

Spansion Inc.  
Form 10-Q  
November 04, 2011  
[Table of Contents](#)

**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 September 25, 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)

**94085**  
(Zip Code)

**(408) 962-2500**  
(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

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 October 31, 2011:

Class	Number of Shares
Class A Common Stock, \$0.001 par value	59,568,889
Class B Common Stock, \$0.001 par value	1

**Table of Contents**

**Table of Contents**

**INDEX**

	<b>Page No.</b>
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three and Nine months ended September 25, 2011 and September 26, 2010</u>	3
<u>Condensed Consolidated Balance Sheets September 25, 2011 and December 26, 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine months ended September 25, 2011 and September 26, 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	38
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	39
Item 1A. <u>Risk Factors</u>	39
Item 6. <u>Exhibits</u>	54
<u>Signature</u>	55

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**Spansion Inc.****Condensed Consolidated Statements of Operations**

(in thousands, except per share amounts)

(Unaudited)

	Successor		Successor		Nine Months Ended September 26, 2010	
	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months Ended September 25, 2011	Period from May 11, 2010 to September 26, 2010	Predecessor Period from December 28, 2009 to May 10, 2010	
Net sales	\$ 258,163	\$ 307,594	\$ 849,868	\$ 432,163	\$ 324,914	
Net sales to related parties				4,801	78,705	
Total net sales	258,163	307,594	849,868	436,964	403,619	
Cost of sales	184,486	276,838	629,987	388,251	274,817	
Research and development	21,721	26,246	82,118	39,666	35,068	
Sales, general and administrative	28,728	59,948	79,188	78,207	68,105	
Restructuring credits					(2,772)	
Operating income (loss) before reorganization items	23,228	(55,438)	58,575	(69,160)	28,401	
Other income (expense):						
Interest and other income (expense), net	775	1,378	1,233	1,742	(2,904)	
Interest expense	(7,629)	(9,124)	(25,465)	(14,001)	(30,573)	
Income (loss) before reorganization items and income taxes	16,374	(63,184)	34,343	(81,419)	(5,076)	
Reorganization items					370,340	
Income (loss) before income taxes	16,374	(63,184)	34,343	(81,419)	365,264	
Provision for income taxes	8,560	1,670	15,388	1,649	1,640	
Net income (loss)	7,814	(64,854)	18,955	(83,068)	363,624	
Less: Net income attributable to the noncontrolling interest	472		472			
Net income (loss) attributable to Spansion Inc.	\$ 7,342	\$ (64,854)	\$ 18,483	\$ (83,068)	\$ 363,624	
Net income (loss) per share attributable to Spansion Inc. common stockholders						
Basic	\$ 0.12	\$ (1.09)	\$ 0.30	\$ (1.40)	\$ 2.24	

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Diluted	\$ 0.12	\$ (1.09)	\$ 0.29	\$ (1.40)	\$ 2.24
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Shares used in per share calculation

Basic	61,530	59,271	61,925	59,271	162,439
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Diluted	62,607	59,271	63,617	59,271	162,610
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**See accompanying notes**

**Table of Contents****Spansion Inc.****Condensed Consolidated Balance Sheets**

(in thousands, except per share and share amounts)

(Unaudited)

	Successor	
	September 25, 2011	December 26, 2010 <sup>(1)</sup>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 235,520	\$ 329,294
Short term investments	65,263	24,979
Accounts receivable, net	105,576	165,975
Inventories	210,722	168,937
Deferred income taxes	3,988	6,321
Prepaid expenses and other current assets	42,016	50,210
<b>Total current assets</b>	<b>663,085</b>	<b>745,716</b>
Property, plant and equipment, net	217,348	259,940
Intangible assets, net	184,370	197,733
Goodwill	167,280	153,338
Other assets	49,996	42,578
<b>Total assets</b>	<b>\$ 1,282,079</b>	<b>\$ 1,399,305</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	104,754	119,288
Accrued compensation and benefits	23,776	39,978
Other accrued liabilities	59,137	109,444
Deferred income	14,593	22,238
Current portion of long-term debt and obligations under capital leases	4,292	13,689
Income taxes payable	3,783	1,107
Deferred income taxes, short-term	4,407	
<b>Total current liabilities</b>	<b>214,742</b>	<b>305,744</b>
Deferred income taxes	1,320	3,877
Long-term debt, less current portion	445,667	441,220
Other long-term liabilities	28,385	24,179
<b>Total liabilities</b>	<b>690,114</b>	<b>775,020</b>
<b>Spansion Inc. stockholders equity</b>		
Common stock, Class A (\$0.001 per share, 150,000,000 shares authorized, 59,730,327 shares issued and outstanding)	60	62
Common stock, Class B (\$0.001 per share, 1 share authorized, 1 share issued and outstanding)		
Additional paid in capital	670,332	721,712
Retained deficit	(78,209)	(96,692)
Accumulated other comprehensive loss	(1,729)	(797)
<b>Total Spansion Inc. stockholders equity</b>	<b>590,454</b>	<b>624,285</b>

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Noncontrolling interest	1,511	
<b>Total Equity</b>	<b>591,965</b>	<b>624,285</b>
<b>Total liabilities and equity</b>	<b>\$ 1,282,079</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)**

	Successor Nine Months Ended September 25, 2011	Successor Period from May 11, 2010 to September 26, 2010	Predecessor Period from December 28, 2009 to May 10, 2010
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ 18,955	\$ (83,068)	\$ 363,624
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	121,840	82,591	43,788
Provision (benefit) for deferred income taxes	(603)	(4,637)	7,000
Net gain on sale and disposal of property, plant and equipment, net	(2,671)	(1,542)	(2,107)
Asset impairment charges	7,557		
Compensation recognized under employee stock plans	14,220	4,809	7,052
Gain from approved settlement of rejected capital leases and various licenses			(22,517)
Gain on sale of Suzhou plant		(3,701)	(5,224)
Gain on discharge of pre-petition obligations			(434,046)
Impairment of investments			3,011
Write-off of financing costs for old debts			13,022
Amortization of inventory fresh-start markup	8,260	67,666	
Changes in operating assets and liabilities	(117,967)	(6,925)	27,756
Net cash provided by operating activities	49,591	55,193	1,359
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of property, plant and equipment	7,592	15,716	9,620
Purchases of property, plant and equipment	(39,675)	(22,083)	(14,046)
Purchases of marketable securities	(68,498)	(29,990)	
Proceeds from redemption of marketable securities	28,215		
Proceeds from redemption of auction rate securities		44,700	62,425
Purchase of Spansion Japan distribution business		(13,125)	
Cash proceeds from sale of Suzhou plant			18,687
Other	581		
Net cash provided (used) by investing activities	(71,785)	(4,782)	76,686
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of common stock	5,386		
Proceeds from borrowings, net of issuance costs			438,082
Payments on debt and capital lease obligations	(6,828)	(5,956)	(691,176)



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Proceeds from rights offering			104,875
Cash settlement on hedging activities	(796)		
Purchase of bankruptcy claims	(70,987)		
Net cash used by financing activities	(73,225)	(5,956)	(148,219)
Effect of exchange rate changes on cash and cash equivalents	1,645	507	
Net increase (decrease) in cash and cash equivalents	(93,774)	44,962	(70,174)
Cash and cash equivalents at the beginning of period	329,294	254,729	324,903
Cash and cash equivalents at end of period	\$ 235,520	\$ 299,691	\$ 254,729

See accompanying notes

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**Table of Contents**

**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 the Company's Annual Report on Form 10-K for the Predecessor period from December 28, 2009 through May 10, 2010 and for the Successor period from May 11, 2010 through December 26, 2010 ( Fiscal 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 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases ) on May 10, 2010 (the Emergence Date ). References to the Predecessor refer to the Company and its consolidated subsidiaries up to May 10, 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. However, the interim financial information shown in this report is not necessarily indicative of results that may be expected for the year ending December 25, 2011 or any other period. This interim information should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for fiscal 2010 filed with the Securities and Exchange Commission on February 23, 2011. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

*Out of Period Adjustments*

During the first quarter of 2011, the Company identified certain errors totaling \$9.2 million related to uncertain income tax positions in certain foreign locations affecting the Predecessor periods prior to May 10, 2010. The Company assessed the errors and concluded that such errors were not material to those periods. Accordingly, the correction for the Predecessor periods were recorded as adjustments to increase Goodwill as of the Emergence Date. Further, the Company identified a \$2.8 million adjustment for uncertain tax positions related to the Successor periods from May 11, 2010 to December 26, 2010. The Company also concluded that this adjustment was not material to the Successor periods and was not expected to be material to its projected results of operations for the year ending December 25, 2011; therefore, the adjustment was recorded as an increase to the Company's income tax provision during the three months ended March 27, 2011. There were no such adjustments for the three months ended September 25, 2011.

*Revenue Recognition*

*Patent licenses.* Commencing from the third quarter of fiscal 2011, the Company licenses its portfolio of patented inventions to another semiconductor company which uses these inventions in the development and manufacture of their own products. Such licensing agreement may cover the license of part, or all, of our patent portfolio. The contractual terms of the agreement generally provide for payments over an extended period of time. For such licensing agreement with fixed royalty payments, the Company recognizes revenue from these arrangements as amounts become due.

**Table of Contents**

**Spansion Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**2. Summary of Significant Accounting Policies**

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance for fair value measurements to achieve common fair value measurement and disclosure requirements. The new requirements are effective on a prospective basis in the first quarter of fiscal 2012 and early adoption is not permitted. The Company does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income in financial statements to require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. The new guidance will be effective on a retrospective basis in the first quarter of fiscal 2012. The Company does not expect the adoption of this new guidance to have a material impact on its results of operations or financial position.

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company will perform the annual goodwill impairment assessment during the fourth quarter of fiscal 2011 and does not expect the adoption of this guidance to have a material impact on the its results of operations or financial position.

**Principles of consolidation**

On August 8, 2011, the Company entered into a design services and purchase option agreement with a private semiconductor company which was determined to be a variable interest entity ( VIE ) of which we were the primary beneficiary in accordance with ASC Topic 810, *Consolidation*, as we had the power to direct the activities of the entity through the arrangements. Consequently, the results of operations and financial condition of the VIE has been included in the condensed consolidated financial statements of the Company effective August 8, 2011. The noncontrolling interests attributed to the VIE are presented as separate components of the Company's consolidated statements of operations and consolidated balance sheet. The VIE's financial statements are not significant to the Company's condensed consolidated financial statements for the periods presented.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****3. Balance Sheet Components**

	September 25, 2011	Successor December 26, 2010 (in thousands)
<b>Account receivable</b>		
Accounts receivable, gross	\$ 105,820	\$ 166,301
Allowance for doubtful accounts	(244)	(326)
Account receivable, net	\$ 105,576	\$ 165,975
<b>Inventories</b>		
Raw materials	\$ 12,987	\$ 16,537
Work-in-process	151,596	128,753
Finished goods	46,139	23,647
Inventories	\$ 210,722	\$ 168,937
<b>Property, plant and equipment</b>		
Land	\$ 51,778	\$ 51,778
Buildings and leasehold improvements	68,434	68,437
Equipment	309,352	242,240
Construction in progress	8,747	18,745
	438,311	381,200
Less: accumulated depreciation and amortization	(220,963)	(121,260)
Property, plant and equipment, net	\$ 217,348	\$ 259,940
<b>Other accrued liabilities</b>		
Litigation reserve <sup>(1)</sup>	\$ 1,450	\$ 43,034
Others	57,687	66,410
Other accrued liabilities	\$ 59,137	\$ 109,444

(1) The litigation reserve as of September 25, 2011 decreased by \$41.6 million when compared to December 26, 2010 primarily due to the settlement of the Samsung cases. See Note 14 for more information about the settlement of the Samsung cases.

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

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The following table sets forth the total recorded stock-based compensation expense of the Successor for the three and nine months ended September 25, 2011 of the Predecessor period from December 28, 2009 through May 10, 2010 and the Successor period from May 11, 2010 through September 26, 2010, respectively.

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

	Successor		Successor	Nine Months Ended September 26, 2010	
	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months Ended September 25, 2011 (in thousands)	Successor Period from May 11, 2010 <sup>(1)</sup> to September 26, 2010	Predecessor Period from December 28, 2009 to May 10, 2010 <sup>(1)</sup>
Cost of sales	\$ 838	\$ 1,072	\$ 2,285	\$ 1,793	\$ 346
Research and development	1,157	453	3,131	851	683
Sales, general and administrative	2,629	1,340	8,804	2,165	566
Expense on cancellation of old equity incentive plans					5,457
Stock-based compensation expense before income taxes	4,624	2,865	14,220	4,809	7,052
Income tax benefit					
Stock-based compensation expense after income taxes	\$ 4,624	\$ 2,865	\$ 14,220	\$ 4,809	\$ 7,052

(1) May 10, 2010 is the date on which all Predecessor equity incentive plans were cancelled and the Successor's 2010 Plan became effective. Predecessor

No stock awards were granted by the Predecessor in the period from December 28, 2009 to May 10, 2010 under the Predecessor's equity plans.

*Successor*

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:

	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months Ended September 25, 2011	For the period from May 11, 2010 to September 26, 2010
Weighted average fair value	\$7.71	\$6.91	\$8.67	\$5.05
Expected volatility	57.79%	58.00%	57.02%	58.00%
Risk-free interest rate	0.69%	1.16%	1.08%	1.88%
Expected term (in years)	4.35	4.35	4.35	4.35
Dividend yield	0%	0%	0%	0%

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As of September 25, 2011, the total unrecognized compensation cost related to unvested stock options and restricted stock unit awards (RSUs) was approximately \$51.3 million after reduction for estimated forfeitures. These stock options and RSU awards will generally vest ratably through 2015.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****Shares available for Grant**

The number of shares of common stock available for grant as of September 25, 2011 under the 2010 Plan are as follows:

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 September 25, 2011, net of forfeitures	(2,071,723)
RSU awards granted through September 25, 2011, net of forfeitures	(950,145)
Key executive RSU awards granted through September 25, 2011, net of forfeitures	(220,746)
Shares available for grant under the 2010 Plan as of September 25, 2011	1,591,028

**Stock Option and Restricted Stock Unit Activity**

The following table summarizes stock option activity and related information under the 2010 Plan for the nine months ended September 25, 2011:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual life (in years)	Aggregate Intrinsic value (in thousands)
Outstanding as of December 26, 2010	3,027,943	\$ 10.93	6.40	\$ 27,875
Granted	2,463,610	\$ 18.84		
Forfeited	(391,887)	\$ 13.77		
Exercised	(511,415)	\$ 10.51		
Total options outstanding as of September 25, 2011	4,588,251	\$ 14.98	6.36	\$ 5,594
Total exercisable as of September 25, 2011	758,929	\$ 10.71	5.65	\$ 1,949

The following table summarizes RSU award activity and related information for the nine months ended September 25, 2011:

	Number of Shares	Weighted-Average Grant-date Fair Value
Unvested as of December 26, 2010	1,841,559	\$ 10.88
Granted	1,121,805	\$ 19.48



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Forfeited	(171,660)	\$	13.33
Vested	(395,546)	\$	19.86
Unvested as of September 25, 2011	2,396,158	\$	13.25

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

The following table summarizes key executive RSU award activity and related information for the nine months ended September 25, 2011:

	Number of Shares	Weighted-Average Grant-date Fair Value
Unvested as of December 26, 2010	1,127,015	\$ 10.88
Granted	376,000	\$ 19.64
Forfeited	(155,254)	\$ 17.84
Vested	(281,450)	\$ 19.88
Unvested as of September 25, 2011	1,066,311	\$ 10.58

Key executive RSUs granted in 2011 have both service and performance vesting conditions. Fifty percent of each RSU award vests based on continued service with the Company, and the remaining fifty percent vests only upon achievement of certain performance conditions, relating to annual revenue and operating margin. As of September 25, 2011, the Company estimated based on current forecasts, Spansion will not meet its performance milestones and accordingly, the Company has not recognized any compensation expense related to the awards with the performance conditions, and has reversed \$1.1 million of expense previously recognized in 2011.

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

The following table presents the calculation of basic and diluted net income (loss) per share:

	Successor		Successor		Predecessor
	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months ended September 25, 2011	Period from May 11, 2010 to September 26, 2010	Period from December 28, 2009 to May 10, 2010
	(in thousands except for per-share amounts)				
Net income (loss) attributable to Spansion Inc. common stockholders	\$ 7,342	\$ (64,854)	\$ 18,483	\$ (83,068)	\$ 363,624
<b>Weighted average shares outstanding basic</b>	61,530	59,271	61,925	59,271	162,439
Effect of dilutive options and restricted stock units	1,077		1,692		171
<b>Weighted-average shares diluted</b>	62,607	59,271	63,617	59,271	162,610

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Net income (loss) per share basic	\$ 0.12	\$ (1.09)	\$ 0.30	\$ (1.40)	\$ 2.24
Net income (loss) per share diluted	\$ 0.12	\$ (1.09)	\$ 0.29	\$ (1.40)	\$ 2.24

Employee stock options and unvested RSUs 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.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****6. Comprehensive Income (Loss)**

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

	Successor		Successor	Nine Months Ended September 26, 2010	
	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months Ended September 25, 2011	Successor Period from May 11, 2010 to September 26, 2010	Predecessor Period from December 28, 2009 to May 10, 2010
Net income (loss)	\$ 7,814	\$ (64,854)	\$ 18,955	\$ (83,068)	\$ 363,624
Net change in cumulative translation adjustment	(323)	(1,683)	(931)	(1,458)	
Net change in unrealized losses on interest swap, net of \$0 taxes		(1,753)		(1,753)	
Comprehensive income (loss)	\$ 7,491	\$ (68,290)	\$ 18,024	(86,279)	363,624
Less: Comprehensive income attributable to Noncontrolling interest	472		472		
Comprehensive income (loss) attributable to Spansion Inc.	\$ 7,019	\$ (68,290)	\$ 17,552	\$ (86,279)	\$ 363,624

For the Predecessor period from December 28, 2009 to May 10, 2010, net income of \$363.6 million was primarily attributable to the recognition of the reorganization gain of \$364.9 million as a result of the discharge of prepetition obligations upon emergence from the Chapter 11 Cases, partially offset by certain operating expenses.

**7. Related Party Transactions****Spansion Japan**

The following table presents the significant related party transactions between the Company and Spansion Japan for the three and nine months ended September 26, 2010:

	Successor Three Months	Successor Period from	Nine Months Ended September 26, 2010	Predecessor Period from December 28, 2009
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	Ended September 26, 2010	May 11, 2010 to September 26, 2010	to May 10, 2010
Sales to Spansion Japan	\$ 439	\$ 5,240	\$ 78,705
Wafer purchases from Spansion Japan	\$ 25,682	\$ 30,039	\$ 80,160
Payment to Spansion Japan for R&D services	\$	\$ 143	\$ 2,686

Effective June 27, 2010, Spansion Japan's Plan of Reorganization (POR) was confirmed by the Tokyo District Court. The POR provided for Spansion Japan to redeem shares held by its shareholders without consideration, cancel such shares and issue new shares to unsecured creditors. The redemption, cancellation and new issuance were completed effective September 28, 2010. As a result, Spansion Japan is no longer a related party to the Company.

**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****Silver Lake Sumeru Fund, L.P.**

SLS Spansion Holdings, LLC and its affiliates are holders of greater than 10 percent of the Company's voting securities as of September 25, 2011 and two affiliates of Silver Lake Sumeru Fund L.P. are members of the Company's Board of Directors. 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 that will be settled with Spansion common shares. The aggregate purchase price paid by Spansion for all rights was approximately \$29.0 million and was recognized in stockholder's equity as a component of additional paid in capital.

The purchase agreement and the transactions thereunder were approved by the non-interested directors of the Company's Board and also by an order of the Bankruptcy Court under the Chapter 11 Cases on May 31, 2011.

**8. Intangible Assets and Goodwill**

Intangible assets at September 25, 2011 and December 26, 2010 are as follows:

	September 25, 2011	December 26, 2010
	(in thousands)	
Developed technology	\$ 96,017	\$ 65,900
Customer relationships	94,466	93,348
Trade name	8,374	8,200
Total amortizable intangible assets	\$ 198,857	\$ 167,448
Less: Accumulated amortization	(29,846)	(12,715)
Intangible assets, net	\$ 169,011	\$ 154,733
IPR&D	15,359	43,000
Goodwill	167,280	153,338
<b>Intangible assets and goodwill, net</b>	<b>\$ 351,650</b>	<b>\$ 351,071</b>

During the first quarter of fiscal 2011, the Company identified and recorded to Goodwill 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 the increase to Goodwill. See Note 1 for more information. There were no such adjustments for the three months ended September 25, 2011.

***In-Process Research and Development (IPR&D)***

As of September 25, 2011, approximately \$27.6 million of the total capitalized IPR&D of \$43 million relating to GL NOR Flash memory projects had reached technological feasibility and was transferred to developed technology, and amortization of approximately \$1.0 million and \$1.6 million was recorded during the three and nine months ended September 25, 2011, respectively, for this developed technology. The Company expects the remaining projects (relating to the development of process technologies to manufacture flash memory products associated with GL and FL product families) to attain technological feasibility and commence commercial production during the fourth quarter of fiscal 2011 and the first half of fiscal 2012.



**Table of Contents****Spansion Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****9. 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 and nine months ended September 25, 2011 are as follows:

	Three Months Ended	Nine Months Ended
		September 25, 2011
		(in thousands)
Balance at beginning of period	\$ 613	\$ 1,766
Provision for warranties issued	354	1,138
Settlements	(307)	(1,572)
Changes in liability for pre-existing warranties during the period	(45)	(717)
Balance at end of period	\$ 615	\$ 615

Changes in the Company's liability for product warranty during the three and nine months ended September 26, 2010 are as follows:

	Successor	Successor Period	Nine Months Ended September 26, 2010 Predecessor
	Three Months ended September 26, 2010	from May 11, 2010 to September 26, 2010 (in thousands)	Period from December 28, 2009 to May 10, 2010
Balance at beginning of period	\$ 3,418	\$ 3,169	\$ 3,841
Provision for warranties issued	525	1,119	1,694
Settlements	(385)	(543)	(852)
Changes in liability for pre-existing warranties during the period	(1,004)	(1,191)	(1,514)
Balance at end of period	\$ 2,554	\$ 2,554	\$ 3,169

**10. Debt and Capital Lease Obligations**

The following table summarizes the Company's debt and capital lease obligations at September 25, 2011 and December 26, 2010:

September 25, 2011      December 26, 2010  
(in thousands)



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Debt obligations:			
Senior Unsecured Notes	\$ 200,000	\$	200,000
Senior Secured Term Loan	247,579		251,750
China working capital loan facility	2,317		
Obligations under capital leases	63		3,159
Total debt and capital lease obligations	\$ 449,959	\$	454,909
Less: current portion	4,292		13,689
Long-term debt and capital lease obligations	\$ 445,667	\$	441,220

### Senior Secured Term Loan (the Term Loan)

On May 12, 2011, Spansion LLC amended its Term Loan to reduce the margin on base rate loans from 3.75 percent per annum to 2.50 percent per annum, to reduce the margin on Eurodollar rate loans from 4.75 percent per annum to 3.50 percent per annum, and to reduce the LIBOR floor on Eurodollar rate loans from 1.75 percent to 1.25 percent, effective as of May 16, 2011. The Company incurred a \$2.5 million prepayment penalty associated with the amendment of the Term Loan which was capitalized as a discount to the Term Loan in accordance with the guidance under ASC Topic No. 470, *Debt*.

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

The amendment provides that, under certain conditions, if the Company makes a prepayment of the Term Loan prior to May 12, 2012, the Company will owe a prepayment premium of one percent of the prepayment amount.

The amendment also provides for increased allowable limits for capitalized leases, loans to employees, threshold for requiring control agreements on deposit accounts, investments, dispositions, general restricted payments and acquisition of certain bankruptcy claims. Additionally, the amendment permits the sale of the Company's headquarters building and consignment of equipment and inventory in connection with the provision of services or products.

As of September 25, 2011, the Company was in compliance with all the Term Loan's covenants, including the minimum Consolidated Interest Coverage Ratio test, Consolidated Leverage Ratio and Capital Expenditures. The following shows the required ratios under these financial covenants and the current ratios as of September 25, 2011:

Financial Covenant	Required Ratio	Actual Ratios
	under Term Loan	as of September 25, 2011
Consolidated Interest Coverage Ratio	Greater than 3.5 to 1.0	8.3 to 1.0
Consolidated Leverage Ratio	Less than 3.0 to 1.0	1.6 to 1.0
Capital Expenditures	Less than \$150 million during each fiscal year <sup>(1)</sup>	\$60.4 million

(1) Subject to certain provisions enabling a carry-over of unused amounts to the following fiscal year.

**Revolving Credit Facility**

On May 12, 2011, the Company also amended the Revolving Credit Facility in a fashion similar to those changes made to the Term Loan. Availability on the Revolving Credit Facility was \$12.5 million as of September 25, 2011, with no amounts drawn down. The Company was in compliance with all of the Revolving Credit Facility's covenants as of September 25, 2011.

**Senior Unsecured Notes**

Pursuant to the terms of the registration rights agreement that the Company entered into in connection with the Company's issuance of its 7.875% Senior Notes Due 2017 (Notes), the Company was obligated to complete an exchange offer of the Notes for substantially identical notes that have been registered with the SEC by August 5, 2011. However, the exchange offer has not been completed. In accordance with the terms of the registration rights agreement, interest on the Notes was increased by 0.25% on August 6, 2011 and by an additional 0.25% on November 3, 2011. Upon completion of the exchange offer, the interest rate will be reduced back to 7.875%.

**China working capital loan facility**

On August 8, 2011, the Company entered into a design services and purchase option agreement with a private semiconductor company located in the People's Republic of China and which was determined to be a variable interest entity (VIE) of which the Company was the primary beneficiary in accordance with ASC



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

Topic 810, *Consolidation*, as the Company has the power to direct the activities of the entity through the arrangements. The entity has unsecured working capital loan facilities from two Provincial Governments within the People's Republic of China. The Company has consolidated these facilities into its Condensed Consolidated Financial Statements.

	As of September 25, 2011 China Working capital loan	
	Facility 1	Facility 2
Outstanding amount in USD (in thousands, converted from RMB as of September 25, 2011)	1,536	781
Outstanding amount in RMB (in thousands)	9,830	5,000
Date of entering into the loan agreement	March 26, 2010	April 1, 2011
Interest	Interest free	Interest free
Repayment terms	On completion of asset purchase	On receipt of venture capital funding

**11. Income Taxes**

The following table presents the provision for income taxes of the Company:

	Nine Months Ended September 26, 2010				
	Successor	Successor	Successor	Successor Period from May 11, 2010 to September 26, 2010	Predecessor Period from December 28, 2009 to May 10, 2010
	Three Months Ended September 25, 2011	Three Months Ended September 26, 2010	Nine Months Ended September 25, 2011		
	(in thousands)				
Provision for income taxes	8,560	1,670	15,388	1,649	1,640

The Company recorded an income tax expense of \$8.6 million for the three months ended September 25, 2011, as compared to an income tax expense of \$1.7 million in the three months ended September 26, 2010. The difference between the income tax expense recorded for the three months ended September 25, 2011 compared to the tax expense recorded in the three months ended September 25, 2010 is primarily due to a \$5.0 million Korean withholding tax payment on Samsung licensing revenue and the remainder is primarily due to operating income in the Company's foreign locations.

The Company recorded income tax expense of \$15.4 million for the nine months ended September 25, 2011, as compared to income tax expense of \$1.6 million from May 11, 2010 to September 26, 2010 and income tax expense of \$1.6 million from December 28, 2009 to May 10, 2010. The Company's income tax expense for the nine months ended September 25, 2011 includes a \$2.8 million correction for uncertain tax positions of its foreign locations for the Successor period from May 11, 2010 to December 26, 2010. See Note 1 for more information. The income tax expense for the nine months ended September 25, 2011, excluding the correction, related to tax provisions in profitable foreign locations and \$5.0 million was related to withholding tax on Samsung licensing revenue. The income tax expense for the Predecessor period from December 26, 2010 to May 10, 2010 and Successor period from May 11, 2010 to September 26, 2010 also related to tax provisions in profitable foreign locations.

As of September 25, 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 the deferred tax assets will not be realizable in the foreseeable

future.

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

As of December 26, 2010, the Company had U.S. federal and state net operating loss carry forwards of approximately \$1.0 billion and \$205.0 million, respectively, which was revised as a result of the finalization and filing of our 2010 tax return. Approximately \$533.6 million of the federal net operating loss carry forwards are subject to an annual limitation of \$27.2 million. The federal and state 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 \$475.5 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.

**12. Fair Value Measurements**

As of September 25, 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* Quoted prices in active markets for identical assets or liabilities.
- Level 2* Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3* Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

	September 25, 2011				December 26, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in thousands)							
Treasury Bills	\$	\$	\$	\$	\$ 129,955	\$	\$	\$ 129,955
Commercial Paper	\$	\$ 24,949	\$	\$ 24,949	\$	\$	\$	\$
<b>Total financial assets</b>	<b>\$</b>	<b>\$ 24,949</b>	<b>\$</b>	<b>\$ 24,949*</b>	<b>\$ 129,955</b>	<b>\$</b>	<b>\$</b>	<b>\$ 129,955*</b>
Interest rate swaps	\$	\$ 1,669	\$	\$ 1,669	\$	\$ 1,180	\$	\$ 1,180
<b>Total financial liabilities</b>	<b>\$</b>	<b>\$ 1,669</b>	<b>\$</b>	<b>\$ 1,669</b>	<b>\$</b>	<b>\$ 1,180</b>	<b>\$</b>	<b>\$ 1,180</b>

\* Total short-term investments and cash equivalents excludes cash of \$275.9 million and \$224.3 million as of September 25, 2011 and December 26, 2010 held in operating accounts, respectively.

The Company was holding approximately \$25.0 million of commercial paper and its fair value is determined by quoted prices from similar assets or inputs other than quoted prices that are observable either directly or indirectly and therefore is considered a Level 2 valuation.

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To determine the fair value of the Company's interest rate swaps, 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 swaps, it is considered a Level 2 valuation.

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

As of December 26, 2010, the fair value of the treasury bills were based on quoted prices in active markets for identical terms and included in Level 1.

**13. Derivative Financial Instruments****Interest Rate Risk**

The Company is currently exposed to the variability of future quarterly interest payments on its Term Loan due to changes in the LIBOR interest rate above the floor rate of 1.25 percent. To mitigate this interest rate risk and also to comply with the requirement of hedging as 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 September 25, 2011.

The Company has approximately \$249.8 million outstanding under the Term Loan as of September 25, 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. In exchange, the swap counterparty pays the Company an interest rate equal to the floor rate of either 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 swaps 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 \$0.1 million, \$1.3 million, and \$1.4 million in interest expenses related to the swaps for the three and nine months ended September 25, 2011 and for the Successor period from May 11, 2010 to December 26, 2010, respectively. There was no interest rate swap in the Predecessor period.

The location and fair value amounts of the Company's derivative instruments reported in its Condensed Consolidated Balance Sheet as of September 25, 2011 and December 26, 2010 were as follows:

	Balance Sheet Location	September 25, 2011	December 26, 2010
		(in thousands)	
Interest Rate Swaps	Other Current Liabilities and Other Liabilities	\$1,669	\$1,180

**14. 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 September 25, 2011, the total purchase commitments were \$168.5 million, which are due through 2015.



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**Table of Contents**

**Spansion Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**Guarantees**

***Product Warranties***

The Company generally offers a one-year limited warranty for its Flash memory products. See Note 9 for more information relating to changes in the Company's liability for product warranty.

***Indemnities***

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 include indemnities to the Company's customers related to allegations the Company's products infringe third party patents or other intellectual property; indemnities to the Company's customers in connection with the delivery, design, manufacture and sale of its products; indemnities to the Company's 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 its 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 its 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 the Company's accompanying condensed consolidated financial statements.

**Uncertain Tax Positions**

As of September 25, 2011, the liability for uncertain tax positions was \$18.3 million including interest and penalties. Due to the high degree of uncertainty regarding 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, see the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2010.

***Spansion v. Samsung Patent Infringement Litigation***

Spansion was a party to several patent-related proceedings involving Samsung Electronics Co., Ltd. On June 15, 2011, Spansion and Samsung entered into a binding Memorandum of Understanding ( MOU ) that settled all outstanding patent matters between them as well as granted each other seven-year limited patent cross-licenses. On July 18, 2011, Spansion and Samsung entered into a Patent License and Settlement Agreement as contemplated by the MOU. The Agreement replaces the MOU and contains substantially identical terms and conditions. Samsung will pay to Spansion \$150.0 million over a five-year period. In addition, Spansion agreed to purchase Samsung's bankruptcy claim that was approved by the Bankruptcy Court for \$30.0 million. During the quarter ended September 25, 2011, the Company and Samsung agreed to offset the first \$30.0 million of the payments due from Samsung for the patent related settlement against Spansion's payment to Samsung for the purchase the bankruptcy claim of \$30.0 million. As a result, the Company recognized \$30.0 million in license revenue and an operating cash inflow, as well as a \$30.0 million financing cash outflow related to the purchase of the bankruptcy claim, as the Company believes that there was constructive receipt and constructive payment of the funds. The remaining payments made by Samsung will consist of a \$1.25 million installment which is to be paid on November 15, 2011, and 19 quarterly installments of \$6.25 million beginning in the first quarter of 2012.

**15. Subsequent events**

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During the fourth quarter of fiscal 2011, the Company initiated a restructuring plan which will encompass the consolidation of its two test and assembly manufacturing operations in Asia resulting in the closure of its Kuala Lumpur, Malaysia facility by the end of the first quarter of fiscal 2012. The restructuring plan will materially impact the operational results of the Company over the next four quarters.

**Table of Contents**

**Spansion Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**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 of 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 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 in Japan 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 that provide context for the remainder of this 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:* Analysis of our GAAP and non-GAAP financial results comparing the three and nine months ended September 25, 2011 and September 26, 2010

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**Table of Contents**

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

**Overview**

We are a leading designer, developer and manufacturer of Flash memory solutions. We focus on serving the embedded Flash memory market worldwide. Our Flash memory products are used primarily to store data and software code for microprocessors, microcontrollers and other programmable semiconductors which run applications in a broad range of electronic 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 selling Flash memory products, we assist our customers in developing and prototyping their designs of systems incorporating Flash memory products by providing software and hardware development tools, drivers and simulation models for system-level integration. We also license our technology and patents to third parties.

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 third quarter of fiscal 2011 decreased compared to the third quarter of fiscal 2010 due to the weak demand in the consumer end market attributable to macro global issues surrounding consumer confidence and spending, as well as weak demand from our wireless customers due to a product transition by chip set suppliers, resulting in \$90.3 million lower revenue compared to the corresponding period in fiscal 2010. This was offset partially by \$30.0 million Samsung license revenue recognized in the third quarter of fiscal 2011 in connection with the patent litigation settlement.

Commencing the fourth quarter of fiscal 2011 and as part of a Company-wide cost reduction program, the Company will implement a restructuring plan which will encompass the consolidation of its two test and assembly manufacturing operations in Asia resulting in the closure of its Kuala Lumpur, Malaysia facility by the end of the first quarter of fiscal 2012. The restructuring plan will materially impact the operating results of the Company over the next four quarters and once completed will provide annual savings to the Company as a result of these actions.

During the first quarter of 2011, we identified certain errors totaling \$9.2 million related to uncertain income tax positions in certain foreign locations affecting Predecessor periods prior to May 10, 2010 (the Emergence Date ). We assessed the errors and concluded that such errors were not material to those periods. Accordingly, we recorded the correction for the Predecessor periods as adjustments to increase Goodwill as of the Emergence Date. Further, we identified a \$2.8 million adjustment for uncertain tax positions related to the Successor periods from May 11, 2010 to December 26, 2010. We also concluded that this adjustment was not material to the Successor periods and was not expected to be material to our projected results of operations for the year ending December 25, 2011. Therefore, we recorded the adjustment as an increase to our income tax provision during the three months ended March 27, 2011. There were no such adjustments for the three months ended September 25, 2011.

***Critical Accounting Policies***

There have been no significant changes in our critical accounting estimates or significant accounting policies during the three and nine months ended September 25, 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**

Upon emergence from bankruptcy on May 10, 2010 (Emergence Date), the Company adopted fresh start accounting in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852 Reorganizations. The adoption of fresh start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the Consolidated Financial Statements on or after May 10, 2010 are not comparable to the Consolidated Financial Statements prior to that date. References in these financial statements to the Successor refer to Spansion and its consolidated subsidiaries after May 10, 2010 and references to Predecessor refer to Spansion and its consolidated subsidiaries up to May 10, 2010. Due to fresh start accounting, it is not appropriate to combine the Predecessor and Successor periods for fiscal 2010 for purposes of comparison with 2011. As a result, we have prepared pro forma statements in accordance with Article 11 of Regulation S-X for the three and nine months ended September 26, 2010 which reflect the impact of only the transactions that have had significant impact on comparability. The pro forma statements were used to compare the three and nine months ended September 26, 2010 with the periods for the three and nine months ended September 25, 2011.

**Unaudited Pro Forma Condensed Consolidated Financial Information**

The following unaudited pro forma condensed consolidated financial information for the three and nine months ended September 26, 2010 gives effect to (i) the Plan of Reorganization and emergence from the Chapter 11 Cases and the application of fresh start accounting on May 10, 2010 and (ii) the issuance of \$200 million aggregate principal amount of our 7.875% Senior Notes due 2017 (the Notes). The information has been derived by the application of pro forma adjustments to the consolidated financial statements.

The unaudited pro forma condensed consolidated statement of operations has been adjusted to give effect to pro forma events that are (i) directly attributable to the transactions described below, (ii) are factually supportable, and (iii) are expected to have a continuing impact on us. The following unaudited pro forma condensed consolidated statement of operations for the three and nine months ended September 26, 2010 is presented on a basis to reflect the adjustments as if each of the transactions described below had occurred on December 28, 2009, the first day of the fiscal year ended December 26, 2010. A pro forma balance sheet has not been presented as the transactions described below are reflected in the historical balance sheet as of December 26, 2010.

The Company believes that the presentation of the unaudited pro forma condensed consolidated financial information makes it easier for investors to compare the operating results of current and historical periods, and that it assists investors in comparing the Company's performance across reporting periods on a consistent basis by making the adjustments as described in more detail below. However, the unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have been reported had the Plan of Reorganization and emergence from the Chapter 11 Cases, the application of fresh start accounting, and the issuance of the Notes in fact occurred on the first day of the respective period presented for the unaudited pro forma condensed consolidated statement of operations, or indicative of our future results. In addition, our historical condensed consolidated financial statements will not be comparable to our financial statements following emergence from the Chapter 11 Cases due to the effects of the consummation of the Plan of Reorganization, as well as adjustments for fresh start accounting. See the section titled Adjustments Relating to Fresh Start Accounting below for further information.

**Adjustments Relating to Fresh Start Accounting**

The Fresh Start column of the unaudited pro forma condensed consolidated statement of operations gives effect to adjustments relating to fresh start accounting pursuant to ASC 852 *Reorganizations*. In accordance with ASC 852, if the reorganization value of the assets of the emerging entity immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims, and if holders of existing voting shares immediately before confirmation receive less than 50 percent of the voting shares of the emerging entity, then the entity shall adopt fresh start accounting upon its emergence from Chapter 11. The loss of control contemplated by a reorganization plan must be substantive and not temporary. That is, the new controlling interest must not revert to the stockholders existing immediately before the plan was filed or confirmed. We concluded that we met the criteria under ASC 852 to adopt fresh start accounting upon emergence from the Chapter 11 Cases on May 10, 2010.

In connection with the adoption of fresh start accounting, we revalued our tangible and intangible assets as of the emergence date, resulting in a higher fair value of our tangible fixed assets and the recognition of

**Table of Contents**

intangible amortizable assets. The effect of these fair value adjustments was an increase in the depreciation and amortization charge for such assets in reporting periods subsequent to our emergence from the Chapter 11 Cases, which will increase its costs of goods sold and decrease gross profit margins in future periods.

For additional information regarding adjustments relating to fresh start accounting, see Notes 1 and 2 of the unaudited pro forma condensed consolidated statement of operations for the three months ended September 26, 2010 and notes 1 through 3 of the unaudited pro forma condensed consolidated statement of operations for the nine months ended September 26, 2010.

**Adjustments Relating to the Financing**

The Financing column in the unaudited pro forma condensed consolidated statement of operations gives effect to the repayment of \$195.6 million of the original \$450 million amount borrowed under the Term Loan using the proceeds from the Notes. The effect of this pro forma adjustment will be a lower interest expense as a result of the settlement of the Predecessor's debt (Senior Secured Floating Rate Notes) and lower finance charge due to the elimination of the write-off of debt financing costs upon emergence.

For additional information regarding adjustments relating to this financing, see Note 3 to the unaudited pro forma condensed consolidated financial information.

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Operations****for the Three Months Ended September 26, 2010****(in thousands)**

	<b>Historical Three months Ended September 26, 2010</b>	<b>Adjustments</b>		<b>Pro Forma Three months Ended September 26, 2010</b>
		<b>Fresh Start</b>	<b>Financing</b>	
Net sales (1)	\$ 307,594			\$ 307,594
Net sales to related parties				
<b>Total net sales</b>	<b>307,594</b>			<b>307,594</b>
Cost of sales (1), (2)	276,838			276,838
Research and development	26,246			26,246
Sales, general and administrative	59,948			59,948
Restructuring credits				
Operating loss before reorganization items	(55,438)			(55,438)
Other income (expense):				
Interest and other income (expense), net	1,378			1,378
Interest expense (3)	(9,124)		495	(8,629)
Loss before reorganization items and income taxes	(63,184)		495	(62,689)
Reorganization items				
Loss before income taxes	(63,184)		495	(62,689)
Provision for income taxes (4)	1,670			1,670
Net loss	\$ (64,854)	\$	\$ 495	\$ (64,359)
Net loss per share (5):				
Basic	\$ (1.09)			\$ (1.09)
Diluted	\$ (1.09)			\$ (1.09)
Shares used in per share calculation:				
Basic	59,271			59,289
Diluted	59,271			59,289

- (1) Fresh start accounting requires the elimination of deferred revenue (and its associated deferred cost of sales) when no future performance obligation is required. No adjustments have been made to the unaudited pro forma condensed consolidated statement of operations for the three months ended September 26, 2010 to recognize such eliminated deferred revenue and the related cost of sales of \$37.0 million and \$27.8 million, respectively, as such adjustments are non-recurring in nature.
- (2) Fresh start accounting requires the revaluation of inventory to its fair value on the Emergence Date. Accordingly, the value of inventory was increased by \$98.4 million on the Emergence Date. As a result, we recognized additional cost of sales of approximately \$18.6 million for the revaluation. No adjustment has been made to reduce such additional cost in the unaudited pro forma condensed consolidated statement of operations for the three months ended September 26, 2010 as it is non-recurring in nature.

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- (3) On February 9, 2010, we borrowed \$450 million pursuant to the Term Loan. The proceeds of the Term Loan, together with cash proceeds from other sources of cash available to us, were used in full to partially discharge the remaining balance of claims relating to holders of our Senior Secured Floating Rate Notes (the FRNs). See Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2010 for more information.

On November 9, 2010, we completed an offering of \$200 million aggregate principal amount of the Notes, resulting in net proceeds of approximately \$195.6 million after related offering expenses. These proceeds were used to pay down amounts outstanding under our Term Loan.



**Table of Contents**

The Financing column in the unaudited pro forma condensed consolidated statement of operations gives effect to the repayment of \$195.6 million of the original \$450 million Term Loan, using the net proceeds from the Notes. The effect of this pro forma adjustment will be a lower interest and financing charge to as a result of the settlement of the Predecessor's debt (Senior Secured Floating Rate Notes) and the elimination of the write-off of debt financing costs upon emergence. The lower interest expense is reflected in the unaudited pro forma condensed consolidated statement of operations for the three months ended September 26, 2010 as it is recurring in nature.

The following assumptions were utilized in computing the pro-forma impact of the Financing adjustment:

- a) \$195.6 million of the original \$450 million Term Loan was paid down from the net proceeds from the sale of the Notes effective as of December 28, 2009, which was the beginning of pro forma fiscal 2010; Additionally, a prepayment penalty charge of approximately \$2.0 million was incurred in fiscal 2010 due to early paydown of the Term Loan; and
  - b) The effective interest rates of 6.50% and 7.875% on \$250 million of the Term Loan and the \$200 million Notes, respectively, were effective throughout the unaudited pro forma condensed consolidated statement of operations for the pro forma three months ended September 26, 2010.
- (4) The Company has net operating loss carry forwards and a full valuation allowance on its deferred tax assets. As a result, there is no tax impact on the adjustments identified in the unaudited pro forma condensed consolidated statement of operations for pro forma three months ended September 26, 2010.
  - (5) Pro forma basic and diluted per-share numbers used in the per share calculation reflect the issuance of shares of the Successor and the cancellation of the shares of the Predecessor at the Emergence Date as if such shares were issued and cancelled, respectively, on December 28, 2009, which was the beginning of pro forma fiscal 2010. Additionally, initial vesting of restricted stock awards that occurred on May 10, 2010 was assumed to have occurred on December 28, 2009 and quarterly thereafter. Such vested restricted stock awards are included in the pro forma basic per share numbers and unvested restricted stock awards are included in the pro forma diluted per share numbers using the treasury stock method.

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Operations****for the Nine Months Ended September 26, 2010****(in thousands)**

	Historical		Adjustments		Pro Forma
	Period from December 28, 2009 to May 10, 2010	Period from May 11, 2010 to September 26, 2010	Fresh Start	Financing	Nine Months Ended September 26, 2010
Net sales (1)	\$ 324,914	\$ 432,163			\$ 757,077
Net sales to related parties	78,705	4,801			83,506
<b>Total net sales</b>	<b>403,619</b>	<b>436,964</b>			<b>840,583</b>
Cost of sales (1), (2), (3)	274,817	388,251	42,824		705,892
Research and development (3)	35,068	39,666	384		75,118
Sales, general and administrative (3)	68,105	78,207	446		146,758
Restructuring credits	(2,772)				(2,772)
Operating income (loss) before reorganization items	28,401	(69,160)	(43,654)		(84,413)
Other income (expense):					
Interest and other income (expense), net	(2,904)	1,742			(1,162)
Interest expense (4)	(30,573)	(14,001)	11,144	5,383	(28,047)
Loss before reorganization items and income taxes	(5,076)	(81,419)	(32,510)	5,383	(113,622)
Reorganization items	370,340				370,340
Income (loss) before income taxes	365,264	(81,419)	(32,510)	5,383	256,718
Provision for income taxes (5)	1,640	1,649			3,289
Net income (loss)	\$ 363,624	\$ (83,068)	\$ (32,510)	\$ 5,383	\$ 253,429
Net income (loss) per share (6):					
Basic	\$ 2.24	\$ (1.40)			\$ 4.28
Diluted	\$ 2.24	\$ (1.40)			\$ 4.22
Shares used in per share calculation:					
Basic	162,439	59,271			59,279
Diluted	162,610	59,271			60,100

- (1) Fresh start accounting requires the elimination of deferred revenue (and its associated deferred cost of sales) when no future performance obligation is required. No adjustments have been made to the unaudited pro forma condensed consolidated statement of operations for the nine months ended September 26, 2010 to recognize such eliminated deferred revenue and the related cost of sales of \$37.0 million and

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\$27.8 million, respectively, as such adjustments are non-recurring in nature.

- (2) Fresh start accounting requires the revaluation of inventory to its fair value on the Emergence Date. Accordingly, the value of inventory was increased by \$98.4 million on the Emergence Date. As a result, we recognized additional cost of sales of approximately \$18.6 million for the revaluation. No adjustments have been made to reduce such additional cost in the unaudited pro forma condensed consolidated statement of operations for the nine months ended September 26, 2010 as it is non-recurring in nature.
- (3) Fresh start accounting requires the revaluation of our tangible and intangible assets to fair value, resulting in a higher fair value of our existing tangible fixed assets and the recognition of new intangible, amortizable assets namely developed technology, customer relationships and trade name.

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**Table of Contents**

The effect of these fair value adjustments was primarily to increase the depreciation and amortization charge relating to these fixed assets and intangible assets in reporting periods subsequent to the Emergence Date, which will primarily increase our costs of goods sold and decrease gross profit margins in future periods. The pro forma adjustment to increase depreciation and amortization expense by \$43.7 million reflects the average daily depreciation and amortization rate for the period from May 11, 2010 to December 26, 2010 applied to the period from December 28, 2009 to September 25, 2010.

- (4) On February 9, 2010, we borrowed \$450 million pursuant to the Term Loan. The proceeds of the Term Loan, together with cash proceeds from other sources of cash available to us, were used in full to partially discharge the remaining balance of claims relating to holders of our Senior Secured Floating Rate Notes (the FRNs). See Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2010 for more information.

On November 9, 2010, we completed an offering of \$200 million aggregate principal amount of the Notes, resulting in net proceeds of approximately \$195.6 million after related offering expenses. These proceeds were used to pay down amounts outstanding under our Term Loan.

The Financing column in the unaudited pro forma condensed consolidated statement of operations gives effect to the repayment of \$195.6 million of the original \$450 million Term Loan, using the proceeds from the Notes. The effect of this pro forma adjustment will be a lower interest and financing charge to as a result of the settlement of the Predecessor's debt (Senior Secured Floating Rate Notes) and the elimination of the write-off of debt financing costs upon emergence. The lower interest expense is reflected in the unaudited pro forma condensed consolidated statement of operations for the nine months ended September 26, 2010 as it is recurring in nature.

The following assumptions were utilized in computing the pro-forma impact of the Financing adjustment:

- a) The FRNs were settled as of December 28, 2009 and there was no interest charge relating to the FRNs in the unaudited pro forma condensed consolidated statement of operations for the nine months ended September 26, 2010, a total interest saving of \$8.4 million;
- b) The Term Loan was effective as of December 28, 2009, which was the beginning of pro forma fiscal 2010;
- c) \$195.6 million of the original \$450 million Term Loan was paid down from the net proceeds from the sale of the Notes effective as of December 28, 2009, which was the beginning of pro forma fiscal 2010; Additionally, a prepayment penalty charge of approximately \$2.0 million was incurred in fiscal 2010 due to early paydown of the Term Loan; and
- d) The effective interest rates of 6.50% and 7.875% on \$250 million of the Term Loan and the \$200 million Notes, respectively, were effective throughout the unaudited pro forma condensed consolidated statement of operations for the pro forma nine months ended September 26, 2010.

Further, as part of fresh start accounting, the Company had written off the unamortized debt financing costs for the \$450 million Term Loan as the fair value of the debt was deemed to be at face value. The benefit to interest and other income represents the reversal of such debt financing costs that were charged to the consolidated statement of operations from February 9, 2010 to May 10, 2010. This resulted in a net benefit adjustment amounting to \$11.1 million.

- (5) The Company has net operating loss carry forwards and a full valuation allowance on its deferred tax assets. As a result, there is no tax impact on the adjustments identified in the unaudited pro forma condensed consolidated statement of operations for pro forma nine months ended September 26, 2010.

**Table of Contents**

- (6) Pro forma basic and diluted per share numbers used in the per share calculation reflect the issuance of shares of the Successor and the cancellation of the shares of the Predecessor at the emergence date as if such shares were issued and cancelled, respectively, on December 28, 2009 which was the beginning of pro forma fiscal 2010. Additionally, initial vesting of restricted stock awards that occurred on May 10, 2010 was assumed to have occurred on December 28, 2009 and quarterly thereafter. Such vested restricted stock awards are included in the pro forma basic per share numbers and unvested restricted stock awards are included in the pro forma diluted per share numbers using the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	September 25, 2011	Pro Forma September 26, 2010	September 25, 2011	Pro Forma September 26, 2010
Total net sales	258,163	307,594	849,868	840,583
Cost of sales	184,486	276,838	629,987	705,892
Gross profit, \$	73,677	30,756	219,881	134,691
Gross margin, %	28.5%	10.0%	25.9%	16.0%
Research and development	21,721	26,246	82,118	75,118
Sales, general and administrative	28,728	59,948	79,188	146,758
Restructuring credits				(2,772)
Operating income (loss)	23,228	(55,438)	58,575	(84,413)
Interest and other income (expense), net	775	1,378	1,233	(1,162)
Interest expense	(7,629)	(8,629)	(25,465)	(28,047)
Reorganization items				370,340
Provision for income taxes	8,560	1,670	15,388	3,289
<b>Total Net Sales</b>				

Total net sales for the three months ended September 25, 2011 decreased by \$49.4 million compared to the pro forma net sales for the three months ended September 26, 2010. Our net sales for the third quarter of fiscal 2011 decreased compared to the third quarter of fiscal 2010 due to the weak demand in the consumer end market attributable to macro global issues surrounding consumer confidence and spending, as well as weak demand from our wireless customers due to a product transition by chip set suppliers, resulting in \$90.3 million lower revenue compared to the corresponding period in fiscal 2010. The decrease is partially offset by \$30.0 million of Samsung license revenue recognized in the third quarter of fiscal 2011 in connection with the patent litigation settlement, as well as \$11.0 million deferred revenue loss in the Successor period in 2010 as a result of the adoption of fresh start accounting.

Total net sales for the pro forma three months ended September 26, 2010 in the Successor was \$307.6 million. The Successor's net sales were adversely impacted by approximately \$11.0 million attributable to deferred revenue lost as a result of fresh start accounting.

Total net sales for the nine months ended September 25, 2011 increased by \$9.3 million compared to the pro forma net sales for the nine months ended September 26, 2010 primarily due to the \$30.0 million Samsung license revenue recognized in the third quarter of fiscal 2011 in connection with the patent litigation settlement, as well as \$49.0 million deferred revenue lost in the Successor period in 2010 as a result of the adoption of fresh start accounting, partially offset by a revenue decline of \$69.7 million due to the weak demand in our wireless and consumer end-markets.

Total net sales for the pro forma period from May 11, 2010 to September 26, 2010 in the Successor was \$437.0 million. Total net sales for the pro forma period from December 28, 2009 to May 10, 2010 in the

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**Table of Contents**

Predecessor was \$403.6 million. Aside from the difference in the number of days in the Successor and Predecessor periods, sales were relatively consistent with seasonal trends between these two periods except for the adverse impact of approximately \$49.0 million attributed to deferred revenue lost in the Successor period as a result of the adoption of fresh start accounting.

***Gross Margin***

Our gross margin increased by 18.5 percent or \$42.9 million in the three months ended September 25, 2011 compared to the pro forma gross margin for the three months ended September 26, 2010. The increase was primarily due to (i) \$30.0 million relating to Samsung license revenue recognized in the third quarter of fiscal 2011 in connection with the patent litigation settlement and (ii) \$29.7 million of reduced impact of fresh start accounting-related adjustments relating to inventory write down and amortization of inventory markup. The increase is partially offset by \$10.5 million of inventory reserves due to declining prices on certain wireless products and \$4.9 million attributable to manufacturing yield loss.

Our gross margin increased by 9.9 percent or \$85.2 million for the nine months ended September 25, 2011, compared to the pro forma gross margin for the nine months ended September 26, 2010 and consisted of the following: (i) \$30.0 million relating to Samsung license revenue recognized in the third quarter of fiscal 2011 from the patent litigation settlement (ii) \$47.0 million of reduced impact of fresh start accounting-related adjustments (mainly due to greater amounts of lost deferred revenue upon emergence from the Chapter 11 Cases, inventory write down and inventory markup amortization in the nine months ended fiscal 2010) and (iii) \$13.7 million lower expenses resulting from operating efficiencies in factory utilization. The above increase is offset by \$10.5 million of inventory reserves due to declining prices on certain wireless products.

Our gross margin for the Successor period from June 28, 2010 to September 26, 2010 was 10.0 percent. The gross margin in the Successor period was primarily impacted by fresh start accounting adjustments as a result of emergence from the Chapter 11 Cases, including approximately \$49.1 million amortization of inventory mark-up, approximately \$26.0 million of higher depreciation expense and approximately \$4.0 million loss of deferred margin, relating to the loss of deferred revenue.

Our gross margin for the Predecessor period from December 28, 2009 to May 10, 2010 and Successor period from May 11, 2010 to September 26, 2010 was 31.9 percent and 11.1 percent, respectively. The lower gross margin in the Successor period was primarily impacted by fresh start accounting-related adjustments as a result of emergence from the Chapter 11 Cases, including approximately \$67.7 million of amortization of inventory mark-up, approximately \$39.6 million of higher depreciation expense and an approximately \$31.7 million loss of deferred margin.

***Research and Development***

Research and development (R&D) expenses for the three months ended September 25, 2011 decreased by \$4.5 million compared to the pro forma R&D expenses for the three months ended September 26, 2010. The decrease of approximately \$3.5 million primarily related to elimination of fiscal 2011 third quarter and annual bonus charges, 401(k) match charges and stock compensation expense relating to performance equity awards as a result of the non-achievement of performance targets.

R&D expenses for the Successor period from June 28, 2010 to September 26, 2010 were approximately \$26.2 million and included, among other items, approximately \$15.0 million of labor costs, approximately \$3.0 million of material costs, approximately \$3.0 million of building and other allocated operating expenses, and approximately \$0.8 million of expenses relating to outside service providers.

R&D expenses for the nine months ended September 25, 2011 increased by \$7.0 million compared to the pro forma R&D expenses for the nine months ended September 26, 2010. The increase in R&D expenses was attributable to (i) approximately \$5.7 million of impairment charges relating to R&D tools and equipment held for sale after closing a design facility in Sunnyvale, CA and (ii) an increase in labor costs of \$4.9 million due to increased headcount and employee compensation. These increases were offset by elimination of annual bonus charges and 401(k) match charges of approximately \$4.0 million.

## **Table of Contents**

R&D expenses for the Successor period from May 11, 2010 to September 26, 2010 were approximately \$39.6 million and included, among other items, approximately \$17.3 million of labor costs; approximately \$6.4 million of expenses relating to outside service providers; approximately \$6.5 million of building and other allocated operating expenses and approximately \$4.5 million of material costs.

R&D expenses for the Predecessor period from December 28, 2009 to May 10, 2010 were approximately \$35.1 million and included approximately \$22.8 million of labor costs, approximately \$4.3 million of building and other allocated operating expenses, approximately \$3.7 million of expenses relating to outside service providers and approximately \$1.8 million of material costs.

### ***Sales, General and Administrative***

Sales, general and administrative (SG&A) expenses for the three months ended September 25, 2011 decreased by \$31.2 million compared to the pro forma SG&A expenses for the three months ended September 26, 2010. The decrease was primarily due to (i) \$21.3 million relating to the higher legal expense accrued in connection with Samsung patent litigation settlement in the corresponding period in fiscal 2010 and (ii) \$6.8 million due to elimination of fiscal 2011 third quarter and annual bonus charges, 401(k) match charges and stock compensation expense relating to performance equity awards as a result of the non-achievement of performance targets.

SG&A expenses for the Successor period from June 28, 2010 to September 26, 2010 were approximately \$59.9 million and included, among other items, approximately \$29.1 million of expenses relating to outside service providers, approximately \$22.6 million of labor costs and approximately \$6.1 million of building and other allocated operating expenses.

SG&A expenses for the nine months ended September 25, 2011 decreased by \$67.6 million compared to the pro forma SG&A expense for the nine months ended September 26, 2010. The decrease in SG&A expenses was primarily due to (i) higher legal expense of approximately \$59.3 million accrued in connection with the Samsung litigation in the corresponding period in fiscal 2010 and (ii) \$1.7 million due to elimination of annual bonus charges, 401K charges and stock compensation expense relating to performance equity awards as a result of non-achievement of performance targets.

SG&A expenses for the Successor period from May 11, 2010 to September 26, 2010 were approximately \$78.2 million and included, among other items, approximately \$34.0 million of expenses relating to outside service providers, approximately \$31.6 million of labor costs and approximately \$8.0 million of building and other allocated operating expenses.

SG&A expenses for the Predecessor period from December 28, 2009 to May 10, 2010 was approximately \$68.1 million and included among other items, approximately \$25.9 million of labor costs, approximately \$25.1 million of expenses relating to outside service providers and approximately \$6.6 million of building and other allocated operating expenses.

### ***Restructuring Charges***

There were no restructuring charges in the Successor.

Restructuring credits in the Predecessor were \$2.8 million due to (i) \$1.4 million of employee severance charges and (ii) \$6.5 million of fixed asset relocation, depreciation and disposal charges, which were offset by an approximately \$5.5 million gain on sale of fixed assets and a \$5.2 million gain on sale of our Suzhou plant.

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**Table of Contents**

***Interest and Other Income (Expense), Net***

Interest and other income (expense), net decreased by \$0.6 million for the three months ended September 25, 2011 compared to the pro forma interest and other income (expense), net for the three months ended September 26, 2010. This is primarily due to \$1.3 million realized and unrealized net loss on foreign currency transactions offset by \$0.7 million preferential claim payments received during the third quarter of fiscal 2011.

Interest and other income (expense), net decreased by approximately \$2.4 million for the nine months ended September 25, 2011 compared to the pro forma interest and other income (expense), net for the nine months ended September 26, 2010. The decrease was mainly due to \$3.0 million in impairment charges on certain equity investments in privately held companies during the second quarter of fiscal 2010 offset by \$0.7 million preferential claim payments received during the third quarter of fiscal 2011.

Interest and other income (expense), net for the Successor period from June 28, 2010 to September 26, 2010 was income of \$1.4 million primarily due to realized and unrealized net gain of \$1.0 million on foreign currency transactions as part of non-operating income.

Interest and other income, net for the Successor period from May 11, 2010 to September 26, 2010 was income of \$1.7 million primarily due to realized and unrealized net gain of \$1.0 million on foreign currency transactions as part of non-operating income.

In the Predecessor period from December 28, 2009 to May 10, 2010, interest and other income (expense), net was an expense of \$2.9 million which mainly consisted of approximately \$3.0 million in impairment charges on certain investments in privately held companies.

***Interest Expense***

Interest expense decreased by approximately \$1.0 million for the three months ended September 25, 2011, compared to the pro forma interest expense for the three months ended September 26, 2010 primarily due to a lower interest rate on the reduced balance of the Term Loan in fiscal 2011, partially offset by the higher interest rate on the Notes.

Interest expense decreased by approximately \$2.6 million for the nine months ended September 25, 2011, compared to the pro forma interest expense for the nine months ended September 26, 2010 primarily due to lower interest expense of \$1.7 million due to renegotiation of license and software contracts, approximately \$1.0 million decrease in interest due to a lower interest rate on the reduced balance of the Term Loan and \$0.7 million reduction in interest on capital leases as a result of lease buy-outs, partially offset by \$1.2 million of interest rate swap loss relating to the Term Loan.

Interest expense for the Successor period from June 28, 2010 to September 26, 2010 was approximately \$9.1 million of which approximately \$8.6 million related to interest on our Term Loan.

Interest expense for the Successor period from May 11, 2010 to September 26, 2010 was approximately \$14.0 million, of which approximately \$13.2 million related to interest on our Term Loan. Interest expense for the Predecessor period from December 28, 2009 to May 10, 2010 was approximately \$30.6 million, of which approximately \$28.3 million related to interest costs associated with our FRNs and Term Loan.

***Reorganization Items***

Reorganization items of approximately \$370.3 million for the Predecessor period of December 28, 2009 to May 10, 2010 consist of a \$434.0 million gain from discharge of pre-petition obligations and a \$22.5 million gain from approved settlement of rejected capital leases and various license agreements. The overall gain was partially offset by (i) \$59.5 million in professional fees related to the Chapter 11 Cases, (ii) \$12.7 million of debt financing costs, (iii) \$10.8 million in expenses related to accrued claims and cancellation of the Predecessor's equity incentive plans and (iv) \$7.0 million of withholding tax liability in a foreign subsidiary.



**Table of Contents**

There were no reorganization items in fiscal 2010 in the Successor Period from May 10, 2010 to September 26, 2010.

**Income Tax Provision**

We recorded an income tax expense of \$8.6 million for the three months ended September 25, 2011 as compared to a pro forma income tax expense of \$1.7 million for the three months ended September 26, 2010. The difference is primarily due to a \$5.0 million Korean withholding tax payment on Samsung licensing revenue and the remainder is primarily due to operating income in our foreign locations.

We recorded an income tax expense of \$15.4 million for the nine months ended September 25, 2011 as compared to income tax expense of \$1.6 million in the Successor period from May 11, 2010 to September 26, 2010 and income tax expense of \$1.6 million from December 28, 2009 to May 10, 2010 in the Predecessor. The Company's income tax expense for the nine months ended September 25, 2011 includes a \$2.8 million correction for uncertain tax positions of its foreign locations for the Successor period from May 11, 2010 to December 26, 2010 and \$5.0 million was related to withholding tax on Samsung licensing revenue. The income tax expense for the nine months ended September 25, 2011, excluding the correction, related to tax provisions in profitable foreign locations. The income tax expense recorded for both the Predecessor period from December 28, 2009 to May 10, 2010, and Successor period from May 11, 2010 to September 26, 2010, also related to tax provisions in profitable foreign locations.

Due to our emergence from the Chapter 11 Cases, in the pro forma nine months period ended September 26, 2010, we also recorded an increase of \$12.4 million in deferred tax liabilities consisting of previously unrecognized tax benefits of \$10.0 million and interest and penalties of \$2.4 million in connection with certain intercompany arrangements.

As of September 25, 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 that the deferred tax assets will not be realizable in the foreseeable future.

**Other Items**

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of September 25, 2011 and December 26, 2010 are as follows:

	September 25, 2011	December 26, 2010
	(in thousands)	
Deferred revenue	\$ 38,565	\$ 61,855
Less: deferred costs of sales	(24,398)	(40,562)
Deferred income on shipments <sup>(1)</sup>	\$ 14,167	\$ 21,293

- (1) The deferred income of \$14.6 million and \$22.2 million on the consolidated balance sheet as of September 25, 2011 and December 26, 2010, respectively, included \$0.4 million and \$0.9 million of deferred revenue related to licensing revenue that was excluded in the table above.

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

The following table summarizes our contractual obligations at September 25, 2011. The table is supplemented by the discussion following the table.

	Total	2011	2012	2013 (in thousands)	2014	2015	2016 and Beyond
Senior Secured Term Loan	249,814	632	2,530	2,530	2,530	241,592	
Senior Notes	200,000						200,000
Capital lease obligations	63	63					
China working capital loan facility	2,317	2,317					
Interest expense on Debt	147,026	11,178	28,825	28,108	27,461	19,954	31,500
Interest expense on Capital Leases							
Other long term liabilities <sup>(1)</sup>	6,276	823	4,396	428	374	210	45
Operating leases	12,392	1,441	3,348	2,388	1,894	1,672	1,649
Unconditional purchase commitments <sup>(2)</sup>	168,457	45,027	66,060	21,822	14,744	20,804	
Total contractual obligations <sup>(3)</sup>	786,345	61,481	105,159	55,276	47,003	284,232	233,194

- (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 September 25, 2011, the liability for uncertain tax positions was \$18.3 million including interest and penalties. Due to the high degree of uncertainty 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 September 25, 2011, our cash, cash equivalents and short-term investments totaled \$300.8 million. As of September 25, 2011, the availability under our Revolving Credit facility was \$12.5 million after deducting the standby letters of credit of \$1.4 million issued to certain vendors. We have not drawn against this facility.

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 of Reorganization disbursements and expenses incurred for outstanding claims resolution will continue using cash from operations for at least the remainder 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 of Reorganization 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, certificates of deposits partially insured by the Federal Deposit Insurance Corporation (FDIC), and money market fund with a total amount of \$235.5 million as of September 25, 2011.

**Operating Activities**

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Net cash provided by operations was \$49.6 million during the nine months ended September 25, 2011, primarily due to net income of \$19.0 million and net non-cash items of \$148.6 million, which were offset by net decrease in operating assets and liabilities of \$118.0 million. Net non-cash items primarily consisted of (i) \$121.8 million of depreciation and amortization, (ii) \$14.2 million of stock compensation expense, (iii) \$8.3

**Table of Contents**

million of amortization of inventory markup relating to fresh start accounting and (iv) \$7.6 million of asset impairment charges, partially offset by \$2.7 million gain from sale of property, plant and equipment. The net decrease in operating assets and liabilities was primarily due to the decrease of \$109.4 million in accounts payable, accrued liabilities, accrued compensation and benefits and other liabilities which mainly relates to release of the Samsung litigation settlement reserve of \$36.2 million and \$10.0 million relates to the payment made to Spansion Japan per the settlement agreement entered on January 8, 2010. During the quarter ended September 25, 2011, we agreed with Samsung to offset the first \$30.0 million of the payments due from Samsung for the patent related settlement against Spansion's payment to Samsung for the purchase the bankruptcy claim of \$30.0 million. As a result, we recognized \$30.0 million in license revenue and an operating cash inflow, as well as a \$30.0 million financing cash outflow related to the purchase of the bankruptcy claim, as we believe that there was constructive receipt and constructive payment of the funds.

Net cash provided by operations in the Successor was \$55.2 million during the period from May 11, 2010 to September 26, 2010 primarily due net non-cash items of \$145.3 million offset by a net loss of \$83.1 million and the net decrease in operating assets and liabilities of \$7.0 million. Net non-cash items primarily consisted of (i) \$82.6 million of depreciation and amortization, (ii) \$67.7 million of amortization of inventory markup relating to fresh start accounting and (iii) \$4.8 million of stock compensation expense, partially offset by (a) \$4.6 million of benefit for deferred income taxes, (b) a non-cash gain of \$3.7 million from sale of our plant in Suzhou, China, and (c) a \$1.5 million gain on sale of property, plant and equipment.

Net cash provided by operations in the Predecessor was \$1.4 million during the period from December 28, 2009 to May 10, 2010, primarily due to net income of \$363.6 million and a net increase in operating assets and liabilities of \$20.5 million, offset by the net non-cash items of \$382.8 million. Net non-cash items primarily consisted of (i) \$434.0 million non-cash gain on discharge of pre-petition obligations, (ii) \$22.5 million non-cash gain from write-off of rejected capital lease and various license agreements, (iii) a \$5.2 million non-cash gain from sale of the Suzhou plant and (iv) a \$2.1 million gain on sale and disposal of fixed assets, partially offset by (a) \$43.8 million of depreciation and amortization, (b) a \$13.0 million write-off of financing cost for old debts, (c) a \$7.2 million increase in allowance for doubtful accounts, (d) \$7.0 million of stock compensation expense, (e) \$7.0 million provision for income taxes and (f) a \$3.0 million impairment on investments.

***Investing Activities***

Net cash used by investing activities was \$71.8 million during the nine months ended September 25, 2011, primarily due to \$39.7 million of capital expenditures used to purchase property, plant and equipment and \$68.5 million used to purchase marketable securities, which were offset by \$7.6 million from the sale of property, plant and equipment and \$28.2 million in proceeds from the redemption of marketable securities.

Net cash used by investing activities was \$4.8 million during the Successor period from May 11, 2010 to September 26, 2010, primarily due to \$44.7 million of proceeds from the sale of auction rate securities (ARS) and \$15.7 million from the sale of property, plant and equipment, offset by an \$13.1 million cash decrease due to the purchase of Spansion Japan's distribution business, \$30.0 million of cash used to purchase of U.S. Treasury bills and \$22.1 million of capital expenditures used to purchase property, plant and equipment.

Net cash provided by investing activities was \$76.7 million during the Predecessor period from December 28, 2009 to May 10, 2010, primarily due to \$62.4 million of proceeds from the sale of ARS, \$18.7 million of proceeds from the sale of the Suzhou plant, and \$9.6 million from the sale of other property, plant and equipment, offset by \$14.0 million of capital expenditures used to purchase property, plant and equipment.

***Financing Activities***

Net cash used by financing activities was \$73.2 million during the nine months ended September 25, 2011 primarily due to (i) \$71.0 million for the purchase of bankruptcy claims, which includes purchase of the Samsung claim for \$30.0 million and (ii) \$6.8 million of payments on debt and capital lease obligation, offset by \$5.4 million of proceeds from issuance of common stock upon the exercise of stock options. During the quarter

**Table of Contents**

ended September 25, 2011, we agreed with Samsung to offset the first \$30.0 million of the payments due from Samsung for the patent related settlement against Spansion's payment to Samsung for the purchase the bankruptcy claim of \$30.0 million. As a result, we recognized \$30.0 million in license revenue and an operating cash inflow, as well as a \$30.0 million financing cash outflow related to the purchase of the bankruptcy claim, as we believe that there was constructive receipt and constructive payment of the funds.

Net cash used by financing activities was \$6.0 million during the Successor period from May 11, 2010 to September 26, 2010 due to payments of \$6.0 million on debt and capital lease obligations.

Net cash used by financing activities was \$148.2 million during the Predecessor period from December 28, 2009 to May 10, 2010, primarily due to payments of \$691.2 million on debt and capital lease obligations, partially offset by \$438.1 million from the Term Loan net of issuance costs and \$104.9 million from the Rights Offering.

***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 include indemnities to the Company's customers related to allegations the Company's products infringe third party patents or other intellectual property; indemnities to the Company's customers in connection with the delivery, design, manufacture and sale of its products; indemnities to the Company's 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 September 25, 2011.

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**Table of Contents**

**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 September 25, 2011, we had approximately \$230.9 million held in demand deposit accounts, approximately \$0.7 million held in overnight money market funds, approximately \$44.2 million invested in certificates of deposits partially insured by the Federal Deposit Insurance Corporation (FDIC), and approximately \$25.0 million invested in commercial papers. Our cash and short-term investment position is highly liquid, of which approximately \$232.4 million are with maturity terms of 0 to 30 days, approximately \$3.1 million of 31 to 90 days, approximately \$24.6 million are with a maturity term of 91 to 180 days, and remaining approximately \$40.7 million are with a maturity term of 181 to 365 days at the time of purchase. Accordingly, our interest income fluctuates with short-term market conditions but our exposure to interest rate risk is minimal due to short term nature of our cash and investment position.

As of September 25, 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 \$249.8 million as of September 25, 2011. The Term Loan has a LIBOR floor of 1.25 percent. While LIBOR is below 1.25 percent, our interest expense will not change along with short-term change in interest rate environment. When LIBOR is above 1.25 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 September 25, 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 13 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.

We had an aggregate of \$20.5 million (notional amount) of short-term foreign currency forward contracts denominated in Japanese yen outstanding as of September 25, 2011. The unrealized gain related to the foreign currency forward contracts for the three months ended September 25, 2011 was not material. We do not



**Table of Contents**

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 September 25, 2011 and December 26, 2010.

	September 25, 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>						
Japanese yen	\$ 20,501	¥ 76.58	\$ (22)	\$ 39,884	¥ 82.74	\$ 67



**Table of Contents**

**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 nine months ended September 25, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Table of Contents**

**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, see our Annual Report on Form 10-K for the fiscal year ended December 26, 2010.

***Spansion v. Samsung Patent Infringement Litigation***

Spansion was a party to several patent-related proceedings involving Samsung Electronics Co., Ltd. On June 15, 2011, Spansion and Samsung entered into a binding Memorandum of Understanding ( MOU ) that settled all outstanding patent matters between them as well as granted each other seven-year limited patent cross-licenses. On July 18, 2011, Spansion and Samsung entered into a Patent License and Settlement Agreement as contemplated by the MOU. The Agreement replaces the MOU and contains substantially identical terms and conditions. Samsung will pay to Spansion \$150.0 million over a five-year period. In addition, Spansion agreed to purchase Samsung's bankruptcy claim that was approved by the Bankruptcy Court for \$30.0 million. During the quarter ended September 25, 2011, the Company and Samsung agreed to offset the first \$30.0 million of the payments due from Samsung for the patent related settlement against Spansion's payment to Samsung for the purchase the bankruptcy claim of \$30.0 million. As a result, the Company recognized \$30.0 million in license revenue and an operating cash inflow, as well as a \$30.0 million financing cash outflow related to the purchase of the bankruptcy claim, as the Company believes that there was constructive receipt and constructive payment of the funds. The remaining payments made by Samsung will consist of a \$1.25 million installment which is to be paid on November 15, 2011, and 19 quarterly installments of \$6.25 million beginning in the first quarter of 2012.

**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 the embedded Flash memory market. As part of our strategy, we also began exiting a large portion of the wireless Flash memory market addressing mobile handsets in order to reduce significantly our engineering expenses and to focus our business on internally developed memory technology. By withdrawing from this portion of the high end wireless Flash memory market, we were able to adopt a slower technology development cycle and reduce our process and product research and development costs while maintaining our competitiveness in the embedded Flash memory market. In addition,

## **Table of Contents**

we significantly reduced or eliminated our need to procure from third parties memory products such as DRAM, PSRAM and NAND which were required, in combination with our own products, to address the needs of mobile handset customers in the high end of the wireless market.

We are dedicated to, and focused on, the embedded Flash memory market. However, 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 or unable to grow our embedded Flash memory business enough to compensate for the expected decline in wireless sales, our business could be materially adversely affected.

We intend to continue to selectively engage in portions of the wireless market where we believe we can do so advantageously or where we believe that we must do so in order to be able to stay competitive in those portions of the wireless market that we continue to target. Challenges we face in the portion of the wireless market include addressing current and future customer requirements in a market that quickly changes as customers seek to continue offering new handset designs, whether predominately on NAND- or NOR- based handsets, that may not align with our current or planned products.

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 coproduction 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 and second quarters 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 and second quarter product shipments were cancelled or rescheduled for shipment during the subsequent quarter. We also incurred some minor damage to our production equipment during the first quarter. Although the impact to our operations and financial results during the first and second quarters of fiscal 2011 as a result of the events in Japan was not material, we believe that the damage from the March 2011 earthquakes and related tsunami and the continued risk of radiation exposure from damaged nuclear

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**Table of Contents**

power plants could adversely affect the demand for, and distribution of, our products in Japan going forward, as well as the supply of foundry wafers and/or raw materials from Japan, 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.

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.

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 reducing our 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.

If demand for consumer products, industrial products or mobile phones utilizing Flash memory declines, as

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**Table of Contents**

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.

While we have actively responded to competitors' efforts to capitalize on customer concerns about the Chapter 11 Cases, 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 the lost market share or retain such market share already recovered.

Our recent emergence from the Chapter 11 Cases may also preclude certain strategic business opportunities that would otherwise be available to us, restrict our ability to pursue certain business strategies or require us to take actions that we otherwise would not. For example, prior to and after our emergence from the Chapter 11 Cases, we closed much of our manufacturing operation and reduced our workforce as part of our focus on the embedded Flash market. As a result, we operate as a smaller company than prior to the Chapter 11 Cases and maintain fewer fixed assets and reduced capabilities. For these reasons, lenders may consider us a greater credit risk and we may find it more difficult or impossible to find external financing that is necessary to pursue certain business opportunities, either precluding these opportunities entirely or requiring us to take actions such as selling other assets in order to obtain financing on acceptable terms in order to pursue these strategies. Additionally, given our recent emergence from bankruptcy and our reduced capabilities and market presence, our customers or suppliers may not enter into strategic partnerships with us. Because of these uncertainties, we cannot predict or quantify the potential adverse impact of the Chapter 11 Cases on our business, financial condition or results of operations.

**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 that 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. As a result of our strategic workforce restructuring and transition to third party manufacturing, we lost many employees from our manufacturing division with long tenures and knowledge about our technology and historical operations. We are also at risk of losing or being unable to hire talent critical to a successful reorganization and ongoing operation of our business due to general concerns about the stability and growth potential of our operations given our recent emergence from the Chapter 11 Cases and our reductions in force. 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.

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**Table of Contents**

**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.**

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 \$1.0 billion 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 \$475.5 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 also cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements and that we will 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

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## **Table of Contents**

increases on to our customers. The likelihood of this occurring may be greater as a result of the Chapter 11 Cases. We may be unable to secure an alternative supply for specific products in a short timeframe or at all at an acceptable cost to satisfy our production requirements. In addition, we may be required to incur additional development, manufacturing and other costs to establish alternative sources of supply. Other risks associated with our increased dependence on third-party manufacturers include: their ability to adapt to our proprietary technology, reduced control over delivery schedules, quality assurance, manufacturing yields and cost, misappropriation of our intellectual property, reduced ability to manage inventory and parts and risks associated with operating in foreign countries. If we are unable to secure sufficient or reliable suppliers of wafers or obtain the necessary assembly, testing and packaging services, our ability to meet customer demand for our products may be adversely affected, which could have a material adverse effect on us.

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

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

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.

## **Table of Contents**

### **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 cyclicalities in the Flash memory market, which has in the past and may in the future negatively impact our selling prices and materially adversely affect us.

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

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



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**Table of Contents**

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.

**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 potentially 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. These technologies provide alternative means of non-volatile storage of information. Today, where products exist using these new technologies they exhibit

**Table of Contents**

different characteristics than existing NOR Flash memory products based on MirrorBit or floating gate technology. These differences, including higher cost structure, inability to support higher densities, different performance and operating behavior, currently exclude such products from addressing volume markets for NOR Flash memory. For such products to be commercially viable and attractive alternatives to today's NOR Flash memory solutions they must either match the capabilities and characteristics at lower cost or provide additional capabilities desired and valued by customers. If such products are successfully developed and commercialized as a viable alternative to MirrorBit or floating gate NOR Flash memory, these other products could pose a competitive threat to existing Flash memory companies, including us. For example, PCM technology supports data storage in smaller increments than MirrorBit or floating gate NOR technology and does not require erasing pre-existing memory contents prior to writing new data to the same memory location. Both capabilities may be desirable to customers and are not practicable with MirrorBit or floating gate NOR technologies. Furthermore, new technologies may scale to smaller process geometries than may be possible or practicable using MirrorBit or floating gate NOR technology, which may enable our competitors' products to be produced at lower cost than our products. 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.

**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.

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## **Table of Contents**

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

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

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

The Flash memory industry is characterized by rapid technological changes. For example, new manufacturing process technologies using smaller feature sizes and offering better performance characteristics are generally introduced every one to two years. The introduction of new manufacturing process technologies allows us to increase the functionality of our products while at the same time optimizing performance parameters, and increasing storage capacity. In addition, the reduction of feature sizes enables us to produce smaller chips offering the same functionality and thereby considerably 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.**

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Our business is capital intensive and our ability to generate operating cash flows depends in large part on

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## **Table of Contents**

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.

### **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.

## **Table of Contents**

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

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

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

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. For example, the impact of the earthquake and related tsunami in March 2011 on our suppliers in Japan caused delays and reductions in the provision of raw materials in the first and second quarters of 2011. 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 for which prices on the world markets have increased significantly during recent periods. Such volatility may have an adverse effect on our operations. For example, we use gold in the assembly of our die into packaged product. Due to the increased cost of gold in 2011 we had to re-engineer existing products to use copper as an alternative material to gold in order to counteract this increased cost, maintain our competitiveness and mitigate the impact on our customers. 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.

## Table of Contents

### **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.

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 Ltd., conducts business in Israel, which is affected and surrounded by unstable political, economic and military conditions. We cannot predict the effect of continued or

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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.**

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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## **Table of Contents**

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.

### **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

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## **Table of Contents**

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;

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



**Table of Contents**

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.

**ITEM 6. EXHIBITS****Exhibit**

<b>Number</b>	<b>Description of Exhibits</b>
10.1*	Patent License and Settlement Agreement, made as of July 18, 2011, between Samsung Electronics Co. Ltd. and Spansion Inc. and their respective subsidiaries.
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

\* Confidential treatment has been requested with respect to portions of this exhibit. The redacted information has been filed separately with the SEC.

\*\* 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.

\*\*\* 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.

**Table of Contents**

**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: November 4, 2011

By:

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

55