

Spansion Inc.  
Form 10-Q  
May 06, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 27, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-34747

**SPANSION INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-3898239**  
(I.R.S. Employer  
Identification No.)

**915 DeGuigne Drive**  
**Sunnyvale, California**  
(Address of principal executive offices)

**(408) 962-2500**  
**94085**  
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes  No

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on May 4, 2011:

| <b>Class</b>                            | <b>Number of Shares</b> |
|---|-------------------------|
| Class A Common Stock, \$0.001 par value | 61,658,415              |
| Class B Common Stock, \$0.001 par value | 1                       |

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Spansion Inc.****Condensed Consolidated Statements of Operations****(in thousands, except per share amounts)****(Unaudited)**

|  | <b>Successor<br/>Three Months Ended<br/>March 27,<br/>2011</b> | <b>Predecessor<br/>Three Months Ended<br/>March 28,<br/>2010</b> |
|--|--|--|
| Net sales  | \$ 292,937   | \$ 223,128   |
| Net sales to related parties (Note 6)                      | 0  | 54,209   |
| <b>Total net sales</b>                                     | <b>292,937</b>   | <b>277,337</b>   |
| Cost of sales (Note 6)                                     | 224,165  | 189,120  |
| Research and development                                   | 29,829   | 22,966   |
| Sales, general and administrative                          | 39,683   | 47,608   |
| <b>Operating income (loss) before reorganization items</b> | <b>(740)</b>   | <b>17,643</b>  |
| Other income (expense):                                    |  |  |
| Interest and other income, net                             | 747  | 286  |
| Interest expense <sup>(1)</sup>                            | (9,058)  | (19,336)   |
| <b>Loss before reorganization items and income taxes</b>   | <b>(9,051)</b>   | <b>(1,407)</b>   |
| Reorganization items                                       | 0  | 5,464  |
| <b>Income (loss) before income taxes</b>                   | <b>(9,051)</b>   | <b>4,057</b>   |
| Provision for income taxes                                 | (5,097)  | (405)  |
| <b>Net income (loss)</b>                                   | <b>\$ (14,148)</b>   | <b>\$ 3,652</b>  |
| <b>Net income (loss) per share</b>                         |  |  |
| Basic  | \$ (0.23)  | \$ 0.02  |
| Diluted  | \$ (0.23)  | \$ 0.02  |
| <b>Shares used in per share calculation</b>                |  |  |
| Basic  | 62,140   | 162,403  |
| Diluted  | 62,140   | 174,471  |

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- (1) Contractual interest expense for the three months ended March 28, 2010 was approximately \$30.0 million.  
**See accompanying notes**

**Table of Contents****Spansion Inc.****Condensed Consolidated Balance Sheets****(in thousands, except par value and share amounts)****(Unaudited)**

|  | <b>Successor</b>          |   |
|--|---------------------------|---|
|  | <b>March 27,<br/>2011</b> | <b>December 26,<br/>2010 <sup>(1)</sup></b> |
| <b>Assets</b>  |                           |   |
| Current assets:  |                           |   |
| Cash and cash equivalents  | \$ 283,435                | \$ 329,294                                  |
| Short term investment  | 24,979                    | 24,979                                      |
| Accounts receivable, net   | 158,096                   | 165,975                                     |
| Inventories  | 178,428                   | 168,937                                     |
| Deferred income taxes  | 7,258                     | 6,321                                       |
| Prepaid expenses and other current assets  | 57,254                    | 50,210                                      |
| <b>Total current assets</b>  | <b>709,450</b>            | <b>745,716</b>                              |
| Property, plant and equipment, net   | 245,743                   | 259,940                                     |
| Intangible assets  | 192,722                   | 197,733                                     |
| Goodwill   | 161,936                   | 153,338                                     |
| Other assets   | 36,926                    | 42,578                                      |
| <b>Total assets</b>  | <b>\$ 1,346,777</b>       | <b>\$ 1,399,305</b>                         |
| <b>Liabilities and Stockholders' Equity</b>  |                           |   |
| Current liabilities:   |                           |   |
| Accounts payable   | 97,498                    | 119,288                                     |
| Accrued compensation and benefits  | 32,467                    | 39,978                                      |
| Other accrued liabilities  | 97,544                    | 109,444                                     |
| Income taxes payable   | 4,158                     | 1,107                                       |
| Deferred income  | 27,184                    | 22,238                                      |
| Current portion of long-term debt and obligations under capital leases   | 25,221                    | 13,689                                      |
| <b>Total current liabilities</b>   | <b>284,072</b>            | <b>305,744</b>                              |
| Deferred income taxes  | 4,728                     | 3,877                                       |
| Long-term debt, less current portion   | 427,549                   | 441,220                                     |
| Other long-term liabilities  | 28,567                    | 24,179                                      |
| <b>Total liabilities</b>   | <b>744,916</b>            | <b>775,020</b>                              |
| Preferred stock (\$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding)                 | 0                         | 0   |
| Common stock, Class A (\$0.001 par value, 150,000,000 shares authorized, 62,390,784 shares issued and outstanding) | 63                        | 62  |
| Common stock, Class B (\$0.001 par value, 1 share authorized, 1 share issued and outstanding)                      | 0                         | 0   |
| <b>Additional paid in capital</b>  | <b>714,259</b>            | <b>721,712</b>                              |
| Retained deficit   | (110,839)                 | (96,692)                                    |
| Accumulated other comprehensive loss   | (1,622)                   | (797)                                       |

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|   |                     |                     |
|---|---------------------|---------------------|
| Total stockholders' equity                        | 601,861             | 624,285             |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 1,346,777</b> | <b>\$ 1,399,305</b> |

(1) Derived from audited financial statements at December 26, 2010.

**See accompanying notes**



**Table of Contents****Spansion Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

|  | <b>Successor<br/>Three Months Ended<br/>March 27,<br/>2011</b> | <b>Predecessor<br/>Three Months Ended<br/>March 28,<br/>2010</b> |
|--|--|--|
| <b>Cash Flows from Operating Activities:</b>   |  |  |
| Net income (loss)  | \$ (14,148)  | \$ 3,652   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |  |
| Depreciation and amortization  | 52,083   | 28,677   |
| Net provision for doubtful accounts  | 3  | 5,591  |
| Provision (benefit) for deferred income taxes  | (1,457)  | 0  |
| Net loss (gain) on sale and disposal of property, plant and equipment                    | (648)  | 1,112  |
| Asset impairment charges   | 2,683  | 629  |
| Compensation recognized under employee stock plans                                       | 4,548  | 1,295  |
| Gain from approved settlement of rejected capital leases and various licenses            | 0  | (22,517)   |
| Gain on sale of Suzhou plant   | 0  | (3,676)  |
| Amortization of inventory fresh start markup   | 6,787  | 0  |
| Changes in assets and liabilities  | (78,761)   | (13,276)   |
| Net cash provided (used) by operating activities   | (28,910)   | 1,487  |
| <b>Cash Flows from Investing Activities:</b>   |  |  |
| Proceeds from sale of property, plant and equipment                                      | 2,139  | 4,917  |
| Purchases of property, plant and equipment   | (6,053)  | (8,493)  |
| Proceeds from redemption of auction rate securities                                      | 0  | 27,325   |
| Increase in restricted cash  | 0  | (531,516)  |
| Cash proceeds from sale of Suzhou plant  | 0  | 18,687   |
| Net cash used by investing activities  | (3,914)  | (489,080)  |
| <b>Cash Flows From Financing Activities:</b>   |  |  |
| Proceeds from borrowings, net of issuance costs  | 0  | 438,082  |
| Payments on debt and capital lease obligations   | (1,463)  | (30,019)   |
| Proceeds from rights offering  | 0  | 75,783   |
| Cash settlement on hedging activities  | (268)  | 0  |
| Purchase of bankruptcy claims  | (12,000)   | 0  |
| Net cash provided (used) by financing activities   | (13,731)   | 483,846  |
| Effect of exchange rate changes on cash and cash equivalents                             | 696  | 0  |
| Net decrease in cash and cash equivalents  | (45,859)   | (3,747)  |
| Cash and cash equivalents at the beginning of period                                     | 329,294  | 324,903  |

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Cash and cash equivalents at end of period

\$ 283,435    \$ 321,156

**See accompanying notes**

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**Spansion Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Basis of Presentation**

The Company prepared the interim condensed consolidated financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 26, 2010.

The interim financial information is unaudited, but reflects all normal adjustments that are, in the Company's opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 26, 2010.

References to the "Successor" in these condensed consolidated financial statements, notes and in the Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" refer to the Company and its consolidated subsidiaries after its emergence from Chapter 11 bankruptcy proceedings on May 10, 2010. References to the "Predecessor" refer to the Company and its consolidated subsidiaries up to May 10, 2010.

*Out of Period Adjustments*

During the first quarter of 2011, the Company identified certain errors totaling \$9.2 million related to adjustments at Fresh Start and uncertain income tax positions taken in some of its foreign locations affecting the periods prior to May 10, 2010 (Predecessor periods). The Company assessed the errors and concluded that such errors were not material to those periods. Accordingly, the correction of the adjustments on the Company's Fresh start date and for Predecessor periods were recorded as adjustments to increase Goodwill. Further, the Company identified a \$2.8 million adjustment related to the period from May 11, 2010 to December 26, 2010 (Successor periods). The Company also concluded that this adjustment, which resulted in an increase to the Company's tax provision in the three months ended March 27, 2011, was not material to the results of operations for the year ending December 25, 2011.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****2. Balance Sheet Components**

|   | March 27, 2011 | Successor<br>December 26, 2010<br>(in thousands) |
|---|----------------|--|
| <b>Account receivable</b>                       |                |  |
| Accounts receivable, gross                      | \$ 158,424     | \$ 166,301                                       |
| Allowance for doubtful accounts                 | (328)          | (326)  |
| Account receivable, net                         | \$ 158,096     | \$ 165,975                                       |
| <b>Inventories</b>                              |                |  |
| Raw materials                                   | \$ 17,749      | \$ 16,537  |
| Work-in-process                                 | 132,231        | 128,753  |
| Finished goods                                  | 28,448         | 23,647   |
| Inventories                                     | \$ 178,428     | \$ 168,937                                       |
| <b>Property, plant and equipment</b>            |                |  |
| Land  | \$ 51,778      | \$ 51,778  |
| Buildings and leasehold improvements            | 69,177         | 68,437   |
| Equipment                                       | 260,547        | 242,240  |
| Construction in progress                        | 29,144         | 18,745   |
|   | 410,646        | 381,200  |
| Less: accumulated depreciation and amortization | (164,903)      | (121,260)  |
| Property, plant and equipment, net              | \$ 245,743     | \$ 259,940                                       |

**3. Equity Incentive Plan and Stock-Based Compensation****Valuation and Expense Information**

The following table sets forth the total recorded stock-based compensation expense by financial statement caption resulting from the Company's stock options and Restricted Stock Unit (RSU) awards for the three months ended March 27, 2011 and March 28, 2010, respectively.

|                                   | Successor<br>Three Months Ended<br>March 27, 2011 | Predecessor<br>Three Months Ended<br>March 28, 2010<br>(in thousands) |
|-----------------------------------|---|---|
| Cost of sales                     | \$ 616  | \$ 273  |
| Research and development          | 814   | 511   |
| Sales, general and administrative | 3,118   | 511   |

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|  |          |          |
|--|----------|----------|
| Stock-based compensation expense before income taxes               | 4,548    | 1,295    |
| Stock-based compensation expense after income taxes <sup>(1)</sup> | \$ 4,548 | \$ 1,295 |

- <sup>(1)</sup> There is no income tax benefit related to stock option expenses because all of the Company's U.S. deferred tax assets, net of U.S. deferred tax liabilities, continue to be subject to a full valuation allowance.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

No stock options were granted in the three months ended March 28, 2010 under the Spansion and Saifun Equity Plans. The weighted average fair value of the Company's stock options granted in the three months ended March 27, 2011 was \$9.23 per share. The fair value of each stock option was estimated at the date of grant using a Black-Scholes option pricing model, with the following assumptions for grants:

|                          | <b>Three Months Ended<br/>March 27, 2011</b> |
|--------------------------|--|
| Expected volatility      | 55.81%                                       |
| Risk-free interest rate  | 1.89%  |
| Expected term (in years) | 4.35   |
| Dividend yield           | 0.00%  |

As of March 27, 2011, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately \$39.4 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2015.

**Shares Available to Grant**

The numbers of shares of common stock available for grant at March 27, 2011 under the 2010 Plan are shown in the following table:

|   |                  |
|---|------------------|
| <b>Number of shares available for grant:</b>                                |                  |
| Shares reserved for grant under the 2010 Plan as of December 26, 2010       | 511,731          |
| Additional shares issuable under 2010 Plan (annual increase for 2011)       | 4,321,911        |
| Stock options granted through March 27, 2011, net of forfeitures            | (1,136,496)      |
| RSU awards granted through March 27, 2011, net of forfeitures               | 8,130            |
| Key executive RSU awards granted through March 27, 2011, net of forfeitures | (251,000)        |
| <b>Shares available for grant under the 2010 Plan as of March 27, 2011</b>  | <b>3,454,276</b> |

**Stock Option and Restricted Stock Unit Activity**

The following table summarizes stock option activities and related information under the 2010 Plan for the periods presented:

| <b>Options:</b>                                      | <b>Number of<br/>Shares</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Life (in Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|--|-----------------------------|---|--|--|
| Outstanding as of December 26, 2010                  | 3,027,943                   | \$ 10.93  | 6.40   | \$ 27,875                                |
| Granted  | 1,149,000                   | \$ 19.96  |  |  |
| Canceled   | (12,504)                    | \$ 10.51  |  |  |
| Exercised  | 0                           | \$ 0  |  |  |
| <b>Total option outstanding as of March 27, 2011</b> | <b>4,164,439</b>            | <b>\$ 13.42</b>                                     | <b>6.34</b>  | <b>\$ 23,712</b>                         |

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|  |        |          |      |        |
|--|--------|----------|------|--------|
| Total Exercisable as of March 27, 2011 | 64,995 | \$ 10.51 | 6.12 | \$ 560 |
|--|--------|----------|------|--------|

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The following table summarizes RSU award activities and related information for the three months ended March 27, 2011:

|                                  | Number of<br>Shares | Weighted-Average<br>Grant-date<br>Fair Value |
|----------------------------------|---------------------|--|
| <b>RSUs:</b>                     |                     |  |
| Unvested as of December 26, 2010 | 1,841,559           | \$ 10.88                                     |
| Granted                          | 29,500              | \$ 20.56                                     |
| Cancelled                        | (37,630)            | \$ 10.79                                     |
| Vested                           | (367,736)           | \$ 19.89                                     |
| Unvested as of March 27, 2011    | 1,465,693           | \$ 8.82                                      |

The following table summarizes key executive RSU activities and related information for the three months ended March 27, 2011:

|                                  | Number of<br>Shares | Weighted-Average<br>Grant-date<br>Fair Value |
|----------------------------------|---------------------|--|
| <b>Key executive RSUs:</b>       |                     |  |
| Unvested as of December 26, 2010 | 1,127,015           | \$ 10.88                                     |
| Granted                          | 251,000             | \$ 19.89                                     |
| Cancelled                        | 0                   | \$ 0   |
| Vested                           | (281,450)           | \$ 21.02                                     |
| Unvested as of March 27, 2011    | 1,096,565           | \$ 10.34                                     |

These RSUs have a service and performance condition fifty percent of the RSUs vest based on a service condition and the remaining fifty percent vest based on performance conditions.

**4. Net Income (Loss) Per Share**

Employee stock options, unvested RSUs and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options and unvested RSUs which are calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

For the three months ended March 27, 2011, the Company excluded from its diluted per share computation approximately 4.6 million of potential shares of common stock issuable upon exercise of outstanding stock options and vesting of outstanding RSUs because they had an anti-dilutive effect.





**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****5. Comprehensive Income (Loss)**

The following are the components of comprehensive income (loss):

|   | <b>Successor</b>          | <b>Predecessor</b>    |
|---|---------------------------|-----------------------|
|   | <b>Three Months Ended</b> |                       |
|   | <b>March 27, 2011</b>     | <b>March 28, 2010</b> |
|   | <b>(in thousands)</b>     |                       |
| Net income (loss)                               | \$ (14,148)               | \$ 3,652              |
| Net change in cumulative translation adjustment | (824)                     | 0                     |
| <b>Total comprehensive income (loss)</b>        | <b>\$ (14,972)</b>        | <b>\$ 3,652</b>       |

**6. Related Party Transactions****Spansion Japan**

For fiscal 2011, Spansion Japan is not a related party of the Company. The following table presents the significant related party transactions between the Company and Spansion Japan for the three months ended March 28, 2010:

|  | <b>Predecessor</b>    |
|--|-----------------------|
|  | <b>(in thousands)</b> |
| Sales to Spansion Japan                    | \$ 54,209             |
| Wafer purchases from Spansion Japan        | \$ 54,728             |
| Payment to Spansion Japan for R&D services | \$ 2,031              |

**7. Intangible Assets and Goodwill**

Intangible assets at March 27, 2011 and December 26, 2010 are as follows:

|  | <b>March 27, 2011</b> | <b>December 26, 2010</b> |
|--|-----------------------|--------------------------|
|  | <b>(in thousands)</b> |                          |
| Developed technology                       | \$ 65,900             | \$ 65,900                |
| Customer relationships                     | 93,510                | 93,348                   |
| Trade name                                 | 8,200                 | 8,200                    |
| <b>Total amortizable intangible assets</b> | <b>\$ 167,610</b>     | <b>\$ 167,448</b>        |
| <b>Less: Accumulated Depreciation</b>      | <b>(17,888)</b>       | <b>(12,715)</b>          |
| <b>Intangible assets, net</b>              | <b>149,722</b>        | <b>\$ 154,733</b>        |
| IPR&D                                      | 43,000                | 43,000                   |
| Goodwill                                   | 161,936               | 153,338                  |

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|                                    |            |            |
|------------------------------------|------------|------------|
| Intangible assets and goodwill net | \$ 354,658 | \$ 351,071 |
|------------------------------------|------------|------------|

During the first quarter of fiscal 2011, the Company identified and recorded to Goodwill certain out of period errors relating to the provision for income taxes for foreign operations in the Predecessor period prior to May 10, 2010 resulting in a net increase to Goodwill. Refer to Footnote 1 for further details.

### *In-Process Research and Development*

As of March 27, 2011, none of the projects (relating to the development of process technologies to manufacture flash memory products primarily associated with the GL and FL product families) had reached technological feasibility but the Company expects these projects to attain technological feasibility and commence commercial production during fiscal 2011 and the first half of fiscal 2012.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****8. Warranties and Indemnities**

The Company generally offers a one-year limited warranty for its Flash memory products. Changes in the Company's liability for product warranty during the three month ended March 27, 2011 and March 28, 2010 are as follows:

|  | <b>Successor</b><br><b>Three Months Ended</b><br><b>March 27, 2011</b> | <b>Predecessor</b><br><b>Three Months Ended</b><br><b>March 28, 2010</b> |
|--|--|--|
|  | (in thousands)   |  |
| Balance at beginning of period                                     | \$ 1,766   | \$ 3,841   |
| Provision for warranties issued                                    | 332  | 933  |
| Settlements  | (545)  | (125)  |
| Changes in liability for pre-existing warranties during the period | (268)  | (1,030)  |
| Balance at end of period   | \$ 1,285   | \$ 3,619   |

**9. Debt and Capital Lease Obligations**

The following table summarizes the Company's debt and capital lease obligations at March 27, 2011 and December 26, 2010:

|   | <b>Successor</b><br><b>March 27, 2011</b> | <b>December 26, 2010</b> |
|---|---|--------------------------|
|   | (in thousands)                            |                          |
| <b>Debt obligations:</b>                            |   |                          |
| Senior Unsecured Notes                              | \$ 200,000                                | \$ 200,000               |
| Senior Secured Term Loan                            | 251,078                                   | 251,750                  |
| Obligations under capital leases                    | 1,692                                     | 3,159                    |
| <b>Total debt and capital lease obligations</b>     | <b>452,770</b>                            | <b>\$ 454,909</b>        |
| Less: current portion                               | 25,221                                    | 13,689                   |
| <b>Long-term debt and capital lease obligations</b> | <b>\$ 427,549</b>                         | <b>\$ 441,220</b>        |

The Company is currently subject to covenants that, among other things, place certain limitations on the Company's ability to incur additional debt, make investments, pay dividends, and sell assets. The Company was in compliance with these covenants as of March 27, 2011. Additionally as of March 27, 2011, the Company had not drawn down against its revolving credit facility with Bank of America entered in fiscal 2010 (the Revolving Credit Facility).

**10. Income Taxes**

The following table presents the income tax expenses of the Company:

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|                     | Successor<br>Three Months Ended<br>March 27, 2011 | Predecessor<br>Three Months Ended<br>March 28, 2010 |
|---------------------|---|---|
| Income tax expenses | \$ 5,097  | \$ 405  |

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

We recorded an income tax expense of \$5.1 million for the three months ended March 27, 2011, including correction of uncertain income tax positions of its foreign locations for the Successor period from May 11, 2010 to December 26, 2010 of \$2.8 million, compared to an income tax expense of approximately \$0.4 million for the three months ended March 28, 2010. The income tax expense, recorded for these Periods, excluding the correction, was primarily related to tax expenses in foreign jurisdictions where we achieved a profit for tax reporting purposes.

As of March 27, 2011, all of the Company's U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The valuation allowance is based on the Company's assessment that it is more likely than not that the deferred tax assets will not be realizable in the foreseeable future.

As of December 26, 2010, the Company had U.S. federal and state net operating loss carry forwards of approximately \$870.0 million and \$214.9 million, respectively. Approximately \$533.6 million of the federal net operating loss carry forwards are subject to an annual limitation of \$27.2 million. These net operating losses, if not utilized, expire from 2018 to 2030.

If the Company were to undergo an ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, such as an offering of its common stock, its ability to utilize its unlimited federal net operating loss carry forwards of approximately \$336.4 million as of December 26, 2010 may be limited under certain provisions of the Internal Revenue Code. As a result, the Company may incur greater tax liabilities than it would in the absence of such a limitation and any incurred liabilities could materially adversely affect it.

Please refer to Note 1 of the Notes to Condensed Consolidated Financial Statements for information on the out of period tax adjustments.

**11. Fair Value Measurements**

As of March 27, 2011 and December 26, 2010, the fair value measurements of the Company's financial assets and liabilities consisted of those categorized in the table below based upon the fair value hierarchy:

|                             | Level 1        | Level 2        | Level 3 | Total     | Level 1           | Level 2  | Level 3 | Total      |
|-----------------------------|----------------|----------------|---------|-----------|-------------------|----------|---------|------------|
|                             |                | March 27, 2011 |         |           | December 26, 2010 |          |         |            |
|                             | (in thousands) |                |         |           |                   |          |         |            |
| Treasury Bills              | 69,979         | \$ 0           | \$ 0    | \$ 69,979 | \$ 129,955        | \$ 0     | \$ 0    | \$ 129,955 |
| Total financial assets      | \$ 69,979      | \$ 0           | \$ 0    | \$ 69,979 | \$ 129,955        | \$ 0     | \$ 0    | \$ 129,955 |
| Interest rate swaps         | 0              | 1,309          | 0       | 1,309     | 0                 | 1,180    | 0       | 1,180      |
| Total financial liabilities | \$ 0           | \$ 1,309       | \$ 0    | \$ 1,309  | \$ 0              | \$ 1,180 | \$ 0    | \$ 1,180   |

The fair value of the treasury bills are based on quoted prices in active markets for identical terms. In determining the fair value of our interest rate swap, the Company uses the present value of expected cash flows based on market observable interest rate yield curves and interest rate volatility commensurate with the term of each instrument. Since the Company only uses observable inputs in the swap, it is considered a Level 2 valuation.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****12. Derivative Financial Instruments****Interest Rate Risk**

The Company is currently exposed to the variability of future quarterly interest payments on its Senior Secured Term Loan (the Term Loan) due to changes in the LIBOR interest rate above the floor rate of 1.75 percent. To mitigate this interest rate risk and also to comply with the requirement of hedging then required in the initial Term Loan agreement, the Company entered into a series of interest rate swaps to manage the interest rate risk associated with its borrowings in the third quarter of 2010. This hedging requirement was removed when the Term Loan was amended in November 2010. However, the interest rate swaps remained in place as of March 27, 2011.

The Company has approximately \$251.1 million outstanding under the Term Loan as of March 27, 2011. Under the swap agreements, with an aggregate notional amount of \$250 million and expiration date of May 17, 2013, the Company pays the independent swap counterparty a fixed rate of 2.42 percent and, in exchange, the swap counterparty pays the Company an interest rate equal to the floor rate of 2 percent or three-month LIBOR, whichever is higher.

As of November 9, 2010, due to amendment of the Term Loan, the critical terms of the swaps and the Term Loan were no longer matched. Accordingly, the hedge no longer qualified as a cash flow hedge under ASC Topic 815, Derivatives and Hedging. As a result, the mark-to-market of the swaps has been reported as a component of interest expense since the fourth quarter of fiscal 2010. The Company has recorded a loss of approximately \$0.4 million and \$1.3 million in interest expenses related to the swaps for the three months ended March 27, 2011 and the fiscal year ended December 26, 2010, respectively.

The location and fair value amounts of the Company's derivative instruments reported in its condensed consolidated balance sheet as of March 27, 2011 and December 26, 2010 were as follows:

|                     | <b>Balance Sheet Location</b>                   | <b>March 27, 2011</b> | <b>December 26, 2010</b> |
|---------------------|---|-----------------------|--------------------------|
|                     |   | <b>(in thousands)</b> |                          |
| Interest Rate Swaps | Other Current Liabilities and Other Liabilities | \$ 1,309              | \$ 1,180                 |

**13. Commitments, Contingencies and Legal Matters****Purchase Commitments**

The Company maintains purchase commitments with certain suppliers, primarily for inventory and some nonproduction items. Purchase commitments for inventory materials are generally restricted to a forecasted time horizon as mutually agreed upon between the parties. This forecasted time horizon can vary for different suppliers. As of March 27, 2011, the total purchase commitments were \$205.1 million, which are due through 2015.

**Guarantees****Product Warranties**

The Company generally offers a one-year limited warranty for its Flash memory products. Refer to Footnote 8 for further details relating to changes in the Company's liability for product warranty.

**Indemnities**

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During the normal course of business, the Company makes certain indemnities and commitments under which it may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, manufacture and sale of our products, indemnities to our directors and officers in connection with legal proceedings, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to other parties to certain acquisition agreements. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. The Company believes that substantially all of our indemnities and commitments provide for limitations on the maximum potential future payments it is obligated to make. However, the Company is unable to estimate the maximum amount of liability related to our indemnities and commitments because such liabilities are contingent upon the occurrence of events which are not reasonably determinable. Management believes that any liability for these indemnities and commitments would not be material to our accompanying condensed consolidated financial statements.



***Uncertain Tax Positions***

As of March 27, 2011, the liability for uncertain tax positions was \$19.3 million including interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows associated with these liabilities, the Company is unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid.

**Legal Matters**

For a complete description of the procedural history of each of the legal proceedings referred to below, please see our Annual Report on Form 10-K for the fiscal year ended December 26, 2010.

***Tessera ITC Action***

On February 4, 2011, Spansion, Freescale Semiconductor, Inc., ATI Technologies, ULC, STMicroelectronics N.V. and Qualcomm Incorporated (collectively, the Appellants ) filed with the Federal Circuit a request for a rehearing. On March 29, 2011, the Federal Circuit denied the Appellants request for a rehearing.

***Spansion v. Samsung District Court Action***

The action is presently scheduled for trial on February 6, 2012 and discovery is underway. The U.S. Bankruptcy Court has set a reserve of approximately \$75 million for any pre-petition damages that Samsung may have for its counterclaims.

***Samsung v. Spansion ITC Investigation***

On February 28, 2011, an Initial Determination was issued finding infringement by Spansion, D-Link Corporation and D-Link Systems, Inc. On March 14, 2011, Spansion and the Commission s investigative attorney filed petitions for the ITC to review the Initial Determination. On April 29, 2011, the ITC issued a notice of its decision to review the Initial Determination.

**14. Subsequent Events**

On April 30, 2011, the Company, entered into a purchase agreement with SL Capital Appreciation Fund, L.L.C., Silver Lake Sumeru Fund, L.P. and Silver Lake Credit Fund, L.P. (collectively, the *Sellers* ) to purchase all rights with respect to certain claims against the Debtors under the Chapter 11 Cases held by the Sellers. The aggregate purchase price to be paid by Spansion for all rights is \$28,984,117.

The transactions contemplated by the purchase agreement will not be consummated prior to the entry of an order of the Bankruptcy Court under the Chapter 11 Cases approving the agreement and the transactions thereunder, and such order having become final and non-appealable (with no appeal, motion to reconsider or other relief having been timely sought).

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Forward-Looking Statements**

*This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. 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, continue or other wording indicating future results or 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 report. We also face risks and uncertainties associated with emergence from the Chapter 11 bankruptcy proceedings (the Chapter 11 Cases); claims not discharged in the Chapter 11 Cases and their effect on our results of operations and profitability; substantial indebtedness and its impact on our financial health and operations; fluctuations in foreign currency exchange rates; the sufficiency of workforce and cost reduction initiatives; and the effect of the earthquakes and tsunami that occurred recently in Japan, the resultant intermittent power outages and the continued risk of radiation exposure from damaged nuclear power plants. Other risks and uncertainties relating to our business include our ability to: successfully transform our business and implement our new business strategy focused primarily on the embedded Flash memory market; maintain or increase our average selling price and lower our average costs; accurately forecast customer demand for our products; attract new customers; obtain additional financing in the future; maintain our distribution relationships and channels in the future; successfully enter new markets and manage our international expansion; successfully compete with existing and new competitors, or with new memory or other technologies; successfully develop new applications and markets for our products; maintain manufacturing efficiency; obtain adequate supplies of satisfactory materials essential to manufacture our products; successfully develop and transition to the latest technologies; negotiate patent and other intellectual property licenses and patent cross-licenses and acquire additional patents; protect our intellectual property and defend against infringement or other intellectual property claims; maintain our business operations and demand for our products in the event of natural or man-made catastrophic events; and effectively manage, operate and compete in the current sustained economic downturn. Except as required by law, we undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstances that arises after the date of this report, or to conform such statements to actual results or changes in our expectations.*

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying condensed consolidated financial statements and notes to assist investors in understanding our results of operations, financial condition and cash flows. Our MD&A is organized as follows:

*Overview:* Discussion of our business and other highlights affecting the company providing context for the remainder of MD&A.

*Critical Accounting Policies:* Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

*Results of Operations:* An analysis of our financial results comparing the three months ended March 27, 2011 and March 27, 2010.

*Liquidity and Capital Resources:* An analysis of changes in our cash flows and discussion of our financial condition and potential sources of liquidity.

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### **Overview**

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

Our Flash memory solutions are incorporated in products from leading original equipment manufacturers, or OEMs. Our products are designed to accommodate various voltage, interface and memory density requirements for a wide range of applications and customer platforms. The majority of our new product designs are based on our proprietary two-bit-per-cell MirrorBit technology which has a simpler cell architecture requiring fewer manufacturing steps, supporting higher yields and lower costs as compared to competing floating gate NOR Flash memory technology.

Our net sales for the first quarter of fiscal 2011 increased, as compared to the first quarter of fiscal 2010, due to net sales growth which was primarily driven by increasing unit demand in our broad-based embedded business. However, our gross margin decreased during the first quarter of fiscal 2011 primarily due to lower average selling prices (ASPs) as a result of price declines in the overall semiconductor memory market and fresh start accounting related adjustments in the Successor (as compared to no such adjustments in the Predecessor period) including amortization of inventory mark-up and higher depreciation and amortization expenses.

During the first quarter of 2011, we lost sales and experienced delays in the provision of foundry services by third parties in Japan as a result of the earthquakes and related tsunami that occurred there in March 2011. Specifically, some first quarter product shipments were cancelled or rescheduled for shipment during the second quarter. We also incurred some minor damage to our production equipment. However, the impact to our operations and financial results during the first quarter of fiscal 2011 as a result of the events in Japan was not material. We will continue to monitor the situation in Japan as the impact of these natural disasters continues to remain uncertain.

During the first quarter of 2011, the Company identified certain errors totaling \$9.2 million related to adjustments at Fresh Start and uncertain income tax positions taken in some of its foreign locations affecting the periods prior to May 10, 2010 (Predecessor periods). The Company assessed the errors and concluded that such errors were not material to those periods. Accordingly, the correction of the adjustments on the Company's Fresh start date and for Predecessor periods were recorded as adjustments to increase Goodwill. Further, the Company identified a \$2.8 million adjustment related to the period from May 11, 2010 to December 26, 2010 (Successor periods). The Company also concluded that this adjustment, which resulted in an increase to the Company's tax provision in the three months ended March 27, 2011, was not material to the results of operations for the year ending December 25, 2011.

Refer to our *Results of Operations* below in this section for a quantitative and qualitative analysis and discussion of our quarterly results for the three months ended March 27, 2011 and March 28, 2010, respectively.

### ***Critical Accounting Policies***

There have been no significant changes in our critical accounting estimates or significant accounting policies during the three months ended March 27, 2011 as compared to the discussion in Part II, Item 7 and in Note 1 to our financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 26, 2010.

**Table of Contents****Results of Operations****Comparison of Net Sales, Gross Margin, Operating Expenses, Interest and Other Income, Net, Interest Expense and Income Tax Provision**

The following is a summary of operating results for the Successor three months ended March 27, 2011 and Predecessor three months ended March 28, 2010.

|                                   | Successor<br>March 27,<br>2011 | Three Months Ended                     |                        |                        |
|-----------------------------------|--------------------------------|--|------------------------|------------------------|
|                                   |                                | Predecessor<br>March 28,<br>2010       | Variance<br>in Dollars | Variance in<br>Percent |
|                                   |                                | (in thousands, except for percentages) |                        |                        |
| Total net sales                   | \$ 292,937                     | \$ 277,337                             | \$ 15,600              | 6%                     |
| Cost of sales                     | 224,165                        | 189,120                                | 35,045                 | 19%                    |
| Gross margin                      | 23%                            | 32%                                    |                        | -9%                    |
| Research and development          | 29,829                         | 22,966                                 | 6,863                  | 30%                    |
| Sales, general and administrative | 39,683                         | 47,608                                 | (7,925)                | -17%                   |
| Operating income (loss)           | (740)                          | 17,643                                 | (18,383)               | -104%                  |
| Interest and other income, net    | (747)                          | (286)                                  | (461)                  | 161%                   |
| Interest expense                  | 9,058                          | 19,336                                 | (10,278)               | -53%                   |
| Reorganization items              | 0                              | 5,464                                  | (5,464)                | -100%                  |
| Income tax provision              | 5,097                          | 405                                    | 4,692                  | 1159%                  |

**Total Net Sales**

Total net sales for the three months ended March 27, 2011 increased by 6 percent or \$15.6 million compared to total net sales for the three months ended March 28, 2010. The increase was primarily due to higher unit shipments in the embedded market of approximately 17 percent or \$47.6 million, where we have been gradually regaining business lost while we were subject to the Chapter 11 Cases. This was offset by approximately 6 percent or \$17.4 million due to a decline in ASPs in the embedded market and approximately 6 percent or \$15.8 million attributable to our decision to exit a large portion of the wireless market that was not profitable. The decline in ASPs was primarily due to the result of price declines in the overall semiconductor memory market partially offset by a product mix shift towards higher density products.

**Gross Margin**

Our gross margin decreased by 9 percent for the three months ended March 27, 2011, compared to the three months ended March 28, 2010. The decrease in gross margin was primarily due to fresh start accounting related adjustments in the Successor which included approximately (i) \$22.8 million related to depreciation charge on higher valuation of fixed assets, (ii) \$5.2 million related to amortization of intangibles, and (iii) \$6.8 million related to amortization of inventory mark-up and higher inventory reserves on certain products compared to the three months ended March 28, 2010 and also due to decline in ASPs in the embedded market as a result of price declines in the overall semiconductor memory market. The overall decrease was partially offset by increased sales in the embedded market where we have been gradually regaining the business lost during the Chapter 11 Cases.

**Research and Development**

For the three month Successor period ended March 27, 2011, research and development (R&D) expenses of \$29.8 million included, among other items, approximately (i) \$17.0 million of labor costs, (ii) \$2.4 million of expenses related to outside service providers, (iii) \$2.5 million of material costs, and (iv) \$6.0 million of building and other allocated operating expenses.

For the three month Predecessor period ended March 28, 2010, R&D expenses of \$22.9 million included, among other items, approximately (i) \$16.6 million of labor costs, (ii) \$1.6 million of expenses related to outside service providers, (iii) \$0.9 million of material costs, and (iv) \$3.8 million of building and other allocated operating expenses.

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R&D expenses for the three months ended March 27, 2011 increased by 30 percent, compared to the three months ended March 28, 2010. The increase of R&D expenses was due to (i) higher material costs relating to new product development of approximately \$1.7 million, (ii) impairment charges relating to R&D tools and equipment of approximately \$2.3 million, and (iii) approximately \$1.8 million higher labor cost due to increases in headcount and employee compensation and benefits. This increase was offset in part by a reduction of R&D expenses of approximately \$0.5 million due to the transfer of our Milan R&D operations to Elpida in February 2010.

***Sales, General and Administrative***

For the three month Successor period ended March 27, 2011, sales, general and administrative expenses of \$39.7 million included among other items, approximately (i) \$23.1 million of labor costs, (ii) \$8.1 million of expenses related to outside service providers, and (iii) \$4.9 million of building and other allocated operating expenses.

For the three month Predecessor period ended March 28, 2010, SG&A expenses of \$47.6 million included among other items, approximately (i) \$17.9 million of labor costs, (ii) \$17.7 million of expenses related to outside service providers, and (iii) \$5.0 million of building and other allocated operating expenses.

SG&A expenses for the three months ended March 27, 2011 decreased by 17 percent, compared to the three months ended March 28, 2010. The decrease in SG&A expense was primarily due to reduction in legal expenses of approximately \$8.5 million in connection with the Samsung and other litigations, which was offset in part by \$2.5 million of operating expenses for our new Japan subsidiary, Nihon Spansion Limited, which commenced operations during the second quarter of fiscal 2010 in the Successor.

***Interest and Other Income, Net***

Interest and other income, net, increased by approximately \$0.5 million for the three months ended March 27, 2011 compared to the corresponding period of fiscal 2010. Interest income and other income, net, was higher during the three months ended March 27, 2011 primarily due to the reporting of realized and unrealized net gain of \$0.4 million on foreign currency transactions as part of non-operating income in the Successor, whereas foreign currency exchange gain/loss was reported as part of operating income in the Predecessor.

***Interest Expense***

Interest expense decreased by approximately \$10.3 million for the three months ended March 27, 2011 compared to the corresponding period in fiscal 2010. The decrease was primarily due to (i) a reduction in interest expense of approximately \$8.3 million due to a lower outstanding balance under the Term Loan after it was partially paid down in November 2010 and a lower fiscal first quarter interest rate in fiscal 2011 and (ii) a decline of approximately \$5.3 million of interest expenses on the Predecessor's floating rate notes (FRNs) that were fully paid in May 2010 with no corresponding interest expense in the three months ended March 27, 2011. These decreases were partially offset by \$4.0 million of interest expense due to our \$200 million Senior Unsecured Notes that were issued in November 2010.

***Reorganization Items***

There were no reorganization items in the Successor.

Reorganization items of approximately \$5.5 million for the three months ended March 28, 2010 primarily consisted of a gain of approximately \$22.5 million resulting from approved settlement of rejected capital leases and various license agreements partially offset by professional and service fees of approximately \$17.2 million.

**Table of Contents****Income Tax Provision**

We recorded an income tax expense of \$5.1 million for the three months ended March 27, 2011, including correction of uncertain income tax positions of its foreign locations for the Successor period from May 11, 2010 to December 26, 2010 of \$2.8 million, compared to an income tax expense of approximately \$0.4 million for the three months ended March 28, 2010. The income tax expense, recorded for these Periods, excluding the correction, was primarily related to tax expenses in foreign jurisdictions where we achieved a profit for tax reporting purposes.

As of March 27, 2011, all of our U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The valuation allowance is based on our assessment that it is more likely than not that the deferred tax assets will not be realizable in the foreseeable future.

As of December 26, 2010, we had U.S. federal and state net operating loss carry forwards of approximately \$870.0 million and \$214.9 million, respectively. Approximately \$533.6 million of the federal net operating loss carry forwards are subject to an annual limitation of \$27.2 million. These net operating losses, if not utilized, expire from 2018 to 2030.

If we experience an ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, such as an offering of our common stock, our ability to utilize our unlimited federal net operating loss carry forwards of approximately \$336.4 million as of December 26, 2010 may be limited under certain provisions of the Internal Revenue Code. As a result, we may incur greater tax liabilities than we would in the absence of such a limitation and any incurred liabilities could materially adversely affect it.

**Other Items**

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of March 27, 2011 and December 26, 2010 were as follows:

|   | March 27, 2011 | Successor<br>December 26, 2010<br>(in thousands) |
|---|----------------|--|
| Deferred revenue                            | \$ 65,333      | \$ 61,855  |
| Less: deferred costs of sales               | (39,249)       | (40,562)   |
| Deferred income on shipments <sup>(1)</sup> | \$ 26,084      | \$ 21,293  |

<sup>(1)</sup> The deferred income of \$27.2 million and \$22.2 million on the consolidated balance sheet as of March 27, 2011 and December 26, 2010, respectively, included \$1.1 million and \$ 0.9 million of deferred revenue related to our licensing revenue that was excluded in the table above.

**Table of Contents****Contractual Obligations**

The following table summarizes our contractual obligations at March 27, 2011.

|   | Total             | 2011              | 2012              | 2013             | 2014             | 2015              | 2016 and Beyond   |
|---|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
|   | (in thousands)    |                   |                   |                  |                  |                   |                   |
| Senior Secured Term Loan                            | 251,079           | 1,897             | 23,530            | 2,530            | 2,530            | 220,592           | 0                 |
| Senior Notes  | 200,000           | 0                 | 0                 | 0                | 0                | 0                 | 200,000           |
| Capital lease obligations                           | 1,692             | 1,692             | 0                 | 0                | 0                | 0                 | 0                 |
| Interest expense on Debt                            | 171,120           | 26,642            | 31,834            | 30,514           | 29,829           | 20,801            | 31,500            |
| Interest expense on Capital Leases                  | 32                | 32                | 0                 | 0                | 0                | 0                 | 0                 |
| Other long term liabilities <sup>(1)</sup>          | 7,205             | 2,408             | 4,122             | 210              | 210              | 210               | 45                |
| Operating leases                                    | 7,140             | 4,069             | 1,503             | 673              | 400              | 373               | 122               |
| Unconditional purchase commitments <sup>(2)</sup>   | 205,123           | 105,920           | 53,247            | 19,715           | 13,267           | 12,974            | 0                 |
| <b>Total contractual obligations <sup>(3)</sup></b> | <b>\$ 843,391</b> | <b>\$ 142,660</b> | <b>\$ 114,236</b> | <b>\$ 53,642</b> | <b>\$ 46,236</b> | <b>\$ 254,950</b> | <b>\$ 231,667</b> |

- (1) The other long term liabilities comprise payment commitments under long term software license agreements with vendors and asset retirement obligations.
- (2) Unconditional purchase commitments (UPC) include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These agreements are related principally to inventory and other items. UPCs exclude agreements that are cancelable without penalty.
- (3) As of March 27, 2011, the liability for uncertain tax positions was \$19.3 million including interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows associated with these liabilities, we are unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid.

**Liquidity and Capital Resources****Cash Requirements**

As of March 27, 2011, our cash, cash equivalents and short term investments totaled \$308.4 million. As of March 27, 2011, the availability under our Revolving Credit facility was \$22.3 million after deducting the standby letters of credit of \$1.5 million issued to certain vendors, of which we had borrowed no amount.

Our future uses of cash are expected to be primarily for working capital, debt servicing, capital expenditures, purchase of our bankruptcy claims and other contractual obligations. We also expect the remaining Plan disbursements and expenses incurred for outstanding claims resolution will continue using cash from operations for at least the first half of fiscal 2011, or until all outstanding claims are resolved. We believe our anticipated cash flows from operations, current cash balances, and our Revolving Credit Facility will be sufficient to make remaining Plan disbursements and expenses incurred for outstanding claims resolution, to fund working capital requirements and operations, for debt servicing, and to meet our cash needs for at least the next twelve months.

**Sources and Uses of Cash and Cash Equivalents**

Our cash and cash equivalents consisted of demand deposits, Treasury bill, and money market fund with a total amount of \$283.4 million as of March 27, 2011.

**Operating Activities**

Net cash used by operations was \$28.9 million during the three months ended March 27, 2011, primarily due to net loss of \$14.1 million and net decrease in operating assets and liabilities of \$78.8 million offset by net non-cash items of approximately \$64.0 million. The net decrease in

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operating assets and liabilities was primarily due to (i) the decrease of \$66.5 million in accounts payable, accrued liabilities, and accrued compensation and benefits and (ii) the increase of \$13.7 million in inventories. Net non-cash items primarily consisted of \$52.1 million of depreciation and amortization, \$6.8 million of amortization of inventory markup relating to fresh start accounting, \$4.5 million of stock compensation costs, and \$2.7 million of asset impairment charges, partially offset by \$1.5 million of benefit for deferred income taxes, and \$0.6 million gain from sale of property, plant and equipment.



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### ***Investing Activities***

Net cash used by investing activities was \$3.9 million during the three months ended March 27, 2011, primarily due to \$6.0 million of capital expenditures used to purchase of property, plant and equipment, offset by \$2.1 million of sale of property, plant and equipment.

Net cash used by investing activities was approximately \$489.1 million in the three months ended March 28, 2010, primarily due to an increase of approximately \$531.5 million in restricted cash from the Term Loan and prepaid interest thereon. The increase was partially offset by approximately \$27.3 million of proceeds from the redemption of ARS and approximately \$18.7 million of proceeds from sale of the Suzhou plant.

### ***Financing Activities***

Net cash used by financing activities was \$13.7 million during the three months ended March 27, 2011 primarily due to \$12.0 million of purchase of bankruptcy claims from Tokyo Electric LLC, payments of \$1.4 million on debt and capital lease obligations, and \$0.3 million of cash settlement on hedging activities.

Net cash provided by financing activities was approximately \$483.8 million in the three months ended March 28, 2010, primarily due to approximately \$438.0 million from the Term Loan, net of issuance costs and approximately \$75.8 million from the Rights Offering, offset by payments of approximately \$30.0 million on debt and capital lease.

### ***Off-Balance Sheet Arrangements***

During the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, manufacture and sale of our products, indemnities to our directors and officers in connection with legal proceedings, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to other parties to certain acquisition agreements. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. We believe that substantially all of our indemnities and commitments provide for limitations on the maximum potential future payments we could be obligated to make. However, we are unable to estimate the maximum amount of liability related to our indemnities and commitments because such liabilities are contingent upon the occurrence of events which are not reasonably determinable. Management believes that any liability for these indemnities and commitments would not be material to our accompanying condensed consolidated financial statements.

We do not have any other significant off-balance sheet arrangements, as defined in Item 303(a) (4) (ii) of SEC Regulation S-K, as of March 27, 2011.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Interest Rate Risk***

Our exposure to market risk for changes in interest rates relates primarily to our cash deposits, invested cash and debt. At March 27, 2011, we had approximately \$238.4 million held in demand deposit accounts and approximately \$70.0 million invested in Treasury Bills of which \$45.0 million are with maturity terms of 30 to 90 days and remaining \$25.0 million is with a maturity term of six months at the time of purchase. Accordingly, our interest income fluctuates with short-term market conditions. Our cash and short term investment position is highly liquid and our exposure to interest rate risk is minimal.

As of March 27, 2011, approximately 45 percent of the aggregate principal amounts outstanding under our third party debt obligations were fixed rate, and approximately 55 percent of our total debt obligations were variable rate comprised of the Term Loan with an outstanding balance of approximately \$251.1 million as of March 27, 2011. The Term Loan has a LIBOR floor of 1.75 percent. While LIBOR is below 1.75 percent, our interest expense will not change along with short-term change in interest rate environment. When LIBOR is above 1.75 percent, changes in interest rates associated with the term loan could then result in a change to our interest expense. For example, a one percent aggregate change in interest rates would increase/decrease our contractual interest expense by approximately \$2.5 million annually.

As of March 27, 2011, we have a series of interests rate swaps with a financial institution to partially economically hedge the variability of interest payments attributable to fluctuations in the LIBOR benchmark interest rate. See Note 12 to our Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report.

***Default Risk***

We intend to actively monitor market conditions and developments specific to the securities and security classes in which we invest. We believe that we take a conservative approach to investing our funds in that our policy is to invest only in highly-rated securities with relatively short maturities, and we do not invest in securities we believe involve a higher degree of risk.

***Foreign Exchange Risk***

Our sales, expenses, assets and liabilities denominated in Japanese yen and other foreign currencies were exposed to foreign currency exchange rate fluctuations. For example,

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

sales of our products to Fujitsu are denominated in both U.S. dollars and Japanese yen; and

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

Consequently, movements in exchange rates could cause our net sales and our expenses to fluctuate, affecting our profitability and cash flows. We use foreign currency forward contracts to reduce our foreign exchange exposure on our foreign currency denominated assets and liabilities. The objective of these contracts is to reduce the impact of foreign currency exchange rate movements to our operating results. We do not use these contracts for speculative or trading purposes.

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We had an aggregate of \$57.9 million (notional amount) of short-term foreign currency forward contracts denominated in Japanese yen outstanding as of March 27, 2011. The unrealized gain related to the foreign currency forward contracts for the quarter ended March 27, 2011 was not material. We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. In particular, we generally cover only a portion of our foreign currency exchange exposure. We cannot assure you that these activities will eliminate foreign exchange rate exposure. Failure to eliminate this exposure could have an adverse effect on our business, financial condition and results of operations.

The following table provides information about our foreign currency forward contracts as of March 27, 2011 and December 26, 2010.

|   | March 27, 2011  |                       |                      | December 26, 2010 |                       |                      |
|---|-----------------|-----------------------|----------------------|-------------------|-----------------------|----------------------|
|   | Notional Amount | Average Contract Rate | Estimated Fair Value | Notional Amount   | Average Contract Rate | Estimated Fair Value |
| (in thousands, except contract rates)     |                 |                       |                      |                   |                       |                      |
| <b>Foreign currency forward contract:</b> |                 |                       |                      |                   |                       |                      |
| <b>Japanese yen</b>                       | \$ 57,939       | ¥ 81.12               | \$ 192               | \$ 39,884         | ¥ 82.74               | \$ 67                |

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**ITEM 4. CONTROLS AND PROCEDURES**

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are effective at the reasonable assurance level to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended March 27, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

For a complete description of the procedural history of each of the legal proceedings referred to below, please see our Annual Report on Form 10-K for the fiscal year ended December 26, 2010.

***Tessera ITC Action***

On February 4, 2011, Spansion, Freescale Semiconductor, Inc., ATI Technologies, ULC, STMicroelectronics N.V. and Qualcomm Incorporated (collectively, the Appellants) filed with the Federal Circuit a request for a rehearing. On March 29, 2011, the Federal Circuit denied the Appellants' request for a rehearing.

***Spansion v. Samsung District Court Action***

The action is presently scheduled for trial on February 6, 2012 and discovery is underway. The U.S. Bankruptcy Court has set a reserve of approximately \$75 million for any pre-petition damages that Samsung may have for its counterclaims.

***Samsung v. Spansion ITC Investigation***

On February 28, 2011, an Initial Determination was issued finding infringement by Spansion, D-Link Corporation and D-Link Systems, Inc. On March 14, 2011, Spansion and the Commission's investigative attorney filed petitions for the ITC to review the Initial Determination. On April 29, 2011, the ITC issued a notice of its decision to review the Initial Determination.

**ITEM 1A. RISK FACTORS**

*You should carefully consider the risks described below and the other information in this Quarterly Report on Form 10-Q. If any of the following risks materialize, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected.*

*Certain statements in this report contain words such as could, expect, may, anticipate, will, believe, intend, estimate, plan, envision, seek and other similar language and are considered forward-looking statements. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. In addition, other written or oral statements that are considered forward-looking may be made by us or others on our behalf. These statements are subject to important risks, uncertainties and assumptions, that are difficult to predict and actual outcomes may be materially different. In particular, the risks described below could cause actual events to differ materially from those contemplated in forward-looking statements. Unless otherwise required by applicable securities laws, we do not have any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and liquidity.*

***We have recently transformed our business through the implementation of a new business strategy. If this strategy is unsuccessful, we will be materially adversely affected.***

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



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

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

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

Our worldwide operations and business could be subject to natural disasters and other business disruptions, such as a world health crisis, fire, earthquake, tsunami, volcano eruption, flood, hurricane, power loss, power shortage, telecommunications failure or similar events, which could harm our future net sales and financial condition and increase our costs and expenses. We distribute our products in Japan through our wholly owned subsidiary, Nihon Spansion Limited. During fiscal 2010, our net sales into Japan were \$84.0 million or 7 percent of our total net sales.

During the first quarter of 2011, we lost sales and experienced delays in the provision of foundry services by third parties in Japan as a result of the earthquakes and related tsunami that occurred there in March 2011. Specifically, some first quarter product shipments were cancelled or rescheduled for shipment during the second quarter. We also incurred some minor damage to our production equipment. Although the impact to our operations and financial results during the first quarter of fiscal 2011 as a result of the events in Japan was not material, we believe that the earthquakes and tsunami, as well as the resultant intermittent power outages and the continued risk of radiation exposure from damaged nuclear power plants, could adversely affect the demand for, and supply and distribution of, our products in Japan going forward as businesses there continue to deal with the impact of these natural disasters. If this occurs, our net sales and financial condition will be adversely affected.

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Our corporate headquarters are located near major earthquake fault lines in California. Many of our service providers' facilities, including Texas Instruments' manufacturing facilities, Fujitsu's manufacturing facilities and Elpida's manufacturing facilities that provide wafer fabrication and associated services to us, are located near major earthquake fault lines in Japan. Also, our assembly and test facility located in Thailand and our subcontractors' assembly and test facilities in Asia may be affected by tsunamis. In the event of a major earthquake or tsunami, we and our suppliers could experience loss of life of employees, destruction of facilities or other business interruptions. If such business disruptions result in cancellations of customer orders or contribute to a general decrease in economic activity or demand for our products, or directly impact our marketing, manufacturing, financial, and logistics functions, our results of operations and financial condition could be materially adversely affected. For example, during the first quarter of 2011, we experienced some delays in the provision of services by third parties in Japan as a result of the earthquakes and related tsunami that occurred there in March 2011. We believe that the impact of these natural disasters remains uncertain and if we were to continue to experience a greater frequency or greater duration of delays in the provisions of these services, our business operations could be materially adversely affected.

Furthermore, the operations of our suppliers could be subject to natural disasters and other business disruptions, which could cause shortages and price increases in various essential materials, which are required to manufacture our products or to manufacture commercial memory die such as PSRAMs for incorporation into our multi-chip products (MCPs). If we are unable to procure an adequate supply of materials that are required for us to manufacture our products, or if the operations of our other suppliers of such materials are affected by an event that causes a significant business disruption, we may have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

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

Historically, the selling prices of our products have decreased during the products' lives, and we expect this trend to continue. When our selling prices decline, our net sales and gross margins also decline unless we are able to compensate by selling more units and thereby reducing our manufacturing costs per unit or by introducing and selling new, higher margin products with higher densities and/or advanced features. If the selling prices for our products continue to decline, our operating results could be materially adversely affected.

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

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

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

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

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

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



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

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

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

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

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

We are dependent on the experience and industry knowledge of our senior management and other key employees to execute our current business plans and lead us through the implementation of the Plan of Reorganization was approved by the U.S. Bankruptcy Court on April 16, 2010 in connection with our emergence from the Chapter 11 Cases. Competition for certain key positions and specialized technical and sales personnel in the high-technology industry remains strong. The Chapter 11 Cases, along with workforce reductions, created uncertainty that led to an increase in unwanted attrition and additional challenges in attracting and retaining new qualified personnel. We have lost many key employees with long tenures and broad knowledge about our technology and historical operations and we are at risk of losing or being unable to hire talent critical to a successful reorganization and ongoing operation of our business. If we are not able to attract, recruit or retain qualified employees (including as a result of headcount or salary reductions), we may not have the personnel necessary to successfully implement the Plan of Reorganization. If this occurs our business, results of operations and financial condition could be materially adversely impacted.

*We may not satisfy the covenants, financial tests and ratios in our debt instruments, which if not met, would have a material adverse effect on us.*

Our credit agreement, or Term Loan, our loan and security agreement, or Revolving Credit Facility, and the indenture governing our 7.875 % Senior Unsecured Notes due 2017 require us to comply with covenants, financial tests and ratios. We cannot assure you that we will be able to satisfy or comply with these covenants, financial tests and ratios, as our ability to do so may be affected by events beyond our control. If we fail to satisfy or comply with such covenants, financial tests and ratios, or if we disagree with our lenders about whether or not we are in compliance, we cannot assure you that we will be able to obtain waivers or amendments if required to avoid a default. A breach of any of the provisions, covenants, financial tests or ratios under our debt instruments could prevent us from borrowing under our Revolving Credit Facility and result in an event of default under the applicable agreement, which in turn could trigger cross-defaults under other debt instruments, any of which would materially adversely affect us.

*Transfers or issuances of our equity, or a debt restructuring, may impair or reduce our ability to utilize our net operating loss carry-forwards and certain other tax attributes in the future.*

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Pursuant to U.S. federal and state tax rules, a corporation is generally permitted to deduct from taxable income in any year net operating losses (NOLs) carried forward from prior years. We have U.S federal NOL carry forwards of approximately \$870.0 million as of December 26, 2010. Approximately \$533.6 million of the federal NOL carry forwards are subject to an annual limitation of \$27.2 million. These NOLs, if not utilized, expire from 2018 to 2030. In addition, our ability to utilize unlimited federal NOL carry forwards of approximately \$336.4 million as of December 26, 2010 could be subject to a significant limitation if we were to undergo an ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Flash memory industry is highly competitive and subject to rapid technological change. In order to compete, we are required to make substantial investments in research and development for product design, process technologies and production techniques in an effort to design and manufacture advanced Flash memory products. For example, in connection with our new business strategy, our research and development expenses for fiscal 2009 and 2010 were \$136.4 million and \$100.5 million, or approximately 10 percent and 9 percent of our total net sales, respectively. We cannot assure you that we will have sufficient resources independently or through joint development agreements to maintain the level of investment in research and development that is required for us to remain competitive, which could materially adversely affect us.

As part of our reorganization, our strategy has changed to increasingly seek to share research and development costs with third parties. For example, in 2009, we entered into a joint development agreement with Elpida for the development of products based on NAND architecture. However we cannot assure you that we will be able to negotiate such arrangements for more of our research and development needs, or that such arrangements will result in commercially successful technology and products in a timely manner or at all. We will be dependent on the third parties in such agreements to continue to invest financial and skilled human resources, and we cannot assure you that such third parties will make the necessary investments, the absence of which would materially adversely affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

successfully transition to advanced process technologies;

continue to reduce test times;

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

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

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

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

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





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

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

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

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

***We are a 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.***

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

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

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

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

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for another or one piece of equipment for another. Some raw materials we use in the manufacture of our products are available from a limited number of suppliers or only from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as gold for which prices on the world markets have fluctuated significantly during recent periods. Our manufacturing operations also depend upon the quality and usability of the materials we use in our products, including raw materials and wafers we receive from our suppliers. If the materials we receive from our suppliers do not meet our manufacturing requirements or product specifications, are not obtained in a timely manner or if there are significant increases in costs of materials, we may be materially adversely affected.

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

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

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

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

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

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

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

expropriation;

changes in political or economic conditions;

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

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

difficulties in protecting our intellectual property;

changes in foreign currency exchange rates;

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

changes in freight and interest rates;

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

loss or modification of exemptions for taxes and tariffs.

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

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

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

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

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

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

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

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Consequently, movements in exchange rates could cause our net sales and expenses to fluctuate, affecting our results of operations and cash flows. We use foreign currency forward contracts to reduce our exposure to foreign currency exchange rate fluctuations. The objective of these contracts is to reduce the impact of foreign currency exchange rate movements on our operating results and on our foreign currency denominated monetary assets and liabilities. We do not use these contracts for speculative or trading purposes. We cannot assure you that these activities will be successful in reducing our foreign currency exchange rate exposure. If these activities are unsuccessful, our financial condition could be materially adversely affected.

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

Our properties and many aspects of our business operations are subject to various domestic and international environmental laws and regulations, including those relating to materials used in our products and manufacturing processes; chemical use and handling; waste minimization; discharge of pollutants into the environment; the treatment, transport, storage and disposal of solid and hazardous wastes; and remediation of contamination. Certain of these laws and regulations require us to obtain permits for our operations, including permits related to the discharge of air pollutants and wastewater. From time to time, our facilities are subject to investigation by governmental regulators. Environmental compliance obligations and liability risks are inherent in many of our manufacturing and other activities. Any failure to comply with applicable environmental laws, regulations or permits may subject us to a range of consequences, including fines, suspension of production, alteration of manufacturing processes, sales limitations, and criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at or under our facilities, or for other environmental or natural resource damage.

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

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

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

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

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

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

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

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

The market price 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;

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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.

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**ITEM 6. EXHIBITS**

**Exhibit**

| <b>Number</b> | <b>Description of Exhibits</b>  |
|---------------|---|
| 10.1*+        | Spansion Inc. 2010 Executive Compensation Plan.   |
| 10.2          | Option Agreement for the Purchase and Sale of Real Property and Escrow Instructions entered into March 23, 2011 between Spansion LLC, a wholly owned subsidiary of Spansion Inc., and Trumark Companies LLC for the Purchase and Sale of Real Property and Escrow Instructions. |
| 31.1          | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2          | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1**        | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2**        | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS***    | XBRL Instance Document  |
| 101.SCH***    | XBRL Taxonomy Extension Schema Document   |
| 101.CAL***    | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF***    | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB***    | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE***    | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Management Agreement or Compensation Plan

\*\* Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.



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- \*\*\* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or any other liability provision of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.
- + Confidential treatment has been requested with respect to portions of this exhibit. The redacted information has been filed separately with the SEC.

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**SIGNATURE**

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

SPANSION INC.

Date: May 6, 2011

By: */s/* Randy W. Furr  
Randy W. Furr  
Executive Vice President and Chief  
Financial Officer