirrorBit technology that we believe will allow us to offer products that draw from among the best features of both NOR and NAND architectures and will be an important part of our strategy to address data storage applications within the integrated category of the Flash memory market, which are currently primarily served by NAND-based Flash memory products. We believe that MirrorBit ORNAND will allow us to better capitalize on growing demand for data storage. We have also demonstrated MirrorBit technology's ability to store four bits per cell with working silicon, which we refer to as MirrorBit Quad. If successfully developed, we believe our MirrorBit Quad technology will enable us to target mass data storage applications in the integrated category and to address portions of the removable storage category.

Enter into New Markets. By leveraging the low cost structure of, and the ability to easily integrate logic with, our MirrorBit technology and our alliances with third parties, we are investigating opportunities to selectively participate in new markets.

Continue to Develop Systems-Level Solutions and Provide Increasing Value to Customers. We intend to continue to work with customers and with complementary silicon and software providers at the architecture level to optimize entire systems that incorporate Flash memory.

Leverage Our Manufacturing and Technology Expertise. Our strategy includes accelerating the development and production of leading edge advanced technology for 90-nanometer production in fiscal 2006, 65-nanometer production in fiscal 2007 and 45-nanometer production on 300-millimeter wafers at our new SP1 facility in fiscal 2008. We believe that the use of smaller geometries and larger wafers will contribute to lower manufacturing cost-per-unit at a given product density, particularly at higher memory densities. A core part of our manufacturing strategy is also to balance the mix of in-house manufacturing with outsourced capacity which we believe enables us to maximize the impact of invested dollars spent on next generation technology for the integrated category of the Flash memory market while maintaining a long-term, stable supply of new and existing products for our customers.

Company Information

We were originally organized as a Flash memory manufacturing venture of AMD and Fujitsu in 1993 named Fujitsu AMD Semiconductor Limited, or FASL. The primary function of FASL was to manufacture and sell Flash memory wafers to AMD and Fujitsu, who in turn converted the Flash memory wafers into finished

Table of Contents

Flash memory products and sold them to their customers. AMD and Fujitsu were also responsible for all research and development and marketing activities and provided FASL with various support and administrative services.

By 2003, AMD and Fujitsu desired to expand the operations of FASL to: achieve economies of scale; add additional Flash memory wafer fabrication capacity; include assembly, test, mark and pack operations; include research and development capabilities; and include various marketing and administrative functions. To accomplish these goals, in 2003, AMD and Fujitsu reorganized our business as a Flash memory company called FASL LLC, later renamed Spansion LLC, by integrating the manufacturing venture with other Flash memory assets of AMD and Fujitsu. Since this reorganization, until the beginning of the second quarter of fiscal 2006, we manufactured and sold finished Flash memory devices to customers worldwide through two sole distributors, AMD and Fujitsu. Since the beginning of the second quarter of fiscal 2006, we have sold our products directly to our customers and customers not served solely by Fujitsu. Fujitsu acts as our sole distributor in Japan and also as a nonexclusive distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions. We were reorganized from Spansion LLC into Spansion Inc., a Delaware corporation, in connection with our initial public offering in December 2005.

Our mailing address and principal executive offices are located at 915 DeGuigne Drive, P.O. Box 3453, Sunnyvale, California 94088, and our telephone number is (408) 962-2500.

Table of Contents

THE OFFERING

Shares of Class A common stock offered by Spansion Inc.	No shares of Class A common stock (or 5,250,000 shares if the underwriters exercise their over-allotment option in full).
Shares of Class A common stock offered by the selling stockholders	35,000,000 shares of Class A common stock.
Selling stockholders	AMD Investments, Inc. and Fujitsu Limited.
Shares of Class A common stock to be outstanding after this offering ⁽¹⁾	128,836,422 shares of Class A common stock (or 134,086,422 shares if the underwriters exercise their over-allotment option in full).
Common stock owned by AMD after this offering	27,529,402 shares of Class A common stock; one share of Class B common stock. ⁽²⁾
Common stock owned by Fujitsu after this offering	18,352,934 shares of Class A common stock; one share of Class C common stock. ⁽²⁾
Voting rights of Class A common stock	One vote per share.
Use of proceeds	We will not receive any proceeds from the sale of our Class A common stock by the selling stockholders in this offering. If the underwriters exercise their over-allotment option, we intend to use the net proceeds from the sale of our shares of Class A common stock for capital expenditures, working capital and general corporate purposes.
Dividend policy	We currently do not intend to pay cash dividends and, under conditions where our cash is below specified levels, are prohibited from doing so under agreements governing our borrowing arrangements.
Risk factors	See Risk Factors and the other information included in this prospectus for a discussion of the factors you should consider before deciding to invest in shares of our Class A common stock.
Nasdaq Global Market symbol	SPSN.

(1) Excludes an aggregate of approximately 16,800,000 shares of our Class A common stock issuable upon exercise of outstanding stock options, upon vesting of outstanding restricted stock units and upon conversion of Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures.

(2) The Class B common stock and the Class C common stock entitle AMD and Fujitsu to elect such number of members to our board of directors as set forth in our certificate of incorporation, which depends on such holder's aggregate ownership interest in us. See [Description of Capital Stock](#).

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Unless we indicate otherwise, all of the information in this prospectus assumes that the underwriters do not exercise their option to purchase up to 5,250,000 shares of our Class A common stock from us within 30 days from the date of this prospectus.

Table of Contents**SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our summary historical consolidated financial data. In connection with our reorganization effective June 30, 2003, we adopted a fiscal year ending the last Sunday of December. Fiscal 2003 was therefore a transition year beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and then operated as Spansion LLC for the final six months. Fiscal 2003 included approximately 39 weeks. Fiscal 2004 ended December 26, 2004 and fiscal 2005 ended December 25, 2005, and each included 52 weeks. The summary consolidated statement of operations data for the nine months ended December 28, 2003 and the years ended December 26, 2004 and December 25, 2005 and the summary balance sheet data as of December 26, 2004 and December 25, 2005 have been derived from, and should be read together with, our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statement of operations data for the six months ended June 26, 2005 and July 2, 2006 and the summary consolidated balance sheet data as of July 2, 2006 have been derived from, and should be read together with, our unaudited consolidated financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of the results to be expected in any future periods, and the results for the six months ended July 2, 2006 should not be considered indicative of results to be expected for the full fiscal year. The following selected historical financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Nine Months Ended		Year Ended		Six Months Ended
	Dec. 28, 2003	Dec. 26, 2004	Dec. 25, 2005	Jun. 26, 2005	Jul. 2, 2006 ⁽³⁾
Statement of Operations Data:					
Net sales	\$	\$	\$	\$	\$ 396,735
Net sales to members/related parties	1,193,212	2,262,227	2,002,805	895,556	820,546
Total net sales	1,193,212	2,262,227	2,002,805	895,556	1,217,281
Cost of sales	1,086,030	1,840,862	1,809,929	867,163	976,285
Gross profit	107,182	421,365	192,876	28,393	240,996
Other expenses:					
Research and development	146,947	280,954	295,849	145,976	176,358
Marketing, general and administrative	74,200	137,159	181,910	81,525	129,724
Operating income (loss)	(113,965)	3,252	(284,883)	(199,108)	(65,086)
Interest and other income (expense), net ⁽¹⁾	1,335	3,198	3,173	2,064	(147)
Interest expense	(20,733)	(40,165)	(45,032)	(22,211)	(37,185)
Loss before income taxes	(133,363)	(33,715)	(326,742)	(219,255)	(102,418)
Benefit for income taxes	(4,420)	(14,013)	(22,626)	(24,389)	(1,782)
Net loss	\$ (128,943)	\$ (19,702)	\$ (304,116)	\$ (194,866)	\$ (100,636)
Net loss per share:					
Basic and diluted ⁽²⁾	\$ (1.78)	\$ (0.27)	\$ (4.15)	\$ (2.69)	\$ (0.78)
Shares used in per share calculation					
Basic and diluted ⁽²⁾	72,549	72,549	73,311	72,549	128,311

**As of
Jul. 2, 2006
(in thousands)**

Balance Sheet Data:

Cash, cash equivalents and marketable securities	\$ 364,393
Working capital	732,771

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Total assets	2,993,227
Long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans	619,377
Stockholders' equity	1,845,966

Table of Contents

	Nine Months Ended	Year Ended		Six Months Ended	
	Dec. 28, 2003	Dec. 26, 2004	Dec. 25, 2005	Jun. 26, 2005	Jul. 2, 2006
	(in thousands)				
Supplemental Information:					
Capital expenditures	\$ 214,752	\$ 530,095	\$ 425,339	\$ 139,302	\$ 290,940
Net cash provided by operating activities	134,046	463,298	307,354	84,198	73,059
Net cash used in investing activities	186,914	551,613	553,066	120,056	79,533
Net cash provided by (used in) financing activities	372,879	(125,576)	611,660	27,944	(162,241)

- (1) Interest and other income (expense), net for the six months ended July 2, 2006 included a \$17.3 million loss on early extinguishment of debt as a result of the repurchase and cancellation of Spansion LLC's 12.75% Senior Subordinated Notes and \$6.9 million of realized gain from the sale of marketable securities.
- (2) Diluted net loss per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is antidilutive. The potential common shares resulting from stock options and restricted stock units that were antidilutive for fiscal 2005 totaled approximately 5.5 million shares. The potential common shares resulting from stock options, restricted stock units and shares issuable upon exchange of Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures that were antidilutive for the six months ended July 2, 2006 totaled approximately 16.8 million shares.
- (3) Net loss for the six months ended July 2, 2006 included stock-based compensation expense of \$14.2 million, which consisted of \$10.5 million related to our stock options and restricted stock units, and \$3.7 million related to AMD stock options granted to our employees.

Table of Contents**Quarterly Financial Data**

The following table sets forth our statement of operations data for the ten fiscal quarters beginning with the quarter ended March 28, 2004. This unaudited quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data. This information should be read together with the consolidated financial statements and related notes included elsewhere in this prospectus.

	Mar. 28, 2004	Jun. 27, 2004	Sept. 26, 2004	Dec. 26, 2004	Mar. 27, 2005	Jun. 26, 2005	Sept. 25, 2005	Dec. 25, 2005	Mar. 26, 2006 ⁽²⁾	Jul. 2, 2006 ⁽²⁾
(in thousands, except per share amounts)										
Net sales	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 396,735
Net sales to members/related parties	606,331	650,687	518,233	486,976	433,189	462,367	515,653	591,596	561,929	258,617
Total net sales	606,331	650,687	518,233	486,976	433,189	462,367	515,653	591,596	561,929	655,352
Cost of sales	502,293	517,459	406,153	414,957	436,686	430,477	445,307	497,459	452,973	523,295
Gross profit (deficit)	104,038	133,228	112,080	72,019	(3,497)	31,890	70,346	94,137	108,956	132,057
Other expenses:										
Research and development	67,181	70,043	71,975	71,755	71,379	74,597	74,124	75,749	84,573	91,800
Marketing, general and administrative	34,872	32,014	33,730	36,543	36,099	45,426	45,259	55,127	62,421	67,305
Operating income (loss)	1,985	31,171	6,375	(36,279)	(110,975)	(88,133)	(49,037)	(36,739)	(38,038)	(27,048)
Interest and other income (expense), net ⁽¹⁾	291	1,181	751	975	1,285	779	432	677	5,979	(6,126)
Interest expense	(9,797)	(10,179)	(9,996)	(10,193)	(11,135)	(11,076)	(11,363)	(11,458)	(18,794)	(18,391)
Income (loss) before income taxes	(7,521)	22,173	(2,870)	(45,497)	(120,825)	(98,430)	(59,968)	(47,520)	(50,853)	(51,565)
Provision (benefit) for income taxes	(3,126)	9,216	(1,193)	(18,910)	(11,983)	(12,406)	1,755	8	1,024	(2,806)
Net income (loss)	\$ (4,395)	\$ 12,957	\$ (1,677)	\$ (26,587)	\$ (108,842)	\$ (86,024)	\$ (61,723)	\$ (47,528)	\$ (51,877)	\$ (48,759)
Net income (loss) per share										
Basic and diluted	\$ (0.06)	\$ 0.18	\$ (0.02)	\$ (0.37)	\$ (1.50)	\$ (1.19)	\$ (0.85)	\$ (0.63)	\$ (0.40)	\$ (0.38)
Shares used in per share calculation										
Basic and diluted	72,549	72,549	72,549	72,549	72,549	72,549	72,549	75,604	128,146	128,464
Common Stock market price range										
High	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 14.37	\$ 16.19	\$ 18.59
Low	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 12.00	\$ 12.31	\$ 12.90

(1) Interest and other income (expense), net for the quarter ended July 2, 2006 included a \$17.3 million loss on early extinguishment of debt as a result of the repurchase and cancellation of Spansion LLC's 12.75% Senior Subordinated Notes and \$6.9 million of realized gain from the sale of marketable securities.

(2) Net loss for the three months ended March 26, 2006 and July 2, 2006 included stock-based compensation expense of \$7.9 million and \$6.3 million, which consisted of \$6.2 million and \$4.3 million related to our stock options and restricted stock units, and \$1.7 million and \$2.0 million related to AMD stock options granted to our employees.

Table of Contents

RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing shares of our common stock. Investing in shares of our common stock involves a high degree of risk. If any of the following risks actually occurs, we may be unable to conduct our business as currently planned, and our financial condition and operating results could be seriously harmed. In addition, the trading price of shares of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

The demand for our products depends in large part on continued growth in the industries into which they are sold. A market decline in any of these industries, or a decline in demand for Flash memory products in these industries, would have a material adverse effect on our results of operations.

Sales of our Flash memory products are dependent to a large degree upon consumer demand for mobile phones. In fiscal 2005, wireless customers, which primarily consist of mobile phone original equipment manufacturers, or OEMs, represented the largest market for NOR Flash memory. The market research firm iSuppli projects that wireless handset NOR Flash memory will represent approximately 68 percent of the NOR Flash memory market in 2006, excluding commercial die. In fiscal 2005 and the first six months of fiscal 2006, sales to wireless Flash memory customers drove a majority of our sales.

Similarly, sales of our products targeting embedded Flash memory customers are dependent upon demand for consumer electronics such as set top boxes, or STBs, and DVD players, automotive electronics, industrial electronics such as networking equipment, personal computers and PC peripheral equipment such as printers. Sales of our products are also dependent upon the inclusion of increasing amounts of Flash memory content in some of these products. In fiscal 2005 and the first six months of fiscal 2006, sales to embedded Flash memory customers drove a significant portion of our sales.

If demand for mobile phones or products in the embedded portion of the integrated category of the Flash memory market, or the Flash memory content of these products, is below our expectations, if the functionality of successive generations of such products does not require increasing Flash memory density or if such products no longer require Flash memory due to alternative technologies or otherwise, we would be materially adversely affected.

We have lost or will lose rights to key intellectual property arrangements because we are no longer a beneficiary of AMD's patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against us.

As a subsidiary of AMD until our initial public offering in December 2005, we were the beneficiary of AMD's intellectual property arrangements with third parties, including patent cross-license agreements with other major semiconductor companies such as Intel, Motorola and IBM, and licenses from third parties for technology incorporated in our products and software used to operate our business. As a result of our initial public offering, we ceased to be a beneficiary under a number of these agreements. Furthermore, upon the conversion of the outstanding shares of Class D common stock into shares of Class A common stock immediately prior to the completion of this offering, we will cease to be a beneficiary under most of the remainder of these license agreements. As a result, we may be subject to claims that we are infringing intellectual property rights of third parties through the manufacture and sale of our products and the operation of our business. Therefore, absent negotiating our own license agreements with the third parties who own such intellectual property, we will be vulnerable to claims by such parties that our products or operations infringe such parties' patents or other intellectual property rights.

Table of Contents

Under our Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement with AMD and Fujitsu that we executed in December 2005, AMD agreed to enforce its applicable patents to minimize, to the extent reasonably possible, our losses incurred as a result of the infringement of third-party patents. However, as a result of the conversion of the Class D common stock immediately prior to the completion of this offering, AMD will no longer be obligated to provide us this benefit.

We will continue to attempt to negotiate our own agreements and arrangements with third parties for intellectual property and technology that are important to our business, including the intellectual property that we previously had access to through our relationship with AMD. We will also attempt to acquire 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 the third-party benefits from an existing patent cross-license agreement with AMD or Fujitsu, in many cases it will retain the rights that it has under that agreement, including rights to utilize the patents that AMD and Fujitsu transferred to us in connection with our reorganization as Spansion LLC in June 2003. In many cases, any such third party will also retain such rights to utilize any patents that have been issued to us or acquired by us subsequent to our reorganization and prior to our initial public offering or, in some cases, at the time of the conversion of the Class D common stock immediately prior to the completion of this offering. Our negotiating position will therefore be impaired, because the other party will already be entitled to utilize a large number of our patents, while we will no longer have the right to utilize that party's patents. As a result, we may be unable to obtain access to the other party's patent portfolio on favorable terms or at all. Similarly, with respect to licenses from third parties for technology incorporated in our products or software used to operate our business, we may not be able to negotiate prices with these third parties on terms as favorable to us as those previously available to us because we are not able to take advantage of AMD's size and purchasing power. These parties, and other third parties with whom AMD had no prior intellectual property arrangement, may file lawsuits against us seeking damages (potentially including treble damages) 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. Such litigation could be extremely expensive and time-consuming. We cannot assure you that such litigation would be avoided or successfully concluded. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture or sale of some or all of our products, would have a material adverse effect on us.

A lack of market acceptance of products based on our MirrorBit technology would have a material adverse effect on us.

Market acceptance of products based on our MirrorBit technology is a critical factor impacting our ability to increase revenues, gross margins and market share in the integrated category of the Flash memory market, as well as to enter new markets. MirrorBit technology is a memory cell architecture that enables Flash memory products to store two or more bits of data in a single memory cell thereby doubling the density or storage capacity of each memory cell. If market acceptance of products based on our MirrorBit technology occurs at a slower rate than we anticipate, our ability to compete will be reduced, and we would be materially adversely affected. For example, in the first six months of fiscal 2006, we introduced new products for integrated Flash memory applications based on our 90-nanometer MirrorBit technology. If we do not achieve market acceptance of these products or subsequent MirrorBit products, our future operating results would be materially adversely affected.

A significant market shift to NAND architecture would materially adversely affect us.

Flash memory products are generally based either on NOR architecture 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 do not currently manufacture products based on NAND architecture. We have developed our MirrorBit ORNAND architecture to address certain portions of the integrated category of the Flash memory market served by NAND-based products, but we cannot be certain that our MirrorBit ORNAND-based products will satisfactorily address those market needs.

Table of Contents

During 2004, industry sales of NAND-based Flash memory products grew at a higher rate than 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. This trend continued in 2005 and sales of NAND-based Flash memory products represented a majority of the Flash memory products sold in the overall Flash memory market in 2005. In 2005, according to iSuppli, total sales for the Flash memory market reached approximately \$18.6 billion, of which approximately 42 percent was classified as sales of NOR-based Flash memory products and approximately 58 percent was classified as sales of NAND-based Flash memory products. For the first half 2006, according to iSuppli, total sales for the Flash memory market reached approximately \$10.1 billion, of which approximately 41 percent was classified as sales of NOR-based Flash memory products and approximately 59 percent was classified as sales of NAND-based Flash memory products. We expect the trend of decreasing market share for NOR-based Flash memory products to continue in the future. iSuppli estimates that sales of NAND-based Flash memory products grew by approximately 62 percent from 2004 to 2005 and will grow at a 17 percent compound annual growth rate from 2005 to 2010, while sales of NOR-based Flash memory products declined by approximately 15 percent from 2004 to 2005 and will grow at a seven percent compound annual growth rate from 2005 to 2010.

Moreover, the removable storage category of the Flash memory market, which is predominantly served by floating gate NAND vendors, is expected to be a significant portion of the Flash memory market for the foreseeable future. As mobile phones and other consumer electronics become more advanced, they will require higher density Flash memory to meet the increased data storage requirements associated with music downloads, photos and videos. Because storage requirements will increase to accommodate data-intensive applications, OEMs may increasingly choose higher density floating gate NAND-based Flash memory products over MirrorBit NOR-, ORNAND- or Quad-based Flash memory products for their applications. If this occurs and OEMs continue to prefer the attributes and characteristics of floating gate NAND-based products over those of MirrorBit NOR-, ORNAND- or Quad-based products for their applications, we may be materially and adversely affected. Moreover, some floating gate NAND vendors are manufacturing on 300-millimeter wafers or are utilizing more advanced manufacturing process technologies than we are today, which allow them to offer products with a lower cost-per bit at a given product density. If floating gate NAND vendors continue to increase their share of the Flash memory market, our market share may decrease, which would materially adversely affect us.

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 technologies, including FRAM, MRAM, polymer and phase-change based memory technologies. If successfully developed and commercialized as a viable alternative to Flash memory, these or other technologies could pose a competitive threat to a number of Flash memory companies, including us. In addition, we and some of our competitors have licensed Flash memory intellectual property associated with NROM technology from a third party. NROM technology has similar characteristics to our MirrorBit technology, which may allow these competitors to develop Flash memory technology that is competitive with MirrorBit technology.

If we fail to successfully develop products based on our new MirrorBit ORNAND or MirrorBit Quad architectures, or if there is a lack of market acceptance of these products, our future operating results would be materially adversely affected.

We are positioning ourselves to address the increasing demand for higher density data optimized Flash memory by offering products based on our new MirrorBit ORNAND architecture and our MirrorBit Quad architecture, which is in development. The success of these architectures requires that we timely and cost effectively develop, manufacture and market products based on these architectures that are competitive with floating gate NAND-based Flash memory products. We began production of MirrorBit ORNAND-based products in the first quarter of fiscal 2006 and we are developing MirrorBit Quad-based products. However, if we fail to develop and commercialize these products and additional products based on these architectures on a timely

Table of Contents

basis or if such products fail to achieve acceptance in the market, our future operating results would be materially adversely affected.

The loss of a significant customer for our Flash memory products in the mobile phone market could have a material adverse effect on us.

Sales of our products are dependent to a large extent on demand for mobile phones. Historically, a small number of wireless Flash memory customers have driven a substantial portion of our net sales. If one of these customers decided to stop buying our Flash memory products, or if one of these customers were materially to reduce its operations or its demand for our products, we could be materially adversely affected.

We have a substantial amount of indebtedness which could adversely affect our financial position.

We currently have and will continue to have for the foreseeable future, a substantial amount of indebtedness. As of July 2, 2006, we had an aggregate principal amount of approximately \$619 million in outstanding debt.

Our substantial indebtedness may:

require us to use a substantial portion of our cash flows from operations to make debt service payments;

make it difficult for us to satisfy our financial obligations;

limit our ability to use our cash flows or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;

limit our flexibility to plan for, or react to, changes in our business and industry;

place us at a competitive disadvantage compared to our less leveraged competitors; and

increase our vulnerability to the impact of adverse economic and industry conditions.

We are currently party to and intend to enter into debt arrangements in the future, each of which may subject us to restrictive covenants which could limit our ability to operate our business.

We are party to a \$175 million senior secured revolving credit facility that imposes various restrictions and covenants on us that limits our ability to:

enter into any mergers, consolidations or sales of property, or sales of inventory, equipment and assets except in the ordinary course of business;

make any distributions except for distributions from Spansion LLC to us in specified circumstances;

make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless we meet minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least \$200 million, provided, however, that investments are limited to no more than a total of \$50 million while the reduced minimum liquidity requirement is in place;

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incur additional debt, enter into capital leases and, in limited cases, make loans to subsidiaries;

engage in transactions with affiliates unless the transactions are in the normal course of business, negotiated at arms-length and disclosed to the agent for the lenders;

incur any new liens except for equipment leases and loans; and

prepay any debt, except that debt of foreign subsidiaries may be prepaid by the applicable foreign subsidiary and we may prepay any debt as long as after such repayment we meet minimum liquidity requirements consisting of availability under the revolving credit facility plus domestic cash of at least \$250 million.

Table of Contents

In addition, the indenture governing our \$250 million principal amount of 11.25% Senior Notes due 2016 imposes substantially similar restrictions and covenants on us which could limit our ability to respond to market conditions, make capital investments or take advantage of business opportunities. Moreover, the senior notes bear a higher rate of interest than our bank debt, which will adversely affect our results of operations.

In the future, we will likely incur additional indebtedness through arrangements such as credit agreements or term loans that may also impose similar restrictions and covenants. These restrictions and covenants limit, and any future covenants and restrictions likely will limit, our ability to respond to market conditions, to make capital investments or to take advantage of business opportunities. Any debt arrangements we enter into would likely require us to make regular interest payments, which would adversely affect our results of operations.

As of July 2, 2006, we were in compliance with the financial covenants under our debt instruments. However, we cannot assure you that in the future we will be able to satisfy the covenants, financial tests and ratios of our debt instruments, which can be affected by events beyond our control. For example, as of December 25, 2005, Spansion Japan was not in compliance with certain financial covenants under its debt instruments but obtained waivers from the other parties. A breach of any of the covenants, financial tests or ratios under our debt instruments could result in a default under the applicable agreement, which in turn could trigger cross-defaults under our other debt instruments, any of which would materially adversely affect us.

If we cannot generate sufficient operating cash flows and obtain external financing, we may be unable to make all of our planned capital expenditures.

Our ability to fund anticipated capital expenditures depends on generating sufficient cash flows from operations and the availability of external financing. For example, we plan to spend approximately \$1.2 billion over three years commencing with fiscal 2006 to construct and equip our planned flash memory manufacturing facility in Aizu-Wakamatsu, Japan, which we refer to as SP1. In fiscal 2006, our capital expenditures through July 2, 2006 were \$291 million and we expect our total capital expenditures for fiscal 2006 to be approximately \$650 to \$800 million. Our capital expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flows and may decrease our cash balances. The timing and amount of our capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for our products, product mix, changes in industry conditions and market competition.

We may assess markets for external financing opportunities, including debt and equity. Such financing may not be available when needed or, if available, may not be available on satisfactory terms. Any equity financing would cause dilution to our stockholders. Our inability to obtain needed financing or to generate sufficient cash from operations may require us to abandon projects or curtail capital expenditures. If we cannot generate sufficient operating cash flows or obtain external financing, we may be delayed in achieving, or may not achieve, needed manufacturing capacity, and we could be materially adversely affected.

If we are unable to timely and efficiently expand our manufacturing capacity to implement 300-millimeter wafer capacity at SP1, our business, results of operations or financial condition could be materially adversely affected.

We intend to expand our manufacturing capacity to produce approximately 15,000 to 20,000 300-millimeter wafers per month at SP1. Our goal is to have 45-nanometer 300-millimeter wafer capacity in place in fiscal 2008. We estimate that it will cost us an aggregate of approximately \$1.2 billion over three years commencing with fiscal 2006 to construct and equip SP1. However, the actual cost and capacity achieved will vary depending on various factors, including available financing and future product demand. Financing for the construction of and equipment for SP1 may not be available when needed or, if available, may not be available on satisfactory terms. If we do not achieve our desired capacity at the anticipated cost, or if we cannot obtain suitable financing, we may be delayed in achieving, or may not achieve, such capacity, and we could be materially adversely affected.

Table of Contents

The timing for implementing 300-millimeter capacity in SP1 will also depend in part on our ability to execute our plan for constructing and equipping the facility and other factors that may be beyond our control, such as delivery schedules for the required machinery and equipment and construction schedules. If we are delayed in implementing this capability or are unable to obtain foundry services at competitive rates or to timely and efficiently ramp production on 300-millimeter wafers, we will not achieve anticipated cost savings associated with this technology and our gross margins could decline. Even if we are successful in implementing this capacity, if the demand for our products is not sufficient to support the additional capacity when it becomes available, we could be materially and adversely affected.

If our cost reduction efforts are not effective, our business could be materially adversely affected.

We incurred a net loss in each of fiscal 2003, 2004 and 2005 of approximately \$129 million, \$20 million and \$304 million, and a net loss in the first six months of fiscal 2006 of approximately \$101 million. As a result, we continue to undertake actions in an effort to significantly reduce our expenses. These actions include and have included streamlining operations, continuing to align manufacturing utilization to our level of demand, controlling increasing testing costs and working with AMD and Fujitsu to reduce costs under our service agreements with them. We cannot assure you that we will be able to achieve anticipated cost reductions. If our cost reduction efforts are unsuccessful, we may be materially adversely affected.

If we fail to successfully develop, introduce and commercialize new products and technologies or to accelerate our product development cycle, we may be materially adversely affected.

Our success depends to a significant extent on the development, qualification, production, introduction and acceptance of new product designs and improvements that provide value to Flash memory customers. We must also be able to accomplish this process at a faster pace than we currently do. 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 are significant factors in determining our competitiveness in our target markets. If we are delayed in developing or qualifying new products or technologies, we could be materially adversely affected. For example, during the second half of fiscal 2004 and the first quarter of fiscal 2005, we experienced a delay in qualifying and introducing a new Flash memory product based on our MirrorBit technology for wireless Flash memory customers. The delay, which was due to our having to re-design the product in order to achieve higher performance specifications under all temperature conditions, contributed to lower than anticipated net sales during the second half of fiscal 2004 and the first six months of fiscal 2005 and caused us to lose market share. We began delivering a version of this product in the first quarter of fiscal 2005, and we began delivering our new, higher performance version of the product by the end of the second quarter of fiscal 2005. In addition, we continue to transition certain of our products from floating gate technology to MirrorBit technology. If we experience any substantial difficulty with this transition, we will 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 has experienced severe downturns, often 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, due principally to:

substantial declines in average selling prices, particularly due to aggressive pricing by competitors and an imbalance in product supply and demand;

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

less than expected demand in the distribution channels such as by mobile phone OEMs in China.

Table of Contents

For example, our net sales in fiscal 2005 decreased from fiscal 2004. Similarly, our net sales in the second half of fiscal 2004 decreased significantly compared to the first half of fiscal 2004. Net sales in the second half of fiscal 2004 were also adversely affected by a decrease in demand from the mobile phone market and several events that occurred in the first half of fiscal 2004, such as excess inventory accumulation by mobile phone OEMs in China and our inability to meet demand for some of our lower density products for embedded Flash memory customers. This inability to meet demand adversely impacted our relationship with these customers and our competitors were able to take advantage of this situation to increase their market share.

Also, during fiscal 2005 and the first quarter of fiscal 2006, average selling prices for our products decreased. If our net sales or average selling prices 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.

Manufacturing capacity constraints may adversely affect us.

There may be situations in which our manufacturing capacity is inadequate to meet the demand for some of our products. We increasingly depend on foundry, subcontractor and similar arrangements with third parties to meet demand. Our arrangements with third-party suppliers do not necessarily include capacity guarantees. If a third-party manufacturer on which we rely does not have the capacity to deliver an adequate amount of product to meet actual demand, we may not be able to obtain the manufacturing capacity, either in our own facilities or through other third-party arrangements, to meet such demand. For example, in the first half of fiscal 2004, we were not able to meet demand for some of our lower density products for embedded Flash memory customers because in fiscal 2003 we underestimated demand for these products and were unable to install additional wafer fabrication capacity on a timely basis. We believe this adversely impacted our relationships with customers who received reduced allocations, or did not receive allocations, of our embedded products and our competitors were able to take advantage of this situation to increase their market share in the second half of fiscal 2004. More recently, in the third and fourth quarters of fiscal 2005, we experienced capacity constraints for final test and assembly of some of our products. While we have worked internally and with subcontractors to increase capacity to meet anticipated demand, we cannot assure you that we will not experience similar constraints in the future. These capacity constraints limit our ability to respond to rapid and short-term surges in demand for our products. If we are unable to obtain sufficient manufacturing capacity to meet anticipated demand, either in our own facilities or through foundry, subcontractor or similar arrangements with third parties, or if we are unable to obtain foundry services at competitive rates, our business may be materially adversely affected.

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

We currently obtain foundry services from other companies, including Taiwan Semiconductor Manufacturing Company Limited, and following the sale of our JV1 and JV2 manufacturing facilities we will also obtain foundry services from Fujitsu. We also use independent contractors to perform some of the assembly, testing and packaging of our products. Third-party manufacturers are often under no obligation to provide us with any specified minimum quantity of product. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, 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. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements. These manufacturers 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. Because it could take several quarters or more to establish a relationship with a new manufacturing partner, 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: reduced control over delivery schedules, quality assurance, manufacturing

Table of Contents

yields and cost, lack of capacity in periods of excess demand, 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 assembling, 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.

Industry overcapacity could require us to lower our prices and 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 are expected to continue to do so. In the past, capacity additions sometimes exceeded demand requirements leading to oversupply situations and downturns in the industry. Fluctuations in the growth rate of industry capacity relative to the growth rate in demand for Flash memory products contribute to cyclical in the Flash memory market, which may in the future negatively impact our average selling prices and materially adversely affect us.

Industry overcapacity could cause us to under-utilize our manufacturing capacity and have a material adverse effect on 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. This may result in write-downs or write-offs of inventories and losses on products whose demand is lower than we anticipate. In addition, during periods of industry overcapacity, such as we have recently experienced, 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.

Many of our costs are fixed. Additionally, pursuant to some of our subcontractor and foundry arrangements with third parties we may incur take or pay penalties, according to which we have agreed 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 revenues for such periods. When this occurs, our operating results are materially adversely affected.

Our business has been characterized by average selling prices that decline over relatively short time periods, which can negatively affect our results of operations unless we are able to reduce our costs or introduce new products with higher average selling prices.

Average selling prices for our products historically have declined over relatively short time periods. For example, in the first quarter of fiscal 2005, our average selling prices decreased by approximately 17 percent compared with the fourth quarter of fiscal 2004. We are unable to predict pricing conditions for any future periods. Even in the absence of downturns or oversupply in the industry, average selling prices of our products have decreased during the products' lives, and we expect this trend to continue. When our average selling prices decline, our net sales and net income decline unless we are able to compensate by selling more units, reducing our manufacturing costs or introducing new, higher margin products with higher densities and/or advanced features. We have experienced declining average selling prices in the past, and we expect that we will continue to experience them in the future, although we cannot predict when they may occur or how severe they will be. If our average selling prices continue to decline, our operating results could be materially adversely affected.

Table of Contents

Our historical financial results may not be indicative of our future performance as an independent company.

Our historical financial information does not necessarily indicate what our results of operations, financial condition or cash flows will be in the future. After our reorganization as Spansion LLC and prior to our initial public offering, we were a majority-owned subsidiary of AMD, and we sold all of our products to our sole distributors, AMD and Fujitsu, who in turn sold our products to customers worldwide. Upon our initial public offering, we became an independent company. Since that time, we have transitioned our sales processes so that we are able to sell our products directly to AMD's former customers and customers not served solely by Fujitsu. We have also expanded our administrative functions and reduced our reliance on AMD's provision of administrative services. Because of these significant changes, our historical financial results may not be indicative of our future financial results.

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

Our principal competitors in the Flash memory market are Intel Corporation, Samsung Electronics Co., Ltd., STMicroelectronics, Silicon Storage Technology, Inc., Macronix International Co., Ltd., Toshiba Corporation, Sharp Electronics Corp., Renesas Technology Corp., Micron Technology, Inc. and Hynix Semiconductor Inc. In the future, our principal competitors may also include IM Flash Technology, LLC, the joint venture between Intel and Micron Technology, Inc., SanDisk Corporation and msystems, Ltd. 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 in order to increase market share, which resulted in decreased average selling prices for our products in the second half of fiscal 2004 and the first quarter of fiscal 2005 and adversely impacted our results of operations. Some of our competitors, including Intel, Samsung, STMicroelectronics, Toshiba, Sharp and Renesas, 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, recent capital investments by competitors have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment.

We expect competition in the market for Flash memory devices 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. Competition also may 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. Furthermore, we face increasing competition from NAND Flash memory vendors in some portions of the integrated Flash memory market.

To compete successfully, we must decrease our manufacturing costs and develop, introduce and sell products that meet the increasing demand for greater Flash memory content in mobile phones, consumer electronics and automotive applications, among other markets, at competitive prices. If we are unable to compete effectively, we could be materially adversely affected.

If we are unable to diversify our customer base, we could be materially adversely affected.

We serve our customers worldwide directly through our sales force and indirectly through our distributors, who purchase products from us and sell them to customers, either directly or through their distributors. Our customers consist of OEMs, original design manufacturers, or ODMs, and contract manufacturers. In fiscal 2005 and the first six months of fiscal 2006, the five largest of these customers accounted for a significant portion of end sales of our products. Our business strategy is to continue to maintain and increase our market share and diversify our customer base in the integrated category of the Flash memory market. We intend to increase our sales to embedded Flash memory customers in part by expanding the number of customers who buy through our distribution channel as well as the number of customers in emerging markets. If we are unsuccessful in executing this strategy, we could be materially adversely affected.

Table of Contents

We cannot be certain that our substantial investments in research and development will lead to timely improvements in technology or that we will have sufficient resources to invest in the level of research and development that is required to remain competitive.

We make substantial investments in research and development for design and process technologies in an effort to design and manufacture advanced Flash memory products. For example, in the first six months of fiscal 2006, our research and development expenses were \$176 million, or approximately 14 percent of our net sales. In fiscal 2005, our research and development expenses were \$296 million, or approximately 15 percent of our net sales.

Currently, we are developing new non-volatile memory process technologies, including 65-nanometer and 45-nanometer process technologies. Our SDC facility is developing manufacturing process technologies on 200-millimeter and 300-millimeter wafers. We cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive, which could materially adversely affect us. Further, we cannot assure you that our investments in research and development will result in increased sales or competitive advantage, which could adversely affect our operating results.

Unless we maintain manufacturing efficiency, 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, decreasing power consumption and/or 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 costs 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 Flash memory products must be manufactured at 90-nanometer and more advanced process technologies and on 300-millimeter wafers. If we are delayed in transitioning to these technologies and other future technologies, we could be materially adversely affected.

Manufacturing our products involves highly complex processes that require advanced equipment. Our manufacturing efficiency is an important factor in our 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 currently transitioning to 90-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.

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 90-nanometer and more advanced process technologies;

continue to reduce test times;

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

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

Table of Contents

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.

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 on a worldwide basis in a cost-effective manner. Foreign laws may provide less intellectual property protection than afforded in the United States. 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 party to intellectual property litigation and may become party to other intellectual property claims or litigation that could cause us to incur substantial costs or pay substantial damages or prohibit us from selling our products.

From time to time, we may be notified, or third parties may bring actions against us based on allegations, that we are infringing the intellectual property rights of others. If any such claims are asserted against us, 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. In the event that we cannot obtain a license, these parties may file lawsuits against us seeking damages (potentially including treble damages) 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.

For example, Tessera, Inc. filed a lawsuit against us alleging that we have infringed certain of Tessera's patents. Tessera has sought to enjoin such alleged infringement and to recover an unspecified amount of damages. In addition, Fujitsu has informed us that Texas Instruments has asserted that a number of our products infringe some of Texas Instruments' patents. Fujitsu has also informed us that it expects us to defend and indemnify Fujitsu against Texas Instruments' claims in accordance with the terms of our distribution agreement with Fujitsu. Fujitsu has provided us with formal notice that they believe we have a duty to defend or indemnify Fujitsu under the terms of our distribution agreement. Since then, we and Fujitsu have been discussing the issues raised by this notice. If these issues cannot be resolved informally, defending these claims could be expensive and time-consuming, and, if Fujitsu terminates our distribution agreement, it could have a material adverse effect on us. Defending these alleged infringement claims and similar claims could be extremely expensive and time-consuming and defending these claims or others or the award of damages or an injunction could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of ours or others can be avoided or will be successfully concluded.

Our inability to design and implement new enterprise-wide information systems in a timely and cost-effective manner could materially adversely affect us.

We have recently designed and are implementing our own enterprise-wide information systems. These systems have been designed to automate more fully our business processes and affect most of our functional

Table of Contents

areas including sales, finance, procurement, inventory control, collections, order processing and manufacturing. Implementation of these information systems is particularly difficult since our systems have historically been integrated into AMD's systems and we are simultaneously undergoing a physical separation from AMD's systems, attempting to enhance our business processes and implementing new information systems. Implementation has also required significant upgrades to our existing computer hardware and software systems. Historically, other companies have experienced substantial delays in the implementation of such information systems. Implementation of these information systems is complex, expensive and time consuming and successful implementation could be delayed or otherwise adversely affected by various factors including: (i) any failure to provide adequate training to employees; (ii) any failure to retain key members of the implementation team or to find suitable replacements for such personnel; (iii) any failure to develop and apply appropriate testing procedures that accurately reflect the demands that will be placed on these information systems following implementation; and (iv) any failure to develop and implement adequate back-up systems and procedures in the event that difficulties or delays arise during or following the implementation of these information systems.

In connection with the implementation of these information systems, we may experience functional and performance problems, including problems relating to the information systems' response time and data integrity. In addition, resolution of any such problems could entail significant additional costs. We cannot assure you that we will be able to implement these information systems successfully or on a timely basis and in a cost-effective manner or that these information systems will not fail or prove to be unsuitable for our needs. Our inability to implement or resolve problems with these information systems in a timely and cost-effective manner could materially adversely affect us.

If essential equipment or 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 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. We rely on purchasing commercial memory die from third-party suppliers to incorporate these die into multi-chip package, or MCP, 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. For example, our production was constrained in the first half of fiscal 2004 because of difficulties in procuring adequate supply of pseudo static RAM, or pSRAM. In addition, some of our major suppliers, including Samsung, are also 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, we may have to reduce our manufacturing operations. Such a reduction has in the past had and could in the future have a material adverse effect on us.

Our inability to continue to attract, retain and motivate qualified personnel could impact our business.

Our future success depends upon the continued service of numerous qualified engineering, manufacturing, marketing and executive personnel. We cannot assure you that our equity incentive plan or our employee benefit plans will be effective in motivating or retaining our employees or attracting new employees. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of key employees or executive personnel or an inability to attract, retain and motivate additional highly skilled employees could materially adversely affect 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 after the product has been shipped to customers in volume. The cost of product replacements or product returns may be substantial, and our reputation with our

Table of Contents

customers would be damaged. In addition, we could incur substantial costs to implement modifications to fix defects. Any of these problems could materially adversely affect us.

Uncertainties involving the ordering of our products could materially adversely affect us.

Flash memory suppliers compete in part on the basis of their ability to deliver products to end customers on short lead times and it is common for prevailing lead times in the market to be shorter than the minimum manufacturing cycle time. To deliver products with competitive lead times, we must maintain a buffer stock of product to fulfill customer orders. Because our buffer stock must be produced before customer orders are received, our production levels are based on forecasts of customer demand. Generally, we sell our products pursuant to individual purchase orders from our direct customers, distributors and our distributors' customers. Generally, these customers and distributors may cancel their orders for standard products thirty days prior to shipment without incurring a significant penalty.

Customer demand for our products may be difficult to predict because such customers may change their inventory practices on short notice for any reason or they may cancel or defer product orders. Inaccurate forecasts of customer demand or cancellation or deferral of product orders could result in excess or obsolete inventory, which could result in write-downs of inventory. Because market conditions are uncertain, we could be materially adversely affected if we are unable to accurately predict demand for our products.

We may not be successful in establishing a brand identity.

We have used the brand name of Spansion only since June 30, 2003. Prior to that time, all of our Flash memory products were sold under either AMD's or Fujitsu's brand. AMD's and Fujitsu's brand names are well known by Flash memory customers, suppliers and potential employees. We expend time, effort and resources to continue to establish our brand name in the marketplace. We cannot guarantee that this effort will ultimately be successful. If we are unsuccessful in continuing to establish our brand identity, we may be materially adversely affected.

Unfavorable currency exchange rate fluctuations could adversely affect us.

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

some of the sales of our products to Fujitsu are denominated in Japanese yen;

some fixed asset purchases are denominated in Japanese yen and European Union euros; and

some of our manufacturing costs are denominated in Japanese yen, Chinese renminbi and other foreign currencies such as the Thai baht and Malaysian ringgit.

We recently began selling directly to customers previously served by AMD, and we expect to also have sales denominated in European Union euros. As a consequence, movements in exchange rates could cause our U.S. dollar-denominated expenses to increase as a percentage of net sales, affecting our profitability and cash flows. Although as of July 2, 2006, we did not have any foreign currency forward exchange contracts, due in part to a natural netting of exposures, we expect to have some outstanding foreign exchange contracts in future quarters. Generally, we hedge only a portion of our foreign currency exchange exposure. Moreover, we determine our total foreign currency exchange exposure using projections of long-term expenditures for items such as equipment and materials used in manufacturing. We cannot assure you that these activities will be successful in reducing our foreign exchange rate exposure. Failure to do so could have a material adverse effect on us.

Worldwide economic and political conditions may adversely affect demand for our products.

Worldwide economic conditions may adversely affect demand for our products. For example, China's economy has been growing at a fast pace over the past several years, and the Chinese government introduced

Table of Contents

various measures to slow down the pace of economic growth. We believe some of these measures negatively impacted demand for our Flash memory products in the second half of fiscal 2004. A decline in economic conditions in China could lead to declining worldwide economic conditions. If economic conditions decline, whether in China or worldwide, we could be materially adversely affected.

Our consolidated financial results could also be significantly and adversely affected by geopolitical concerns and world events, such as wars and terrorist attacks. Our revenues and financial results have been and could be negatively affected to the extent geopolitical concerns continue and similar events occur or are anticipated to occur. 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. In addition, terrorist attacks may negatively affect our operations, directly or indirectly, and such attacks or related 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 United States has been and may continue to be involved in armed conflicts that could have a further impact on our sales and our supply chain. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable, and we may not be able to foresee events that could have a material adverse effect on us. 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. Any of these occurrences could have a material adverse effect on us.

Our operations in foreign countries are subject to political and economic risks, which could have a material adverse effect on us.

The majority of our wafer fabrication capacity is located in Japan and nearly all final test and assembly of our products is performed at our facilities in China, Malaysia and Thailand and by third parties in Taiwan and Japan. In addition, we have international sales operations and, as part of our business strategy, we are continuing to seek to expand our product sales in high growth markets.

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

expropriation;

changes in political or economic conditions;

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 United States and our overseas facilities; and

loss or modification of exemptions for taxes and tariffs.

Any conflict or uncertainty in the countries in which we operate, including public health or safety concerns, natural disasters or general economic factors, could have a material adverse effect on our business. Any of the above risks, should they occur, could have a material adverse effect on us.

Table of Contents

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

Our operations and properties are subject to various U.S., Japanese, European and other foreign environmental laws and regulations, including those relating to materials used in our products and manufacturing processes, discharge of pollutants into the environment, the treatment, transport, storage and disposal of solid and hazardous wastes, and remediation of contamination. These laws and regulations require us to obtain permits for our operations, including the discharge of air pollutants and wastewater. From time to time, our facilities are subject to investigation by governmental regulators. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with any of them, a range of consequences could result, including fines, suspension of production, alteration of manufacturing processes, sales limitations, 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 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 strict, 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 impose liability for damages to natural resources. These laws often impose liability 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 assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. Such persons can be responsible for cleanup costs even if they never owned or operated the contaminated facility. Two of our manufacturing sites are, or are located within, a federal Superfund site. Although we have not yet been, we could be named a potentially responsible party at these or other Superfund or other contaminated sites in the future. The costs associated with such sites could be material. In addition, contamination that has not yet been identified could exist at our other facilities.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union recently began imposing stricter requirements regarding reduced lead content in semiconductor packaging. While we have budgeted for foreseeable environmental expenditures, we cannot assure you that environmental laws will not change or become more stringent in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

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

Our worldwide operations could be subject to natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. For example, our corporate headquarters are located near major earthquake fault lines in California, and three of our four wafer fabrication facilities are located near major earthquake fault lines in Japan. In addition, our assembly and test facilities located in China, Malaysia and Thailand may be affected by tsunamis. In the event of a major earthquake, tsunami or other natural or manmade disaster, we could experience loss of life of our employees, destruction of facilities or other business interruptions, any of which could materially adversely affect us.

Furthermore, the operations of our raw material suppliers could be subject to natural disasters and other business disruptions, which could cause shortages and price increases in various essential raw materials, such as liquid hydrogen, which are required to manufacture our products. If we are unable to procure an adequate supply of raw materials that are required for us to manufacture our products, or if the operations of our other suppliers of such raw materials are affected by natural disasters or business disruptions, we may have to reduce our manufacturing operations. Such a reduction could in the future have a material adverse effect on us.

Table of Contents

We may be delayed or prevented from taking actions that require the consent of AMD and Fujitsu, whose interests may differ from or conflict with our interests or those of our other stockholders, which could decrease the value of your shares.

Our bylaws provide that for so long as AMD or Fujitsu maintains specified ownership levels in our common stock, we will not be able to take the following actions without the prior consent of AMD and/or Fujitsu, as applicable:

engage in or undertake any material activity unrelated to our current Flash memory business, for so long as AMD's aggregate ownership interest in us is at least 20 percent;

amend the charter documents of any of our subsidiaries if such amendment would adversely and disproportionately affect AMD relative to Fujitsu, for so long as AMD's aggregate ownership interest in us is at least 15 percent;

amend our certificate of incorporation or bylaws or effect any resolution to wind up Spansion Inc. or any other subsidiary, for so long as AMD's or Fujitsu's aggregate ownership interest in us is at least ten percent;

shut down operations at JV3 before April 1, 2007, any facilities of the non-manufacturing organization of our wholly owned subsidiary Spansion Japan before April 1, 2007, operations at JV1 or JV2 before April 1, 2007 without giving AMD and Fujitsu six months advance notice or operations at our assembly and test facility in Kuala Lumpur, Malaysia before April 1, 2007 without giving AMD and Fujitsu three months advance notice, for so long as AMD or Fujitsu owns any shares of any class of our common stock; or

reduce headcount at JV1, JV2 or JV3 by more than ten percent prior to April 1, 2007 or reduce headcount at any facilities of the non-manufacturing organization of Spansion Japan by more than 15 percent prior to April 1, 2007, for so long as AMD or Fujitsu owns any shares of any class of our common stock.

We cannot assure you that the interests of AMD and Fujitsu will be aligned with our interests or those of our other stockholders with respect to such decisions. As a result, we may be unable to take steps that we believe are desirable and in the best interests of our stockholders. In addition, these consent rights could make an acquisition of us more difficult, even if the acquisition may be considered beneficial by some stockholders.

The interests of AMD and Fujitsu, and our directors nominated by them, may differ from or conflict with our interests or those of our other stockholders.

When exercising their rights as our stockholders, either alone or in concert, AMD and Fujitsu may take into account not only our interests but also their interests and the interests of their other affiliates. Our interests and the interests of AMD and Fujitsu may at times conflict since the growth of our business depends, in part, on successful competition with other semiconductor companies. These conflicts may result in lost corporate opportunities for us, including opportunities to enter into lines of business that may overlap with those pursued by AMD and Fujitsu. We may not be able to resolve any potential conflicts, and, even if we do so, the resolution may be less favorable to us than if we were dealing with unaffiliated parties.

Various other conflicts of interest between our two principal stockholders and us may arise in the future in a number of areas relating to our business and relationships, including potential acquisitions of businesses or properties, intellectual property matters, transfers by AMD or Fujitsu of all or any portion of its ownership interest in us or its other assets, which could be to one of our competitors, indemnity arrangements, service arrangements and business opportunities that may be attractive to AMD, Fujitsu and us.

AMD and Fujitsu are our two largest stockholders. AMD has the right to elect two members to our board of directors, and following this offering will have the right to elect one member to our board of directors. Fujitsu

Table of Contents

has the right to elect one member to our board of directors. Each stockholder's ability to elect directors is subject to reduction based on the amount of our common stock that they own and this right terminates when their ownership in us falls below ten percent.

In addition, the directors appointed by AMD and Fujitsu continue to hold positions at AMD and Fujitsu. Individuals who are our directors and also officers of either AMD or Fujitsu have a duty of care and loyalty to us when acting in their capacities as our directors and a duty of care and loyalty to AMD or Fujitsu when acting as their officers or directors. However, our certificate of incorporation provides that in the event a director or officer of our company who is also a director or officer of AMD or Fujitsu acquires knowledge of a potential business opportunity that may be deemed a corporate opportunity of our company and AMD or Fujitsu, such opportunity will belong to AMD or Fujitsu, as applicable, unless it has been expressly offered to such director or officer in writing solely in his or her capacity as a director or officer of our company. Ownership of AMD common stock, or stock options to acquire AMD common stock by any of our directors and officers could create, or appear to create, potential conflicts of interest when those directors and officers are faced with decisions that could have different implications for AMD than they do for us.

Third parties may seek to hold us responsible for liabilities of AMD and Fujitsu that we did not assume in our agreements.

Under our agreements with AMD and Fujitsu, we agreed to assume liabilities related to our business after June 30, 2003, and liabilities related to our business prior to June 30, 2003 if such liabilities were reflected as accruals or reserves on the AMD and Fujitsu contributed balance sheets. Our assumed liabilities include claims made with respect to Flash memory products sold after June 30, 2003, even if such products were manufactured prior to June 30, 2003, and warranty claims with respect to products sold prior to June 30, 2003 to the extent such warranty claims were reflected as accruals or reserves on the AMD and Fujitsu contributed balance sheets. The allocation of assets and liabilities between AMD, Fujitsu and us may not reflect the allocation that would have been reached between unaffiliated parties and may be less favorable to us as a result. Third parties may seek to hold us responsible for AMD's and Fujitsu's retained liabilities. If our losses for AMD's and Fujitsu's retained liabilities were significant and we were ultimately held liable for them, we cannot assure you that we would be able to recover the full amount of our losses.

We rely on Fujitsu to be our sole distributor in Japan.

We currently rely on Fujitsu to act as the sole distributor of our products to customers in Japan, which in fiscal 2005 was one of our most important geographic markets. Under our distribution agreement with Fujitsu, Fujitsu has agreed to use its best efforts to promote the sale of our products in Japan and to other customers served by Fujitsu. In the event that we reasonably determine that Fujitsu's sales performance in Japan and to those customers served by Fujitsu is not satisfactory based on specified criteria, then we have the right to require Fujitsu 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 Fujitsu. Pursuing these actions would be costly and disruptive to the sales of our products in Japan. If Fujitsu's sales performance in Japan is unsatisfactory or if we are unable to successfully maintain our distribution agreement and relationship with Fujitsu as a result of the Texas Instruments intellectual property claims or otherwise, and we could not timely find a suitable supplementary distributor, we would be materially adversely affected.

We may experience increased costs resulting from decreased purchasing power since we are no longer a majority-owned subsidiary of AMD.

When we were a majority-owned subsidiary of AMD, AMD procured goods, such as raw materials, technology, such as software licenses, and services on our behalf, and we benefited from AMD's size and purchasing power. Now that we are no longer a majority-owned subsidiary of AMD and we are an independent

Table of Contents

company, AMD is not able to procure goods, technology and services for us under AMD's existing agreements with suppliers. Because we are a smaller and less diversified company than AMD is today, and we do not have access to financial and other resources comparable to those of AMD, we may be unable to obtain goods, technology and services at prices and on terms as favorable as those available to us while we were a majority-owned subsidiary of AMD, which could have a material adverse effect on us.

In addition, AMD relied on third-party providers to deliver our products to customers, to distribute materials for our wafer fabrication facilities and to provide some information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration and voice, video and remote access. We are no longer a beneficiary under these agreements, and have to renegotiate the terms with these suppliers or bring these capabilities in-house. Vendors may require the payment of additional fees, which could have a material adverse effect on us.

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, 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 the rights to use any patents contributed to us for an unlimited period of time. 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 the later of June 30, 2013, or such date on which they have transferred all of their shares in us, 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. Furthermore, we entered into an Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement with AMD and Fujitsu in connection with our reorganization as Spansion Inc. in December 2005. Pursuant to that agreement, subject to our confidentiality obligations to third parties, and only for so long as AMD's and Fujitsu's ownership interests in us remain above specific minimum levels, we are obligated to identify any of our technology to each of AMD and Fujitsu, and to provide copies of and training with respect to that technology to them. In addition, pursuant to this agreement we have granted a non-exclusive, perpetual, irrevocable fully paid and royalty-free license of our rights, other than patent and trademark rights, in that technology to each of AMD and Fujitsu. AMD may grant licenses under our patents, provided that these licenses are of no broader scope than, and are subject to the same terms and conditions that apply to, any license of AMD's patents granted in connection with such license, and the recipient of such license grants to us a license of similar scope under its patents.

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 the earlier of (i) two years from the date such stockholder's ownership in us falls to or below five percent, or (ii) the dissolution of our company. After that time, should they ever decide to re-enter the Flash memory business, AMD or Fujitsu could use our present and future patents and technologies licensed by us to AMD and Fujitsu under the cross licenses and our Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement to compete against us. If either AMD or Fujitsu were to compete with us, we could be materially adversely affected.

Our stock price may decline as a result of sales of common stock by us, AMD or Fujitsu.

Sales of substantial amounts of our common stock, or the possibility of those sales, could adversely affect the market price of our common stock and impede our ability to raise capital through the issuance of additional equity securities.

Table of Contents

Subject to any applicable U.S. federal and state securities laws, after the expiration of a 90-day lock-up period beginning on the date of this prospectus (which may be waived by the representatives of the underwriters), AMD and Fujitsu may sell shares of our common stock that they beneficially own after the completion of this offering. In addition, after the expiration of this 90-day period, we could also issue and sell additional shares of our common stock. Any sale by AMD, Fujitsu or us of our common stock in the public market, or the perception that sales could occur, could adversely affect prevailing market prices for our common stock.

Being a public company increases our expenses and administrative burden.

As a public company, we are incurring significant legal, accounting and other expenses that we did not incur as a private company. In addition, our management team and administrative staff are required to perform additional tasks.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the Securities and Exchange Commission and the Nasdaq Stock Market, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We are currently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

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;

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.

Table of Contents

If securities or industry analysts publish negative reports about our business, the price and trading volume of our securities could decline.

The trading market for our securities depends, in part, on the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the Flash memory market in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our securities may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our securities or trading volume 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 in the foreseeable future and are currently prohibited from doing so in specific circumstances under agreements governing our borrowing arrangements. The terms of our senior secured revolving credit facility limit our ability to pay cash dividends on any shares of our common stock. Furthermore, if we are in default under this credit facility, our ability to pay cash dividends will be limited in the absence of a waiver of that default or an amendment to that facility. Similar prohibitions are applicable under the indenture governing the outstanding notes issued by Spansion LLC. 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 the indenture governing the notes. 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 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, which could decrease the value of your shares.

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. For more information on these protective provisions, see [Description of Capital Stock](#) found elsewhere in this prospectus.

Table of Contents

FORWARD-LOOKING STATEMENTS

The statements in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. These statements relate to future events or our future financial performance. Forward-looking statements may include words such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential or continue or other wording indicating expectations. Forward-looking statements are subject to risks and uncertainties, and actual events or results may differ materially. Factors that could cause our actual results to differ materially include, but are not limited to, those discussed under "Risk Factors" in this prospectus and the following factors:

our ability to successfully introduce our next generation products to market in a timely manner;

our ability to effectively and timely achieve volume production of our next generation products;

our ability to increase market acceptance of our products based on our MirrorBit technology;

our ability to accelerate our product development cycle;

our ability to penetrate further the integrated category of the Flash memory market with our high density products and expand the number of customers in emerging markets;

our ability to successfully develop and transition to the latest technologies;

our ability to finance, construct and equip SP1 and have 300-millimeter Flash memory wafer manufacturing capacity in fiscal 2008;

our ability to implement successfully our cost reduction efforts;

our ability to control our operating expenses, particularly our marketing, general and administrative costs;

our ability to design and implement new enterprise-wide information systems in a timely and cost-effective manner;

our ability to develop our MirrorBit ORNAND and MirrorBit Quad architectures, introduce new products based on these architectures, and to achieve customer acceptance of these products, particularly among mobile phone OEMs;

our ability to develop systems-level solutions that provide value to customers of our products;

our ability to enter new markets not traditionally served by Flash memory by, for example, integrating logic functions within high density arrays of Flash memory;

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our ability to negotiate successfully patent and other intellectual property licenses and patent cross-licenses and acquire additional patents; and

our ability to complete the sale of our JV1 and JV2 facilities to Fujitsu and to transition to Fujitsu's provision of foundry services at these facilities.

We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that arises after the date of this prospectus to conform such statements to actual results or to changes in our expectations.

Table of Contents

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders. We will pay substantially all of the expenses of the selling stockholders other than underwriting discounts and commissions. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately \$78,634,400 based upon an assumed offering price of \$15.86 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise the over-allotment option, we intend to use the net proceeds from our sale of shares in this offering for capital expenditures, working capital and general corporate purposes. The amounts actually expended for each purpose and the timing of such expenditures will depend on a number of factors, including the amount of cash generated by our operations. Pending their use, we may invest the net proceeds of this offering in liquid investment grade securities.

Table of Contents**PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY**

Our Class A common stock has been listed and traded on The Nasdaq Global Market under the symbol **SPSN** since our initial public offering on December 15, 2005. Prior to that time, there was no public market for our common stock. The following table shows, for the periods indicated, the high and low closing sales price per share for our Class A common stock on The Nasdaq Global Market.

	High	Low
Fiscal year ended December 25, 2005		
Fourth Quarter (from December 15, 2005)	\$ 14.00	\$ 13.50
Fiscal year ended December 31, 2006		
First Quarter	\$ 15.88	\$ 12.80
Second Quarter	\$ 18.38	\$ 12.96
Third Quarter	\$ 18.30	\$ 13.33
Fourth Quarter (through October 4, 2006)	\$ 15.86	\$ 15.50

On October 4, 2006, the last sale price of our Class A common stock as reported on The Nasdaq Global Market was \$15.86 per share. As of October 4, 2006, there were approximately three holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these recordholders.

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. In addition, our common stock will rank junior as to payment of dividends to any series of preferred stock that we may issue in the future. The terms of our senior secured revolving credit facility limit our ability to pay cash dividends on any shares of our common stock. 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 senior secured revolving credit facility and indentures governing our outstanding debt. 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.

Table of Contents**CAPITALIZATION**

The following table summarizes our cash and capitalization as of July 2, 2006 on (i) an actual basis, (ii) an as adjusted basis to give effect to the conversion of all of the outstanding shares of Class D common stock into shares of Class A common stock (on a one for one basis) immediately prior to this offering and, assuming the underwriters do not exercise their over-allotment option, taking into account the offering expenses payable by us and (iii) an as adjusted basis, assuming the underwriters exercise their over-allotment option in full, giving effect to the sale by us of 5,250,000 shares of common stock at the assumed offering price of \$15.86 per share and our receipt of the net offering proceeds, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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.

	Actual	As of July 2, 2006 As Adjusted Without Over-Allotment	As Adjusted With Over-Allotment
	(in thousands, except share data)		
Cash and cash equivalents	\$ 354,531	\$ 353,231	\$ 433,165
Total long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans	\$ 619,377	\$ 619,377	\$ 619,377
Stockholders' equity:			
Class A common stock, \$0.001 par value authorized 714,999,998 shares; 96,350,113 shares issued and outstanding; 128,836,422 shares issued and outstanding on an as adjusted basis, without over-allotment; 134,086,422 shares issued and outstanding on an as adjusted basis, with over-allotment	97	129	134
Class B common stock, \$0.001 par value authorized 1 share; 1 share issued and outstanding			
Class C common stock, \$0.001 par value authorized 1 share; 1 share issued and outstanding			
Class D common stock, \$0.001 par value authorized 35,000,000 shares; 32,352,934 shares issued and outstanding; no shares issued or outstanding on an as adjusted basis	32		
Additional paid-in capital	2,124,637	2,124,637	2,203,266
Accumulated deficit	(232,053)	(233,353)	(232,053)
Accumulated other comprehensive loss	(46,747)	(46,747)	(46,747)
Total stockholders' equity	1,845,966	1,844,666	1,924,600
Total capitalization	\$ 2,465,343	\$ 2,464,043	\$ 2,543,977

The table above does not reflect an aggregate of approximately 16,800,000 shares of Class A common stock issuable upon exercise of outstanding stock options, upon vesting of outstanding restricted stock units and upon exchange of Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures due 2016.

Table of Contents**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial data. For periods prior to April 1, 2003, we used fiscal years beginning April 1 and ending March 31, which included 52 weeks. In connection with our reorganization effective June 30, 2003, we adopted a fiscal year ending the last Sunday of December. Fiscal 2003 was therefore a transition year beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and then operated as Spansion LLC for the final six months. Fiscal 2003 included approximately 39 weeks. Fiscal 2004 ended December 26, 2004 and fiscal 2005 ended December 25, 2005, and each included 52 weeks. The selected consolidated statement of operations data for the nine months ended December 28, 2003 and the years ended December 26, 2004 and December 25, 2005 and the selected balance sheet data as of December 26, 2004 and December 25, 2005 have been derived from, and should be read together with, our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the years ended March 31, 2002 and March 31, 2003 and the selected balance sheet data as of March 31, 2002, March 31, 2003 and December 28, 2003 have been derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated statement of operations data for the six months ended June 26, 2005 and July 2, 2006 and the selected consolidated balance sheet data as of July 2, 2006 have been derived from, and should be read together with, our unaudited consolidated financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of the results to be expected in any future periods, and the results for the six months ended July 2, 2006 should not be considered indicative of results to be expected for the full fiscal year. The following selected historical financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended		Nine Months Ended	Year Ended			Six Months Ended	
	Mar. 31, 2002	Mar. 31, 2003	Dec. 28 2003	Dec. 26 2004	Dec. 25 2005	Jun. 26, 2005	Jul. 2 2006 ⁽¹⁾	
Statement of Operations Data⁽²⁾:								
Net sales	\$	\$	\$	\$	\$	\$	\$	\$
Net sales to members/related parties	816,183	961,950	1,193,212	2,262,227	2,002,805	895,556	820,546	396,735
Total net sales	816,183	961,950	1,193,212	2,262,227	2,002,805	895,556	1,217,281	
Cost of sales	776,323	921,924	1,086,030	1,840,862	1,809,929	867,163	976,285	
Gross profit	39,860	40,026	107,182	421,365	192,876	28,393	240,996	
Other expenses:								
Research and development			146,947	280,954	295,849	145,976	176,358	
Marketing, general and administrative	871	4,811	74,200	137,159	181,910	81,525	129,724	
Operating income (loss)	38,989	35,215	(113,965)	3,252	(284,883)	(199,108)	(65,086)	
Interest and other income (expense), net ⁽³⁾	3,143	(202)	1,335	3,198	3,173	2,064	(147)	
Interest expense	(1,271)	(1,867)	(20,733)	(40,165)	(45,032)	(22,211)	(37,185)	
Income (loss) before income taxes	40,861	33,146	(133,363)	(33,715)	(326,742)	(219,255)	(102,418)	
Provision (benefit) for income taxes	17,084	12,169	(4,420)	(14,013)	(22,626)	(24,389)	(1,782)	
Net income (loss)	\$ 23,777	\$ 20,977	\$ (128,943)	\$ (19,702)	\$ (304,116)	\$ (194,866)	\$ (100,636)	
Net income (loss) per share:								
Basic and diluted ⁽⁴⁾	\$ 0.33	\$ 0.29	\$ (1.78)	\$ (0.27)	\$ (4.15)	\$ (2.69)	\$ (0.78)	
Shares used in per share calculation								
Basic and diluted ⁽⁴⁾	72,549	72,549	72,549	72,549	73,311	72,549	128,311	

Table of Contents

	Mar. 31,	Mar. 31,	As of		Dec. 25,	Jul. 2,
	2002	2003	Dec. 28,	Dec. 26,	2005	2006
			2003	2004		
	(in thousands)					
Balance Sheet Data:						
Cash, cash equivalents and marketable securities	\$ 30	\$ 25	\$ 329,544	\$ 196,138	\$ 725,816	\$ 364,393
Working capital (deficit)	(208,794)	(110,741)	640,184	359,420	881,902	732,771
Total assets	1,189,877	1,273,072	3,125,623	2,919,515	3,301,965	2,993,227
Long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans	287,219	152,704	899,684	773,597	759,613	619,377
Members' capital/stockholders' equity	717,085	808,600	1,657,595	1,647,207	1,921,977	1,845,966

- (1) Net loss for the six months ended July 2, 2006 included stock-based compensation expense of \$14.2 million, which consisted of \$10.5 million related to our stock options and restricted stock units, and \$3.7 million related to AMD stock options granted to our employees.
- (2) As discussed more fully in Management's Discussion and Analysis of Financial Condition and Results of Operations, we began producing and selling finished Flash memory devices effective June 30, 2003, which significantly affected our operating results as compared to earlier periods when we solely produced and sold Flash memory wafers.
- (3) Interest and other income (expense), net for the six months ended July 2, 2006 included a \$17.3 million loss on early extinguishment of debt as a result of the repurchase and cancellation of Spansion LLC's 12.75% Senior Subordinated Notes and \$6.9 million of realized gain from the sale of marketable securities.
- (4) Diluted net income (loss) per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is antidilutive. The potential common shares resulting from stock options and restricted stock units that were antidilutive for fiscal 2005 totaled approximately 5.5 million shares. The potential common shares resulting from stock options, restricted stock units and shares issuable upon exchange of Spansion LLC's 2.25% Exchangeable Senior Subordinated Debentures that were antidilutive for the six months ended July 2, 2006 totaled approximately 16.8 million shares.

Table of Contents

**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 audited 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 regarding "Forward-Looking Statements" elsewhere in this prospectus.

Overview

We are one of the largest Flash memory providers and the largest company in the world dedicated exclusively to designing, developing, manufacturing, marketing and selling Flash memory, a critical semiconductor component of nearly every electronic product and one of the fastest growing segments of the semiconductor industry. Our Flash memory is integrated into a broad range of electronic products, including mobile phones, consumer electronics, automotive electronics, networking and telecommunications equipment, personal computers and PC peripherals. Our Flash memory solutions are incorporated in products from original equipment manufacturers, or OEMs, in each of these markets, including all of the top ten mobile phone OEMs, all of the top ten consumer electronics OEMs and all of the top ten automotive electronics OEMs. We operate four Flash memory wafer fabrication facilities, or fabs, four assembly and test sites and a development fab, known as our Submicron Development Center, or SDC. We are headquartered in Sunnyvale, California, with Japanese headquarters in Kawasaki, Japan.

For the first six months of fiscal 2006, our net sales were \$1.2 billion and our net loss was \$101 million. For fiscal 2005, our net sales were \$2.0 billion and our net loss was \$304 million. Total net sales for the first six months of fiscal 2006 increased significantly compared to the corresponding period of fiscal 2005. Net loss for the first six months of fiscal 2006 includes stock-based compensation expense of \$14.2 million.

Our results for the first six months of fiscal 2006 reflected an increase in unit shipments and sales generated from products based on our MirrorBit technology, which represented approximately 39 percent of total net sales for the six months ended July 2, 2006, compared with approximately 17 percent of total net sales for the corresponding period of fiscal 2005. During the six months ended July 2, 2006, we transitioned our information technology systems and our sales processes from AMD, which, along with Fujitsu, had previously served as the sole distributor of our products. With this transition, we now sell our products directly to AMD's former customers and to customers not served solely by Fujitsu. We have also expanded our administrative functions and reduced our reliance on AMD's provision of administrative services.

History

We were originally organized as a Flash memory manufacturing venture of AMD and Fujitsu in 1993 named Fujitsu AMD Semiconductor Limited, or FASL. The primary function of FASL was to manufacture and sell Flash memory wafers to AMD and Fujitsu, who in turn converted the Flash memory wafers into finished Flash memory products and sold them to their customers. AMD and Fujitsu were also responsible for all research and development and marketing activities and provided FASL with various support and administrative services.

By 2003, AMD and Fujitsu desired to expand the operations of FASL to: achieve economies of scale; add additional Flash memory wafer fabrication capacity; include assembly, test, mark and pack operations; include research and development capabilities; and include various marketing and administrative functions. To accomplish these goals, in 2003, AMD and Fujitsu reorganized our business as a Flash memory company called FASL LLC, later renamed Spansion LLC, by integrating the manufacturing venture with other Flash memory assets of AMD and Fujitsu. Since this reorganization, until the beginning of the second quarter of 2006, we manufactured and sold finished Flash memory devices to customers worldwide through our two sole distributors,

Table of Contents

AMD and Fujitsu. Since the beginning of the second quarter of 2006, we have sold our products directly to our customers and customers not served solely by Fujitsu. Fujitsu acts as our sole distributor in Japan and also as a nonexclusive distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions. We were reorganized from Spansion LLC into Spansion Inc. in connection with our initial public offering in December 2005.

Since AMD's sales force responsible for selling our products was transferred to us, we no longer pay AMD a distribution margin resulting in an increase to net sales. This increase in net sales is offset, at least in part, by increased marketing, general and administrative expenses that we incur as we use our own sales force to sell our products directly to customers.

Fujitsu agreed to reduce the distribution margin earned by Fujitsu on the sale of our Flash memory products from 6.5 percent to 4.3 percent beginning in the second quarter of fiscal 2005. In addition, the royalty rate we pay to each of AMD and Fujitsu under our patent cross-license agreements with them was reduced from one percent of net sales of our products to 0.5 percent on October 1, 2005, was further reduced to 0.3 percent on December 21, 2005. Following the conversion of our Class D common stock into Class A common stock immediately prior to the completion of this offering, the royalty rate will be further reduced to 0.15 percent, and two years thereafter, will terminate.

Flash Memory Market

Flash memory is one of the largest semiconductor markets. 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. To compete successfully, a supplier of Flash memory must continuously invest in manufacturing capacity and process technologies while keeping unit manufacturing costs as low as possible. Economies of scale dictate that fabs must be large to achieve competitive manufacturing costs.

Our business operations and financial results are impacted by a number of factors, including the cyclicity of the Flash memory market caused by wide fluctuations in product supply and demand, constant and rapid technological change, continuous new product introduction and price erosion. The expenses associated with our fabs are primarily fixed. Variations in capacity utilization of our fabs therefore significantly impact our gross margins. Rapid technological change and variations in product supply and demand make capacity planning and fab utilization difficult to predict accurately.

Basis of Presentation

Fiscal 2003, 2004 and 2005

In connection with our reorganization, we adopted a fiscal year ending on the last Sunday of December. Fiscal 2003 was therefore a transition year beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and then operated as Spansion for the final six months. Fiscal 2003 consisted of approximately 39 weeks. Fiscal 2004 began on December 29, 2003 and ended on December 26, 2004, consisting of 52 weeks. Fiscal 2005 began on December 27, 2004 and ended on December 25, 2005, consisting of 52 weeks.

Six Months Ended June 26, 2005 and July 2, 2006

The six months ended June 26, 2005 and July 2, 2006 consisted of 26 weeks and 27 weeks.

Table of Contents

Financial Operations Overview

The following describes line items in our consolidated statements of operations.

Revenue Recognition

Prior to the second quarter of fiscal 2006, we generally recognized revenue when AMD and Fujitsu sold our products to their OEM customers and title and risk of loss for the products transferred to the OEM. In the second quarter of fiscal 2006, we began selling our products directly to the customers previously served by AMD. Since such time, we generally recognize revenue when we have sold our products to our OEM customers and title and risk of loss for the products have transferred to the OEM. However, under the shipping terms for some OEM customers, title and risk of loss do not pass until delivery of products to the customer's designated location, and for such sales, we defer the recognition of revenue and related costs until such customers take delivery of our products. Estimates of product returns and sales allowances, related to reasons other than product quality, are based on actual historical experience and are recorded as a reduction in revenue at the time revenue is recognized. We did not offer product return, stock rotation and price protection rights to AMD prior to June 30, 2003.

Prior to the second quarter of fiscal 2006, AMD sold our products to its distributors under terms allowing these distributors certain rights of return, stock rotation and price protection privileges on unsold merchandise held by them. We extended the same rights on these Flash memory product sales to AMD. Accordingly, we deferred revenue and related product costs from such sales to AMD as deferred income on shipments to related party/member, until the merchandise was resold by AMD's distributors. Since the second quarter of fiscal 2006, we have deferred revenue and related product costs from such sales as deferred income until the merchandise is resold by our distributors. We also sell some of our products to some distributors under sales arrangement whose terms 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.

Fujitsu also sells our products to its distributors. Our distribution agreement with Fujitsu grants limited stock rotation rights to Fujitsu and allows Fujitsu to provide similar limited rights to some of its distributors. However, to date, Fujitsu has not extended these rights to its distributors. Accordingly, we recognize revenue for sale of products sold to Fujitsu when Fujitsu sells our products to its distributors.

Net Sales to AMD and Fujitsu

Prior to June 30, 2003, we generated net sales by selling Flash memory wafers to AMD and Fujitsu on a cost plus a pre-determined margin (cost plus) basis. Since June 30, 2003, until the beginning of the second quarter of 2006, we generated net sales by manufacturing and selling finished Flash memory devices to customers worldwide through our two sole distributors, AMD and Fujitsu. During this period, our prices to AMD and Fujitsu were based on AMD's and Fujitsu's sales prices to their customers, less an agreed-upon distribution margin. Our results of operations for this period included significantly increased net sales due to our sale of finished Flash memory products as compared to Flash memory wafers.

During the six months ended July 2, 2006, we transitioned our billing and collection processes from AMD following the transition of the AMD sales force to Spansion in fiscal 2005. With this transition, we now sell our products directly to our customers and customers not served solely by Fujitsu. Fujitsu acts as our sole distributor in Japan and also as a nonexclusive distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions. Because of these recent changes, our historical net sales may not be indicative of future net sales.

The main factors that affect revenue are unit volumes, fluctuations in average selling prices and the mix of products sold. Higher density products generally command higher prices than lower density products. However, the selling price for products at a given density tends to decline over time.

Table of Contents

Cost of Sales

Cost of sales primarily consists of the cost of finished goods. Principal factors impacting cost of sales include the number of units sold and the mix of products sold with respect to density, the manufacturing process technology employed, the cost of third-party commercial die, if any, incorporated in the product, package costs and test costs. Cost of sales is also impacted by the level of capacity utilization at our manufacturing fabs, as capacity costs are largely fixed and cannot be quickly reduced in proportion to reduced demand and reduced revenues.

Prior to our reorganization in June 2003, we manufactured and sold Flash memory wafers to AMD and Fujitsu. Our cost of sales during that time was primarily the cost of wafer production.

After our reorganization, the cost of finished goods has included the cost of manufacturing and sorting integrated circuits, or die, the cost of assembling, testing, marking and packing the die, and the cost of purchasing third-party commercial die, which we incorporate into our multi-chip-products, or MCPs.

We produce die on wafers in our fabrication facilities, or fabs. The cost of manufacturing and sorting die is a function of the cost of producing wafers and the number of die on each wafer. Costs of wafer production are largely fixed and primarily include depreciation, labor and benefits, direct and indirect materials, maintenance and building costs, such as utilities and occupancy costs. The number of die on each wafer is a function of wafer size, Flash memory storage capacity incorporated into the product and manufacturing process technology. For a given manufacturing process technology, the higher the storage capacity of the product the fewer die per wafer. Each new manufacturing process technology permits more die on each wafer at a given storage capacity level. Therefore, the cost of die tends to be higher for products with greater storage capacity but lower for products manufactured on more advanced manufacturing process technologies.

Assembly costs primarily include labor and benefits, depreciation, maintenance and building costs, such as utilities. Test, mark and pack costs primarily include depreciation of testers and handling equipment, labor and benefits and maintenance and building costs such as utilities. Test costs increase as the storage capacity of the product increases, and are higher for products with advanced features.

Cost of sales also includes a royalty for licensed intellectual property paid to AMD, Fujitsu and others, the cost of factory maintenance and repair, the cost of product engineering and product distribution costs, such as freight and duty.

As an increasing portion of our business migrates to MCPs, cost of finished goods will increasingly include the cost of combining static RAM, or SRAM, pSRAM or other third-party commercial die that we purchase from Fujitsu and other unrelated manufacturers and package together with our Flash memory devices. This may adversely affect gross margin percentage due to higher cost of sales associated with our purchase of third-party commercial die that we incorporate into these MCPs.

Research and Development

Prior to our reorganization as Spansion LLC in June 2003, all research and development activities were conducted by AMD and Fujitsu. Since our reorganization, we have conducted the majority of our research and development activities independently. Research and development expense includes the cost of process research and development for new manufacturing and packaging processes and the cost of product research and development of new Flash memory products. Costs of process research and development include depreciation, labor and benefits, direct and indirect materials, maintenance and building costs such as utilities and other costs. Costs of product research and development include labor and benefits expenses of design engineers along with related occupancy costs, the cost of computers, software design tools and mask sets, and the cost of manufacturing, assembling and testing product development wafers in our fabs. In some cases, AMD and Fujitsu have provided, and may continue to provide, research and development services to us on a contract basis, such as in the area of packaging technology, which costs are included in research and development expense. We also participate in alliances or other arrangements with external partners in the area of product technology and systems solutions.

Table of Contents**Marketing, General and Administrative**

Marketing, general and administrative expenses consist primarily of marketing and general administrative functions, such as information technology, human resources, finance, planning and fees previously paid under our service agreements with AMD and Fujitsu. Prior to our reorganization as Spansion LLC in June 2003, we conducted no marketing or sales activities and maintained a small general and administrative function sufficient to support operation of our fabs. After our reorganization as Spansion LLC, we added our own marketing functions and some administrative functions, although we continued to rely on AMD and Fujitsu to provide some administrative services under our services agreements with them. Subsequent to our initial public offering, we expanded our administrative functions and reduced our reliance on AMD's provision of administrative services. We no longer rely on AMD to provide us with administrative services.

Operating Income (Loss)

Operating income (loss) consists of net sales less the sum of (i) costs of sales, (ii) research and development costs and (iii) marketing, general and administrative costs.

Interest and Other Income (Expense), Net

Interest and other income (expense), net primarily consists of interest earned on our cash and investments.

Interest Expense

Interest expense is associated with our borrowings under credit agreements with financial institutions, interest on our senior notes and interest on our borrowings from AMD and Fujitsu. We expect our interest expense to increase in fiscal 2006 from fiscal 2005 primarily as a result of the change in interest rates on our debt portfolio.

Provision for Income Taxes

Prior to our reorganization as Spansion LLC in June 2003, we operated as Fujitsu AMD Semiconductor Limited, a Japanese corporation, and were subject to Japanese tax. Following our reorganization as Spansion LLC, and prior to the consummation of our initial public offering, we operated as a Delaware limited liability company that elected to be treated as a partnership for U.S. federal tax reporting and therefore, we were not a taxable entity for U.S. federal income tax purposes. Upon our reorganization as Spansion Inc., we became a U.S. taxable entity for U.S. federal tax reporting. Our foreign subsidiaries are primarily wholly owned and have been taxable as corporations in their respective foreign countries.

Results of Operations**Six Months Ended June 26, 2005 and July 2, 2006 Comparisons**

The following is a summary of our total net sales for the six months ended June 26, 2005 and July 2, 2006:

	Jun. 26, 2005	Jul. 2, 2006	Six Months Ended Variance in Dollar	Variance in Percent
Total net sales	\$ 895,556	\$ 1,217,281	\$ 321,725	36%

Net Sales

Total net sales for the six months ended July 2, 2006 increased 36 percent compared to total net sales for the six months ended June 26, 2005. The increase was primarily attributable to a 40 percent increase in unit shipments. Average selling prices for the six months ended July 2, 2006 as compared to the six months ended June 26, 2005 were relatively flat.

Table of Contents

jurisdiction, offset by tax provisions of our foreign subsidiaries. The income tax benefit recorded in the six months ended June 26, 2005 was primarily related to losses in certain foreign jurisdictions.

As of July 2, 2006, most of our U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance that was initially established in the fourth quarter of fiscal 2005 upon our conversion to a taxable entity immediately prior to our initial public offering. The realization of these assets is dependent on substantial future taxable income which at July 2, 2006, in management's estimate, is not more likely than not to be achieved.

Other Items

In the second quarter of fiscal 2006, we began selling our products directly to AMD's former customers and customers not served solely by Fujitsu. The following table summarizes net sales by geographic areas for the periods presented:

	Six Months Ended	
	Jun. 26, 2005	Jul. 2, 2006
	(in thousands)	
Geographical sales:		
Net sales to end customers:		
North America	\$	\$ 53,612
China		137,126
Other countries		205,997
Net sales to related parties:		
United States (<i>net sales to AMD</i>)	487,548	336,172
Japan (<i>net sales to Fujitsu</i>) ⁽¹⁾	408,008	484,374
Total	\$ 895,556	\$ 1,217,281

(1) Products sold to Fujitsu may be distributed to customers outside Japan.

The impact on our operating results from changes in foreign currency exchange rates has not been material, principally because our expenses denominated in yen are generally comparable to our sales denominated in yen, and we enter into foreign currency exchange contracts to mitigate our exposure when yen denominated expenses and sales are not comparable.

As of July 2, 2006, the total unrecognized compensation cost related to unvested stock options and restricted stock unit, or RSU, awards was approximately \$42.7 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2010.

Year to Year Comparisons

The following is a summary of our net sales for fiscal 2003, fiscal 2004 and fiscal 2005.

	Year Ended ⁽¹⁾ December 28, 2003	Year Ended ⁽¹⁾ December 26, 2004	Year Ended ⁽¹⁾ December 25, 2005
	(in thousands)		
Total net sales	\$ 1,193,212	\$ 2,262,227	\$ 2,002,805

(1) Net sales for the first three months of fiscal 2003 consisted of sales of Flash memory wafers to AMD and Fujitsu at transfer prices on a cost-plus basis. Net sales for the last six months of fiscal 2003 and net sales for fiscal 2004 and 2005 consisted of sales of finished Flash memory devices to AMD and Fujitsu at prices based on AMD's and Fujitsu's sales prices to their customers, less an agreed-upon distribution margin.

Table of Contents

Net Sales Comparison for Fiscal 2005 and Fiscal 2004

Total net sales of \$2,003 million in fiscal 2005 decreased 11 percent compared to net sales of \$2,262 million in fiscal 2004. The decrease in total net sales was primarily attributable to a 28 percent decrease in average selling prices, partially offset by an increase of 22 percent in unit shipments. Average selling prices decreased from fiscal 2004 as a result of aggressive pricing due in most cases to oversupply of products in the NOR Flash memory market. The decrease in net sales for the period was mitigated by the reduction in the distribution margin earned by AMD under the AMD Distribution Agreement in the first quarter of fiscal 2005 and the elimination of the distribution margin earned by AMD in the second quarter of fiscal 2005, which increased net sales by approximately \$52 million as compared to fiscal 2004. The decrease in net sales for the period was also mitigated by the reduction in the distribution margin earned by Fujitsu under the Fujitsu Distribution Agreement in the first quarter of fiscal 2005 and the further reduction in the second quarter of fiscal 2005, which increased net sales by approximately \$16 million as compared to fiscal 2004. The distribution margin earned by AMD and Fujitsu in the first quarter of fiscal 2005 was 6.5 percent. AMD did not earn a distribution margin from the second quarter through the fourth quarter of fiscal 2005. The distribution margin earned by Fujitsu from the second quarter through the fourth quarter of fiscal 2005 was 4.3 percent. The distribution margin earned by AMD and Fujitsu in fiscal 2004 was seven percent.

Net Sales Comparison for Fiscal 2004 and Fiscal 2003

Total net sales of \$2,262 million in fiscal 2004 increased 90 percent compared to net sales of \$1,193 million in fiscal 2003. The increase in total net sales was due to a combination of factors: there were 12 months of operations in fiscal 2004 compared to nine months of operations in fiscal 2003; all sales in fiscal 2004 consisted of finished Flash memory products based on AMD's and Fujitsu's sales prices to their customers, less an agreed-upon distribution margin, while sales during the first three months of fiscal 2003 were of Flash memory wafers to AMD and Fujitsu at transfer prices set on a cost plus basis; and there was stronger market demand in fiscal 2004 than in fiscal 2003, particularly with wireless Flash memory customers. Sales during the first three months of fiscal 2003 were approximately \$258 million.

In the second half of fiscal 2004, however, net sales were adversely impacted by aggressive pricing by competitors, particularly with embedded Flash memory customers, as our competitors began to aggressively pursue increased market share, and aggregate Flash memory product supply exceeded demand. In particular, decreased demand from the wireless handset market in Asia, in part due to excess inventory accumulation by wireless handset OEMs in China during the first half of fiscal 2004, contributed to a decline in net sales during the third quarter. In addition, a downturn in the overall Flash memory market, lower than expected sales in the wireless handset market and delays in qualifying a product based on our second-generation MirrorBit technology also contributed to a decline in net sales in the fourth quarter of fiscal 2004. Another reason our net sales declined in the second half of fiscal 2004 compared with the first half of fiscal 2004 is that we were not able to meet demand for certain of our lower density products for embedded Flash memory customers in the first half of fiscal 2004, which we believe adversely impacted our relationship with customers who did not receive allocations of these embedded products and our competitors were able to take advantage of this situation to increase their market share in the second half of fiscal 2004. We were unable to meet demand for these products in the first half of fiscal 2004 because in fiscal 2003 we underestimated demand with respect to these products for the first half of fiscal 2004 and were unable to install additional wafer fabrication capacity on a timely basis. As a result, a significant number of end customers for our lower density products were under-served, and we believe that these customers chose to rely on our competitors both for product supply and for their design-in activities in the first half of fiscal 2004, resulting in an increased market share for those competitors in the second half of fiscal 2004 when those designs went into production. Quantification of the breakdown in the increase in net sales from fiscal 2003 to fiscal 2004 is not practical due to our reorganization in June 2003.

Table of Contents**Comparison of Gross Margin, Expenses, Interest and Other Income (Expense), Net, Interest Expense and Benefit for Income Taxes**

The following is a summary of gross margin; expenses, interest and other income (expense), net; interest expense and benefit for income taxes for fiscal 2003, 2004 and 2005:

	Nine Months Ended ⁽¹⁾ December 28, 2003	Year Ended ⁽¹⁾ December 26, 2004	Year Ended ⁽¹⁾ December 25, 2005
	(in thousands, except for percentage)		
Net sales	\$ 1,193,212	\$ 2,262,227	\$ 2,002,805
Cost of sales	1,086,030	1,840,862	1,809,929
Gross margin	9%	19%	10%
Research and development	146,947	280,954	295,849
Marketing general and administrative	74,200	137,159	181,910
Operating income (loss)	(113,965)	3,252	(284,883)
Interest and other income, net	1,335	3,198	3,173
Interest expense	(20,733)	(40,165)	(45,032)
Income tax benefit	(4,420)	(14,013)	(22,626)

- (1) Cost of sales for the first three months of fiscal 2003 were for sales of Flash memory wafers to AMD and Fujitsu at transfer prices on a cost-plus basis. Cost of sales for the last six months of fiscal 2003 and costs of sales for fiscal 2004 and 2005 were for sales of finished Flash memory devices to AMD and Fujitsu at prices based on AMD's and Fujitsu's sales prices to their customers, less an agreed-upon distribution margin.

Gross margin decreased to ten percent in fiscal 2005 compared to 19 percent in fiscal 2004. The decrease in gross margin was primarily due to a decrease in net sales of 11 percent relative to a decrease in cost of sales of only two percent. Cost of sales declined at a lower rate than net sales because many of our costs are fixed and cannot be reduced in proportion to the reduced revenues. We incurred amounts payable to AMD and Fujitsu in the aggregate equal to 14 percent of cost of sales in fiscal 2005 compared to 19 percent in fiscal 2004.

Gross margin increased to 19 percent in fiscal 2004 compared to nine percent in fiscal 2003. The increase in gross margin was primarily due to an increase in net sales of 90 percent, relative to an increase in cost of sales of only 70 percent. Net sales and cost of sales were affected by the fact that in fiscal 2004 and the last six months of fiscal 2003, we sold finished Flash memory products as opposed to Flash memory wafers, which we sold during the first three months of fiscal 2003. In addition, since our reorganization, we reduced unit costs as a result of our transition to more advanced manufacturing process technologies, including our transition to 110-nanometer process technology at Fab 25 and JV3 and through improved fab utilization. We also increased the percentage of our net sales represented by our MirrorBit-based products, further contributing to lower manufacturing costs because for a given density products based on MirrorBit technology are less expensive to manufacture than products based on floating gate technology. Further quantification of the improvement in gross margin percentage is not practical due to our reorganization in June 2003. We incurred amounts payable to AMD and Fujitsu in the aggregate of 19 percent of cost of sales in fiscal 2004 compared to 30 percent in fiscal 2003.

Research and development expenses of \$296 million in fiscal 2005 increased five percent compared to \$281 million in fiscal 2004. The increase was primarily due to an increase in research and development activities in Fab 25 and the SDC, a development fab dedicated to research and development of Flash memory manufacturing processes, offset in part by reduced payments to AMD and Fujitsu for research and development activities under their respective service agreements in fiscal 2005. We incurred \$21.2 million of expenses in fiscal 2005 and \$27.6 million of expenses in fiscal 2004 related to research and development activities performed by AMD. We incurred \$6.5 million of expenses in fiscal 2005 and \$18.4 million of expenses in fiscal 2004 related to research and development activities performed by Fujitsu. We incurred \$4.3 million of expenses in fiscal 2005 and \$8.2 million of expenses in fiscal 2004 related to research and development activities performed by employees

Table of Contents

seconded from Fujitsu. Amounts incurred related to activities performed by AMD, Fujitsu and Fujitsu seconded employees represented in the aggregate 11 percent of our total research and development expenses in fiscal 2005 compared to 19 percent in fiscal 2004.

Research and development expenses of \$281 million in fiscal 2004 increased 91 percent compared to \$147 million in fiscal 2003. As part of our reorganization, AMD contributed to us the SDC and engineering teams dedicated to research and development for new Flash memory devices. With these resources, we conducted significant research and development for the last six months of fiscal 2003 and for all of fiscal 2004. We incurred \$13.9 million of expenses in fiscal 2003 related to research and development activities performed by AMD. We incurred \$16.8 million of expenses related to research and development activities performed by Fujitsu and \$3.6 million of expenses related to research and development activities performed by employees seconded from Fujitsu in fiscal 2003. Amounts incurred related to activities performed by AMD, Fujitsu and Fujitsu seconded employees represented in the aggregate 19 percent of our total research and development expenses in fiscal 2004 compared to 23 percent in fiscal 2003.

Marketing, general and administrative expenses of \$182 million in fiscal 2005 increased 33 percent compared to \$137 million in fiscal 2004. The increase from fiscal 2004 was primarily due to the transfer of AMD's sales force in the second quarter of fiscal 2005. Under our services agreements with AMD, we incurred \$51.4 million of expenses in fiscal 2005 and \$58.2 million of expenses in fiscal 2004 related to marketing, general and administrative services provided by AMD. Under our services agreements with Fujitsu, we incurred \$12.5 million of expenses in fiscal 2005 and \$15.2 million of expenses in fiscal 2004 related to marketing, general and administrative services provided by Fujitsu. Amounts incurred under our services agreements with AMD and Fujitsu represented in the aggregate 35 percent of our total marketing, general and administrative expenses in fiscal 2005 compared to 53 percent in fiscal 2004.

Marketing, general and administrative expenses of \$137 million in fiscal 2004 increased 85 percent compared to \$74 million in fiscal 2003. The increase was primarily due to the impact of our reorganization in June 2003, which included the addition of significant additional personnel and marketing and administrative activities, which were previously handled by AMD and Fujitsu, as well as the fact that fiscal 2004 included 12 months and fiscal 2003 only included nine months. In addition, in connection with our reorganization we entered into various service agreements with AMD and Fujitsu pursuant to which we purchase a wide range of administrative, financial, information technology and other services. Charges under these agreements are primarily based on a cost plus five percent basis and comprise a significant component of our general and administrative expenses. Under our services agreements with AMD, we incurred \$58.2 million of expenses in fiscal 2004 and \$39.2 million of expenses in fiscal 2003 related to marketing, general and administrative services provided by AMD. Under our services agreements with Fujitsu, we incurred \$15.2 million of expenses in fiscal 2004 and \$6.0 million of expenses in fiscal 2003 related to marketing, general and administrative services provided by Fujitsu. Amounts incurred under our services agreements with AMD and Fujitsu represented in the aggregate 53 percent of our total marketing, general and administrative expenses in fiscal 2004 compared to 61 percent in fiscal 2003.

Interest and other income, net in fiscal 2005 was relatively flat as compared to fiscal 2004.

Interest and other income net, of approximately \$3.2 million in fiscal 2004 increased 140 percent from \$1.3 million in fiscal 2003. The increase was primarily due to fiscal