Spansion Inc.
Form 10-K
February 23, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the fiscal year ended December 25, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from to

Commission File Number 001-34747

SPANSION INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3898239**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

915 DeGuigne Drive

P.O. Box 3453

Sunnyvale, CA 94088

(408) 962-2500

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**(Name of each exchange on which registered)**
Class A Common Stock, $0.001 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

The aggregate market value of Class A Common Stock (Common Stock) held by non-affiliates of the registrant based upon the closing sale price on the New York Stock Exchange on June 26, 2011 was approximately $932.5 million. Shares held by each executive officer, director and by certain persons that own 10 percent or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 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 x No ¨

The number of shares outstanding of each of the registrant s classes of common stock as of the close of business on February 21, 2012:

Class	Number of Shares
Class A Common Stock, $0.001 par value per share	59,920,400
Class B Common Stock, $0.001 par value per share	1

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement for the Annual Meeting of Stockholders, which we expect will be held on or about May 11, 2012 (2012 Proxy Statement) are incorporated by reference into Part III hereof.

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FORM 10-K

For The Fiscal Year Ended December 25, 2011

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PART I

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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. Risks and uncertainties relating to our business include our ability to: succeed with our business strategy focused primarily on the embedded Flash memory market; maintain or increase our average selling price and lower our average costs; accurately forecast customer demand for our products; attract new customers; obtain additional financing in the future; maintain our distribution relationships and channels in the future; successfully enter new markets and manage our international expansion; successfully compete with existing and new competitors, or with new memory or other technologies; successfully develop new applications and markets for our products; maintain manufacturing efficiency; obtain adequate supplies of satisfactory materials essential to manufacture our products; successfully develop and transition to the latest technologies; negotiate patent and other intellectual property licenses and patent cross-licenses and acquire additional patents; protect our intellectual property and defend against infringement or other intellectual property claims; effectively manage fluctuations in foreign currency exchange rates; maintain our business operations and demand for our products in the event of natural or man-made catastrophic events; and effectively manage, operate and compete in the volatile market conditions affected in part by cautious capital spending by our customers as they face their own business 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.

ITEM 1. BUSINESS
Overview

We are a leading designer, manufacturer and developer of Flash memory semiconductors. We are focused on a portion of the Flash memory market that relates to high-performance and high-reliability Flash memory solutions for microprocessors, controllers and other programmable semiconductors that run applications in a broad range of electronic systems. These electronic systems include automotive and industrial, computing and communications, consumer and gaming. In addition to Flash memory products, we assist our customers in developing and prototyping their designs by providing software and hardware development tools, drivers and simulation models for system-level integration.

Our Flash memory solutions are incorporated in products manufactured by leading original equipment manufacturers (OEMs). Our products are designed to accommodate various voltage, interface and density requirements for a wide range of applications and customer platforms. The majority of our new product designs are based on our proprietary two-bit-per-cell MirrorBit technology, which has a simpler cell architecture, higher yields and lower costs than competing floating gate NOR Flash memory technology. In addition, we have also begun to license our intellectual property to third parties for revenue.

For fiscal 2011, we had net sales of $1.1 billion and a net loss of $55.9 million.

For fiscal 2010, our net sales of the Successor was $764.7 million and our net loss was $96.7 million. For fiscal 2010, the Predecessor had net sales of $403.6 million and net income of $363.6 million (See Note 2 of Consolidated Financial Statements for further details).

We are headquartered in Sunnyvale, California, with research and development, manufacturing, assembly and sales operations in the United States, Asia, Europe and the Middle East. We own and operate three final

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manufacturing facilities in Bangkok, Thailand and in Kuala Lumpur and Penang, Malaysia. Final manufacturing consists of assembly, test, mark and pack operations. We are closing the facility in Kuala Lumpur, which is expected to be completed in the first quarter of 2012. For financial information about geographic areas and for information with respect to our sales, refer to the information set forth in Note 18 of Consolidated Financial Statements.

Our mailing address and executive offices are located at 915 DeGuigne Drive, Sunnyvale, California 94085, and our telephone number is (408) 962-2500. References in this report to Spansion, we, us, our, or the Company shall mean Spansion Inc. and our consolidated subsidiari unless the context indicates otherwise. We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, or Exchange Act, and, in accordance therewith, file periodic reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. Such periodic reports, proxy statements and other information are available for inspection and copying at the SEC s Public Reference Room at 100 F Street, NE., Washington, DC 20549 or may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a Web site at http://www.sec.gov that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. We also post on the Investor Relations page of our Web site, *www.spansion.com*, a link to our filings with the SEC, our Code of Ethics for our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other Senior Finance Executives, our Code of Business Conduct, which applies to all directors and all our employees, and the charters of our Audit, Compensation, Finance and Nominating and Corporate Governance committees. Our filings with the SEC are posted as soon as reasonably practical after they are filed electronically with the SEC. Please note that information contained on our Web site is not incorporated by reference in, or considered to be a part of, this report. You can also obtain copies of these documents free of charge by writing to us at: Corporate Secretary, Spansion Inc., 915 DeGuigne Drive, Sunnyvale, California 94085, or emailing us at: *Corporate.Secretary@spansion.com*.

Industry Overview

The proliferation of electronic systems, such as broadband access devices, automotive infotainment and safety control, digital TVs, set-top boxes, printers, digital cameras, gaming machines, mobile phones, wireless and wired infrastructure and industrial control modules, drives increasing use of Flash memory to deliver an enhanced end-user experience. Electronic systems need to store both operating instructions in the form of software code as well as content or data that needs to be processed. As electronic systems across various applications add increasingly complex features to process rich multimedia content with higher performance, they require more code and data storage without compromising reliability and system cost.

The overall memory market can be divided into volatile and non-volatile categories. Volatile memory, such as dynamic random access memory (DRAM), loses its content when the system is powered down while non-volatile memory retains its content even after power is turned off, allowing information to be retrieved at a later time. The primary semiconductor component used to store code and content today is non-volatile Flash memory.

Overview of Flash Memory

Flash memory is well suited for a variety of applications across a broad range of products, including consumer electronics, networking and telecommunications equipment, mobile phones, PCs, automotive electronics, gaming consoles and industrial equipment.

The Flash memory market consists of two major architectures: NOR and NAND Flash memory. NOR Flash memory is preferred for reliable code execution and performance-oriented storage in consumer electronics, automobiles, communications, gaming and industrial applications. NAND Flash memory is preferred for data storage in solid-state memory applications, such as USB removable storage devices and data cards. NAND Flash memory is also used in high-end phones, MP3 players, tablets, solid-state drives (SSDs) and other embedded

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applications. Overall, customers seeking fast read performance and superior reliability traditionally choose NOR Flash memory, while those seeking ultra-high density and fast write speeds choose NAND Flash memory.

Our Addressable Markets

The Flash memory market can be divided into two major categories: integrated and removable. Within the integrated category, we refer to portable, battery-powered communications applications as wireless and all other applications, such as consumer, computing, communications, automotive and industrial electronics, as embedded. We have focused historically on the integrated category, and in early 2009, we emphasized our strategic efforts in the embedded portion of that market. The embedded Flash memory market is served by both NOR and NAND Flash memory solutions, and is characterized by long design and product life cycles, lower capital and technology investments, more stable average selling prices (ASPs) and predictability in supply.

In addition to expanding our core business based on embedded NOR Flash applications, we plan to establish our presence in growing portions of the integrated Flash memory category, including embedded NAND Flash memory applications. We believe our proprietary MirrorBit technology, licensing partners, customer relationships and broad product portfolio will enable us to extend our leadership in these embedded Flash memory markets.

Target Applications

As end-user experience becomes a key differentiating factor in today s electronics products, different applications within our embedded customer base drive different product, service and support models.

Automotive applications are characterized by smart safety, richer interactive graphics, internet connectivity and other ubiquitous features that drive the need for ultra-high performance, high-reliability and supply longevity in the products we offer to customers across that spectrum.

Industrial applications span across medical, defense, aerospace/avionics, smart energy, factory automation, surveillance and point-of-sale (POS) industries. Our customers in this area are interested in product portfolio diversity with customizable features at optimal system cost.

Networking and telecommunications applications are driven by increasing wired and wireless global data traffic and equipment scalability to support the Internet backbone for cloud-computing and social media. These customers place an emphasis on high reliability, quality of service coupled with long-term product support.

Consumer and gaming applications are characterized by product solutions that provide convenience, ease-of-use, speed and form factor advantages to deliver a rich end-user experience. Accessibility of content, security and superior interactivity are features that drive Flash memory choices for our customers in these areas.

Technology

We own and use fundamental intellectual property in two Flash memory technologies, floating gate and charge trapping MirrorBit technology. Compared to competing floating gate multilevel cell NOR technology, two-bit-per-cell MirrorBit technology has a simpler cell architecture that requires fewer manufacturing steps and supports higher yields, resulting in lower manufacturing costs. Our current high density products and new advanced products are based primarily on MirrorBit two-bit-per-cell technology and we offer a broad range of product configurations and capabilities, including high density and high performance.

Floating Gate Technology. Floating gate is the conventional Flash memory cell technology that is utilized by most Flash memory companies today for both NOR and NAND products. We have created innovations in

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floating gate technology that have become industry standards, such as negative gate erase, single power supply and embedded programming algorithms. Some of our new products, to service the low density market, are based on floating gate technology.

MirrorBit Technology. MirrorBit NOR technology is the foundation of our current high density product roadmap. Also referred to as charge trapping technology, MirrorBit NOR technology stores two distinct charges in a single physical memory cell, with each charge equivalent to one bit of data thereby doubling the density of each physical memory cell and enabling higher density, lower cost products.

Products

We design, develop and sell Flash memory solutions that deliver a combination of high performance and competitive system cost for a wide range of customer platforms and applications. The product offerings support multiple voltage and interface options, with monolithic memory densities ranging from 1-megabit to 4-gigabits and multi-die module solutions up to 32-gigabits. The portfolio can be grouped into two key interfaces: Parallel NOR and Serial NOR (SPI). Within each core interface group, there are product families that service specific requirements across each area of our business.

GL and AL Families. The GL and AL 3-volt product families address applications where high reliability coupled with low system cost are important, including automotive, consumer, gaming, networking and telecommunications. The AL product family offers densities as low as 8-megabits, supports a simpler feature set and provides a standard parallel interface for lower density applications, such as industrial and automotive control systems. The GL product family currently supports monolithic densities up to 4-gigabits in production and includes a page-mode interface and Advanced Sector Protection to support high performance consumer applications, such as high-end set top boxes, or STBs, arcade gaming solutions and automotive applications such as information and entertainment systems and instrument clusters. MirrorBit technology is utilized for the GL family and floating gate technology is utilized for the AL family.

CD and CL Families. The CD (2.5-volt) and CL (3.0-volt) product families address automotive engine and transmission control applications, which require high reliability, feature rich, high performance and capability to operate across wide temperature ranges. The CD and CL product families combine a high performance burst-mode interface, with Simultaneous Read/Write and Advanced Sector Protection at 16- and 32-megabit densities. Because engine and transmission control units must withstand extreme temperatures, these families operate at up to 150°C and are available in a fully tested die-only solution for incorporation into special customer modules.

FL Family. The FL (3.0-volt) family utilizes floating gate and MirrorBit technologies with a Serial Peripheral Interface, or SPI in a low pin count package across densities from 4- to 256-megabits. This product line supports the option for single, dual or quad serial input/output (I/O), thereby providing an optimal performance solution for industrial, automotive and consumer markets.

WS/ NS/ VS Families. The WS, NS and VS product families, which operate with a 1.8-volt supply, are based on MirrorBit technology and combine a high performance burst-mode interface with Simultaneous Read/Write and Advanced Sector Protection features to primarily support mobile phone applications. These products range from densities of 64-megabits to 512-megabits and are primarily combined with third-party PSRAM or DRAM in a single multi-chip package (MCP) to meet mobile phone memory needs.

JL and PL Families. The JL and PL product families, with a 3-volt interface, support high performance automotive and industrial applications. Based on 3-volt floating gate technology, these products offer a page-mode interface, Simultaneous Read/Write capability and Advanced Sector Protection at 32-megabit to 128-megabit densities.

AS Family. The AS product family delivers small form-factor and reliable performance for module-based applications such as Bluetooth for consumer and automotive markets. This 1.8 volt product line supports

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densities from 8- to 16-megabits with a standard parallel interface and is based on floating gate process technology.

F Family. The F product family is a 5-volt, floating gate process technology based legacy offering which primarily supports automotive markets. These products range from densities of 1-megabit to 32-megabits and support temperature ranges up to 125C.

In addition to this broad product offering, we aim to streamline and simplify our customers design and development cycle by providing consistent and comprehensive tools to support customers development process, from initial system bring-up to final product deployment. We assist customers in prototyping their designs by providing the necessary software and hardware development tools, drivers and simulation models for seamless system-level integration.

Sales and Marketing

We market and sell our products worldwide under the Spansion trademark to our customers directly or through distributors. For fiscal 2011, approximately 69 percent of our sales were through distributors.

We market our products through a variety of direct and indirect channels. We have direct relationships with many of our top customers worldwide. We supplement this effort with programs designed to support design-in of our products on reference designs from third parties, which are typically used by our Flash memory customers when choosing Flash memory solutions. In addition, we focus a portion of our marketing efforts on providers of complementary semiconductor products such as chipsets to ensure our products interoperate effectively with the most widely used components in various embedded applications.

Our marketing activities target customers, reference design houses and our potential partners; and includes a combination of direct marketing activities such as trade shows, events and marketing collateral, and indirect activities such as public relations and other marketing communications activities.

Customers

Customers for our products consist of OEMs, original design manufacturer (ODM), and contract manufacturers. We serve our customers worldwide directly or through our distributors, which buy products from us and resell them either directly or through their own distributors. No OEM, ODM or contract manufacturer accounted for more than ten percent of our net sales for each of the fiscal years 2009, 2010 and 2011.

Third-Party Distributors

Our third-party distributors typically resell to OEMs, ODMs and contract manufacturers. Sales through our direct distributors are typically made pursuant to agreements that provide limited rights of return for discontinued products or for other products within one year of their date of manufacture. In addition, our agreements with distributors may contain standard stock rotation provisions permitting limited levels of product returns.

We generally warrant that products sold to our customers and our distributors will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to specific exceptions, we offer a one-year limited warranty.

After the deconsolidation of our former subsidiary, Spansion Japan, in fiscal 2009, as discussed in Item 8. Financial Statements and Supplementary Data, Note 2. Emergence from Chapter 11, sales to Spansion Japan accounted for approximately 21 percent of our total net sales. In fiscal 2010, net sales to Spansion Japan were approximately 20 percent of our total net sales in the Predecessor and 25 percent of our total net sales in the

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Successor. During the second quarter of fiscal 2010, we purchased Spansion Japan s distribution business and began distributing our products in Japan through our wholly owned subsidiary, Nihon Spansion Limited. Accordingly, there were no sales to Spansion Japan in fiscal 2011. During the periods when we made sales to Spansion Japan, Spansion Japan resold substantially all its purchases to Fujitsu, which in turn acted as a distributor of our products in Japan. Net sales to Fujitsu (in its capacity as a distributor), including sales made through Spansion Japan after its deconsolidation and sales made through Nihon Spansion Limited after we purchased the Spansion Japan distribution business, accounted for approximately 25 percent of our total net sales for fiscal 2009, 18 percent of our total net sales in the Predecessor and 23 percent of our total net sales in the Successor for fiscal 2010. Net sales to Fujitsu (in its capacity as a distributor) for fiscal 2011 accounted for approximately 29 percent of our total net sales.

Research and Development

Our research and development is critical to our success and we focus on process, product and system level development. We conduct our product and system engineering activities primarily in Sunnyvale, California and Netanya, Israel, with additional design and development engineering teams located in Asia. Our primary development focus is on MirrorBit products for embedded applications. We conduct our process and product development primarily in Sunnyvale, California, at our fabrication facility located in Austin, Texas (Fab 25) and at third party foundries that provide foundry services to us. We are developing non-volatile memory process technologies. Specifically, we continue to refine our 65-nanometer NOR process technology, we are intending to deploy 45-nanometer NOR process technology and, through our joint development agreement with Elpida Memory, Inc., or Elpida, continue to develop 43-nanometer charge trapping NAND process technology. We also intend to develop more advanced technologies independently or with partners.

Our research and development expenses for fiscal 2011, fiscal 2010 and fiscal 2009 were $106.6, $100.5 and $136.4 million, respectively. In April 2009, we stopped further production of development wafers at our research and development manufacturing facility known as the Submicron Development Center, or SDC, in Sunnyvale, California, as part of our strategy to reduce research and development costs by utilizing Fab 25 and third party facilities for technology development. For more information, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Manufacturing

We own and operate one wafer fabrication facility, Fab 25, which is located in Austin, Texas and has approximately 114,000 square feet of clean room space. This facility produces 200-millimeter wafers, manufactured using 130-nanometer, 110-nanometer, 90-nanometer and 65-nanometer process technologies. We also own and operate three final manufacturing facilities in Bangkok, Thailand , Kuala Lumpur and Penang, Malaysia. Final manufacturing consists of assembly, test, mark and pack operations. Commencing in the fourth quarter of fiscal 2011 and as part of a company-wide cost reduction program, we implemented a restructuring plan, which encompassed the consolidation of our test and assembly manufacturing operations in Bangkok and Kuala Lumpur, which will result in the cessation of operations and closure of our Kuala Lumpur facility. We expect to complete this closure by the end of the first quarter of fiscal 2012. We also use a number of third party companies to supplement our final manufacturing capacity as and when needed.

Like most semiconductor companies, we direct significant efforts toward the invention and development of manufacturing process technologies to achieve the objectives of reducing our manufacturing costs, improving our device performance and adding product features and capabilities. We achieve these objectives primarily through a combination of optimizing the number of process steps required to produce a product and by reducing the scale or size of key structures in our integrated circuits such as the memory cells used to store charge and the surrounding circuits that manage and interface to these cells. We develop each process technology using particular design rules and refer to this as the process or technology node using nanometers as a measurement of length of certain critical structures in the process. By shrinking the features, we enable more cells in the same

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area, which allows us to incorporate more bits per wafer at each successive process node, decreasing material cost per bit and either increasing the number of die per wafer for a given density or increasing the density.

During fiscal 2011, we offered products manufactured on technology nodes from 320-nanometer to 65-nanometer, utilizing MirrorBit and floating gate cell technology. We continue to manufacture products based on floating gate technology at process nodes from 320-nanometer to 110-nanometer. However, during fiscal 2011, the majority of our wafer production was comprised of MirrorBit products using 110- and 90-nanometer process technology. We also manufacture MirrorBit NOR products on 65-nanometer process technology, which is increasing as a percentage of our total sales as we migrate customers from 110- and 90-nanometer process technology to 65-namometer process technology.

We outsource a significant portion of our manufacturing function to external foundry partners. To augment our internal wafer fabrication capacity, we have foundry agreements with Semiconductor Manufacturing International Corporation, or SMIC, Fujitsu Limited, Elpida, and Texas Instruments Ltd. The arrangement with SMIC provides support for advanced technology products at 65-and 45-nanometer. The arrangement with Elpida provides for the development of charge trapping NAND products manufactured using 43-nanometer process technology. Also, the deployment of leading edge technology in support of foundry manufacturing provides a more cost efficient solution for future research and development wafer production as an alternative to an in-house dedicated research and development manufacturing facility for wafer production. The arrangement with Fujitsu, using our former JV1 and JV2 wafer fabrication facilities which we sold to them in April 2007, provides us with the ability to efficiently support the declining customer demand for legacy products on legacy production process nodes. We also obtained foundry services, including wafer and sort services, from Texas Instruments under an agreement that will terminate at the end of the first quarter of fiscal 2012. We may in the future change the location where our products are manufactured to reflect changes in customer demand. We have in the past, and may in the future, obtain foundry, subcontractor and other arrangements with third parties to meet demand.

Our manufacturing processes require many raw materials, such as silicon wafers, mold compound, substrates and various chemicals and gases, and the necessary equipment for manufacturing. We obtain these materials and equipment from a large number of suppliers located throughout the world.

Environmental Matters

Many of our facilities are located on properties or in areas with a long history of industrial activity. Prior to 2003, environmental audits were conducted for each of our manufacturing facilities. The audits described various conditions customary of facilities in our industry and, in particular, noted historical soil and groundwater contamination at our Sunnyvale, California facility arising from the leakage from chlorinated solvent storage tanks that previously had been located on this property. This property is listed on the U.S. Environmental Protection Agency s Superfund National Priorities List. Advanced Micro Devices, Inc., or AMD, the former owner of the property and responsible party, is investigating and remediating this contamination.

In 2003, each of AMD and Fujitsu agreed to indemnify us against losses arising out of the presence or release, prior to June 30, 2003, of hazardous substances at or from these and other sites they each contributed to us in connection with the formation of our joint venture predecessor, FASL LLC. Conversely, Spansion LLC, our operating subsidiary agreed to indemnify each of AMD and Fujitsu from and against liabilities arising out of events or circumstances occurring after June 30, 2003, in connection with the operation of our business. AMD and Fujitsu, on the one hand, and we, on the other, agreed to indemnify the other against liability arising from permit violations attributable to our respective activities. To the extent AMD and Fujitsu cannot meet their obligations under any of their indemnity agreements, or material environmental conditions arise, we may be required to incur costs to address these matters, which could have a material adverse effect on us.

We have made and will continue to make capital and other expenditures to comply with environmental laws, but we do not expect compliance with environmental requirements to result in material expenditures in the

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foreseeable future. Environmental laws and regulations are complex, change frequently and have tended to become more stringent over time, all of which are factors that could alter the current outlook. See Item 1A. Risk Factors We are subject to a variety of environmental laws that could result in liabilities.

Competition

Our NOR Flash memory competitors are Micron Technology, Inc., Macronix International Co., Ltd. and Winbond Electronics Corp. Additional NOR Flash memory competitors include Eon Silicon Solution Inc., Microchip Technology Inc., and Atmel 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 NAND Flash memory competitors include Samsung Electronics Co., Ltd., Micron Technology, Inc., Hynix Semiconductor, Inc. and Toshiba Semiconductor Company. In the future, additional NAND Flash memory competitors may include Elpida, Powerchip Technology Corporation, Macronix International Co., Ltd., Intel Corporation, Sandisk Corporation and Winbond Electronics Corporation.

We believe Flash memory providers must possess the following attributes to remain competitive:

- strong relationships with OEMs, ODMs and contract manufacturers that are acknowledged leaders within their respective industries;
- discipline to continually reduce costs ahead of historically declining semiconductor market prices;
- strong market focus to identify emerging Flash memory applications;
- advanced research and development;
- flexibility in manufacturing capacity and utilization so as to take advantage of industry conditions through market cycles;
- access to the financial resources needed to maintain a highly competitive technological position;
- focus on sustainable and profitable portions of the Flash memory market;
- the ability to establish and sustain strategic relationships and alliances with key industry participants;
- the ability to manufacture products with a high degree of market acceptance and a low cost structure; and
- rapid time to market for new products, measured by the time elapsed from first conception of a new product to its commercialization.

Employees

We had approximately 3,375 employees at December 25, 2011.

Backlog

We generally manufacture and market standard lines of our products. Sales are made primarily pursuant to purchase orders for delivery or agreements covering purchases over a period of time. These orders or agreements may be revised or canceled without penalty. Generally, in light of current industry practice and experience, we do not believe that backlog information is necessarily indicative of actual sales for any succeeding period.

Intellectual Property

Our success depends in part on our proprietary technology. We rely on a combination of protections provided by contracts, including confidentiality and non-disclosure agreements, copyrights, patents, trademarks

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and common law rights, such as trade secrets, to protect our intellectual property. As of December 25, 2011, we had 1,903 U.S. patents and 954 foreign patents as well as 357 patent applications pending in the United States and 759 patent applications pending outside the United States. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. There can be no assurance that the claims allowed on any patents we hold will be sufficiently broad to protect our technology, or that any patents will issue from any application pending or filed by us.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K. 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.

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.

The Flash memory market is highly competitive and subject to rapid, highly volatile changes in demand, pricing and product mix that are difficult to predict. Our failure to adequately forecast our customers needs could materially adversely affect our business.

The Flash memory market is a mature one subject to business cycles that include extended periods of oversupply and constant downward price pressure, which is due, in substantial part, to the relatively large number of competing firms and technologies. Our competitors are primarily NOR Flash memory makers, including: Micron Technology, Inc., Macronix International Co., Ltd., Winbond Electronics Corp., Microchip Technology Inc., EON Silicon Solution Inc. and Atmel Corporation. We increasingly compete with NAND Flash memory makers for applications where NAND Flash memory is suitable for use as code storage. Our NAND Flash memory competitors include Samsung Electronics Co., Ltd., Micron Technology, Hynix Semiconductor Inc. and Toshiba Semiconductor Company Inc. In the future, additional NAND Flash memory competitors may include Elpida Memory, Inc., Powerchip Technology Corporation, Macronix International Co., Ltd., Intel Corporation, Sandisk Corporation and Winbond Electronics Corporation.

During economic downturns, periods of extremely intense competition, or the presence of oversupply in the industry, the selling prices for our products have declined at a rapid rate over relatively short time periods as compared to historical rates of decline. 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.

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

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For the reasons stated above, 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. For example, in the third and fourth quarters of 2011, we wrote down our wireless inventories as a result of a product transition by serial NOR and an overall surplus of inventory in the market. In addition, during periods of industry overcapacity, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity, which can exacerbate the difficulty in forecasting capacity requirements and may result in increased inventory levels.

Our business is primarily focused on serving the embedded portion of the Flash memory market, which is both more robust and mature than the wireless segment but which is, in certain sub-segments, still subject to similar trends in terms of product mix and downward price pressure. If we fail to execute on our strategy to serve the embedded portion, our business could be materially adversely affected.

The integrated Flash memory market has two primary groups of applications, embedded and wireless. Historically, we served both groups. Beginning in 2009, however, we started focusing primarily on the embedded market due to its longer product life cycles, higher gross margins, and reduced need to incorporate third party DRAM, PSRAM and NAND into our products. Prior to our change in focus, our wireless sales typically represented 50 percent of our total sales in a quarter. By contrast, in fiscal 2011 wireless sales were 14 percent of total net sales.

The embedded market, however, is more mature than the wireless market and is expected to grow more slowly than some other sectors of the semiconductor industry. In addition, the embedded market, like the wireless market, historically has been, and we anticipate that it will continue to be, subject to selling price reductions. Moreover, existing trends in the wireless market (e.g., increasing downward pressure on gross margins and price per bit) are relevant to and lead similar trends in certain consumer-facing sub-segments within the embedded market (e.g., the consumer market that includes set top boxes for cable and satellite entertainment services).

If we are unable to successfully address these challenges or unable to grow our participation in the embedded portion of the Flash memory, our business could be materially adversely affected.

We primarily sell parallel NOR Flash memory products, which are being replaced in certain applications by Flash memory products that we do not currently offer. We are developing competitive Flash memory products for these applications, but our business could be materially adversely affected if we fail to bring these new products to market.

Flash memory products have either a NOR architecture (NOR Flash memory products) or a NAND architecture (NAND Flash memory products). NOR Flash memory products have either a parallel interface (parallel NOR) or a serial interface (serial NOR) and typically are more reliable and have a higher cost-per-bit than NAND Flash memory products. System designers use NOR Flash memory products primarily for code storage, while they use NAND Flash memory products primarily for data storage. Increasingly, however, for certain embedded system designs, particularly in consumer-facing market segments, higher density NAND Flash memory products are being used for code storage instead of high density, parallel NOR Flash memory products. Similarly, and also in consumer-focused markets, in which product cycles are rapid and keeping cost down is paramount, system designers are increasingly choosing low-density serial NOR Flash memory products over similar density parallel NOR offerings.

In contrast, we primarily sell parallel NOR products having medium to high density (32 megabits and above). We also primarily sell serial NOR products having medium to high density. We are currently developing

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NAND Flash memory products and expanding our low density (less than 32 megabits) serial NOR Flash memory product portfolio to meet the increasing demand for these products in embedded applications. However, we cannot be certain that we will successfully develop and introduce NAND Flash memory products and additional low density serial NOR Flash memory products in time to counteract the falling demand for the parallel NOR Flash memory products we currently sell. If we fail to do so, our business could be materially adversely affected.

Our operating results are dependent on the performance of distributors, including Fujitsu Semiconductors Limited, who is our primary distributor for Japan.

A significant portion of our sales are through independent distributors that are not under our control. For example, sales through distributors accounted for 69 percent and 70 percent of our net sales for fiscal 2011 and 2010 respectively. Generally, our agreements with third-party distributors can be terminated for convenience by either party upon relatively short notice. These agreements generally are non-exclusive and also permit our distributors to offer our competitors products. We generally do not require letters of credit from our distributors and are not protected against accounts receivable default or bankruptcy by these distributors. Our inability to collect open accounts receivable could adversely affect our operating results. Termination of a significant distributor, whether at our initiative or the distributor s initiative, could disrupt our current business, and if we are unable to find suitable replacements, our operating results could be adversely affected.

In Japan, which is an important geographic market for us, we currently rely primarily on Fujitsu Semiconductors Limited (FSL) through its subsidiary, Fujitsu Electronics Inc. (FEI), to distribute our products to customers. For example, sales of our products through FSL represented 29 percent of our total net sales for fiscal 2011. Historically, our agreement with FSL has been exclusive and FSL has not been permitted to offer our competitors Flash memory products to its customers. However, exclusivity is set to expire on May 10, 2012 and FSL may then begin to sell our competitors Flash memory products. Under the terms of our distribution agreement with FSL, either party may terminate the distribution agreement for convenience upon 60 days written notice to the other party. If FSL unexpectedly terminates its distribution agreement with us, or otherwise ceases its support of our customers in Japan, we would be required to develop and rely on a relationship with another distributor or establish our own local sales organization and support functions. We cannot be certain that we would be successful in selling our products to customers currently served by FSL or new customers and our sales in Japan might decline, and we could be materially adversely affected.

Our revenue reporting is highly dependent on sales information from our distributors, and our financial reporting could be misstated if such information is not accurate and timely.

Our revenue reporting is highly dependent on receiving accurate and timely sell-through data from our distributors. As our distributors resell products, they provide us with periodic data regarding the products sold, including prices, quantities, end customers, and the amount of our products they still have in stock. The data we receive is voluminous and complex and we must use estimates and apply judgments to reconcile distributors reported inventories to their sell-through activities. Actual results could vary unfavorably from our estimates, which could affect our operating results and could adversely affect our business.

We generally provide price protection to our distributors on the inventory they carry. Significant declines in the value of that inventory may require us to undertake inventory write-downs.

Distributors typically maintain an inventory of our products. For certain distributors, we have signed agreements that protect the value of their inventory of our products against price reductions, as well as provide for rights of return under specific conditions. Certain agreements with our distributors also contain standard stock rotation provisions permitting limited levels of product returns. We do not recognize revenue on our sales to these distributors until the applicable products are re-sold by the distributors and reported to us. However, in the event of an unexpected significant decline in the price of our products or significant return of unsold inventory,

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we may experience inventory write-downs, charges to reimburse costs incurred by distributors, or other charges or adjustments, any of which could result in a material adverse impact to our revenues and operating results.

We are not protected by long-term supply contracts with our customers.

We do not typically enter into long-term supply contracts with our customers, and we cannot be certain as to future order levels from our customers. When we do enter into a long-term contract, the contract is generally terminable at the convenience of the customer. In the event of an early termination by one of our major customers, it is unlikely that we will be able to rapidly replace that revenue source, which would harm our financial results.

A number of factors, including our inventory strategy, can impact our gross margins.

Numerous factors, including yield, wafer pricing, product mix, market acceptance of our new products, competitive pricing dynamics, geographic and/or market segment pricing strategies cause our gross margins to fluctuate. In addition, forecasting our gross margins is difficult because a significant portion of our business is based on the fulfillment of orders within the same quarter the orders are placed. In the event demand does not materialize, we may be subject to incremental obsolescence costs. In addition, future product cost reductions could have an increased impact on our inventory valuation, which would then impact our operating results.

Our global operations expose us to regional risks that could materially adversely affect our business globally.

Sales to customers outside the United States were approximately 88 percent of our total net sales for fiscal 2011. Additionally, we operate in more than ten countries, and a substantial portion of our manufacturing operations and those of our third party manufacturers are located outside the United States, primarily in Japan, China, Taiwan, Korea, Thailand and Malaysia. As a result, our business is subject to a variety of risks that are specific to the regions and countries in which we operate, including:

- currency exchange rate fluctuations;
- natural disasters, such as tsunamis, earthquakes, fires and floods;
- export and import duties, changes to import and export regulations, and restrictions on the transfer of funds;
- political and economic instability;
- difficulties in protecting our intellectual property;
- problems with the transportation or delivery of our products;
- issues arising from cultural or language differences and labor unrest;
- disruptions caused by military action or terrorist attacks;
- longer payment cycles and greater difficulty in collecting accounts receivable;

compliance with trade, technical standards and other laws in a variety of jurisdictions;

disruptions to our manufacturing operations as a result of actions imposed by foreign governments;

changes in economic policies of foreign governments; and

difficulties in staffing and managing international operations.

These factors may materially adversely affect our business, results of operations or financial condition. To the extent practicable, we seek to proactively reduce our exposure to these risks where possible, but we may not be successful. For example, we use foreign currency forward contracts to reduce our exposure to foreign

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

During the first and second quarters of 2011, we lost sales and experienced delays in the provision of foundry services by third parties in Japan as a result of the earthquakes and related tsunami that occurred there in March 2011. Specifically, some first and second quarter product shipments were cancelled or rescheduled for shipment during the subsequent quarter. We also incurred some minor damage to our production equipment during the first quarter of 2011. During the third quarter, the flooding in Thailand, while not directly affecting our facility, did impact some of our suppliers and customers. The impact to our operations and financial results as a result of the events in Japan and Thailand were not material. However, if natural disasters or other 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 manufacturing and logistics functions, our net sales and financial condition will be adversely affected.

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

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

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

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

We currently have, and plan in the future to enter into, foundry, subcontractor and other arrangements with third parties to meet demand for our products. Third-party manufacturers we currently use or expect to use in the future for foundry and other manufacturing services include Texas Instruments, or TI, Fujitsu Semiconductors Limited, or FSL, Elpida Memory, Inc., or Elpida, and Semiconductor Manufacturing International Corporation, or SMIC. We also use independent contractors to perform some of the assembly, testing and packaging of our products, including ChipMOS Technologies Limited. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs. Third-party manufacturers are generally under no obligation to provide us with any specified minimum quantity of product. We also depend on these manufacturers to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis at acceptable prices. In addition, we rely on these manufacturers to invest capital into their facilities and process technologies to meet our needs for new products using advanced process technologies. Given our emergence in May 2010 from our Chapter 11 bankruptcy proceedings (the Chapter 11

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Cases) and the volatility and disruption in the capital and credit markets worldwide, we cannot assure you that they will make the investments in their facilities previously contemplated. We also cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements and that we will be able to attain qualification from our customers, which may be required prior to production of products at a third party facility. In addition, any significant change in the payment terms we have with these manufacturers could adversely affect us.

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

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

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

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

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

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

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successfully transition to advanced process technologies;

continue to reduce test times;

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

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

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

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

Our business is capital intensive and our ability to generate operating cash flows depends in large part on the maintenance of a low cost strategy. As part of our strategy going forward, we intend to continue our cost reduction efforts which have included restructuring and technology partnerships. For example, in the fourth quarter of fiscal 2011 and as part of a company-wide cost reduction program, we initiated a restructuring plan to align the business with current market conditions and to reduce operating expenses. The plan encompassed the consolidation of two test and assembly manufacturing operations in Asia and will result in the closure of our Kuala Lumpur, Malaysia facility, which we expect to be completed by the end of the first quarter of fiscal 2012. This and other cost reduction activities may require initial cash outlays before the anticipated benefits are realized. We cannot assure you that we will be able to achieve anticipated expense reductions. If our expense reduction efforts are unsuccessful, our operating results and business may be materially adversely affected. Furthermore, in certain instances our cost reductions may make it more difficult for us to succeed in the extremely competitive Flash memory market.

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

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

We also rely on purchasing commercial memory die such as PSRAM from third-party suppliers to incorporate these die into multi-chip package products. The availability of these third-party purchased commercial die is subject to market availability, and the process technology roadmaps and manufacturing capacities of our vendors. In addition, some of our suppliers may also be our competitors. Interruption of supply 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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We cannot be certain that we will have sufficient resources to invest in the level of research and development required to remain competitive or that our substantial research and development investments will lead to timely improvements in technology needed to successfully develop, introduce and commercialize new products and technologies.

The Flash memory industry is highly competitive and subject to rapid technological change. In order to compete, we are required to make substantial investments in research and development for product design, process technologies and production techniques in an effort to design and manufacture advanced Flash memory products. For example, in connection with our business strategy, our research and development expenses for fiscal 2010 and 2011 were $100.5 million and $106.6 million or approximately 9 percent and 10 percent of our total net sales, respectively. We cannot assure you that we will have sufficient resources independently or through joint development agreements to maintain the level of investment in research and development that is required for us to remain competitive, which could materially adversely affect us.

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

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

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

Our competitors are working on a number of potentially competitive technologies, including ferroelectric random access memory, or FRAM, magneto resistive random access memory, or MRAM, polymer, charge trapping and phase-change based memory, or PCM, technologies. These technologies provide alternative means of non-volatile storage of information. Today, where products exist using these new technologies, they exhibit different characteristics than existing NOR Flash memory products based on MirrorBit or floating gate technology. These differences, including higher cost structure, inability to support higher densities, different performance and operating behavior, currently exclude such products from addressing volume markets for NOR Flash memory. For such products to be commercially viable and attractive alternatives to today s NOR Flash memory solutions, they must either match the capabilities and characteristics at lower cost or provide additional capabilities desired and valued by customers. If such products are successfully developed and commercialized as a viable alternative to MirrorBit or floating gate NOR Flash memory, these other products could pose a competitive threat to existing Flash memory companies, including us. In addition, some of the licensees and customers of Saifun Semiconductors Ltd., or Saifun, which we purchased in 2008 and renamed Spansion Israel Ltd., are our competitors or work with our competitors and possess licenses from Spansion Israel Ltd. for intellectual property associated with charge trapping Flash memory technology. Use of this charge trapping intellectual property or use of independently developed charge trapping Flash memory technology by our competitors, if successfully developed and commercialized, may allow these competitors to develop Flash memory products that may compete with our products based on charge trapping technology. If we are unable to compete with these new technologies, we may be materially adversely affected.

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

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

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

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

We expect to attempt to negotiate agreements and arrangements with third parties for the license of intellectual property and technology that are important to our business. We also expect to continue to apply for new patents as our success in negotiating patent cross-license agreements with other industry participants will depend in large part upon the strength of our patent portfolio relative to that of the third party with which we are negotiating. In 2011, we successfully settled our litigation with Samsung and negotiated a cross-license agreement with Samsung, but we can give no assurances that we will be successful in other litigation or negotiations. If we are unable to negotiate agreements or arrangements for intellectual property, or to obtain patents, necessary for the success of our business, we may be materially adversely affected.

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

If we cannot adequately protect our technology or other intellectual property rights in the United States and abroad, we may be materially adversely affected.

If our security measures are breached and unauthorized access is obtained to our information technology systems, we may lose proprietary data.

Our security measures may be breached as a result of third-party action, including computer hackers, employee error, malfeasance or otherwise, and result in unauthorized access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently,

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we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in disclosure of our trade secrets, confidential customer, supplier or employee data, which could result in legal liability, harm to our reputation and otherwise harm our business.

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

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

- actual or anticipated changes in our operating results;
- changes in financial estimates by securities analysts;
- fluctuations in the valuation of companies perceived to be comparable to us;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives; and
- stock price and volume fluctuations attributable to inconsistent trading volume levels or other factors.

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

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

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

For example, the SEC has released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards, or IFRS. Under the proposed roadmap, we may be required to prepare financial statements in accordance with IFRS. The SEC announced it will not make a determination until 2012 regarding the mandatory adoption of these new standards. It is unclear at this time how the Commission will propose GAAP and IFRS be harmonized if the proposed changes are adopted. If adopted, we will need to develop new systems and controls around IFRS principles. Since this would be a new endeavor, the specific costs associated with this conversion are uncertain and could have a material impact on our results of operations.

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 carry forwards in the United States

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of approximately $1.0 billion as of December 25, 2011. Our ability to utilize these NOL carry forwards could be subject to a significant limitation if we were to undergo an ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended.

Our success depends on our key personnel and the loss of key personnel could disrupt our business.

Our success greatly depends on the continued contributions of our senior management and other key research and development, sales, marketing and operations personnel. In addition, our success will depend on our ability to recruit and retain additional highly-skilled personnel. The Chapter 11 Cases have made recruiting, hiring and retention even a greater challenge. We have relied on equity awards in the form of stock options and restricted stock units as one means for recruiting and retaining highly skilled talent and the reduction in our stock price has reduced the effectiveness of those awards used for retaining employees. The loss of key personnel could disrupt or adversely affect our business.

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

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

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

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

Certain environmental laws, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or the Superfund Act, impose joint and several liabilities on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and costs related to damages to natural resources. One of our properties is listed on the U.S. Environmental Protection Agency s Superfund National Priorities List. However, other parties currently are responsible for all investigation, cleanup and remediation activities. 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.

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

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Provisions in our corporate governance documents as well as Delaware law may delay or prevent an acquisition of us that stockholders may consider favorable, which could decrease the value of your shares.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal engineering, manufacturing and administrative facilities as of December 25, 2011, comprise approximately 2.8 million square feet and are located in the United States, Europe, Middle East and Asia. Over 2.6 million square feet of this space is in buildings we own in Sunnyvale, California; Austin, Texas; Kuala Lumpur, Malaysia; Penang, Malaysia; and Bangkok, Thailand. In October 2011, we announced the closing of the facility in Kuala Lumpur and consolidation of its operations with our facility in Bangkok, which we expect to complete in the first quarter of fiscal 2012. The remainder of our engineering, manufacturing and administrative facilities are leased. We lease approximately 156,000 square feet of office and warehouse space in Europe and Asia. Our Fab 25 facility in Austin, Texas and our facility in Sunnyvale, California are encumbered by liens securing our Senior Secured Term Loan and Revolving Credit Facility. See Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations.

Our facility leases have terms of generally one to five years. We currently do not anticipate difficulty in either retaining occupancy of any of our facilities through lease renewals prior to expiration or through month-to-month occupancy or replacing them with equivalent facilities.

ITEM 3. LEGAL PROCEEDINGS

We are a defendant or plaintiff in various legal actions that arose in the normal course of business. In the opinion of management, the aggregate liability, if any, with respect to these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

In addition to ordinary routine litigation incidental to the business, we are party to the following material legal proceeding. The outcome of any litigation is uncertain, and, should the proceedings where we are a defendant be successful, we may be subject to significant damages awards which could have a material adverse effect on our financial condition or cash flows.

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

On June 9, 2008, Fast Memory Erase LLC filed a complaint in the U.S. District Court for the Northern District of Texas alleging patent infringement against Spansion Inc., Spansion LLC, Intel Corp., Numonyx B.V., Numonyx, Inc., Nokia Corp., Nokia Inc., Sony Ericsson Mobile Communications AB, Sony Ericsson Mobile Communications (USA), Inc., and Motorola, Inc. The case is styled, Fast Memory Erase, LLC v. Spansion Inc.,

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Spansion LLC, et al., Case No. 3:08-CV-00977-M (N.D. Tex.). Fast Memory Erase s complaint alleges that Spansion s NOR Flash memory products using floating gate technology infringe one or more claims of U.S. Patent No. 6,236,608 (the 608 patent). Fast Memory Erase has also asserted U.S. Patent No. 6,303,959 (the 959 patent) in its complaint against the products of other defendants, namely Intel and Numonyx, but it has not asserted the 959 patent against any Spansion products. On December 22, 2008, Fast Memory Erase filed an amended complaint. In its amended complaint, Fast Memory Erase added Apple, Inc. as a defendant. Spansion has answered Fast Memory Erase s complaint and amended complaint. Spansion s answers assert that Spansion does not infringe the 608 patent and that the 608 patent is invalid. In its answers, Spansion also asserts counterclaims against Fast Memory Erase for declaratory judgments of non-infringement and invalidity. The case was stayed against Spansion as a result of the Chapter 11 Cases until May 18, 2009. The U.S. Bankruptcy Court preliminarily lifted the stay and set June 23, 2009 as the date for a final determination on the stay. The parties subsequently agreed to lift the stay so that the U.S. District Court could proceed with a Markman hearing to determine the meaning of certain claims, which was held on September 16, 2009. No ruling has yet been issued as a result of the Markman hearing.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of Common Stock

Pursuant to the Plan of Reorganization in the Chapter 11 Cases, all outstanding shares of our Class A common stock outstanding prior to the Emergence Date were cancelled effective May 10, 2010. Our new Class A common stock issued in accordance with the Plan of Reorganization was initially listed on the New York Stock Exchange Amex LLC, or NYSE Amex, from May 18, 2010 to June 23, 2010. On June 23, 2010, the Class A common stock was transferred from the NYSE Amex to The New York Stock Exchange, or NYSE, under the symbol CODE. The following table sets forth the high and low per share sales prices for our new Class A common stock, as reported by the NYSE Amex and the NYSE, as applicable.

	High	Low
Fiscal Year Ended December 25, 2011		
Fourth Quarter	$ 14.46	$ 7.21
Third Quarter	$ 20.42	$ 12.52
Second Quarter	$ 21.02	$ 17.14
First Quarter	$ 21.60	$ 17.75

	High	Low
Fiscal Year Ended December 26, 2010		
Fourth Quarter	$ 20.95	$ 14.09
Third Quarter	$ 17.96	$ 13.73
Second Quarter (from May 10, 2010)	$ 20.00	$ 10.51

As of February 21, 2012, there were 691 holders of record of our Class A common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The closing sale price of our New Common Stock on February 21, 2012 was $13.11 per share.

We currently do not plan to pay dividends on shares of our Class A common stock in the foreseeable future and are currently prohibited from doing so in specific circumstances under agreements governing our borrowing arrangements.

The information under the caption Equity Compensation Plan Information in Part III, Item 12 of this Annual Report on Form 10-K is incorporated herein by reference.

Stock Performance Graph

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Spansion under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from May 10, 2010 (the Emergence Date), including from May 18, 2010, (the date our Class A common stock commenced trading), through December 25, 2011 of the cumulative total return for our Class A common stock (CODE), the NYSE Composite Index and the S&P Semiconductors Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NYSE Composite Index and the S&P Semiconductors Index assume reinvestment of dividends

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COMPARISON OF 19 MONTH CUMULATIVE TOTAL RETURN*

Among Spansion, Inc., the NYSE Composite Index,

and the S&P Semiconductors Index

* $100 invested on 5/18/2010 in Spansion Inc. Class A common stock (CODE) or in NYSE Composite index or S&P Semiconductors index, including reinvestment of dividends. The graph shows the cumulative total returns from 5/10/2010 (May 10, 2010) to 12/25/2011 (December 25, 2011).

Fiscal year ending December 25, 2011.

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ITEM 6. SELECTED FINANCIAL DATA

The following summary historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Fiscal years in the table below included 52 weeks each.

	Year Ended December 26, 2010					
	Successor[1]	Successor[1]	Predecessor[1]		Predecessor	
	Year Ended December 25, 2011	Period from May 11, 2010 to December 26, 2010	Period from December 28, 2009 to May 10, 2010	Year Ended December 27, 2009	Year Ended December 28, 2008	Year Ended December 30, 2007
				(in thousands, except per share amounts)		
Statement of Operations Data:						
Net sales	$ 1,069,883	$ 759,886	$ 324,914	$ 1,061,487	$ 1,630,573	$ 1,627,253
Net sales to related party		4,801	78,705	349,166	651,230	873,560
Total net sales	1,069,883	764,687	403,619	1,410,653	2,281,803	2,500,813
Cost of sales	847,797	647,381	274,817	1,103,757	2,193,345	2,065,143
Gross profit	222,086	117,306	128,802	306,896	88,458	435,670
Other expenses:						
Research and development	106,644	65,414	35,068	136,449	431,808	436,785
Sales, general and administrative	108,461	122,478	68,105	216,298	253,878	239,317
In-process research and development					10,800	
Restructuring charges[7]	12,295		(2,772)	46,852	11,161	
Asset impairment charges[2]				12,538	1,652,622	
Operating income (loss) before reorganization items	(5,314)	(70,586)	28,401	(105,241)	(2,271,811)	(240,432)
Interest and other income, net	3,954	175	(2,904)	4,038	5,200	32,595
Interest expense[3]	(33,151)	(24,180)	(30,573)	(50,976)	(105,536)	(87,460)
Gain on deconsolidation of subsidiary[4]				30,100		
Loss before reorganization items and income taxes	(34,511)	(94,591)	(5,076)	(122,079)	(2,372,147)	(295,297)
Reorganization items			370,340	(391,383)		
Income (loss) before income taxes	(34,511)	(94,591)	365,264	(513,462)	(2,372,147)	(295,297)
(Provision) benefit for income taxes[5]	(21,037)	(2,101)	(1,640)	(597)	(62,865)	25,144
Net income (loss)	(55,548)	(96,692)	363,624	(514,059)	(2,435,012)	(270,153)
Less: Net income (loss) attributable to noncontrolling interest	338					
Net income (loss) per common share	$ (55,886)	$ (96,692)	$ 363,624	$ (514,059)	$ (2,435,012)	$ (270,153)
Basic	$ (0.91)	$ (1.60)	$ 2.24	$ (3.18)	$ (15.69)	$ (2.00)
Diluted[6]	$					