

Spansion Inc.
Form 10-Q
April 29, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2010

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 000-51666

SPANSION INC.

(DEBTOR-IN-POSSESSION)

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(408) 962-2500

94088
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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 April 26, 2010:

| Class | Number of Shares |
|---|------------------|
| Class A Common Stock, \$0.001 par value | 162,517,951 |

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Spansion Inc.****(Debtor-in-Possession)****Condensed Consolidated Statements of Operations****(in thousands, except per share amounts)****(Unaudited)**

| | Three Months Ended | |
|--|---------------------------|---------------------------|
| | March 28, 2010 | March 29, 2009 |
| Net sales | \$ 223,128 | \$ 307,675 |
| Net sales to related parties | 54,209 | 91,953 |
| Total net sales | 277,337 | 399,628 |
| Cost of sales (Note 9) | 189,120 | 383,035 |
| Research and development (Note 9) | 22,953 | 44,746 |
| Sales, general and administrative (Note 9) | 47,608 | 104,029 |
| Restructuring charges | 13 | 23,942 |
| Operating income (loss) before reorganization items | 17,643 | (156,124) |
| Interest and other income, net | 286 | 480 |
| Interest expense ⁽¹⁾ | (19,336) | (24,466) |
| Gain on deconsolidation of subsidiary | | 30,100 |
| Loss before reorganization items and income taxes | (1,407) | (150,010) |
| Reorganization items | 5,464 | (362,457) |
| Income (loss) before income taxes | 4,057 | (512,467) |
| Provision for income taxes | 405 | 168 |
| Net income (loss) | \$ 3,652 | \$ (512,635) |
| Net income (loss) per share | | |
| Basic | \$ 0.02 | \$ (3.18) |
| Diluted | \$ 0.02 | \$ (3.18) |
| Shares used in per share calculation | | |
| Basic | 162,403 | 161,283 |
| Diluted | 174,471 | 161,283 |

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- (1) Contractual interest expense for the three months ended March 28, 2010 and March 29, 2009 was approximately \$30.0 million and \$27.7 million, respectively.

See accompanying notes

Table of Contents**Spansion Inc.****(Debtor-in-Possession)****Condensed Consolidated Balance Sheets****(in thousands)****(Unaudited)**

| | March 28, 2010 | December 27, 2009 ⁽¹⁾ |
|---|---------------------------|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 321,156 | \$ 324,903 |
| Auction rate securities | 75,155 | 100,335 |
| Accounts receivable | 125,885 | 129,174 |
| Accounts receivable from related parties (Note 9) | 361,983 | 366,602 |
| Allowance for doubtful accounts | (60,833) | (56,408) |
| Accounts receivables, net | 427,035 | 439,368 |
| Inventories: | | |
| Raw materials | 17,328 | 14,202 |
| Work-in-process | 114,619 | 112,469 |
| Finished goods | 13,584 | 15,052 |
| Total inventories | 145,531 | 141,723 |
| Deferred income taxes | 12,197 | 13,332 |
| Restricted cash | 531,516 | |
| Prepaid expenses and other current assets | 25,139 | 49,533 |
| Total current assets | 1,537,729 | 1,069,194 |
| Property, plant and equipment, net | 297,473 | 322,710 |
| Other assets | 40,784 | 46,073 |
| Total assets | \$ 1,875,986 | \$ 1,437,977 |
| Liabilities and Stockholders Deficit | | |
| Current liabilities: | | |
| Short term note | \$ 36,604 | \$ 64,150 |
| Senior secured term loan | 450,000 | |
| Accounts payable | 46,575 | 33,463 |
| Accounts payable to related parties (Note 9) | 198,069 | 221,211 |
| Accrued compensation and benefits | 24,882 | 21,630 |
| Other accrued liabilities | 102,895 | 112,759 |
| Rights offering deposits | 75,783 | |
| Deferred income | 54,779 | 62,958 |
| Total current liabilities | 989,587 | 516,171 |
| Deferred income taxes | 12,270 | 13,405 |
| Other long-term liabilities | 9,523 | 9,825 |
| Total long-term liabilities | 21,793 | 23,230 |

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| | | |
|---|--------------|--------------|
| Liabilities subject to compromise | 1,717,352 | 1,756,269 |
| Total liabilities | 2,728,732 | 2,295,670 |
| Stockholders' deficit | (852,746) | (857,693) |
| Total liabilities and stockholders' deficit | \$ 1,875,986 | \$ 1,437,977 |

(1) Derived from audited financial statements at December 27, 2009.
See accompanying notes

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

| | Three Months Ended | |
|--|---------------------------|---------------------------|
| | March 28, 2010 | March 29, 2009 |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ 3,652 | \$ (512,635) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 27,780 | 59,660 |
| Net provision for doubtful accounts | 5,591 | 17,708 |
| Net loss (gain) on sale and disposal of property, plant and equipment | 1,112 | (1,902) |
| Asset impairment charges | 629 | |
| Compensation recognized under employee stock plans | 1,295 | 5,430 |
| Gain from approved settlement of rejected capital leases and various licenses | (22,517) | |
| Gain on sale of Suzhou plant | (3,676) | |
| Amortization of financing cost and debt premium and discount | 897 | 1,540 |
| Gain on deconsolidation of subsidiary | | (30,100) |
| Changes in operating assets and liabilities, net of effects of deconsolidation of subsidiary: | | |
| Decrease (increase) in accounts receivable | 13,908 | (54,018) |
| (Increase) decrease in inventories | (3,808) | 142,499 |
| Decrease (increase) in prepaid expenses and other current assets | 6,041 | (25,191) |
| Decrease (increase) in other assets | 1,192 | (8,936) |
| (Decrease) increase in accounts payable, accrued liabilities and accrued compensation and benefits | (22,430) | 382,942 |
| (Decrease) increase in deferred income | (8,179) | 3,226 |
| Net cash provided (used) by operating activities | 1,487 | (19,777) |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale of property, plant and equipment | 4,917 | 45 |
| Purchases of property, plant and equipment | (8,493) | (3,921) |
| Proceeds from redemption of auction rate securities | 27,325 | |
| Loan made to an investee | | (5,263) |
| Cash decrease due to deconsolidation of subsidiary | | (52,092) |
| Increase in restricted cash | (531,516) | |
| Cash proceeds from sale of Suzhou plant | 18,687 | |
| Net cash used by investing activities | (489,080) | (61,231) |
| Cash Flows from Financing Activities: | | |
| Proceeds from borrowings, net of issuance costs | 438,082 | 117,758 |
| Payments on debt and capital lease obligations | (30,019) | (54,715) |
| Proceeds from rights offering | 75,783 | |
| Net cash provided by financing activities | 483,846 | 63,043 |

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| | | |
|--|------------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | | (3,095) |
| Net decrease in cash and cash equivalents | (3,747) | (21,060) |
| Cash and cash equivalents at the beginning of period | 324,903 | 116,387 |
| Cash and cash equivalents at end of period | \$ 321,156 | \$ 95,327 |

See accompanying notes

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Spansion Inc. (the Company) is a semiconductor manufacturer headquartered in Sunnyvale, California, with research and development, manufacturing and assembly operations in the United States, the Middle East, Europe and Asia. The Company designs, develops, manufactures, markets, and sells Flash memory technology and solutions.

The Company's Flash memory devices are used primarily to store microprocessor instructions (code), or code and data in embedded applications, and are incorporated into a broad range of electronic products, including automotive electronics such as navigation systems and engine control, PC and peripheral computing equipment such as printers, consumer equipment such as set top boxes and home networking, communication equipment such as enterprise networking and cellular infrastructure, arcade gaming equipment, industrial control equipment and mobile phones.

2. Creditor Protection Proceedings

On February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC (Spansion Japan) filed a proceeding under the Corporate Reorganization Law of Japan to obtain protection from Spansion Japan's creditors (the Spansion Japan Proceeding). On March 3, 2009 the Tokyo District Court approved the filing of the Spansion Japan Proceeding and appointed the incumbent representative director of Spansion Japan as trustee.

On March 1, 2009 (the Petition Date), Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International, Inc., and Cerium Laboratories LLC (the Debtors) each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases). The Chapter 11 Cases are being jointly administered under Case No: 09-10690 (KJC). The Chapter 11 Cases, together with the Spansion Japan Proceeding are referred to collectively as the Creditor Protection Proceedings.

The Debtors continue to operate their businesses as debtors-in-possession under jurisdiction of the U.S. Bankruptcy Court. Non-U.S. subsidiaries that are not included in the Creditor Protection Proceedings (Non-Debtor Affiliates) continue to operate without the supervision of the U.S. Bankruptcy Court.

Plan of Reorganization

On April 16, 2010, the U.S. Bankruptcy Court entered an order confirming the Company's Plan of Reorganization. The Plan of Reorganization may become effective as early as 14 days following entry of the U.S. Bankruptcy Court order. However, during this 14-day period, dissenting parties may seek to appeal the U.S. Bankruptcy Court order confirming the Plan of Reorganization and file motions to stay effectiveness of the order pending any appeals. There can be no assurance that the order confirming the Plan of Reorganization will not be appealed, or that the Plan of Reorganization will become effective or that it will be implemented successfully.

Under the Plan of Reorganization, the Debtors will be reorganized (Reorganized Debtors) through the consummation of several transactions in which new securities of the Reorganized Debtors will be issued and distributed to satisfy creditor claims and provide working capital to fund operations. These transactions include:

the distribution of cash raised through the rights offering and debt financing transactions;

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

the cancellation of Spansion Inc.'s outstanding equity securities, including all shares of Common Stock and options to purchase shares of Common Stock;

the distribution of new Spansion Common Stock (New Common Stock) to holders of general unsecured claims; and

the retention of the assets and certain liabilities of the Debtors in the Reorganized Debtors.

Pursuant to the Plan of Reorganization, the holders of allowed claims were offered the right to purchase a total of 12,974,496 shares of the New Common Stock upon the Company's emergence from the Chapter 11 Cases at a price of \$8.43 per share (Rights Offering). The number of shares available to each eligible claimant is based on each claimant's proportionate allowed claim. In connection with the Rights Offering, the Company entered into a Backstop Rights Purchase Agreement with Silver Lake Sumeru Fund, L.P. (Silver Lake) whereby Silver Lake committed to purchase the balance of Rights Offering shares not otherwise subscribed for by the Rights Offering participants. As of March 28, 2010, approximately \$109.4 million have been committed to purchase the entire Rights Offering, of which \$75.8 million has been received and resides in a segregated Company bank account and the remaining balance resides in escrow accounts that will be released to the Company following emergence from the Chapter 11 Cases. The \$75.8 million received was recorded as restricted cash with the related deposit recorded as a current liability on the Company's condensed consolidated balance sheet at March 28, 2010.

On February 9, 2010, the Company closed a \$450 million five-year Senior Secured Term Loan agreement (Term Loan) with a group of lenders. Funds from the Term Loan are held in escrow until the earlier of the Company's emergence from the Chapter 11 Cases or the termination date which may be as soon as 60 days from the date of closing unless extended by the lenders. Proceeds from the Term Loan along with prepaid interest for the first 60 days are recorded as restricted cash in the Company's condensed consolidated balance sheet at March 28, 2010. Upon emergence from the Chapter 11 Cases, the Term Loan will be secured by the assets of the Company including a first lien on property, plant and equipment and inventory, and a second priority lien on accounts receivables and cash. The Term Loan is subject to a number of financial and other covenants as discussed in Note 11 to the condensed consolidated financial statements.

The proceeds of the Term Loan, together with cash proceeds from the Rights Offering and other sources of cash available to the Company, will be used as follows: (i) payment to fully discharge approximately \$633 million of the claims of holders of the Senior Secured Floating Rate Notes, (ii) payment of Administrative Expense Claims and Priority Claims (each as defined in the Plan of Reorganization) and (iii) payment of fees and expenses related to the Term Loan.

The Company has entered into an agreement with Bank of America and other financial institutions for a post-bankruptcy senior revolving credit facility (Revolving Credit Facility) in an aggregate amount of up to \$65 million which will be used to fund bankruptcy related expenses and ongoing working capital. Available amounts for borrowing under the Revolving Credit Facility are limited to 85 percent of eligible accounts receivable. Funding is subject to a number of conditions, including a minimum liquidity level of \$100 million comprised of the sum of unrestricted cash and cash equivalents and the borrowing base minus the principal balance of all Revolving Credit Facility loans, and the Company's emergence from the Chapter 11 Cases. The Revolving Credit Facility is subject to a number of covenants including fixed charge ratio coverage of 1.00 to 1.00.

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

The Plan of Reorganization assumes that allowed claims will range from approximately \$1.6 billion to approximately \$2.1 billion after completion of the claims objection, reconciliation and resolution process. As of March 28, 2010, the Company has accrued expected allowed claims totaling approximately \$1.7 billion classified as liabilities subject to compromise in the accompanying condensed consolidated financial statements. In addition to the range specified above and the amount accrued, on March 12, 2010, Spansion Japan filed an amended general unsecured proof of claim in the U.S. Bankruptcy Court asserting that it has been damaged in the amount of approximately \$936 million as a result of the November 19, 2009 foundry agreement rejection order discussed below. If the expected amount of allowed claims increases over the amount currently accrued, the Company will record additional reorganization expense in the period of such determination. Because disputed claims have not yet been finally adjudicated, no assurances can be given that actual recoveries to creditors and interest holders will not be materially higher or lower than as set forth in the Plan of Reorganization.

Business Relationship with Spansion Japan and Foundry Agreement

Spansion Japan is managed by a trustee appointed by the Tokyo District Court and subject to the general supervision of the Tokyo District Court. As a result, beginning March 3, 2009, the financial results of Spansion Japan are no longer included in the Company's consolidated financial results.

Spansion Japan has continued to facilitate distribution of the Company's products in Japan, manufacture and supply sorted and unsorted silicon wafers for the Company, and provide sort services to the Company. The wafers purchased from Spansion Japan are a material component of the Company's cost of goods sold, and historically the wafer prices were governed by a foundry agreement. Management believes that the prices under the foundry agreement greatly exceeded the amounts that the U.S. Bankruptcy Court would have required the Company to pay for wafers purchased during the period from February 9, 2009 through October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders).

As a result of unsuccessful efforts by the Company to renegotiate the prices under the foundry agreement, the Company filed a motion with the U.S. Bankruptcy Court in October 2009 to reject the foundry agreement. An order rejecting the foundry agreement was issued by the U.S. Bankruptcy Court on November 19, 2009. As a result, there was no valid contract establishing pricing for the wafers the Company received from Spansion Japan from February 9, 2009 through October 27, 2009 (Disputed Period).

On January 8, 2010, the Company reached an agreement in principle (the Settlement) with Spansion Japan to: (i) acquire Spansion Japan's distribution business; (ii) obtain foundry services, including wafer and sort services, from Spansion Japan; and (iii) resolve the Company's dispute with Spansion Japan relating to pricing of wafers purchased during the Disputed Period. The Settlement remains subject to the completion of definitive agreements and the Company's emergence from the Chapter 11 Cases. On January 29, 2010, the U.S. Bankruptcy Court and on February 1, 2010, the Tokyo District Court approved the Settlement.

On February 2, 2010, the Company and Spansion Japan entered into a foundry agreement whereby the Company will purchase from Spansion Japan (i) a minimum of 10 billion yen (equivalent to \$108.0 million at March 28, 2010) worth of wafers over the six quarters beginning with the first quarter of 2010 and ending with the second quarter of 2011 and (ii) minimum sort services of \$7.7 million for the first quarter of 2010 and \$8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011; with both sort services and wafer production to be subject to normal and customary foundry performance conditions.

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

The Company expects the remaining definitive agreements implementing the Settlement to be executed in the second quarter of 2010 and upon the Company's emergence from the Chapter 11 Cases. The definitive agreements are expected to provide for, among other things, the following material terms:

Payment to Spansion Japan of approximately \$45 million during fiscal 2010;

The purchase of Spansion Japan's distribution business located in Kawasaki, Japan for approximately \$12.5 million;

The claims of the Debtors against Spansion Japan arising prior to February 9, 2009 will be deemed allowed unsecured non-priority claims in the Spansion Japan's corporate reorganization proceeding, but the Debtors will not be entitled to receive any distribution on account of such claims;

Spansion Japan shall retain its rejection damage claims against the Debtors in respect of the rejection of the Foundry Agreement (described below), which damage claims can be offset by the difference between the Company's prepetition claim against Spansion Japan and its prepetition claim against the Company; and

All other claims of Spansion Japan and the Debtors against each other shall be expunged, released and satisfied.

On March 12, 2010, Spansion Japan filed an amended general unsecured proof of claim in the U.S. Bankruptcy Court asserting that it has been damaged in the amount of approximately \$936 million as a result of the November 19, 2009 foundry agreement rejection order. The Company believes that it has strong defenses to the amount of Spansion Japan's proof of claim and intends to vigorously contest this matter. Under the Company's Plan of Reorganization, if the U.S. Bankruptcy Court were to allow such claim, it would be as a general unsecured claim in Class 5B of the Company's Plan of Reorganization and Spansion Japan would be entitled, at most, to its pro-rata distribution of the New Common Stock.

3. Summary of Significant Accounting Policies

Basis of Presentation and Going Concern

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

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

The Chapter 11 Cases raise substantial doubt as to whether the Company will be able to continue as a going concern until emergence from the Chapter 11 Cases. The accompanying condensed consolidated financial statements have been prepared using the same U.S. GAAP and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) as applied by the Company prior to the Creditor Protection Proceedings. The accompanying condensed consolidated financial statements continue to be prepared using the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Chapter 11 Cases have provided the Company with a period of time to stabilize its operations and financial condition and to develop the Plan of Reorganization. However, it is not possible to predict the outcome of these proceedings and, as such, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Further, it is not possible to predict whether the actions taken in the Plan of Reorganization or any other reorganization plan will result in improvements to the Company's financial condition sufficient to allow it to continue as a going concern. If the going concern basis is not appropriate in future filings, adjustments will be necessary to the carrying amounts and/or classification of the Company's assets and liabilities in its consolidated financial statements included in those filings. Further, an amendment to the Plan of Reorganization prior to the Company's emergence from the Chapter 11 Cases could materially change the carrying amounts and classifications reported in the accompanying consolidated financial statements in future filings.

The accompanying condensed consolidated financial statements do not purport to reflect or provide for the outcome of the Creditor Protection Proceedings. In particular, such consolidated financial statements do not purport to show: (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, the amounts that will ultimately be allowed for claims or contingencies, or the status and priority thereof; (c) as to stockholders accounts, the effect of any changes that may be made in the Company's capitalization; or (d) as to operations, the effect of any changes that may be made in the Company's business.

The accompanying condensed consolidated financial statements reflect the accounting, presentation, and disclosure requirements prescribed by FASB Accounting Standards Codification (ASC) Topic 852, *Reorganization* (ASC 852). Accordingly, liabilities and obligations whose treatment and satisfaction is dependent on the outcome of the Chapter 11 Cases have been segregated and classified as liabilities subject to compromise in the consolidated balance sheet. The ultimate amount of and settlement terms for the Company's pre-petition liabilities are dependent on the outcome of the Chapter 11 Cases and, accordingly, are not presently determinable. Professional fees associated with the Chapter 11 Cases and certain gains and losses resulting from reorganization of the Company's business have been reported separately as reorganization items. In addition, interest expense has been reported only to the extent that it will be paid during the Chapter 11 Cases or that it is probable that it will be an allowed priority, secured, or unsecured claim under the Chapter 11 Cases. Interest income earned during the Chapter 11 Cases is reported as a reorganization item.

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

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

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

The condensed consolidated financial statements do not include certain financial statement footnotes and disclosures required under U.S. GAAP for audited financial statements. Therefore, the condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes thereto for the year ended December 27, 2009, included in the Company's Annual Report on Form 10-K, filed with the SEC on February 11, 2010.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements and disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of commitments and contingencies and the reported amounts of revenues and expenses during the reporting periods. Estimates are used to account for the fair value of the retained non-controlling interest in Spansion Japan, the fair value of certain marketable securities, revenue, the allowance for doubtful accounts, inventory, including the value of inventory purchased from Spansion Japan, valuation of acquired intangible assets, impairment of long-lived assets, income taxes, stock-based compensation expenses, liabilities subject to compromise, the fair value of the debt and liability components of the Company's Exchangeable Senior Subordinated Debentures, and product warranties. Actual results may differ from those estimates, and such differences may be material to the Company's condensed consolidated financial statements.

Financial Statements Reclassifications

Certain prior period amounts in the condensed consolidated statements of operations have been reclassified to conform to the current period presentation. There is no material impact to the Company's results from operations due to these reclassifications.

4. Reorganization Items

Entities in reorganization are required to disclose separately items such as professional fees directly related to the process of reorganizing the Debtors under the Chapter 11 Cases, realized gains and losses, provisions for losses, and interest income resulting from the reorganization and restructuring of the business. The Debtors' reorganization items for the three months ended March 28, 2010 and March 29, 2009 consist of the following:

| | Three Months Ended March 28, 2010 | Three Months Ended March 29, 2009 |
|---|--|--|
| | (in thousands) | |
| Professional and service fees directly related to reorganization ⁽¹⁾ | \$ 17,152 | \$ 7,151 |
| Provision (adjustments) for expected allowed claims ⁽²⁾ | (22,517) | 355,333 |
| Interest income | (99) | (27) |
| Total reorganization items | \$ (5,464) | \$ 362,457 |

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- (1) Includes fees associated with the advisors and service providers to the Debtors.
- (2) Represents the Company's estimate of the expected allowed claims related primarily to rejection or repudiation of executory contracts, leases, and the effects of approved settlements.

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

The U.S. Bankruptcy Court established September 4, 2009 as the bar date for filing proofs of claim against the Debtors' estates. Under certain limited circumstances, some creditors will be permitted to file claims after the applicable bar dates. Accordingly, it is possible that not all potential claims have been filed. The differences between amounts recorded by the Debtors and proofs of claim filed by the creditors are investigated and resolved through the claims reconciliation process. Because of the number of creditors and claims, the claims reconciliation process may take considerable time to complete and the Company expects it will continue to receive claims after its emergence from the Chapter 11 Cases.

Notwithstanding the foregoing, the Company has recognized certain charges related to allowed claims or expected allowed claims. The U.S. Bankruptcy Court will ultimately determine liability amounts that will be allowed for claims. As claims are resolved, or where better information becomes available and is evaluated, the Company will make adjustments to the liabilities recorded on its quarterly or annual financial statements as appropriate. Any such adjustments including appeals accepted by the U.S. Bankruptcy Court could be material to the Company's financial position or results of operations in any given period.

Cash paid for professional fees was approximately \$7.6 million and \$8.0 million for the three months ended March 28, 2010 and March 29, 2009, respectively.

5. Liabilities Subject to Compromise

Liabilities subject to compromise refers to both secured and unsecured obligations that will be accounted for under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed. The U.S. Bankruptcy Court has, however, approved payment of certain of the Debtors' pre-petition obligations, including among other things employee wages, salaries and benefits and certain business-related payments such as claims of transport companies and certain contractors in satisfaction of liens or other interests. The Debtors have been paying and continue to pay undisputed post-petition claims in the ordinary course of business.

Pre-petition liabilities that are subject to compromise are reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represent the estimated amount expected to be allowed on known or potential claims to be resolved through the Chapter 11 Cases and remain subject to future adjustments arising from negotiated settlements, actions of the U.S. Bankruptcy Court, rejection of executory contracts and unexpired leases, the determination as to the value of collateral securing the claims, proofs of claim or other events. Liabilities subject to compromise also includes certain items that may be assumed under the Plan of Reorganization, and as such, may be subsequently reclassified to liabilities not subject to compromise. Ordinarily, secured debt is not considered to be a liability subject to compromise. However, the Company has included most of its secured debt as a liability subject to compromise as management believes that there remains uncertainty as to whether such debts are adequately secured.

The Debtors may reject pre-petition executory contracts and unexpired leases with respect to the Debtors' operations, with the approval of the U.S. Bankruptcy Court. Damages resulting from rejection of executory contracts and unexpired leases are generally treated as general unsecured claims and will be classified as liabilities subject to compromise. Differences between liability amounts estimated by the Debtors and claims filed by creditors will be investigated and, if necessary, the U.S. Bankruptcy Court will make a final determination of the allowable claim. On April 16, 2010, the U.S. Bankruptcy Court entered an order confirming the Company's Plan of Reorganization. The Plan of Reorganization may become effective as early as 14 days following entry of the U.S. Bankruptcy Court order. However, during this 14-day period, dissenting parties may seek to appeal the U.S. Bankruptcy Court order confirming the Plan of Reorganization and file motions to stay effectiveness of the order pending any appeals. There can be no assurance that the order confirming the Plan of Reorganization will not be appealed, or that the Plan of Reorganization will become effective or that it will be implemented successfully. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time. Liabilities subject to compromise consist of the following:

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| | March 28, 2010 (in thousands) | December 27, 2009 (in thousands) |
|--|----------------------------------|-------------------------------------|
| Accounts payable and accrued liabilities | \$ 608,297 | \$ 639,897 |
| Accounts payable to related parties | 109,941 | 109,941 |
| Accrued compensation and benefits | 14,844 | 16,138 |
| Long-term debt | 968,266 | 968,266 |
| Capital lease obligations | 15,640 | 18,861 |
| Other long-term liabilities | 364 | 3,166 |
| Total liabilities subject to compromise | \$ 1,717,352 | \$ 1,756,269 |

Table of Contents**Spansion Inc.****(Debtor-in-Possession)****Notes to Condensed Consolidated Financial Statements-(Continued)****(Unaudited)****6. Stock-Based Compensation**

Under the Plan of Reorganization and upon the Company's emergence from the Chapter 11 Cases, Spansion Inc.'s outstanding equity securities, including all shares of Common Stock and options to purchase shares of Common Stock, will be cancelled.

Shares Available to Grant

The numbers of shares of Class A Common Stock available for grant at March 28, 2010 under the Spansion Inc. 2007 Equity Incentive Plan (the 2007 Plan), the Spansion Inc. 2005 Equity Incentive Plan (the 2005 Plan) and the Saifun Semiconductors Ltd. 2003 Employee Share Option Plan (the Saifun 2003 Plan) are shown in the following table:

| | |
|--|-------------|
| Number of shares available for grant: | |
| Shares reserved for grant ⁽¹⁾ | 12,126,424 |
| Shares available under the 2007 Plan (transferred from the 2005 Plan) | 2,389,257 |
| Stock options granted through March 28, 2010, net of cancelled stock options | (3,832,741) |
| RSU awards granted through March 28, 2010, net of cancelled RSU awards | (979,580) |
| | |
| Shares available for grant under the 2007 Plan and Saifun 2003 Plan | 9,703,360 |

⁽¹⁾ The 12,126,424 shares reserved for grant consisted of 6,675,000 shares approved for grant under the 2007 Plan, 920,523 shares transferred from the 2005 Plan and 4,530,901 shares transferred from the Saifun 2003 Plan.

Valuation and Expense Information

The following table sets forth the total recorded stock-based compensation expense for the 2005 Plan, 2007 Plan, Saifun 2003 Plan, Saifun Semiconductor Ltd. 2001 Share Option Plan and Saifun Semiconductor Ltd. 1997 Share Option Plan (collectively, the Spansion and Saifun Equity Plans) by financial statement caption, resulting from the Company's stock options and restricted stock unit (RSU) awards for the three months ended March 28, 2010 and March 29, 2009:

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 28, 2010 | March 29, 2009 |
| | (in thousands) | |
| Cost of sales | \$ 273 | \$ 1,383 |
| Research and development | 511 | 1,569 |
| Sales, general and administrative | 511 | 2,478 |
| | | |
| Stock-based compensation expense before income taxes | 1,295 | 5,430 |
| | | |
| Income tax benefit ⁽¹⁾ | | |

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| | | |
|--|----------|----------|
| Stock-based compensation expense after income taxes ⁽¹⁾ | \$ 1,295 | \$ 5,430 |
|--|----------|----------|

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

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

No stock options were granted in the three months ended March 28, 2010 and March 29, 2009, under the Spansion and Saifun Equity Plans.

As of March 28, 2010, the total unrecognized compensation cost related to unvested stock options and RSU awards under the Spansion and Saifun Equity Plans was approximately \$10.3 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through the date of emergence from the Chapter 11 Cases. Upon effectiveness of and pursuant to the Plan of Reorganization, all outstanding options and RSU awards will be cancelled.

Stock Option and Restricted Stock Unit Activity

The following table summarizes stock option activity and related information under the Spansion and Saifun Equity Plans for the periods presented:

| | Number of Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---------------------|---|---|---|
| Options: | | | | |
| Outstanding as of December 27, 2009 | 6,497,320 | \$ 5.42 | 4.77 | \$ 137 |
| Granted | | | | |
| Cancelled | (901,417) | \$ 8.32 | | |
| Exercised | (123,909) | \$ | | |
| Outstanding as of March 28, 2010 ⁽¹⁾ | 5,471,994 | \$ 5.19 | 4.42 | \$ 85 |
| Exercisable as of March 28, 2010 ⁽²⁾ | 3,725,413 | \$ 6.66 | 3.56 | \$ 36 |

(1) The number of options outstanding as of March 28, 2010 includes 322,133 shares of options held by Spansion Japan employees.

(2) The number of options exercisable as of March 28, 2010 includes 294,541 shares of options held by Spansion Japan employees.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$0.08 as of March 26, 2010, the last trading day prior to March 28, 2010, which would have been received by the stock option holders had all stock option holders exercised their in-the-money stock options as of that date.

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

The following table summarizes RSU award activities and related information for the periods presented:

| | Number of Shares | Weighted-Average Grant-date Fair Value |
|--|---------------------|--|
| Restricted Stock Units: | | |
| Unvested as of December 27, 2009 | 956,933 | \$ 5.41 |
| Granted | | |
| Cancelled | (250,142) | \$ 5.18 |
| Vested | (115,095) | \$ 8.40 |
| Unvested as of March 28, 2010 ⁽¹⁾ | 591,696 | \$ 4.92 |

(1) The number of restricted stock units unvested as of March 28, 2010 includes 43,449 shares held by Spansion Japan employees.

7. Net Income (Loss) Per Share

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

| | Three Months Ended | |
|--|---|----------------|
| | March 28, 2010 | March 29, 2009 |
| | In thousands except for per-share amounts | |
| Net income (loss) | \$ 3,652 | \$ (512,635) |
| Weighted-average shares basic | 162,403 | 161,283 |
| Effect of dilutive potential common shares | 12,068 | |
| Weighted-average shares diluted | 174,471 | 161,283 |
| Net income (loss) per share basic | \$ 0.02 | \$ (3.18) |
| Net income (loss) per share diluted | \$ 0.02 | \$ (3.18) |

Employee stock options, unvested restricted stock units, and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options and unvested restricted stock units which is calculated based on the average share price for each fiscal period using the treasury stock method, as well as the effect of the Company's Exchangeable Senior Subordinated Debentures. 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

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repurchase shares. The Company had 207,000 Exchangeable Senior Subordinated Debentures outstanding at March 28, 2010, with each debenture exchangeable into 56.7621 shares of the Company's Class A Common Stock.

For the three months ended March 29, 2009, the Company excluded from its diluted per share computation approximately 22.8 million potential common shares issuable upon exercise of outstanding stock options, upon vesting of outstanding restricted stock units and upon exchange of Spansion LLC's Exchangeable Senior Subordinated Debentures because they had an anti-dilutive effect due to net loss recorded in the period.

Table of Contents**Spansion Inc.****(Debtor-in-Possession)****Notes to Condensed Consolidated Financial Statements-(Continued)****(Unaudited)****8. Comprehensive Income (Loss)**

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

| | Three Months Ended | |
|--|---------------------------|-----------------------|
| | March 28, 2010 | March 29, 2009 |
| | (in thousands) | |
| Net income (loss) | \$ 3,652 | \$ (512,635) |
| Net change in pension plan, net of taxes | | 123 |
| Net change in cumulative translation adjustment | | (25,073) |
| Net change in unrealized losses on marketable securities, net of \$0 taxes | | (273) |
| Total comprehensive income (loss) | \$ 3,652 | \$ (537,858) |

9. Related Party Transactions***Spansion Japan***

As discussed in Note 3, in the section entitled, *Basis of Presentation and Going Concern*, the Company does not include Spansion Japan in its consolidated financial statements after March 3, 2009, and, since that date, has accounted for its interest in Spansion Japan as a cost basis investment. Due to its 100 percent non-controlling ownership interest in Spansion Japan, the Company is treating Spansion Japan as a related party for financial reporting purposes.

On February 2, 2010, the Company entered into a foundry agreement with Spansion Japan whereby the Company will purchase from Spansion Japan (i) a minimum of 10 billion yen, or \$108.0 million as of March 28, 2010, worth of wafers over the six quarters beginning with the first quarter of 2010 and ending with the second quarter of 2011 and (ii) minimum sort services of \$7.7 million for the first quarter of 2010 and \$8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011; with both sort services and wafer production subject to normal and customary foundry performance conditions. This agreement replaced an earlier foundry agreement whereby Spansion Japan manufactured wafers for the Company based on a five-quarter rolling production forecast and in exchange, the Company reimbursed Spansion Japan for its manufacturing cost, plus a surcharge of 6 percent. The earlier foundry agreement was rejected by the U.S. Bankruptcy Court on November 19, 2009 pursuant to a motion by the Company.

The following tables present the significant related party transactions between the Company and Spansion Japan for the three months ended March 28, 2010 and the period from March 3, 2009 through March 29, 2009, respectively:

| | Three Months Ended | March 3, 2009 to |
|-------------------------------------|---------------------------|-------------------------|
| | March 28, 2010 | March 29, |
| | (in thousands) | 2009 |
| | (in thousands) | |
| Sales to Spansion Japan | \$ 54,209 | \$ 41,745 |
| Wafer purchases from Spansion Japan | \$ 54,728 | \$ 36,983 |

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| | | | | |
|--|----|-------|----|-------|
| Payment to Spansion Japan for R&D services | \$ | 2,031 | \$ | 2,058 |
|--|----|-------|----|-------|

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

The following table presents the account balances between the two companies as of March 28, 2010 and December 27, 2009, respectively:

| | March 28, 2010 (in thousands) | December 27, 2009 (in thousands) |
|--|--|---|
| Trade accounts receivable from Spansion Japan | \$ 361,983 | \$ 366,602 |
| Trade accounts payable to Spansion Japan | \$ 308,010 | \$ 331,151 |
| Deferred income on shipments to Spansion Japan | \$ 8,936 | \$ 12,029 |

Fujitsu

Fujitsu Limited (Fujitsu) is a holder of greater than 10 percent of the Company's voting securities as of March 28, 2010.

The Company did not have significant transactions and account balances directly with Fujitsu following the deconsolidation of Spansion Japan effective March 3, 2009. The following tables present the significant related party transactions between the Company and Fujitsu for the three months ended March 29, 2009.

| | Three Months Ended March 29, 2009 (in thousands) |
|--|---|
| Net sales to Fujitsu | \$ 50,208 |
| Inventory and cost of sales: | |
| Other purchases of goods and services from Fujitsu and rental expense to Fujitsu | 11,617 |
| Subcontract manufacturing and commercial die purchases from Fujitsu | 569 |
| Wafer purchases, processing and sort services from Fujitsu | 6,096 |
| Net gain recognized on sale of assets to Fujitsu on April 2, 2007 | (3,075) |
| Reimbursement on costs of employees seconded to Fujitsu | (2,633) |
| Equipment rental income from Fujitsu | (186) |
| Administrative services income from Fujitsu | (68) |
| | \$ 12,320 |
| Service fees to Fujitsu: | |
| Sales, general and administrative | \$ 110 |

10. 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 months ended March 28, 2010 and March 29, 2009 are as follows:

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| | Three Months Ended March 28, 2010 | Three Months Ended March 29, 2009 |
|--|---|--------------------------------------|
| | | (in thousands) |
| Balance, beginning of period | \$ 3,841 | \$ 1,489 |
| Provision for warranties issued | 933 | 923 |
| Settlements | (125) | (172) |
| Changes in liability for pre-existing warranties during the period | (1,030) | (762) |
| Balance, end of period | \$ 3,619 | \$ 1,478 |

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

In addition to product warranties, the Company, from time to time in its normal course of business, indemnifies other parties, with whom it enters into contractual relationships, including customers, directors, lessors and other parties, with respect to certain matters, including specified losses arising from a breach of representations or covenants, third-party infringement claims or other claims. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the limited history of indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision.

11. Debt and Capital Lease Obligations

The Company's debt and capital lease obligations consist of:

| | March 28, 2010 | December 27, 2009 |
|--|----------------|-------------------|
| | (in thousands) | |
| Debt obligations: | | |
| Senior Notes | \$ 233,440 | \$ 233,440 |
| Exchangeable Senior Subordinated Debentures | 109,233 | 109,233 |
| Senior Secured Floating Rate Notes | 625,593 | 625,593 |
| UBS Loan Secured by Auction Rate Securities | 36,604 | 64,150 |
| Senior Secured Term Loan | 450,000 | |
| Obligations under capital leases | 15,640 | 18,861 |
| | | |
| Total debt and capital lease obligations | 1,470,510 | 1,051,277 |
| Less: amount subject to compromise | 983,906 | 987,127 |
| | | |
| Total debt and capital lease obligations not subject to compromise | 486,604 | 64,150 |
| | | |
| Less: current portion | 486,604 | 64,150 |
| | | |
| Long-term debt and capital lease obligations not subject to compromise | \$ | \$ |

Under terms of the Senior Notes, Exchangeable Senior Subordinated Debentures and Senior Secured Floating Rate Notes, the Chapter 11 Cases constituted an event of default and all amounts outstanding under these facilities were accelerated and became immediately due and payable.

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

New Debt and Capital Lease Obligations and Activities for the three months ended March 28, 2010

Bank of Switzerland (UBS AG) Loan Secured by Auction Rate Securities (ARS)

During the three months ended March 28, 2010, the Company made payments of \$27.5 million on the UBS AG loan out of proceeds from the redemption of ARS. As of March 28, 2010, the Company had outstanding borrowings of approximately \$36.6 million. This amount bears interest at approximately 1.3 % as of March 28, 2010.

Senior Secured Term Loan

On February 9, 2010, Spansion LLC, the wholly owned operating subsidiary of the Company, borrowed \$450.0 million under its five-year Senior Secured Term Loan (the Term Loan). Funds from the Term Loan are held in escrow until the earlier of the Company's emergence from the Chapter 11 Cases or the termination date which may be as soon as 60 days from the date of closing unless extended by the lenders. Proceeds from the Term Loan along with prepaid interest of \$5.7 million for the first 60 days are recorded as restricted cash in the Company's condensed consolidated balance sheet at March 28, 2010. In connection with the Term Loan, the Company incurred non-refundable financing points, fees to the arrangers and legal costs of approximately \$12.0 million of which approximately \$7.5 million is being amortized over the 60 day period ending on the date the lenders may first terminate the loan, and approximately \$4.5 million, which represents fees that may be credited towards future financings if the Term Loan is terminated, is being amortized over the period through September 30, 2010, when the credit towards future financings expires. In addition, the Company is committed to pay the lenders approximately \$10 million of financing fees upon the release of Term Loan funds from escrow and upon the Company's emergence from the Chapter 11 Cases.

Interest on the Term Loan accrues at a rate per annum, reset quarterly, equal to the prime lending rate or the Federal Funds rate plus 0.50%, whichever is higher but not less than 3.00%, plus 4.50%. Alternatively, interest on the Term Loan may accrue at a rate per annum equal to the LIBOR or 2.00%, whichever is higher, plus 5.50%, and reset from one to twelve months by mutual agreement between borrower and lender. Interest is payable quarterly in arrears upon the Company's emergence from the Chapter 11 Cases.

Upon emergence from the Chapter 11 Cases, the Term Loan will be secured by the assets of the Company including, among other items, a first priority lien on property, plant and equipment and inventory, and a second priority lien on account receivables and cash. Based on certain agreed upon thresholds, the Term Loan will require net cash proceeds from asset sales or other dispositions of property, extraordinary cash receipts, and other future cash flows to be used to prepay the outstanding balance of the loan. Voluntary prepayments of borrowings will be permitted in whole or in part, in minimum principal amounts to be agreed upon, at any time on or prior to February 9, 2011 at a price equal to 101% of the principal amount of such borrowings being prepaid plus all accrued and unpaid interest plus breakage costs, if any, and thereafter at any time without premium or penalty. Under the terms of the Term Loan and upon the Company's emergence from the Chapter 11 Cases, the Company will be subject to a number of financial covenants beginning June 27, 2010, including a minimum consolidated interest coverage ratio of 3.75 to 1.0, a maximum leverage ratio of 2.50 to 1.0 until September 25, 2011 and a maximum leverage ratio of 2.0 to 1.0 thereafter, and maximum permitted capital expenditures of \$75 million in 2010, \$100 million in 2011 and \$125 million in 2012, and each fiscal year thereafter. Any capital expenditure amount not expended in the fiscal year for which the Company is permitted may be carried over for expenditure in the succeeding fiscal year in an amount not to exceed \$25 million in any fiscal year.

The proceeds of the Term Loan, together with cash proceeds from the Rights Offering and other sources of cash available to us, will be used as follows: (i) payment to fully discharge approximately \$633 million of the claims of holders of the Senior Secured Floating Rate Notes, (ii) payment of Administrative Expense Claims and Priority Claims (each as defined in the Plan of Reorganization) and (iii) payment of fees and expenses related to the Term Loan. The Term Loan is classified as a current liability on the Company's condensed consolidated balance sheet at March 28, 2010, because as of that date the Company had not emerged from the Chapter 11 Cases and the loan was to terminate on April 9, 2010, unless prior to that time the Company emerged from the Chapter 11 Cases or the loan was extended by the lenders. On April 9, 2010, the lenders extended the loan for an additional 30 days.

Table of Contents**Spansion Inc.****(Debtor-in-Possession)****Notes to Condensed Consolidated Financial Statements-(Continued)****(Unaudited)***Impact of Chapter 11 Cases*

As discussed in Note 3, the accounting guidance for entities in Chapter 11 reorganization provides that interest expense should be reported only to the extent that it will be paid during the Chapter 11 Cases proceeding or that it is probable that it will be an allowed priority, secured or unsecured claim. On that basis, the Company ceased accruing interest as of the Petition Date (March 1, 2009) on its Senior Notes and Exchangeable Senior Subordinated Debentures. In addition, accretion of the discounted carrying value of the Exchangeable Senior Subordinated Debentures ceased on March 1, 2009. The Company continues to accrue interest on the Senior Secured Floating Rate Notes and the UBS loan secured by ARS. For the three months ended March 28, 2010, reported interest expense was \$19.3 million while the contractual interest obligation was \$30.0 million. Reported interest expense of \$19.3 million consists primarily of approximately \$5.3 million interest expense on the Senior Secured Floating Rate Notes, approximately \$4.6 million interest expense on the Term Loan, and amortization of approximately \$7.9 million of financing costs related to the Term Loan.

12. Income Taxes

The Company recorded income tax expenses of approximately \$0.4 million in the three months ended March 28, 2010, as compared to an income tax expense of approximately \$0.2 million in the three months ended March 29, 2009. The income tax expense recorded in the three months ended March 28, 2010 was primarily related to tax provisions in profitable foreign locations of \$0.4 million. The income tax expense recorded in the three months ended March 29, 2009 was primarily related to tax provisions in profitable foreign locations of \$0.2 million.

As of March 28, 2010, all of the Company's U.S. and foreign deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The realization of these assets is dependent on substantial future taxable income which at March 28, 2010, in management's estimate, is not more likely than not to be achieved.

13. Fair Value

As of March 28, 2010 and December 27, 2009, the fair value measurements of the Company's financial assets consisted of the following and which are categorized in the table below based upon the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|----------------|---------|-----------|-----------|-------------------|---------|------------|------------|
| | March 28, 2010 | | | | December 27, 2009 | | | |
| | (in thousands) | | | | | | | |
| Money market funds | \$ | \$ | \$ | \$ | \$ 20 | \$ | \$ | \$ 20 |
| Auction rate securities | | | 75,155 | 75,155 | | | 100,335 | 100,335 |
| Put option | | | 4,645 | 4,645 | | | 6,790 | 6,790 |
| Total financial assets | \$ | \$ | \$ 79,800 | \$ 79,800 | \$ 20 | \$ | \$ 107,125 | \$ 107,145 |

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

The table below presents reconciliations for the Company's Level 3 financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 28, 2010 and March 29, 2009:

| | Three Months Ended March 28, 2010 | | Three Months Ended March 29, 2009 | |
|------------------------------|--------------------------------------|------------------------------|--------------------------------------|------------|
| | Auction rate securities | Put option (in thousands) | Auction rate securities | Put option |
| Balance, beginning of period | \$ 100,335 | \$ 6,790 | \$ 94,014 | \$ 27,465 |
| Transfer in | | | | |
| Redemptions at par | (27,325) | | | |
| Change in fair value | 2,145 | (2,145) | 10,834 | (11,151) |
| Balance, end of period | \$ 75,155 | \$ 4,645 | \$ 104,848 | \$ 16,314 |

The changes in the fair values of the ARS and put option are reflected as components of interest and other income (expense), net.

Auction Rate Securities and Put Option

At March 28, 2010, the Company held \$75.2 million of ARS valued at fair value (\$79.8 million at par) which are backed by student loans and substantially all of which are guaranteed by the U.S. government Federal Family Education Loan Program and which had credit ratings of AAA and Aaa. These ARS are classified within Level 3, given the failures in the auction markets subsequent to February 2008 and the lack of any correlation of these instruments to other observable market data. Therefore their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities.

In November 2008, the Company accepted an offer to participate in an ARS settlement from UBS, its broker, providing the Company the right, but not the obligation, to sell to UBS up to 100 percent of its ARS at par. The Company's right to sell the ARS to UBS commencing June 30, 2010 through July 2, 2012 represents a put option for a payment equal to the par value of the ARS.

At March 28, 2010, there was insufficient observable ARS market information available to determine the fair value of the Company's ARS investments. Therefore, the Company estimated the fair values of its ARS investments at March 28, 2010 using a discounted cash flow (DCF) methodology. Significant inputs used in the DCF models were the credit quality of the instruments, the percentage and the types of guarantees, the probability of the auction succeeding or the security being called prior to final maturity, and an illiquidity discount factor. The key assumptions used in the DCF analysis to determine the fair values as of March 28, 2010 were the discount factor to be applied and the period over which the cash flows would be expected to occur. The discount factor used was based on the three-month LIBOR (0.29 percent as of March 28, 2010) adjusted by 70 basis points (bps) to reflect the current market conditions for instruments with similar credit quality at the date of the valuation. In addition, the discount factor was incrementally adjusted for a liquidity discount of 125 bps to reflect the lack of an active market. The Company applied this discount factor over the expected life of the estimated cash flows of its ARS with projected interest income of 1.33 percent per annum. The projected interest income is based on a trailing 12-month average 91-day U.S. Treasury Bill Rate at 0.13 percent as of March 28, 2010 plus 120 bps, which is the average annual yield of the Company's ARS assuming auctions continue to fail.

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

The Company used a DCF model to estimate the fair value of its put options as of March 28, 2010. The valuation model is based on the following key assumptions:

A discount rate based on the 12-month U.S. Treasury Bill Rate (0.15 percent as of March 28, 2010), adjusted by 45 bps to reflect the credit risk associated with the put option; and

An expected life of 3 months.

The fair value of the put option of \$4.6 million and \$6.8 million at March 28, 2010 and December 27, 2009, respectively, is reflected as a component of prepaid and other current assets and other assets at the respective dates. The put option will continue to be measured at fair value utilizing Level 3 inputs until the earlier of its maturity or exercise.

14. Restructuring Charges

In the three months ended March 28, 2010, as part of its ongoing strategic effort to reduce costs and conserve cash, the Company eliminated regular and contract positions globally, through consolidations, attrition, and a reduction in regular, contract and temporary workers in manufacturing, engineering, management and administrative support functions.

Restructuring charges for the three months ended March 28, 2010 and March 29, 2009 were as follows:

| | Three Months Ended March 28, 2010 | Three Months Ended March 29, 2009 |
|---|--|--|
| | (in thousands) | |
| Employee severance pay and benefits | \$ 960 | \$ 21,213 |
| Professional fees | 201 | 2,626 |
| Relocation of property, plant and equipment | 78 | 103 |
| Other | 532 | |
| Cash settled restructuring charges | 1,771 | 23,942 |
| Depreciation and write-off fixed assets | 4,204 | |
| Gain recognized on sale of Suzhou plant | (3,676) | |
| Gain from sale of fixed assets | (2,202) | |
| Other | (84) | |
| Total restructuring charges | \$ 13 | \$ 23,942 |

The following table summarizes the restructuring accrual activity for the three months ended March 28, 2010:

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| | Three Months Ended March 28, 2010 (in thousands) | |
|--|---|---------|
| Accrued restructuring balance, beginning of period | \$ | 11,954 |
| Additional accruals for cash settled restructuring charges | | 1,771 |
| Adjustments | | 21 |
| Cash payments | | (2,017) |
| Accrued restructuring balance, end of period | \$ | 11,729 |

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

The accrued restructuring balance was included in accrued compensation and benefits in the Company's condensed consolidated balance sheets as of March 28, 2010 and December 27, 2009.

15. Debtor's Condensed Combined Financial Statements***Basis of Presentation******Condensed Combined Debtor-in-Possession Financial Statements***

The financial statements contained within this note represent the condensed combined financial statements for the Debtors under Chapter 11 of the U.S. Bankruptcy Code only. The Company's other subsidiaries are treated as non-consolidated subsidiaries in these financial statements and as such their net income is included as Equity income from non-Debtor subsidiaries in the statement of operations and their net assets are included as Investments in non-Debtor subsidiaries in the balance sheet.

Intercompany Transactions

Intercompany transactions between Debtors have been eliminated in the financial statements contained in this note. Intercompany transactions between the Debtors and non-Debtor subsidiaries have not been eliminated in the Debtors' financial statements. Therefore, reorganization items, net included in the statement of operations, liabilities subject to compromise included in the balance sheet, and reorganization items and payments for reorganization items, net included in the statement of cash flows are different than those presented in the Company's condensed consolidated financial statements.

Liabilities Subject to Compromise

Liabilities subject to compromise in the Condensed Combined Debtor-in-Possession Balance Sheet are comprised of the following:

| | March 28, 2010 | December 27, 2009 |
|---|-----------------------|--------------------------|
| | (in thousands) | |
| Accounts payable and accrued liabilities | \$ 608,297 | \$ 639,897 |
| Accounts payable to related parties | 109,941 | 109,941 |
| Accounts payable to non-debtor subsidiaries | 123,913 | 123,913 |
| Accrued compensation and benefits | 14,844 | 16,137 |
| Long-term debt | 968,266 | 968,266 |
| Capital lease obligations | 15,640 | 18,861 |
| Other long-term liabilities | 364 | 3,166 |
| Liabilities subject to compromise | \$ 1,841,265 | \$ 1,880,181 |

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

Spansion Inc.

Condensed Combined Debtor-in-Possession Statement of Operations

(Non-filed entities excluded from combined Debtors group)

(in thousands)

| | Three months ended March 28, 2010 | March 1, 2009 to March 29, 2009 |
|--|--|--|
| Net sales | \$ 221,848 | \$ 111,850 |
| Net sales to related parties (Spansion Japan) | 54,209 | 41,745 |
| Total net sales | 276,057 | 153,595 |
| Cost of sales | 195,408 | 159,171 |
| Research and development | 21,790 | 8,796 |
| Sales, general and administrative | 43,906 | 68,012 |
| Restructuring charges | 1,654 | 12,362 |
| Operating income (loss) before reorganization items | 13,299 | (94,746) |
| Interest and other income (expense), net | (142) | 451 |
| Interest expense | (19,336) | (7,374) |
| Gain on deconsolidation of subsidiary | | 30,100 |
| Loss before reorganization items, equity income and income taxes | (6,179) | (71,569) |
| Reorganization items | 5,464 | (360,006) |
| Equity income from non-Debtor subsidiaries | 4,064 | 1,305 |
| Income (loss) before income taxes | 3,349 | (430,270) |
| Benefit for income taxes | (303) | (504) |
| Net income (loss) | \$ 3,652 | \$ (429,766) |

Table of Contents**Spansion Inc.****(Debtor-in-Possession)****Notes to Condensed Consolidated Financial Statements-(Continued)****(Unaudited)****Spansion Inc.****Condensed Combined Debtor-in-Possession Balance Sheet****(Non-filed entities excluded from combined Debtors group)****(in thousands)**

| | March 28, 2010 | December 27, 2009 |
|--|---------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 320,082 | \$ 324,341 |
| Auction rate securities | 75,155 | 100,335 |
| Accounts receivable | 115,944 | 119,110 |
| Accounts receivable from related parties | 361,983 | 366,602 |
| Accounts receivable from non-Debtor subsidiaries | 31,024 | 36,670 |
| Allowance for doubtful accounts | (59,333) | (54,908) |
| Accounts receivable, net | 449,618 | 467,474 |
| Inventories | 124,842 | 121,722 |
| Deferred income taxes | 12,197 | 13,332 |
| Restricted cash | 531,516 | |
| Prepaid expenses and other current assets | 21,033 | 45,966 |
| Total current assets | 1,534,443 | 1,073,170 |
| Property, plant and equipment, net | 236,778 | 256,694 |
| Loan to non-Debtor subsidiary and accrued interest thereon | 50,191 | 50,164 |
| Investment in non-Debtor subsidiaries | 143,016 | 133,327 |
| Other assets | 30,072 | 35,118 |
| Total assets | \$ 1,994,500 | \$ 1,548,473 |
| Liabilities and Stockholders Deficit | | |
| Liabilities not subject to compromise | | |
| Current liabilities: | | |
| Short term note | \$ 36,604 | \$ 64,149 |
| Senior secured term loan | 450,000 | |
| Accounts payable | 38,948 | 34,285 |
| Accounts payable to related parties | 198,069 | 221,211 |
| Accounts payable to non-Debtor subsidiaries | 26,768 | 18,010 |
| Accrued compensation and benefits | 21,054 | 18,321 |
| Other accrued liabilities | 96,341 | 108,510 |

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| | | |
|---|--------------|--------------|
| Rights offering deposits | 75,783 | |
| Deferred income on shipments | 45,985 | 49,122 |
| Total current liabilities | 989,552 | 513,608 |
| Deferred income taxes | 12,270 | 13,405 |
| Other long-term liabilities | 4,355 | 4,682 |
| Total liabilities not subject to compromise | 1,006,177 | 531,695 |
| Liabilities subject to compromise | 1,841,265 | 1,880,182 |
| Total liabilities | 2,847,442 | 2,411,877 |
| Stockholders' deficit | (852,942) | (863,404) |
| Total liabilities and stockholders' deficit | \$ 1,994,500 | \$ 1,548,473 |

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Spansion Inc.

(Debtor-in-Possession)

Notes to Condensed Consolidated Financial Statements-(Continued)

(Unaudited)

Spansion Inc.

Condensed Combined Debtor-in-Possession Statement of Cash Flows

(Non-filed entities excluded from combined Debtors group)

| | Three Months ended March 28, 2010 | March 1, 2009 to March 29, 2009 |
|--|--|--|
| Net cash provided by operating activities | \$ 743 | \$ 32,526 |
| Net cash used by investing activities | (488,848) | (1,510) |
| Net cash provided (used) by financing activities | 483,846 | (2,136) |
| Net (decrease) increase in cash and cash equivalents | (4,259) | 28,880 |
| Cash and cash equivalents at the beginning of period | 324,341 | 50,865 |
| Cash and cash equivalents at end of period | \$ 320,082 | \$ 79,745 |

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

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. These statements relate to future events or our future financial performance. Forward-looking statements may include words such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential, continue or other wording indicating future results or expectations. Forward-looking statements are subject to risks and uncertainties, and actual events or results may differ materially. Factors that could cause our actual results to differ materially include, but are not limited to, those discussed under Risk Factors in this report as well as risks and uncertainties relating to our Creditor Protection Proceedings including with our ability to: stabilize the business to maximize the chances of preserving all or a portion of the enterprise; generate cash from operations and maintain adequate cash on hand; continue to maintain cash management arrangements; attract and retain customers or avoid reduction in, or delay or suspension of, customer orders as a result of the uncertainty caused by the Creditor Protection Proceedings; maintain market share, as competitors move to capitalize on customer concerns; retain or replace major suppliers on acceptable terms and avoid disruptions in our supply chain; maintain current relationships with reseller partners, joint venture partners and strategic alliance partners; retain and motivate key employees and attract new employees; actively and adequately communicate on and respond to events, media and rumors associated with the Creditor Protection Proceedings that could adversely affect our relationships with customers, suppliers, partners and employees; obtain court orders or approvals with respect to motions filed from time to time; prevent third parties from obtaining court orders or approvals that are contrary to our interests; resolve ongoing issues with creditors and other third parties whose interests may differ from ours; successfully implement the Plan of Reorganization; obtain sufficient exit financing to support the Plan of Reorganization and satisfy the conditions to such financing; and realize full or fair value for any assets or business that may be divested as part of a reorganization. We also face risks and uncertainties associated with: our emergence from the Chapter 11 Cases; limitations on actions against any Debtor during the Chapter 11 Cases; the values, if any, that will be prescribed pursuant to the Plan of Reorganization to outstanding Spansion securities; the uncertainty of the existence of a trading market in our shares of common stock; 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 risks and uncertainties relating to our business including our ability to: narrow our strategic focus on the embedded portion of the of the Flash memory market in an effective and timely manner; improve our gross margins and continue to implement successfully our cost reduction efforts; control our operating expenses, particularly our sales, general and administrative costs; obtain additional financing in the future; obtain materials in support of our business at terms favorable to us; retain and expand our customer base in our focus markets, and retain and grow our share of business within our customer base; successfully introduce our next generation products to market in a timely manner; effectively and timely achieve volume production of our next generation products; increase market acceptance of our products based on our MirrorBit technology; penetrate further the Flash memory market with our high density products and expand the number of customers in emerging markets; successfully develop and transition to the latest technologies; develop our MirrorBit NAND, and MirrorBit Eclipse architectures, introduce new products based on these architectures, and achieve customer acceptance of these products; develop systems-level solutions that provide value to customers of our products; enter new markets not traditionally served by Flash memory; negotiate successfully patent and other intellectual property licenses and patent cross-licenses and acquire additional patents; and effectively manage, operate and compete in the current sustained economic downturn and extraordinarily volatile market conditions effected in part by cautious capital spending by our customers as they face their own economic challenges. We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that arises after the date of this report, or to conform such statements to actual results or changes in our expectations.

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Overview

While the semiconductor industry has experienced improving conditions since the second quarter of 2009, our revenues have continued to decline through the first quarter of 2010. We believe there are two principal reasons. First, shortly after commencement of the Creditor Protection Proceedings we began exiting a large portion of the wireless market. Second, the uncertainty of the Creditor Protection Proceedings has caused us to lose market share with our embedded customers. Upon emergence from the Chapter 11 Cases, we believe both of these trends will improve. With respect to the wireless market, we believe that the portfolio adjustment period is now substantially complete, and wireless revenues are expected to stabilize at approximately our current first quarter levels. We also believe that the confirmation of the Plan of Reorganization and in connection with the Chapter 11 Cases will give us an opportunity to end and eventually reverse the trend of market share losses due to the uncertainty of the Chapter 11 Cases. Furthermore, we typically experience stronger demand in the second fiscal quarter than the first fiscal quarter.

Our revenues are likely to remain significantly below the levels we experienced before the Chapter 11 Cases due to our decision to exit large portions of the wireless market. We will, however, continue to benefit from the reduction in engineering and manufacturing expenses resulting from our actions in the Chapter 11 Cases. Once we emerge from the Chapter 11 Cases, our earnings should also benefit from the reduction of restructuring and reorganization expenses. Ultimately, we expect to achieve improved operating leverage and profitability as our revenues increase.

Creditor Protection Proceedings

On February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC (Spansion Japan), filed a proceeding under the Corporate Reorganization Law of Japan to obtain protection from Spansion Japan's creditors (Spansion Japan Proceeding). The Tokyo District Court approved the filing of the Spansion Japan Proceeding on March 3, 2009, and appointed the incumbent representative director of Spansion Japan as trustee.

On March 1, 2009 (the Petition Date), Spansion Inc., Spansion Technology LLC, Spansion LLC, Spansion International, Inc. and Cerium Laboratories LLC (the Debtors), each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U. S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases). The Chapter 11 Cases, together with the Spansion Japan Proceeding are referred to collectively as the Creditor Protection Proceedings.

We continue to operate our businesses as debtors-in-possession under jurisdiction of the U.S. Bankruptcy Court. Non-U.S subsidiaries that are not included in the Creditor Protection Proceedings continue to operate without the supervision of the U.S. Bankruptcy Court.

Spansion Japan Deconsolidation

Effective March 3, 2009, we are no longer deemed to have control over Spansion Japan for financial reporting purposes. Prior to March 3, 2009, the results of Spansion Japan were included in our condensed consolidated financial statements, and subsequent to March 3, 2009, the results of Spansion Japan are not included in our condensed consolidated financial statements. Accordingly, our operating results for the quarter ended March 28, 2010, are not fully comparable to the quarter ended March 29, 2009.

Plan of Reorganization

On April 16, 2010, the U. S. Bankruptcy Court entered an order confirming our Plan of Reorganization. The Plan of Reorganization may become effective as early as 14 days following entry of the U.S. Bankruptcy Court order. However, during this 14-day period, dissenting parties may seek to appeal the U.S. Bankruptcy Court order confirming the Plan of Reorganization and file motions to stay effectiveness of the order pending any appeals. We cannot provide any assurance that the order confirming the Plan of Reorganization will not be appealed, or that the Plan of Reorganization will become effective or that it will be implemented successfully.

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Under the Plan of Reorganization, the Debtors will be reorganized (Reorganized Debtors) through the consummation of several transactions in which new securities of the Reorganized Debtors will be issued to satisfy creditor claims and provide working capital to fund operations. These transactions include:

the distribution of cash raised through the rights offering and financing transactions;

the cancellation of Spansion Inc.'s outstanding equity securities, including all shares of Common Stock and options to purchase shares of Common Stock;

the distribution of New Common Stock to holders of general unsecured claims; and

the retention of the assets of the Debtors in the Reorganized Debtors.

Pursuant to the Plan of Reorganization, the holders of allowed claims were offered the right to purchase a total of 12,974,496 shares of our New Common Stock upon emergence from the Chapter 11 Cases at a price of \$8.43 per share (Rights Offering). The number of shares available to each eligible claimant is based on each claimant's proportionate allowed claim. In connection with the Rights Offering, we entered into a Backstop Rights Purchase Agreement with Silver Lake Sumeru Fund, L.P. (Silver Lake) whereby Silver Lake committed to purchase the balance of Rights Offering shares not otherwise subscribed for by the Rights Offering participants. As of March 28, 2010, approximately \$109.4 million have been committed to purchase the entire Rights Offering, of which \$75.8 million has been received and resides in a segregated Company bank account and the remaining balance resides in escrow accounts that will be released to the Company upon emergence from the Chapter 11 Cases. The \$75.8 million received was recorded as restricted cash with the related deposit recorded as a current liability on our condensed consolidated balance sheet at March 28, 2010.

On February 9, 2010, we closed a \$450 million five-year Senior Secured Term Loan agreement (Term Loan) with a group of lenders. Funds from the Term Loan are held in escrow until the earlier of our emergence from the Chapter 11 Cases or the termination date which may be as soon as 60 days from the date of closing unless extended by the lenders. Proceeds from the Term Loan along with prepaid interest for the first 60 days are recorded as restricted cash in our condensed consolidated balance sheet at March 28, 2010. Upon emergence from the Chapter 11 Cases, the Term Loan will be secured by our assets including a first lien on property, plant and equipment and inventory, and a second priority lien on accounts receivables and cash. The Term Loan is subject to a number of financial and other covenants as discussed in Note 11 to the condensed consolidated financial statements.

The proceeds of the Term Loan, together with cash proceeds from the Rights Offering and other sources of cash available to us, will be used as follows: (i) payment to fully discharge approximately \$633 million of the claims of holders of the Senior Secured Floating Rate Notes, (ii) payment of Administrative Expense Claims and Priority Claims (each as defined in the Plan of Reorganization) and (iii) payment of fees and expenses related to the Term Loan.

We have entered into an agreement with Bank of America and other financial institutions for a post-bankruptcy senior revolving credit facility (Revolving Credit Facility) in an aggregate amount of up to \$65 million to fund bankruptcy expenses and ongoing working capital. Available amounts for borrowing under the Revolving Credit Facility are limited to 85 percent of eligible accounts receivable. Funding is subject to a number of conditions, including a minimum liquidity level of \$100 million comprised of the sum of unrestricted cash and cash equivalents and the borrowing base minus the principal balance of all Revolving Credit Facility loans, and our emergence from the Chapter 11 Cases. The Revolving Credit Facility is subject to a number of covenants including fixed charge ratio coverage of 1.00 to 1.00.

The Plan of Reorganization assumes that allowed claims will range from approximately \$1.6 billion to approximately \$2.1 billion after completion of the claims objection, reconciliation and resolution process. As of March 28, 2010, we accrued expected allowed claims totaling approximately \$1.7 billion classified as liabilities subject to compromise in the accompanying condensed consolidated financial statements. In addition to the range specified above and the amount accrued, on March 12, 2010, Spansion Japan filed an amended general unsecured proof of claim in the U.S. Bankruptcy Court asserting that it has been damaged in the amount of approximately \$936 million as a result of the November 19, 2009 foundry agreement rejection order discussed below. If the expected amount of allowed claims increases over the amount currently accrued, we will record additional reorganization expense in the period of such determination. Because disputed claims have not yet been finally adjudicated, we cannot assure you that actual recoveries to creditors and interest holders will not be materially higher or lower than as set forth in the Plan of Reorganization.

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Business Relationship with Spansion Japan and Foundry Agreement

Spansion Japan is managed by a trustee appointed by the Tokyo District Court and subject to the general supervision of the Tokyo District Court. As a result, beginning March 3, 2009, the financial results of Spansion Japan are no longer included in our consolidated financial results.

Spansion Japan has continued to facilitate distribution of our products in Japan, manufacture and supply sorted and unsorted silicon wafers for us, and provide sort services to us. The wafers purchased from Spansion Japan are a material component of our cost of goods sold, and historically the wafer prices were governed by a foundry agreement. We believe that the prices under the foundry agreement greatly exceeded the amounts that the U.S. Bankruptcy Court would have required us to pay for wafers purchased during the period from February 9, 2009 through October 27, 2009 (the date when we and Spansion Japan mutually agreed to pricing terms through executed purchase orders).

As a result of unsuccessful efforts by us to renegotiate the prices under the foundry agreement, we filed a motion with the U.S. Bankruptcy Court in October 2009 to reject the foundry agreement. An order rejecting the foundry agreement was issued by the U.S. Bankruptcy Court on November 19, 2009. As a result, there was no valid contract establishing pricing for the wafers we received from Spansion Japan from February 9, 2009 through October 27, 2009 (Disputed Period).

On January 8, 2010, we reached an agreement in principle (the Settlement) with Spansion Japan to: (i) acquire Spansion Japan's distribution business; (ii) obtain foundry services, including wafer and sort services, from Spansion Japan; and (iii) resolve our dispute with Spansion Japan relating to pricing of wafers purchased during the Disputed Period. The Settlement remains subject to the completion of definitive agreements and our emergence from the Chapter 11 Cases. On January 29, 2010, the U.S. Bankruptcy Court and on February 1, 2010, the Tokyo District Court approved the Settlement.

On February 2, 2010 we and Spansion Japan entered into a foundry agreement whereby we will purchase from Spansion Japan (i) a minimum of 10 billion yen (equivalent to \$108.0 million as of March 28, 2010) worth of wafers over the six quarters beginning with the first quarter of 2010 and ending with the second quarter of 2011 and (ii) minimum sort services of \$7.7 million for the first quarter of 2010 and \$8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011; with both sort services and wafer production to be subject to normal and customary foundry performance conditions.

We expect the remaining definitive agreements implementing the Settlement to be executed in the second quarter of 2010 and upon our emergence from the Chapter 11 Cases. The definitive agreements are expected to provide for, among other things, the following material terms:

Payment to Spansion Japan of approximately \$45 million during fiscal 2010;

The purchase of Spansion Japan's distribution business located in Kawasaki, Japan for approximately \$12.5 million;

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The claims of the Debtors against Spansion Japan arising prior to February 9, 2009 will be deemed allowed unsecured non-priority claims in the Spansion Japan's corporate reorganization proceeding, but the Debtors will not be entitled to receive any distribution on account of such claims;

Spansion Japan shall retain its rejection damage claims against the Debtors in respect of the rejection of the Foundry Agreement (described below), which damage claims can be offset by the difference between our prepetition claim against Spansion Japan and its prepetition claim against us; and

All other claims of Spansion Japan and the Debtors against each other shall be expunged, released and satisfied.

On March 12, 2010, Spansion Japan filed an amended general unsecured proof of claim in the U.S. Bankruptcy Court asserting that it has been damaged in the amount of approximately \$936 million as a result of the November 19, 2009 foundry agreement rejection order. We believe that we have strong defenses to the amount of Spansion Japan's proof of claim and intend to vigorously contest this matter. Under our Plan of Reorganization, if the U.S. Bankruptcy Court were to allow such claim it would be as a general unsecured claim in Class 5B of the Company's Plan of Reorganization and Spansion Japan would be entitled, at most, to its pro-rata distribution of New Common Stock.

Basis of Presentation and Going Concern

The accompanying condensed consolidated financial statements have been prepared using the same U.S. GAAP and the same rules and regulations of the SEC as applied by us prior to the filing of the Chapter 11 Cases. The condensed consolidated financial statements continue to be prepared using the going concern basis, which assumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. The Chapter 11 Cases have provided us with a period of time to stabilize our current operations and financial condition and develop the Plan of Reorganization, which incorporates our current business strategy focused on the market for embedded applications and licensing of our intellectual property portfolio. This Plan of Reorganization does not contemplate liquidation of Spansion. Accordingly, we believe that these actions make the going concern basis of presentation appropriate. However, it is not possible to predict the outcome of Chapter 11 Cases; therefore, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Further, it is not possible to predict whether the actions taken in the Plan of Reorganization or any other reorganization will result in improvements to our financial condition sufficient to allow us to continue as a going concern. Accordingly, substantial doubt exists as to whether we will be able to continue as a going concern. If the going concern basis is not appropriate in future filings, adjustments will be necessary to the carrying amounts and/or classification of assets and liabilities in our consolidated financial statements included in such filings. Further, an amendment to the Plan of Reorganization prior to our emergence from the Chapter 11 Cases could materially change the carrying amounts and classifications reported in the consolidated financial statements of future filings.

The accompanying condensed consolidated financial statements reflect the accounting, presentation and disclosure requirements for companies in reorganization under the U.S. Bankruptcy Code. Accordingly, liabilities and obligations whose treatment and satisfaction is dependent on the outcome of the Chapter 11 Cases have been segregated and classified as liabilities subject to compromise in the consolidated balance sheet. The ultimate amount of and settlement terms for our pre-petition liabilities are dependent on the outcome of Chapter 11 Cases and, accordingly, are not presently determinable. Professional fees associated with the Chapter 11 Cases and certain gains and losses resulting from reorganization of our business have been reported separately as reorganization items. In addition, interest expense has been reported only to the extent that it will be paid during the Chapter 11 Cases or that it is probable that it will be an allowed priority, secured, or unsecured claim under the Chapter 11 Cases. Interest income earned during the Chapter 11 Cases is reported as a reorganization item.

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

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

Reporting Requirements

As a result of Chapter 11 Cases, we are periodically required to file various documents with, and provide certain information to, the U.S. Bankruptcy Court, including statements of financial affairs, schedules of assets and liabilities, and monthly operating reports in forms prescribed by federal bankruptcy law, as well as certain financial information on an unconsolidated basis. Such materials were prepared according to requirements of federal bankruptcy law. While they accurately provide then-current information required under federal bankruptcy law, they are nonetheless unconsolidated, unaudited and prepared in a format different from that used in our consolidated financial statements filed under the securities laws and regulations. Accordingly, we believe that the substance and format do not allow meaningful comparison with our regular publicly-disclosed consolidated financial statements. Moreover, the materials filed with the U.S. Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to our securities, or for comparison with other financial information filed with the SEC.

Fresh Start Accounting

Upon emergence from the Chapter 11 Cases, we will implement the Plan of Reorganization and, in accordance with U.S. GAAP, we will apply fresh start accounting, which will entail the revaluation of our assets and liabilities to their estimated fair values as of the date of emergence. As a result, we anticipate the balance sheet upon emergence to be significantly different from the balance sheet as of March 28, 2010. For example, fresh start accounting will include the accounting for the cancellation of existing debt and equity plans, implementation of new debt and new equity plans, elimination of the accumulated deficit, reduction of pre-petition liabilities, establishing a new cost basis for fixed assets including the elimination of accumulated depreciation, establishing valuation and recognition of intangible assets that are not currently reported and possible inventory revaluation adjustments. In addition, our operational results for the reporting period in which we emerge from the Chapter 11 Cases will be split into predecessor and successor accounting periods. We anticipate reporting a significant reorganization gain in the predecessor period as a result of the reduction of pre-petition liabilities. Changes in the fair values of other assets and liabilities due to fresh start accounting will also be reflected in the predecessor income statement. The successor period statements of operations will, therefore, reflect the operational results post-emergence from bankruptcy, including, for example, the effects of accounting for intangible assets identified in the application of fresh start accounting.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our net sales, inventories, asset impairments, stock-based compensation expense, and income taxes. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions. As a result of the Chapter 11 Cases, the realization of assets and liquidation of liabilities are subject to uncertainty. We expect that our emergence from the Chapter 11 Cases will materially change the amounts and classifications reported in the condensed consolidated financial statements in future filings.

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Our critical accounting policies incorporate our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements and are described in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 27, 2009.

Results of Operations

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

The following is a summary of operating results for the three months ended March 28, 2010 and March 29, 2009.

| | Three Months Ended | | | |
|---------------------------------------|--|---------------------------|--------------------------------|--------------------------------|
| | March 28, 2010 | March 29, 2009 | Variance in Dollars | Variance in Percent |
| | (in thousands, except for percentages) | | | |
| Total net sales | \$ 277,337 | \$ 399,628 | \$ (122,291) | -31% |
| Cost of sales | 189,120 | 383,035 | (193,915) | -51% |
| Gross margin | 32% | 4% | | |
| Research and development | 22,953 | 44,746 | (21,793) | -49% |
| Sales, general and administrative | 47,608 | 104,029 | (56,421) | -54% |
| Restructuring charges | 13 | 23,942 | (23,929) | -100% |
| Operating income (loss) | 17,643 | (156,124) | 173,767 | -111% |
| Gain on deconsolidation of subsidiary | | 30,100 | (30,100) | -100% |
| Interest and other income, net | 286 | 480 | (194) | -40% |
| Interest expense | (19,336) | (24,466) | 5,130 | -21% |
| Reorganization items | 5,464 | (362,457) | 367,921 | -102% |
| Income tax provision | (405) | (168) | (237) | 141% |

Total Net Sales

Total net sales for the three months ended March 28, 2010 decreased by approximately 31 percent compared to total net sales for the three months ended March 29, 2009. The decrease in total net sales was primarily attributable to an approximately 24 percent decrease in unit shipments and an approximately nine percent decline in average selling prices (ASPs). The decrease in unit shipments was primarily due to our decision to exit large portions of the wireless market and, to a lesser extent, a reduction in market share resulting from our bankruptcy filing. The decrease in ASPs was primarily the result of a product mix shift and price declines in the overall semiconductor memory market.

Gross Margin

Our gross margin increased 28 percentage points for the three months ended March 28, 2010, compared to the corresponding period in fiscal 2009. The increase in gross margin was primarily due to an increase in factory utilization following the temporary shutdown of operations in the first quarter of fiscal 2009, a reduction in facility overhead due to the deconsolidation of Spansion Japan, closure of the Penang final manufacturing operation and the sale of the Suzhou plant, and a product mix shift from wireless to embedded products which are higher margin products.

Research and Development

Research and development (R&D) expenses for the three months ended March 28, 2010 decreased by 49 percent, as compared to the corresponding period in fiscal 2009. The decrease in R&D expense was primarily due to: (i) savings of approximately \$6.1 million in labor costs; (ii) a combined decrease of approximately \$10.5 million in building expense, repair and maintenance, outside services and other operational expenses; and (iii) a decrease of approximately \$5.3 million in depreciation expense resulting from a write-down of fixed assets. These cost reductions were due to the company's decisions to close the Sub-micron Development Center and exit large portions of the wireless market.

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Sales, General and Administrative

Sales, general and administrative (SG&A) expense for the three months ended March 28, 2010 decreased by 54 percent, compared to the corresponding period in fiscal 2009. The decrease in SG&A expense was primarily due to: (i) decreases in provisions for litigation and other related matters of approximately \$35.7 million and for doubtful accounts of approximately \$12.1 million; (ii) savings of approximately \$5.4 million in labor costs; and (iii) the elimination of SG&A expenses attributable to Spansion Japan as a result of deconsolidation of Spansion Japan on March 3, 2009. We incurred approximately \$4.3 million of Spansion Japan SG&A expenses for the first two months of fiscal 2009 before deconsolidation whereas we incurred no such expenses in the first quarter of fiscal 2010.

These decreases were partially offset by an increase of approximately \$3.8 million in accrued bonuses, primarily related to our estimated performance-based 2010 bonus plan payouts.

Restructuring Charges

Restructuring charges in the three months ended March 28, 2010 include approximately \$1.8 million of cash payment mainly for employee severance pay and benefits and professional fee, approximately \$4.2 million of depreciation and write-off of fixed assets, offset by approximately \$3.7 million of gain recognized on sale of Suzhou plant, and approximately \$2.2 million of gain from sale of fixed assets. Restructuring charges in the three months ended March 29, 2009 consist of approximately \$23.9 million cash charges associated with termination benefits as a result of workforce reduction implemented in the first quarter of fiscal 2009.

Gain on Deconsolidation of Subsidiary

As disclosed above and in Note 3 to our Condensed Consolidated Financial Statements, effective March 3, 2009, we deconsolidated Spansion Japan and recognized a one-time gain of approximately \$30.1 million for the three months ended March 29, 2009, which represents the difference between the carrying value of our investment in Spansion Japan immediately before deconsolidation (100 percent of Spansion Japan's stockholder's deficit) and the estimated fair value of our retained non-controlling interest in Spansion Japan (zero). We did not have a similar gain during the corresponding period in fiscal 2010.

Interest and Other Income, Net

Interest and other income, net, decreased by approximately \$0.2 million for the three months ended March 28, 2010, compared to the corresponding period in fiscal 2009 mainly due to a decrease in our average investment portfolio yield combined with a decrease of approximately \$25.2 million in our investment in the ARS.

Interest Expense

We recognize interest expense during the Chapter 11 Cases only to the extent that it will be paid during the proceeding or that it is probable it will be an allowed priority, secured or unsecured claim. Interest expense decreased by approximately \$5.1 million for the three months ended March 28, 2010, compared to the corresponding period in fiscal 2009, primarily due to:

- (i) a decrease of approximately \$7.1 million in interest expense for Senior Notes and Exchangeable Senior Subordinated Debentures as interest expense on these obligations was accrued only through the Petition Date as a result of the Chapter 11 Cases;

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- (ii) a decrease of approximately \$3.6 million in interest expense for Floating Rate Notes due to decrease in interest rate from 5.33% in the first quarter of fiscal 2009 to 3.38% in the first quarter of fiscal 2010;
- (iii) a decrease of approximately \$3.4 million in interest expense due to capital lease rejections as a result of reorganization efforts and the cessation of amortization of debt discount and financing costs since the Petition Date in accordance with the accounting guidance for entities in reorganization; and
- (iv) a decrease of approximately \$2.2 million in interest expense as a result of the deconsolidation of Spansion Japan effective March 3, 2009.

The overall decrease was partially offset by increases due to the following:

- (i) amortization of financing costs of approximately \$7.9 million on the Term Loan and
- (ii) interest expense of approximately \$4.6 million on the Term Loan.

The average interest rate on our debt portfolio was 4.2 percent in the three months ended March 28, 2010, compared to 5.0 percent in the corresponding period in fiscal 2009.

Reorganization Items

Reorganization items of approximately \$5.5 million for the three months ended March 28, 2010 primarily consist of a gain of approximately \$22.5 million resulting from approved settlement of rejected capital leases and various license agreements partially offset by professional and service fees of approximately \$17.2 million. Reorganization items of approximately \$362.5 million for the three months ended March 29, 2009 primarily consisted of a provision for expected allowed claims of approximately \$355.3 million, and professional fees of approximately \$7.2 million. The provision for expected allowed claims represents our estimate of the expected allowed claims related primarily to the rejection or repudiation of leases and other executory contracts and the effects of approved settlements during the three months ended March 28, 2010 and March 29, 2009.

As disclosed above, the U.S. Bankruptcy Court has confirmed our Plan of Reorganization, which establishes the liability amounts that will be allowed for claims. The Plan of Reorganization may become effective as early as 14 days following entry of the U.S. Bankruptcy Court order. However, during this 14-day period, dissenting parties may seek to appeal the U.S. Bankruptcy Court order confirming the Plan of Reorganization and file motions to stay effectiveness of the order pending any appeals. There are no assurances that the order confirming the Plan of Reorganization will not be appealed, or that the Plan of Reorganization will become effective. If the Plan of Reorganization is not consummated, our estimates of the expected allowed claims could change and, if needed, we will make adjustments to the liabilities recorded on our interim or annual financial statements as appropriate. Any such adjustments could be material to our financial position or results of operations in any given period. Subsequent to emergence from the Chapter 11 Cases, adjustments to our pre-petition liabilities will not impact our assets or liabilities.

Income Tax Provision

The income tax expense of approximately \$0.4 million in the three months ended March 28, 2010 and \$0.2 million in the three months ended March 29, 2009 were primarily related to tax provisions in profitable foreign locations.

As of March 28, 2010, all of our U.S. and foreign deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The realization of these assets is dependent on substantial future taxable income which at March 28, 2010, in management's estimate, is not more likely than not to be achieved.

Table of Contents**Other Items**

As of March 28, 2010, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately \$10.3 million after reduction for estimated forfeitures, and such stock options and RSU awards currently vest ratably through the date we emerge from the Chapter 11 cases.

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of March 28, 2010 and December 27, 2009 are as follows:

| | March 28, 2010 | December 27, 2009 |
|---|-------------------|----------------------|
| | (in thousands) | |
| Deferred revenue | \$ 74,871 | \$ 90,465 |
| Less: deferred costs of sales | (28,886) | (36,308) |
| Deferred income on shipments ⁽¹⁾ | \$ 45,985 | \$ 54,157 |

⁽¹⁾ The deferred income of \$54.8 million and \$63.0 million on the consolidated balance sheet as of March 28, 2010 and December 27, 2009, respectively, included \$8.8 million and \$8.8 million of deferred revenue related to licensing revenue that was excluded in the table above.

Contractual Obligations

The following table summarizes our contractual obligations at March 28, 2010. The table is supplemented by the discussion following the table. Contractual obligations associated with long-term debt and interest payments are expected to change significantly as a result of the emergence from the Chapter 11 Cases.

| | Total | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and Beyond |
|--|----------------|--------------|-----------|----------|------|------|--------------------|
| | (in thousands) | | | | | | |
| Long-term debt, subject to compromise: | | | | | | | |
| Senior Secured Floating Rate Notes | \$ 625,000 | \$ 625,000 | \$ | \$ | \$ | \$ | \$ |
| Senior Notes | 250,000 | 250,000 | | | | | |
| Exchangeable Senior Subordinated Debentures | 207,000 | 207,000 | | | | | |
| Short-term debt, not subject to compromise: | | | | | | | |
| Senior Secured Term Loan | 450,000 | 450,000 | | | | | |
| UBS loan secured by auction rate securities | 36,604 | 36,604 | | | | | |
| Capital lease obligations, subject to compromise | 15,640 | 8,927 | 6,713 | | | | |
| Other long term liabilities ⁽²⁾ | 9,661 | 3,125 | 4,120 | 2,416 | | | |
| Operating leases | 5,545 | 3,262 | 2,078 | 205 | | | |
| Purchase commitments ⁽¹⁾ | 173,977 | 111,142 | 60,186 | 2,649 | | | |
| Total contractual obligations ⁽³⁾ | \$ 1,773,427 | \$ 1,695,060 | \$ 73,097 | \$ 5,270 | \$ | \$ | \$ |

⁽¹⁾ Purchase commitments 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. Purchase commitments exclude agreements that are cancelable without penalty.

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- (2) The other long term liabilities represent payment commitments under long term software license agreements with vendors.
- (3) Total contractual obligations exclude interest payments of approximately \$4.7 million per quarter on the Senior Secured Floating Rate Notes that continues to be paid until emergence from the Chapter 11 Cases.

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Liquidity and Capital Resources

Cash Requirements

As a result of the Creditor Protection Proceedings, cash in our various consolidated entities is generally available to fund operations in their respective jurisdictions, but generally is not available to be freely transferred to or among subsidiaries other than in the normal course of intercompany trade and pursuant to specific agreements approved by the U.S. Bankruptcy Court.

Since the Chapter 11 Cases filing on March 1, 2009, we have maintained our cash management system and minimized disruption to our operations, pursuant to various U.S. Bankruptcy Court approvals obtained in connection with the Chapter 11 Cases. Among other things, we received approval to continue paying employee wages and certain benefits in the ordinary course of business, pay certain trade vendor claims, pay certain contractors in satisfaction of liens or other interests, and continue honoring customer program obligations.

We commenced a number of restructuring activities to ultimately achieve positive cash flow by exiting unprofitable markets and realigning our business to support a refined target market of Flash memory applications. We also conducted reviews of our real estate and other property leases, equipment leases and agreements, supplier and customer contracts and general discretionary spending with the goal of achieving further cash savings through renegotiation or cancellation of certain contracts.

Our cash totaled \$321.2 million at March 28, 2010 as compared to \$324.9 million at December 27, 2009. The majority of our consolidated cash is held by Spansion LLC. Pursuant to our Plan of Reorganization, we have arranged financing in the form of the Term Loan, the Rights Offering and the Revolving Credit Facility to satisfy pre-petition creditor claims and provide for ongoing working capital. As of March 28, 2010, we had restricted cash from the Term Loan and the Rights Offering of approximately \$525.8 million. Our ability to use this restricted cash and access further funds through our Revolving Credit Facility are subject to the satisfaction of a number of conditions, including our emergence from the Chapter 11 Cases. The proceeds of the Term Loan, together with cash proceeds from the Rights Offering and other sources of cash available to us, will be used as follows: (i) payment to fully discharge approximately \$633 million of claims of holders of the Senior Secured Floating Rate Notes; (ii) payment of Administrative Expense Claims and Priority Claims (each as defined in the Plan of Reorganization); and (iii) payment of fees and expenses related to the Term Loan.

The matters described herein, to the extent that they relate to future events or expectations, may be significantly affected by our emergence of the Chapter 11 Cases and the implementation of the Plan of Reorganization. Those proceedings will involve, or may result in, various restrictions on our activities, limitations on financing, the need to obtain U.S. Bankruptcy Court approval for various matters and uncertainty as to relationships with vendors, suppliers, customers and others whom we may conduct or seek to conduct business. In addition, there is no assurance that (i) we will be able to maintain our current cash management system, (ii) we will generate sufficient cash to fund our operations during this process or (iii) that we will be able to access any alternative financing on acceptable terms or at all.

Sources and Uses of Cash

Our cash consisted of demand deposits and totaled approximately \$321.2 million as of March 28, 2010.

Operating Activities

Net cash provided by operations was approximately \$1.5 million during the three months ended March 28, 2010, primarily due to net income of approximately \$3.7 million and net non-cash items of approximately \$11.1 million, offset by the net decrease in operating assets and liabilities of approximately \$13.3 million. Net non-cash items primarily consisted of approximately \$27.8 million of depreciation and amortization, approximately \$5.6 million increase in allowance for doubtful accounts, approximately \$1.3 million of stock compensation costs, and approximately \$1.1 million of loss on sale and disposal of fixed assets, offset by non-cash gain of approximately \$22.5 million from write-off of rejected capital lease and various license agreements, and non-cash gain of \$3.7 million from sale of the Suzhou plant.

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Investing Activities

Net cash used by investing activities was approximately \$489.1 million in the three months ended March 28, 2010, primarily due to an increase of approximately \$531.5 million in restricted cash from the Term Loan and prepaid interest thereon, and the Rights Offering, which we cannot use until we emerge from the Chapter 11 Cases. In addition, there was approximately \$8.5 million of capital expenditures used to purchase property, plant and equipment. The increase was partially offset by approximately \$27.3 million of proceeds from the redemption of ARS, approximately \$18.7 million of proceeds from sale of the Suzhou plant, and approximately \$4.9 million from sale of other property, plant and equipment.

Financing Activities

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

Off-Balance Sheet Arrangements

During the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, manufacture and sale of our products, indemnities to 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 27, 2009. We experienced no significant changes in market risk during the three months ended March 28, 2010.

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.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during the three months ended March 28, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, please refer to our Annual Report on Form 10-K for the fiscal year ended December 27, 2009.

Tessera ITC Action

Oral arguments for the appeal in the Federal Circuit are scheduled to be heard May 7, 2010.

Tessera District Court Case

On October 7, 2005, Tessera, Inc. filed a complaint, Civil Action No. 05-04063, for patent infringement against Spansion LLC in the United States District Court for the Northern District of California under the patent laws of the United States of America, 35 U.S.C. section 1, *et seq.*, including 35 U.S.C. section 271. The complaint alleges that Spansion LLC's Ball Grid Array (BGA) and multichip packages infringe the following Tessera patents: United States Patent No. 5,679,977, United States Patent No. 5,852,326, United States Patent No. 6,433,419 and United States Patent No. 6,465,893. On December 16, 2005, Tessera filed a First Amended Complaint naming Spansion Inc. and Spansion Technology Inc., our wholly owned subsidiary, as defendants. On January 31, 2006, Tessera filed a Second Amended Complaint adding Advanced Semiconductor Engineering, Inc., Chipmos Technologies, Inc., Chipmos U.S.A., Inc., Silicon Precision Industries Co., Ltd., Siliconware USA, Inc., ST Microelectronics N.V., ST Microelectronics, Inc., Stats Chippac Ltd., Stats Chippac, Inc., and Stats 34 Chippac (BVI) Limited. The Second Amended Complaint alleges that Spansion LLC's BGA and multichip packages infringe the four Tessera patents identified above. The Second Amended Complaint further alleges that each of the newly named defendants is in breach of a Tessera license agreement and is infringing on a fifth Tessera patent, United States Patent No. 6,133,627. The Second Amended Complaint seeks unspecified damages and injunctive relief. On February 9, 2006, Spansion filed an answer to the Second Amended Complaint and asserted counterclaims against Tessera. On April 18, 2006, U.S. District Court Judge Claudia Wilken issued a Case Management Order that set a trial date of January 28, 2008. On March 13, 2007, Judge Wilken issued an order vacating the trial date. On April 12, 2007, Judge Wilken issued an order referring case management scheduling issues to a Special Master, and directing that the court will appoint an expert in the case to testify on the ultimate merits of the technical issues relating to infringement and patent validity. On April 26, 2007, Spansion, along with other defendants, filed a motion to stay the District Court action pending resolution of the proceeding before the International Trade Commission described below. On May 24, 2007, Judge Wilken issued an order staying the District Court action until final resolution of the ITC action.

We believe that we have meritorious defenses against Tessera's claims and we intend to defend the lawsuit vigorously.

There is also a related proceeding in the Bankruptcy Court regarding an estimation of damages, for the time period commencing on March 1, 2009, sought by Tessera related to the District Court case. There was a Claims Estimation proceeding hearing on this matter on January 29, 2010 before the Bankruptcy Court and on February 8, 2010, the Court estimated damages for the time period in question to be \$4,232,986.13.

There is also a related proceeding in the Bankruptcy Court regarding an estimation of damages, for the time period prior to March 1, 2009. No estimation has yet been determined in this proceeding. On April 23, 2010, the Bankruptcy Court issued an Order regarding certain discovery in connection with this proceeding.

Fast Memory Erase LLC v. Spansion Inc., et al.

The U.S. Patent and Trademark Office issued a second Office Action in the *ex parte* reexamination for the 608 patent on March 30, 2010. The Examiner made the second Office Action final. Several claims of the 608 patent, including the claims asserted against Spansion, were rejected as being anticipated by certain prior art, and certain other dependent claims were objected to as being dependent upon a rejected base claim, but the Examiner also indicated that the objected-to claims would be allowable if rewritten in independent form including all of the limitations of the base claim and any intervening claims.

On April 12, 2010, the U.S. District Court for the Northern District of Texas issued an Order requesting a joint status report by April 26, 2010 advising the court whether or not the stay should be lifted in light of the second Office Action issued by the PTO. On April 26, 2010 a joint status report pursuant to the Order was filed.

Samsung ITC Investigation

United States Patent Nos. 6,380,029 and 6,080,639 have been voluntarily dismissed from the proceeding.

Samsung v. Spansion Japan Ltd.

A technical hearing was held on December 18, 2009, and a subsequent hearing was held January 28, 2010.

Samsung v. Spansion ITC Investigation

On March 17, 2010, the Administrative Law Judge (ALJ) issued an Order setting a target date for completion of the Investigation on June 28, 2011. On March 23, 2010, the ALJ issued an Order scheduling a hearing in the Investigation from December 6-17, 2010. The stay of the Investigation will be lifted on April 30, 2010.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and the other information in this Quarterly Report. 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. The Creditor Protection Proceedings will continue to have a direct impact on our business and exacerbate these risks and uncertainties. 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.

Risks Related to the Creditor Protection Proceedings

On February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC (Spansion Japan), filed a proceeding under the Corporate Reorganization Law (*Kaisha Kosei Ho*) of Japan to obtain protection from Spansion Japan's creditors (the Spansion Japan Proceeding). The Tokyo District Court approved the filing of the Spansion Japan Proceeding on March 3, 2009 (the Commencement Date), and appointed the incumbent representative director of Spansion Japan as trustee. On March 1, 2009 (the Petition Date), Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International, Inc. and Cerium Laboratories LLC each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases, together with the Spansion Japan Proceeding, the Creditor Protection Proceedings). The following risks relate to the Creditor Protection Proceedings.

We will be materially adversely affected if the Plan of Reorganization does not become effective or is not implemented successfully.

On April 16, 2010, the U.S. Bankruptcy Court entered an order confirming our Plan of Reorganization. The Plan of Reorganization may become effective as early as 14 days following entry of the U.S. Bankruptcy Court order. However, during this 14-day period, dissenting parties may seek to appeal the U.S. Bankruptcy Court order confirming the Plan of Reorganization and file motions to stay effectiveness of the order pending any appeals. We cannot assure that the order confirming the Plan of Reorganization will not be appealed, or that the Plan of Reorganization will become effective or that it will be implemented successfully. A failure to obtain the effectiveness of, or failure to successfully implement, the Plan of Reorganization could lead to the liquidation of all of our assets.

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Our business, operations and financial position are subject to the risks and uncertainties associated with the Chapter 11 Cases.

For the duration of the Chapter 11 Cases, our business, operations and financial position will be subject to the risks and uncertainties associated with such proceedings. These risks, without limitation and in addition to the risks otherwise noted in this Report, include:

Strategic risks, including risks associated with our ability to:

stabilize the business to maximize the chances of preserving all or a portion of the enterprise;

successfully focus on and pursue the embedded portion of the Flash memory market;

resolve ongoing issues with creditors and other third parties whose interests may differ from ours;

achieve effectiveness of the Plan of Reorganization; and

successfully implement the Plan of Reorganization.

Financial risks, including risks associated with our ability to:

generate cash from operations and maintain adequate available cash;

continue to maintain currently approved intercompany lending and transfer pricing arrangements and ongoing deployment of cash resources throughout our company and subsidiaries in connection with ordinary course intercompany trade obligations and requirements;

continue to maintain our cash management arrangements; and

maintain research and development investments.

Operational risks, including risks associated with our ability to:

continue to depend on Spansion Japan for wafer production and distribution of products in Japan due to actions taken by either (i) Spansion Japan (at the direction of the Spansion Japan trustee or pursuant to orders of the Tokyo District Court or otherwise) or (ii) Spansion Inc. or Spansion LLC (pursuant to the order of the U.S. Bankruptcy Court or otherwise);

transfer wafer production capacity in-house or to a third-party foundry, or to find alternative methods of distributing and selling our products, in the event that Spansion Japan is not successful in, or has difficulties in reorganizing;

retain and attract customers despite the uncertainty caused by the Creditor Protection Proceedings;

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maintain market share generally and at specific customer accounts despite the uncertainty caused by the Creditor Protection Proceedings, including uncertainty surrounding future research and development expenditures, plans relating to the introduction of new products, price reductions and manufacturing;

respond to competitors' efforts to capitalize on customer concerns;

operate our business effectively in consultation with the U.S. Bankruptcy Court and our creditors;

actively and adequately communicate on and respond to events, media and rumors associated with the Creditor Protection Proceedings that could adversely affect our relationships with customers, suppliers, partners and employees;

retain and incentivize key employees and attract new employees;

retain, or if necessary, replace major suppliers on acceptable terms; and

avoid disruptions in our supply chain as a result of uncertainties related to the Creditor Protection Proceedings.

Procedural risks, including risks associated with our ability to:

obtain court orders or approvals with respect to motions we file from time to time, including motions seeking extensions of the applicable stays of actions and proceedings against us, or obtain timely approval of transactions outside the ordinary course of business, or other events that may require a timely reaction by us;

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resolve the claims made against us in such proceedings for amounts not exceeding our recorded liabilities subject to compromise; and

reject, repudiate or terminate contracts.

Because of these risks and uncertainties, we cannot predict the ultimate outcome of the restructuring process, or predict or quantify the potential impact on our business, financial condition or results of operations. The Chapter 11 Cases provide us with a period of time to attempt to stabilize our operations and financial condition and develop the Plan of Reorganization. It is not possible to predict the outcome of the Chapter 11 Cases and, as such, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Accordingly, substantial doubt exists as to whether we will be able to continue as a going concern. Our independent registered public accounting firm has included a going-concern explanatory paragraph in its report on our consolidated financial statements for the year ended December 27, 2009.

Our continuation as a going concern is dependent upon, among other things, our ability to obtain effectiveness of, and implement, the Plan of Reorganization; generate cash from operations, maintain adequate cash on hand during the Creditor Protection Proceedings and thereafter; resolve ongoing issues with creditors and other third parties; and achieve profitability. Even assuming a successful emergence from the Chapter 11 Cases, we cannot assure you as to the overall long-term viability of our reorganized operations, including our ability to generate sufficient cash to support our operating needs, fulfill our transformation objectives and fund continued investment in technology and product development without incurring substantial indebtedness that will hinder our ability to compete, adapt to market changes and grow our business in the future. The application of fresh start accounting principles in accordance with U.S. GAAP upon eventual emergence from bankruptcy may result in valuations of long-lived and intangible assets that are less than the carrying value of those assets as currently reflected in the financial statements, which may further hinder our ability to raise financing at or subsequent to emergence from the Chapter 11 Cases.

In addition, a long period of operating under the Chapter 11 Cases may exacerbate the potential harm to our business and further restrict our ability to pursue certain business strategies or require us to take actions that we otherwise would not. These challenges are in addition to business, operational and competitive challenges that we would normally face absent the Creditor Protection Proceedings.

If our settlement with Spansion Japan is not consummated or if our relationship with Spansion Japan is impaired or terminated as a result of the Creditor Protection Proceedings or other reasons, our business and financial condition could be materially and adversely affected.

Spansion Japan facilitates distribution of our products in Japan, manufactures and supplies sorted and unsorted silicon wafers for us, and provides sort services to us. The wafers purchased from Spansion Japan are a material component of our cost of goods sold, and historically the wafer prices were governed by a pre-petition foundry agreement, which was rejected in the Chapter 11 Cases. Thus, there was a dispute between us and Spansion Japan over pricing for the wafers we received from Spansion Japan for the period beginning February 9, 2009 through October 27, 2009 (the Disputed Period). On January 8, 2010, we reached an agreement in principle (the Settlement) with Spansion Japan to (i) acquire Spansion Japan's distribution business; (ii) obtain foundry services, including wafer and sort services, from Spansion Japan; and (iii) resolve our dispute with Spansion Japan relating to pricing of wafers purchased during the Disputed Period. On January 29, 2010, the U.S. Bankruptcy Court and on February 1, 2010, the Tokyo District Court approved the Settlement. The Settlement remains subject to completion of definitive agreements. We have executed two of the definitive agreements and expect the remaining definitive agreements to be executed during second quarter of 2010. If we are unable to consummate the Settlement with a complete set of definitive agreements, we will be forced to pursue alternate arrangements for the distribution and sale of our products in Japan and to procure wafers and sort services from an alternate source.

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On March 12, 2010, Spansion Japan filed an amended general unsecured proof of claim in the U.S. Bankruptcy Court asserting that it has been damaged in the amount of approximately \$936 million as a result of the November 19, 2009 foundry agreement rejection order. We believe we have strong defenses to the amount of Spansion Japan's proof of claim, and we intend to vigorously contest this matter. Under the Plan of Reorganization, if the U.S. Bankruptcy Court were to allow such claim it would be classified as a general unsecured claim in Class 5B of our Plan of Reorganization and Spansion Japan would be entitled, at most, to its pro-rata distribution of New Spansion Common Stock.

Although we have agreed to the Settlement with Spansion Japan, there is risk in continuing to do business with Spansion Japan due to the uncertainty of whether Spansion Japan will successfully reorganize. The current deadline for Spansion Japan to submit a plan of reorganization to the Tokyo District Court is April 26, 2010. We can provide no assurance that Spansion Japan's plan of reorganization will be approved, or that Spansion Japan will not be liquidated. As a result, we have plans to either replace with in-house capabilities the services that Spansion Japan provides or to utilize another third party for such services in order to mitigate the impact that would result if for any reason Spansion Japan reduced its supply of, or ceased supplying, the goods and services to us. Nevertheless, a sudden and unanticipated reduction or cessation of the supply of goods and services from Spansion Japan would likely be disruptive and have an adverse impact on our results of operations and that impact could be material.

While the Chapter 11 Cases are pending, our financial results may be volatile and may not reflect historical trends.

While the Chapter 11 Cases are pending, we expect our financial results to continue to be volatile as asset impairments, asset dispositions, restructuring activities, contract terminations and rejections and claims assessments may significantly impact our consolidated financial statements. As a result, our historical financial performance is likely not indicative of our financial performance following the filing of the Chapter 11 Cases. Further, we may sell or otherwise dispose of assets and liquidate or settle liabilities, with court approval, for amounts other than those reflected in our historical financial statements. Any such sale or disposition and the Plan of Reorganization could materially change the amounts and classifications reported in our historical consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of the Plan of Reorganization.

Our ability to independently manage our business is restricted during the Chapter 11 Cases, and steps or actions in connection therewith may require the approval of the U.S. Bankruptcy Court, the U.S. Trustee and our creditors.

Pursuant to the various U.S. Bankruptcy Court orders and the U.S. Bankruptcy Code, during the Chapter 11 Cases, some or all of the decisions with respect to our business may require consultation with, review by or ultimate approval of the U.S. Bankruptcy Court and the U.S. Trustee, our general unsecured creditors' committee and the Floating Rate Noteholders. The lack of independence and the related consulting and reporting requirements have significantly increased the amount of time required for us to take necessary actions and conclude and execute on decisions, and may make it impossible for us to take actions that we believe are appropriate and necessary. We cannot assure you that the U.S. Bankruptcy Court, the U.S. Trustee, the Creditors' Committee, other creditors or the Floating Rate Noteholders will support our positions on matters presented to the U.S. Bankruptcy Court in the future, or on the Plan of Reorganization. Disagreements between us and these various third parties could protract the Chapter 11 Cases, negatively impact our ability to operate and delay our emergence from the Chapter 11 Cases.

The Chapter 11 Cases have had a material adverse effect on our ability to continue operating as a globally integrated unit. Upon commencement of the Spansion Japan Proceeding, Spansion LLC, in its capacity as the sole stockholder of Spansion Japan, and Spansion Japan's board of directors lost operational control of, and management authority over, Spansion Japan. At that time, all such control and management was vested in the trustee appointed in the Spansion Japan Proceeding, under the supervision of the Tokyo District Court and a supervising attorney appointed by the Tokyo District Court.

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In addition, although we have historically deployed our cash throughout the enterprise, through a variety of intercompany borrowing and transfer pricing arrangements, cash in the various jurisdictions is generally available to fund operations in the particular jurisdictions, but generally is not freely transferable between jurisdictions or regions and we have to renegotiate some of our transfer pricing arrangements. The resulting contracts and financial arrangements may adversely affect our financial results and business. Furthermore, our inability to repatriate cash throughout the enterprise as needed could have a material adverse effect on our financial condition and results of operations.

Continuing or increasing pressure on our business, cash and liquidity could materially and adversely affect our ability to fund and reorganize our business operations, react to and withstand the current economic downturn, as well as volatile and uncertain market and industry conditions, and implement the Plan of Reorganization. Additional sources of funds may not be available.

Historically, we have deployed our cash throughout the enterprise, through a variety of intercompany borrowing and transfer pricing arrangements. As a result of the Creditor Protection Proceedings, cash in the various jurisdictions is generally available to fund operations in the particular jurisdictions, but generally is not freely transferable between jurisdictions or regions, other than as highlighted in Liquidity and Capital Resources in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Report. Thus, there is greater pressure and reliance on cash balances and generation capacity in specific regions and jurisdictions.

We cannot assure you that any further required court approvals for any future financing transactions will be obtained. Furthermore, we cannot assure you that we will be able to continue to maintain ongoing deployment of cash resources throughout our organization worldwide in connection with ordinary course intercompany trade obligations. If our subsidiaries are unable to pay dividends or provide us with loans or other forms of financing in sufficient amounts, or if we continue to have restrictions on the transfer of cash between us and our subsidiaries, including those imposed by courts, foreign governments and commercial limitations on transfers of cash, our cash position would likely be under considerable pressure and our liquidity and our ability to meet our obligations would be adversely affected.

Access to additional funds from liquidity-generating transactions or other sources of external financing may not be available to us and, if available, would be subject to market conditions and certain limitations including court approvals and other requisite approvals by other third parties. We cannot provide any assurance that our net cash requirements will be as we currently expect and will be sufficient for the successful implementation of the Plan of Reorganization.

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. 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 NOL carryforwards in the United States of approximately \$1.2 billion as of December 27, 2009. Our ability to utilize these NOL carryforwards 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, during or as a result of the Chapter 11 Cases. During the Chapter 11 Cases, the U.S. Bankruptcy Court has entered an order that places certain restrictions on trading in our common stock. However, we can provide no assurances that these limitations will prevent an ownership change or that our ability to utilize our NOL carryforwards may not be significantly limited as a result of our restructuring.

A restructuring of our debt pursuant to the Chapter 11 Cases may give rise to cancellation of indebtedness or debt forgiveness (COD), which if it occurs would generally be non-taxable. If the COD is non-taxable, we will be required to reduce our NOL carryforwards and other attributes such as capital loss carryforwards and tax basis in assets, by an amount equal to the non-recognized COD. Therefore, it is possible that, as a result of the successful completion of the Plan of Reorganization, we will have a reduction of NOL carryforwards and/or other tax attributes in an amount that cannot be determined at this time and that could have a material adverse effect on our future financial results.

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Trading in our securities on the Pink Sheets during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks.

Our common stock was delisted from The NASDAQ Stock Market on May 7, 2009 and is currently traded on the Pink Sheets, which makes our common stock significantly less liquid. Trading prices of our securities are very volatile and may bear little or no relationship to the actual recovery, if any, by the holders under the Plan of Reorganization. In the Plan of Reorganization, our existing securities, in particular our common stock will be cancelled and holders will receive no payment or other consideration in return.

If we are unable to attract and retain qualified personnel at reasonable costs, we may not be able to achieve our business objectives, and our ability to successfully emerge from the Chapter 11 Cases may be harmed.

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, particularly during the Chapter 11 Cases and throughout the implementation of the Plan of Reorganization. Competition for certain key positions and specialized technical and sales personnel in the high-technology industry remains strong. Our deteriorating financial performance during the Creditor Protection Proceedings, along with the Chapter 11 Cases and workforce reductions create uncertainty that has led to an increase in unwanted attrition, and additional challenges in attracting and retaining new qualified personnel. We have lost many key employees with long tenures and broad knowledge about our technology and historical operations and we are at risk of losing or being unable to hire talent critical to a successful reorganization and ongoing operation of our business. Our ability to retain and attract critical talent is restricted in part by the Chapter 11 Cases that, among other things, limit our ability to implement a retention program or take other measures to attract new hires to the Company or motivate employees to remain with us. Our future success depends in part on our continued ability to hire, assimilate in a timely manner and retain qualified personnel, particularly in key senior management positions. If we are not able to attract, recruit or retain qualified employees (including as a result of headcount and salary reductions), we may not have the personnel necessary to implement the Plan of Reorganization, and our business, results of operations and financial condition could be materially adversely impacted.

Risks Related to our Financial Condition

If we cannot generate sufficient operating cash flows and obtain external financing, we may be materially adversely affected.

Our capital expenditures, together with ongoing operating expenses, have been a substantial drain on our cash flows and have decreased our cash balances. Since fiscal 2008, we have increased cost cutting activities, including: salary reductions; cutting capital spending; reducing and freezing headcount; cutting research and development projects; and reducing administrative expenses. Some cost cutting activities may require initial cost outlays before the cost reductions are realized. We cannot assure you that we will be able to achieve anticipated expense reductions. If our expense reduction efforts are unsuccessful, our operating results and business may be materially adversely affected.

Additional funds from liquidity-generating transactions or other sources of external financing may not be available to us. Such financing would be subject to certain limitations, including court approvals and other requisite approvals by other third parties. Our inability to obtain needed financing or to generate sufficient cash from operations may require us to abandon projects or curtail capital expenditures, or may have an adverse effect on our restructuring process. If we cannot generate sufficient operating cash flows or obtain external financing, we would be materially adversely affected.

Financial market conditions may impede access to or increase the cost of financing operations and investments.

The changes in U.S. and global financial and equity markets, including market disruptions and tightening of the credit markets, compounded by us being subject to the Chapter 11 Cases, may make it more difficult for us to obtain financing for our operations or investments or increase the cost of obtaining financing, which would materially adversely affect us.

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We are party to several debt instruments for which, as a result of the Chapter 11 Cases, an event of default has occurred. In connection with our Plan of Reorganization, we have entered into new debt arrangements, each of which may subject us to restrictive covenants which limit our ability to operate our business.

Our debt arrangements will require us to make regular interest payments, which could adversely affect our results of operations.

We cannot assure you that in the future we will be able to satisfy or comply with the provisions, covenants, financial tests and ratios of our debt instruments, which can be affected by events beyond our control. If we fail to satisfy or comply with such provisions, 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 for any future failures to comply with our financial covenants or any other terms of the debt instruments. We also may not be able to obtain amendments which will prevent a failure to comply in the future. A breach of any of the provisions, covenants, financial tests or ratios under our debt instruments could result in a default under the applicable agreement, which in turn could trigger cross-defaults under other debt instruments, any of which would materially adversely affect us.

Our investments in auction rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of March 28, 2010, our auction rate securities (ARS) totaled approximately \$75.2 million and consisted solely of AAA/Aaa rated securities with auction reset features whose underlying assets are student loans and are substantially backed by the U.S. government Federal Family Education Loan Program. During 2008, we experienced failed auctions of our ARS and we cannot assure you that any future auctions would be successful. In November 2008, we accepted an offer to participate in an auction rate securities settlement from UBS Bank USA (UBS), providing us the right, but not the obligation, to sell to UBS up to all of our ARS at par, commencing June 30, 2010 through July 2, 2012. This right represents a put option for a payment equal to the par value of the ARS.

The put option is subject to a number of risks. Given the substantial dislocation in the financial markets and among financial services companies, we cannot assure you that UBS will ultimately have the ability to repurchase our ARS at par, or at any other price during the put period described above. We will be required to periodically assess the economic ability of UBS to meet that obligation in assessing the fair value of the rights. Moreover, if we choose to not exercise or UBS is unable to honor the put option, our ability to liquidate our investments in the near term may be limited, and our ability to fully recover the carrying value of our investments may be limited or non-existent. If issuers of these securities are unable to successfully close future auctions or their credit ratings deteriorate, we may in the future be required to record further impairment charges on these investments. It could take until the final maturity of the underlying notes (up to 39 years) to realize our investments' recorded value. We can provide no assurance as to when these investments will again become liquid or as to whether we may ultimately have to recognize additional impairment charges in our results of operations with respect to these investments. Delays in liquidating these securities in the future could have a material adverse effect on us.

Risks Related to Our Business

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

Shortly after the Chapter 11 Cases commenced, we began exiting a large portion of the wireless market. While this reduced our revenue, it allowed us to dramatically reduce our engineering expenses without impairing our ability to compete. Our exit from a large portion of the wireless market, related reductions in research and development spending and capital expenditures, combined with other cost reductions including disposal of manufacturing facilities, has enabled us to begin generating significant cash flow.

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We continue to have leading market share and remain dedicated to, and focused on, the embedded portion of the Flash memory market. We intend to continue to selectively engage in portions of the wireless market where we can do so advantageously. We believe that though the embedded market is mature and will grow more slowly than some other sectors of the semiconductor industry, we can compete successfully with our continued focus on providing best in class customer service, quality and reliability, and solutions engineering. We also believe that we can mitigate the historical and anticipated trend of rapid selling price reductions by serving applications with growing unit demand, migrating customers to higher density and more feature-rich devices, capturing market share, and expanding our product offerings.

As part of our new business strategy, we have made, and will continue to make, judgments as to whether we should further reduce, relocate or otherwise change our workforce. Costs incurred in connection with workforce reduction efforts may be higher than estimated. In addition, our workforce reduction efforts may impair our ability to achieve our current or future business objectives. Any further workforce efforts including reductions may not occur on the expected timetable and may result in the recording of additional charges.

Any decision by management 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.

Upon emergence from the Chapter 11 Cases, we may periodically consider strategic transactions. We may evaluate acquisitions, divestitures, joint ventures, alliances or co-production programs as opportunities arise and we may be engaged in varying levels of negotiations with third parties at any time. We may not be able to effect transactions and if we enter into transactions, we also may not realize the benefits we anticipate. Moreover, the integration of companies that have previously been operated separately involves a number of risks. Consummating any acquisitions, divestitures, joint ventures, alliances or co-production programs could result in the incurrence of additional transaction-related expenses, as well as unforeseen contingent liabilities, which could materially adversely affect us.

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

If demand for mobile phones, other consumer products or industrial products utilizing Flash memory declines, 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 Flash memory due to alternative technologies or otherwise, our operating results would be materially adversely affected.

Our business has been characterized by an average selling price that declines over time, which can negatively affect our results of operations.

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

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

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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, and as a result of 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 does not necessarily indicate 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.

Our forecasts of customer demand for our products may be inaccurate, which could result in excess or shortages in inventory, which could cause us to record write-downs or fail to meet customer demand. Inaccurate forecasting could materially and adversely affect our business and financial results.

Although our manufacturing cycle times are relatively lengthy, in excess of ten weeks, we nevertheless compete in a market where suppliers ability to respond quickly to new incoming orders is a competitive differentiator. Thus, we must forecast customer demand and produce requisite amounts of our products in order to fill current and future orders even though demand is volatile and difficult to predict. To forecast demand and value inventory, management considers, 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. This would have a negative impact on our gross margin in that period. Inaccurate forecasting could also result in excess or obsolete inventory that would reduce our profit margins or shortages in inventory that would cause us to fail to meet customer demand. If, as a result of inaccurate forecasting, 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.

A significant market shift 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 MirrorBit NAND architectures 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 MirrorBit NAND-based 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 in the foreseeable future.

Customers manufacturing products for embedded applications may increasingly choose floating gate NAND-based Flash memory products over MirrorBit NOR- or NAND-based Flash memory products for their applications. If this occurs and customers continue to prefer floating gate NAND-based products over those of MirrorBit NOR- or NAND-based products for their applications, we may be materially and adversely affected. Moreover, some of our competitors are able to manufacture floating gate NAND-based Flash memory products on 300-millimeter wafers produced in much larger capacity fabrication facilities (fabs) than we currently have access to. In addition, some of our competitors may choose to utilize more advanced manufacturing process technologies than we may have available to offer products competitive to ours at a lower cost or with higher densities.

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

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

In order to compete, we are required to make substantial investments in research and development for design, process technologies and production techniques in an effort to design and manufacture advanced Flash memory products. For example, in fiscal 2009, 2008 and 2007, our research and development expenses were approximately \$136.4 million, \$431.8 million and \$436.8 million, respectively, or approximately 10, 19 and 17 percent, respectively, of our net sales.

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

If we fail to successfully develop, introduce and commercialize new products and technologies, we may be materially adversely affected.

Our success depends to a significant extent on the development, qualification, production, introduction and acceptance of new product designs and improvements that provide value to Flash memory customers. 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 affects our competitiveness in our target markets. If we are delayed in developing or qualifying new products or technologies, we could be materially adversely affected.

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

Our competitors are working on a number of new technologies, including FRAM, MRAM, polymer, charge trapping and phase-change based memory technologies. One of our competitors began shipping products based on phase-change based memory technology in 2008. If such products are successfully developed and commercialized as a viable alternative to MirrorBit or floating gate Flash memory, these other products could pose a competitive threat to existing Flash memory companies, including us. In addition, some of Saifun's licensees and customers are our competitors or work with our competitors and have licensed Flash memory intellectual property associated with charge trapping technology from Saifun. 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 technology that may compete with our proprietary MirrorBit technology. If we are unable to compete with these new technologies, we may be materially adversely affected.

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

We are developing new applications and opportunities for our products beyond our traditional customer base and in some cases plan to deploy our Flash memory solutions beyond current Flash memory markets. We expect these new applications to grow future net sales, future margin or a combination of both. However, some of these opportunities require that we are successful in creating, marketing, gaining customer acceptance of and deploying these new system architectures into a customer base where we do not have a historic business relationship 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 is nonviable. If we are unsuccessful in our attempts to bring new products to market, experience significant delays in generating sales, fail to establish the value of this solution or face competition from third parties or incumbent suppliers that result in lower margins than expected, then our future operating results would be materially adversely affected.

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 obtain foundry, subcontractor and other arrangements with third parties to meet demand. Foundry services suppliers from which we have obtained, and in the future may obtain, foundry services, include Spansion Japan, Fujitsu Microelectronics Limited and Semiconductor Manufacturing International Corporation. We also use independent contractors to perform some of the assembly, testing and packaging of our products. Some third-party manufacturers are often under no obligation to provide us with any specified minimum quantity of product. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, and, in the case of Spansion Japan, all of their manufacturing capacity has historically been allocated to us. 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 the Creditor Protection Proceedings and the current volatility and disruption in the capital and credit markets worldwide, we cannot assure you that they will make the investments in their facilities previously contemplated. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements and may not be able to attain qualification from our customers. In addition, any significant change in the payment terms we have with our key suppliers could adversely affect us.

These manufacturers also make products for other companies, including certain of our competitors, and/or for themselves and could choose to prioritize capacity for themselves or other customers beyond any minimum guaranteed amounts, reduce deliveries to us or, in the absence of price guarantees, increase the prices they charge us on short notice, such that we may not be able to pass cost increases on to our customers. The likelihood of this occurring may be greater as a result of the Creditor Protection Proceedings. 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, lack of capacity in periods of excess demand, misappropriation of our intellectual property, reduced ability to manage inventory and parts and risks associated with operating in foreign countries. If we are unable to secure sufficient or reliable suppliers of wafers or obtain the necessary assembling, testing and packaging services, our ability to meet customer demand for our products may be adversely affected, which could have a material adverse effect on us.

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We currently rely on Fujitsu Microelectronics Limited (FML) 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 FML, FML has agreed to use its best efforts to promote the sale of our products in Japan and to other customers served by FML. In the event that we reasonably determine that FML's sales performance in Japan and to those customers served by FML is not satisfactory based on specified criteria, then we have the right to require FML 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 FML. Pursuing these actions would be costly and disruptive to the sales of our products in Japan. If FML's sales performance in Japan is unsatisfactory or if we are unable to successfully maintain our distribution agreement and relationship with FML and we cannot timely find a suitable supplementary distributor, we could be materially adversely affected.

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

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. In 2008, the significant excess capacity led to oversupply and a downturn in the memory industry. The contraction of the worldwide economy, especially in the fourth quarter of 2008 and continuing into 2009, further compounded industry over capacity. Fluctuations in the growth rate of industry capacity relative to the growth rate in demand for Flash memory products can contribute to cyclicality in the Flash memory market, which 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.

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, according to which we have agreed to pay for a certain amount of product even if we do not accept delivery of all of such amount. Accordingly, during periods in which we under-utilize our manufacturing capacity as a result of reduced demand for some of our products, our costs cannot be reduced in proportion to the reduced net sales for such periods. When this occurs, our operating results are materially adversely affected.

Our customers' ability to change booked orders may lead to excess inventory.

Because our manufacturing processes require long lead times, we use indicators such as booking rates in conjunction with other business metrics, to schedule production in our fabrication facilities. Consequently, when customers change orders booked with us, our planned manufacturing capacity may be greater or less than actual demand, resulting in less than optimal inventory levels. When this occurs, we adjust our production levels but such adjustments may not prevent our production of excess inventory in environments when bookings are strong. As a result, our business may be materially adversely affected.

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

Our principal NOR Flash memory competitors are Numonyx B.V., Macronix International Co., Ltd. and Samsung Electronics Co., Ltd. Additional significant NOR Flash memory competitors include Silicon Storage Technology, Inc. and Toshiba Corporation.

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., Numonyx B.V. and Micron Technology, Inc. In the future our principal NAND Flash memory competitors may include Hynix Semiconductor Inc., Toshiba Corporation, Intel Corporation, IM Flash Technology LLC, the joint venture between Intel and Micron Technology, Inc. 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 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 have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment. Some of our competitors are able to manufacture floating gate NAND-based Flash memory products on 300-millimeter wafers produced in much larger capacity fabs than we may have access to or may choose to utilize more advanced manufacturing process technologies than we will have to offer products competitive to ours at a lower cost or higher density. Moreover, products based on our MirrorBit ORNAND-, MirrorBit Quad- and MirrorBit NAND-based architectures may not have the price, performance, quality and other features necessary to compete successfully for these applications.

We expect competition in the market for Flash memory devices to intensify as existing manufacturers introduce new products, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share. The competition we face may also intensify, particularly in light of the Creditor Protection Proceedings, if our competitors, who may 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.

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 February 3, 2010, Silicon Storage Technology, Inc. and Microchip Technology Incorporated announced that Microchip had agreed to acquire SST; and on February 9, 2010, Micron Technology, Inc. and Numonyx Holdings B.V. announced that Micron had agreed to acquire Numonyx. 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 the increasing demand for greater Flash memory content in mobile phones, consumer electronics, automotive and other applications. If we are unable to compete effectively, we could be materially adversely affected.

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

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

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Manufacturing our products involves highly complex processes that require advanced equipment. Our manufacturing efficiency is an important factor in our profitability, and we cannot be sure that we will be able to maintain or increase our manufacturing efficiency to the same extent as our competitors. For example, we continuously modify our manufacturing processes in an effort to improve yields and product performance and decrease costs. We are 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.

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

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

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We may not be able to successfully to negotiate agreements or arrangements with third parties for rights to key intellectual property, which creates a greatly increased risk of patent or other intellectual property infringement claims against us.

We may attempt to negotiate our own agreements and arrangements with third parties for intellectual property and technology that are important to our business. We may also attempt to acquire new patents as our success in negotiating patent cross-license agreements with other industry participants will depend in large part upon the strength of our patent portfolio relative to that of the third party with which we are negotiating. If 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 are party to intellectual property litigation and may become party to other intellectual property claims or litigation that could cause us to incur substantial costs or pay substantial damages or prohibit us from selling our products.

From time to time, we may be notified, or third parties may bring actions against us based on allegations, that we are infringing the intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that we will be able to obtain all of the necessary licenses on satisfactory terms, if at all. In the event that we cannot obtain a license, these parties may file lawsuits against us seeking damages (potentially including treble damages) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products, increase the costs of selling some of our products, or cause damage to our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, would have a material adverse effect on us. We could decide, in the alternative, to redesign our products or to resort to litigation to challenge or defend such claims, either of which could be expensive and time-consuming and may have a material adverse effect on us. See Part II, Item 1 Legal Proceedings.

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 are required to indemnify companies with whom we do business and we incur substantial costs, our business, results of operations and financial condition could be materially adversely affected.

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

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

We also rely on purchasing commercial memory die such as DRAM 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.

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

One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of product replacements or product returns may be substantial, and our reputation with our customers would be damaged. In addition, we could incur substantial costs to implement modifications to fix defects. Any of these problems could materially adversely affect us.

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, Spansion Japan are denominated in both U.S. dollars and Japanese yen; and

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

Consequently, movements in exchange rates could cause our net sales and expenses to fluctuate, affecting our profitability and cash flows. We are currently unable to and in the future may not be able to enter into hedging contracts on acceptable terms, if at all.

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

We operate in more than ten countries and we derive a majority of our net sales outside the United States. Our business depends on the overall worldwide economic conditions and the economic and business conditions within our customers' industries. Our business may also be affected by economic factors that are beyond our control, such as downturns in economic activity in a specific country or region. A further weakening of the worldwide economy or the economy of individual countries or the demand for our customers' products may cause a greater decrease in demand for our products, which could materially adversely affect us.

Our consolidated financial results 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 geopolitical concerns continue and similar events occur or are anticipated to occur. In particular, consequences of military action in the Middle East have in the past, and may in the future, adversely affect demand for our products and our relationship with various third parties with which we collaborate. In addition, terrorist attacks may negatively affect our operations, directly or indirectly, and such attacks or related armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive, which could materially adversely affect us.

The United States has been and may continue to be involved in armed conflicts that could have a further impact on our sales and our supply chain. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable, and we may not be able to foresee events that could have a material adverse effect on us. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. economy and worldwide financial markets. Any of these occurrences could have a material adverse effect on us.

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

A significant portion of our planned wafer fabrication capacity for existing and future products is provided by third parties located in Japan and China, and nearly all final test and assembly of our products is performed at our facilities in Malaysia and Thailand and by third parties in China, Taiwan and Japan. In addition, we have international sales operations and, as part of our business strategy, we are continuing to seek to expand our product sales in high growth markets. The political and economic risks associated with our sales to, and operations in, foreign countries include:

expropriation;

changes in political or economic conditions;

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

difficulties in protecting our intellectual property;

difficulties in achieving headcount reductions;

changes in foreign currency exchange rates;

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

changes in freight and interest rates;

disruption in air transportation between the United States and our overseas facilities; and

loss or modification of exemptions for taxes and tariffs.

Our subsidiary, Saifun, conducts business in Israel, which is affected and surrounded by unstable political, economic and military conditions. We cannot predict the effect of continued or increased violence in Lebanon or Gaza, or the effect of military action elsewhere in the Middle East. Continued armed conflicts or political instability in the region would harm business conditions and could adversely affect the combined company's results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may limit the combined company's ability to make sales in those countries, and, as a global company, may limit our own ability to efficiently administer our worldwide resources.

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

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

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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 liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and costs related to damages to natural resources. Liability can attach even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. These environmental laws also can result in liability for persons, like us, who arrange for hazardous substances to be sent to disposal or treatment facilities, in the event such facilities are found to be contaminated. Such persons can be responsible for cleanup costs at a disposal or treatment facility, even if they never owned or operated the contaminated facility. One property where we currently conduct research and development operations 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.

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We have not been named a responsible party at any Superfund or other contaminated site. If we were ever so named, costs associated with the cleanup of the site could be material. Additionally, contamination that has not yet been identified could exist at one or more of our facilities, and identification of such contamination could have a material adverse effect on us.

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

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

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

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

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

In connection with our reorganization as Spansion LLC in June 2003, AMD and Fujitsu transferred approximately 400 patents and patent applications to us. In addition, AMD and Fujitsu contributed additional patents to us at the time of our initial public offering. However, both AMD and Fujitsu have retained the rights to use any patents contributed to us for an unlimited period of time. In addition, under their respective patent cross-license agreements with us, AMD and Fujitsu have also obtained licenses to our present and future patents with effective filing dates prior to the later of June 30, 2013, or such date on which they have transferred all of their shares in us, although the scope of patents under license can be impacted by a change in control of the parties or their semiconductor groups. These licenses continue until the last to expire of the patents under license expires and provide AMD and Fujitsu with licenses to all of our present and future patents in existence through such cross-license termination date. Furthermore, we entered into an Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement with AMD and Fujitsu in connection with our reorganization as Spansion Inc. in December 2005. Pursuant to that agreement, subject to our confidentiality obligations to third parties, and only for so long as AMD's and Fujitsu's ownership interests in us remain above specific minimum levels, we are obligated to identify any of our technology to each of AMD and Fujitsu, and to provide copies of and training with respect to that technology to them. In addition, pursuant to this agreement we have granted a non-exclusive, perpetual, irrevocable fully paid and royalty-free license of our rights, other than patent and trademark rights, in that technology to each of AMD and Fujitsu. Under our non-competition agreement, both AMD and Fujitsu have agreed that they will not directly or indirectly engage in a business, and have agreed to divest any acquired business, that manufactures or supplies standalone semiconductor devices (including single chip, multiple chip or system devices) containing certain Flash memory, which is the business in which we primarily compete. With respect to each of AMD and Fujitsu, this non-competition restriction will last until the earlier of (i) two years from the date such stockholder's ownership in us falls to or below five percent, or (ii) the dissolution of our company. Upon emergence from bankruptcy under the Plan of Reorganization, we expect each of AMD's and Fujitsu's ownership to fall below the five percent threshold. After that time, should they ever decide to re-enter the Flash memory business, AMD or Fujitsu could use our present and future patents and technologies licensed by us to AMD and Fujitsu under the cross licenses and our Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement to compete against us. If either AMD or Fujitsu were to compete with us, we could be materially adversely affected.

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

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

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ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibits |
|-----------------------|--|
| 10.1(a)* | Third Amended and Restated Foundry Agreement by and between Spansion LLC and Spansion Japan Limited, effective as of February 2, 2010. |
| 10.1(b) | Amendment dated April 5, 2010 to the Third Amended and Restated Foundry Agreement by and between Spansion LLC and Spansion Japan Limited. |
| 10.2 | Bailment Agreement by and between Spansion LLC and Spansion Japan Limited, entered into February 2, 2010. |
| 10.3* | Sort Services Agreement executed April 9, 2010, between Spansion LLC and ChipMOS TECHNOLOGIES INC. |
| 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. |

* 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.

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SIGNATURE

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

Date: April 28, 2010

SPANSION INC.

By:

/s/ RANDY W. FURR

Randy W. Furr

Executive Vice President and Chief Financial Officer

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