Spansion Inc.
Form S-1
October 10, 2006
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As filed with the Securities and Exchange Commission on October 10, 2006.

Registration No. 333 -

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SPANSION INC.

(Exact name of registrant as specified in its charter)

Delaware	**3674**	**20-3898239**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

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)

Bertrand F. Cambou

Chief Executive Officer

Spansion Inc.

915 DeGuigne Drive

P.O. Box 3453

Sunnyvale, CA 94088

(408) 962-2500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ _____

CALCULATION OF REGISTRATION FEE

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

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

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

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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

SUBJECT TO COMPLETION, DATED OCTOBER 10, 2006.

P R O S P E C T U S

35,000,000 Shares

Spansion Inc.

Class A Common Stock

$ per share

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

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

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

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Selling Stockholders (before expenses)	$	$

The underwriters expect to deliver the shares to purchasers on or about , 2006.

Citigroup **Credit Suisse**

JPMorgan **Morgan Stanley**

Banc of America Securities LLC **Lehman Brothers**

, 2006

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

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SUMMARY

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

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

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

Our Company

Overview

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

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

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

Our Industry

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

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

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

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

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

Our Strengths

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

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

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

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

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

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

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

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

Our Strategy

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

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

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

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

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

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

Company Information

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

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

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

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

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THE OFFERING

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

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

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

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

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

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

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

	As of Jul. 2, 2006 (in thousands)
Balance Sheet Data:	
Cash, cash equivalents and marketable securities	$ 364,393
Working capital	732,771

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

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

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

(2) Diluted net loss per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is antidilutive. The potential common shares resulting from stock options and restricted stock units that were antidilutive for fiscal 2005 totaled approximately 5.5 million shares. The potential common shares resulting from stock options, restricted stock units and shares issuable upon exchange of Spansion LLC s 2.25% Exchangeable Senior Subordinated Debentures that were antidilutive for the six months ended July 2, 2006 totaled approximately 16.8 million shares.

(3) Net loss for the six months ended July 2, 2006 included stock-based compensation expense of $14.2 million, which consisted of $10.5 million related to our stock options and restricted stock units, and $3.7 million related to AMD stock options granted to our employees.

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Quarterly Financial Data

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

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

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

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

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RISK FACTORS

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

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

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

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

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

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

Flash memory products are generally based either on NOR architecture or NAND architecture. To date, our Flash memory products have been based on NOR architecture which are typically produced at a higher cost-per-bit than NAND-based products. We do not currently manufacture products based on NAND architecture. We have developed our MirrorBit ORNAND architecture to address certain portions of the integrated category of the Flash memory market served by NAND-based products, but we cannot be certain that our MirrorBit ORNAND-based products will satisfactorily address those market needs.

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

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

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

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

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

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

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

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

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

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

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

Our substantial indebtedness may:

- require us to use a substantial portion of our cash flows from operations to make debt service payments;
- make it difficult for us to satisfy our financial obligations;
- limit our ability to use our cash flows or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

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

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

- enter into any mergers, consolidations or sales of property, or sales of inventory, equipment and assets except in the ordinary course of business;
- make any distributions except for distributions from Spansion LLC to us in specified circumstances;
- make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless we meet minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least $200 million, provided, however, that investments are limited to no more than a total of $50 million while the reduced minimum liquidity requirement is in place;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- substantial declines in average selling prices, particularly due to aggressive pricing by competitors and an imbalance in product supply and demand;
- a decline in demand for end-user products that incorporate our products; and
- less than expected demand in the distribution channels such as by mobile phone OEMs in China.

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

Also, during fiscal 2005 and the first quarter of fiscal 2006, average selling prices for our products decreased. If our net sales or average selling prices decline in the future, or if these or other similar conditions continue or occur again in the future, we would likely be materially adversely affected.

Manufacturing capacity constraints may adversely affect us.

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

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

We currently obtain foundry services from other companies, including Taiwan Semiconductor Manufacturing Company Limited, and following the sale of our JV1 and JV2 manufacturing facilities we will also obtain foundry services from Fujitsu. We also use independent contractors to perform some of the assembly, testing and packaging of our products. Third-party manufacturers are often under no obligation to provide us with any specified minimum quantity of product. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis at acceptable prices. We cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements. These manufacturers also make products for other companies, including certain of our competitors, and/or for themselves and could choose to prioritize capacity for themselves or other customers beyond any minimum guaranteed amounts, reduce deliveries to us or, in the absence of price guarantees, increase the prices they charge us on short notice, such that we may not be able to pass cost increases on to our customers. Because it could take several quarters or more to establish a relationship with a new manufacturing partner, we may be unable to secure an alternative supply for specific products in a short timeframe or at all at an acceptable cost to satisfy our production requirements. In addition, we may be required to incur additional development, manufacturing and other costs to establish alternative sources of supply. Other risks associated with our increased dependence on third-party manufacturers include: reduced control over delivery schedules, quality assurance, manufacturing

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yields and cost, lack of capacity in periods of excess demand, misappropriation of our intellectual property, reduced ability to manage inventory and parts and risks associated with operating in foreign countries. If we are unable to secure sufficient or reliable suppliers of wafers or obtain the necessary assembling, testing and packaging services, our ability to meet customer demand for our products may be adversely affected, which could have a material adverse effect on us.

Industry overcapacity could require us to lower our prices and have a material adverse effect on us.

Semiconductor companies with their own manufacturing facilities and specialist semiconductor foundries, which are subcontractors that manufacture semiconductors designed by others, have added significant capacity in recent years and are expected to continue to do so. In the past, capacity additions sometimes exceeded demand requirements leading to oversupply situations and downturns in the industry. Fluctuations in the growth rate of industry capacity relative to the growth rate in demand for Flash memory products contribute to cyclicality in the Flash memory market, which may in the future negatively impact our average selling prices and materially adversely affect us.

Industry overcapacity could cause us to under-utilize our manufacturing capacity and have a material adverse effect on us.

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

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

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

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

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

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

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

Our principal competitors in the Flash memory market are Intel Corporation, Samsung Electronics Co., Ltd., STMicroelectronics, Silicon Storage Technology, Inc., Macronix International Co., Ltd., Toshiba Corporation, Sharp Electronics Corp., Renesas Technology Corp., Micron Technology, Inc. and Hynix Semiconductor Inc. In the future, our principal competitors may also include IM Flash Technology, LLC, the joint venture between Intel and Micron Technology, Inc., SanDisk Corporation and msystems, Ltd. The Flash memory market is characterized by intense competition. The basis of competition is cost, selling price, performance, quality, customer relationships and ability to provide value-added solutions. In particular, in the past, our competitors have aggressively priced their products in order to increase market share, which resulted in decreased average selling prices for our products in the second half of fiscal 2004 and the first quarter of fiscal 2005 and adversely impacted our results of operations. Some of our competitors, including Intel, Samsung, STMicroelectronics, Toshiba, Sharp and Renesas, are more diversified than we are and may be able to sustain lower operating margins in their Flash memory business based on the profitability of their other, non-Flash memory businesses. In addition, recent capital investments by competitors have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment.

We expect competition in the market for Flash memory devices to intensify as existing manufacturers introduce new products, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share. Competition also may increase if NOR memory vendors merge, if NAND memory vendors acquire NOR businesses or other NAND businesses, or if our competitors otherwise consolidate their operations. Furthermore, we face increasing competition from NAND Flash memory vendors in some portions of the integrated Flash memory market.

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

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

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

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

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

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

Unless we maintain manufacturing efficiency, our future profitability could be materially adversely affected.

The Flash memory industry is characterized by rapid technological changes. For example, new manufacturing process technologies using smaller feature sizes and offering better performance characteristics are generally introduced every one to two years. The introduction of new manufacturing process technologies allows us to increase the functionality of our products while at the same time optimizing performance parameters, decreasing power consumption and/or increasing storage capacity. In addition, the reduction of feature sizes enables us to produce smaller chips offering the same functionality and thereby considerably reduces the costs per bit. In order to remain competitive, it is essential that we secure the capabilities to develop and qualify new manufacturing process technologies. For example, our Flash memory products must be manufactured at 90-nanometer and more advanced process technologies and on 300-millimeter wafers. If we are delayed in transitioning to these technologies and other future technologies, we could be materially adversely affected.

Manufacturing our products involves highly complex processes that require advanced equipment. Our manufacturing efficiency is an important factor in our profitability, and we cannot be sure that we will be able to maintain or increase our manufacturing efficiency to the same extent as our competitors. For example, we continuously modify our manufacturing processes in an effort to improve yields and product performance and decrease costs. We are currently transitioning to 90-nanometer process technology for the manufacture of some of our products. During periods when we are implementing new process technologies, manufacturing facilities may not be fully productive. We may fail to achieve acceptable yields or may experience product delivery delays as a result of, among other things, capacity constraints, delays in the development of new process technologies, changes in our process technologies, upgrades or expansion of existing facilities, impurities or other difficulties in the manufacturing process.

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

- develop advanced process technologies and advanced products that utilize those technologies;
- successfully transition to 90-nanometer and more advanced process technologies;
- continue to reduce test times;
- ramp product and process technology improvements rapidly and effectively to commercial volumes across our facilities; and
- achieve acceptable levels of manufacturing wafer output and yields, which may decrease as we implement more advanced technologies.

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

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

We are party to intellectual property litigation and may become party to other intellectual property claims or litigation that could cause us to incur substantial costs or pay substantial damages or prohibit us from selling our products.

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

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

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

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

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

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

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

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for another or one piece of equipment for another. Some raw materials we use in the manufacture of our products are available from a limited number of suppliers. We rely on purchasing commercial memory die from third-party suppliers to incorporate these die into multi-chip package, or MCP, products. The availability of these third-party purchased commercial die is subject to market availability, and the process technology roadmaps and manufacturing capacities of our vendors. For example, our production was constrained in the first half of fiscal 2004 because of difficulties in procuring adequate supply of pseudo static RAM, or pSRAM. In addition, some of our major suppliers, including Samsung, are also our competitors. Interruption of supply from a competitor that is a supplier or otherwise or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure these materials, we may have to reduce our manufacturing operations. Such a reduction has in the past had and could in the future have a material adverse effect on us.

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

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

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

One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of product replacements or product returns may be substantial, and our reputation with our

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

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

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

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

We may not be successful in establishing a brand identity.

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

Unfavorable currency exchange rate fluctuations could adversely affect us.

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

- some of the sales of our products to Fujitsu are denominated in Japanese yen;
- some fixed asset purchases are denominated in Japanese yen and European Union euros; and
- some of our manufacturing costs are denominated in Japanese yen, Chinese renminbi and other foreign currencies such as the Thai baht and Malaysian ringgit.

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

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

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

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

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

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

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

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

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

- expropriation;
- changes in political or economic conditions;
- changes in tax laws, trade protection measures and import or export licensing requirements;
- difficulties in protecting our intellectual property;
- difficulties in achieving headcount reductions;
- changes in foreign currency exchange rates;
- restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and

loss or modification of exemptions for taxes and tariffs.

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

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

Our operations and properties are subject to various U.S., Japanese, European and other foreign environmental laws and regulations, including those relating to materials used in our products and manufacturing processes, discharge of pollutants into the environment, the treatment, transport, storage and disposal of solid and hazardous wastes, and remediation of contamination. These laws and regulations require us to obtain permits for our operations, including the discharge of air pollutants and wastewater. From time to time, our facilities are subject to investigation by governmental regulators. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with any of them, a range of consequences could result, including fines, suspension of production, alteration of manufacturing processes, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out of exposure to hazardous materials used, stored, released, disposed of by us or located at or under our facilities or other environmental or natural resource damage.

Certain environmental laws, including the U.S. Comprehensive, Environmental Response, Compensation and Liability Act of 1980, or the Superfund Act, impose strict, joint and several liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and impose liability for damages to natural resources. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. Such persons can be responsible for cleanup costs even if they never owned or operated the contaminated facility. Two of our manufacturing sites are, or are located within, a federal Superfund site. Although we have not yet been, we could be named a potentially responsible party at these or other Superfund or other contaminated sites in the future. The costs associated with such sites could be material. In addition, contamination that has not yet been identified could exist at our other facilities.

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

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

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

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

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

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

- engage in or undertake any material activity unrelated to our current Flash memory business, for so long as AMD s aggregate ownership interest in us is at least 20 percent;
- amend the charter documents of any of our subsidiaries if such amendment would adversely and disproportionately affect AMD relative to Fujitsu, for so long as AMD s aggregate ownership interest in us is at least 15 percent;
- amend our certificate of incorporation or bylaws or effect any resolution to wind up Spansion Inc. or any other subsidiary, for so long as AMD s or Fujitsu s aggregate ownership interest in us is at least ten percent;
- shut down operations at JV3 before April 1, 2007, any facilities of the non-manufacturing organization of our wholly owned subsidiary Spansion Japan before April 1, 2007, operations at JV1 or JV2 before April 1, 2007 without giving AMD and Fujitsu six months advance notice or operations at our assembly and test facility in Kuala Lumpur, Malaysia before April 1, 2007 without giving AMD and Fujitsu three months advance notice, for so long as AMD or Fujitsu owns any shares of any class of our common stock; or
- reduce headcount at JV1, JV2 or JV3 by more than ten percent prior to April 1, 2007 or reduce headcount at any facilities of the non-manufacturing organization of Spansion Japan by more than 15 percent prior to April 1, 2007, for so long as AMD or Fujitsu owns any shares of any class of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In connection with our reorganization as Spansion LLC in June 2003, AMD and Fujitsu transferred approximately 400 patents and patent applications to us. In addition, AMD and Fujitsu contributed additional patents to us at the time of our initial public offering. However, both AMD and Fujitsu have retained the rights to use any patents contributed to us for an unlimited period of time. In addition, under their respective patent cross-license agreements with us, AMD and Fujitsu have also obtained licenses to our present and future patents with effective filing dates prior to the later of June 30, 2013, or such date on which they have transferred all of their shares in us, although the scope of patents under license can be impacted by a change in control of the parties or their semiconductor groups. These licenses continue until the last to expire of the patents under license expires and provide AMD and Fujitsu with licenses to all of our present and future patents in existence through such cross-license termination date. Furthermore, we entered into an Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement with AMD and Fujitsu in connection with our reorganization as Spansion Inc. in December 2005. Pursuant to that agreement, subject to our confidentiality obligations to third parties, and only for so long as AMD s and Fujitsu s ownership interests in us remain above specific minimum levels, we are obligated to identify any of our technology to each of AMD and Fujitsu, and to provide copies of and training with respect to that technology to them. In addition, pursuant to this agreement we have granted a non-exclusive, perpetual, irrevocable fully paid and royalty-free license of our rights, other than patent and trademark rights, in that technology to each of AMD and Fujitsu. AMD may grant licenses under our patents, provided that these licenses are of no broader scope than, and are subject to the same terms and conditions that apply to, any license of AMD s patents granted in connection with such license, and the recipient of such license grants to us a license of similar scope under its patents.

Under our non-competition agreement, both AMD and Fujitsu have agreed that they will not directly or indirectly engage in a business, and have agreed to divest any acquired business, that manufactures or supplies standalone semiconductor devices (including single chip, multiple chip or system devices) containing certain Flash memory, which is the business in which we primarily compete. With respect to each of AMD and Fujitsu, this non-competition restriction will last until the earlier of (i) two years from the date such stockholder s ownership in us falls to or below five percent, or (ii) the dissolution of our company. After that time, should they ever decide to re-enter the Flash memory business, AMD or Fujitsu could use our present and future patents and technologies licensed by us to AMD and Fujitsu under the cross licenses and our Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement to compete against us. If either AMD or Fujitsu were to compete with us, we could be materially adversely affected.

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

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

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

Being a public company increases our expenses and administrative burden.

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

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

Risks Related to this Offering

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

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

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

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

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

The trading market for our securities depends, in part, on the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the Flash memory market in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our securities may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our securities or trading volume to decline.

We currently do not intend to pay dividends on our common stock and, consequently, our stockholders only opportunity to achieve a return on their investment is through appreciation in the price of our common stock.

We currently do not plan to pay dividends on shares of our common stock in the foreseeable future and are currently prohibited from doing so in specific circumstances under agreements governing our borrowing arrangements. The terms of our senior secured revolving credit facility limit our ability to pay cash dividends on any shares of our common stock. Furthermore, if we are in default under this credit facility, our ability to pay cash dividends will be limited in the absence of a waiver of that default or an amendment to that facility. Similar prohibitions are applicable under the indenture governing the outstanding notes issued by Spansion LLC. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries, including the restrictions under the indenture governing the notes. Our common stock will rank junior as to payment of dividends to any series of preferred stock that we may issue in the future. Generally, unless full dividends including any cumulative dividends still owing on all outstanding shares of any preferred stock have been paid, no dividends will be declared or paid on our common stock. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates.

Any future issuance of our preferred stock could adversely affect holders of our common stock.

Our board of directors is authorized to issue shares of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of shares of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up of our affairs, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

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

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

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FORWARD-LOOKING STATEMENTS

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

- our ability to successfully introduce our next generation products to market in a timely manner;
- our ability to effectively and timely achieve volume production of our next generation products;
- our ability to increase market acceptance of our products based on our MirrorBit technology;
- our ability to accelerate our product development cycle;
- our ability to penetrate further the integrated category of the Flash memory market with our high density products and expand the number of customers in emerging markets;
- our ability to successfully develop and transition to the latest technologies;
- our ability to finance, construct and equip SP1 and have 300-millimeter Flash memory wafer manufacturing capacity in fiscal 2008;
- our ability to implement successfully our cost reduction efforts;
- our ability to control our operating expenses, particularly our marketing, general and administrative costs;
- our ability to design and implement new enterprise-wide information systems in a timely and cost-effective manner;
- our ability to develop our MirrorBit ORNAND and MirrorBit Quad architectures, introduce new products based on these architectures, and to achieve customer acceptance of these products, particularly among mobile phone OEMs;
- our ability to develop systems-level solutions that provide value to customers of our products;
- our ability to enter new markets not traditionally served by Flash memory by, for example, integrating logic functions within high density arrays of Flash memory;

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

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

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

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USE OF PROCEEDS

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

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

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PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY

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

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

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

We have never paid any cash dividends on our common stock and have no present plans to do so. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. In addition, our common stock will rank junior as to payment of dividends to any series of preferred stock that we may issue in the future. The terms of our senior secured revolving credit facility limit our ability to pay cash dividends on any shares of our common stock. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries, including the restrictions under our senior secured revolving credit facility and indentures governing our outstanding debt. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as our earnings levels, capital requirements, overall financial condition and any other factors deemed relevant by our board.

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CAPITALIZATION

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

You should read this table together with the information under Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Description of Capital Stock, and with our consolidated financial statements and related notes included elsewhere in this prospectus.

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

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

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

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

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

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

(1) Net loss for the six months ended July 2, 2006 included stock-based compensation expense of $14.2 million, which consisted of $10.5 million related to our stock options and restricted stock units, and $3.7 million related to AMD stock options granted to our employees.

(2) As discussed more fully in Management s Discussion and Analysis of Financial Condition and Results of Operations, we began producing and selling finished Flash memory devices effective June 30, 2003, which significantly affected our operating results as compared to earlier periods when we solely produced and sold Flash memory wafers.

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

(4) Diluted net income (loss) per share is computed using the weighted-average number of common shares and excludes potential common shares, as their effect is antidilutive. The potential common shares resulting from stock options and restricted stock units that were antidilutive for fiscal 2005 totaled approximately 5.5 million shares. The potential common shares resulting from stock options, restricted stock units and shares issuable upon exchange of Spansion LLC s 2.25% Exchangeable Senior Subordinated Debentures that were antidilutive for the six months ended July 2, 2006 totaled approximately 16.8 million shares.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the audited financial statements and related notes included elsewhere in this prospectus. The following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors or elsewhere in this prospectus. See the disclosure regarding Forward-Looking Statements elsewhere in this prospectus.

Overview

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

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

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

History

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

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

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

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

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

Flash Memory Market

Flash memory is one of the largest semiconductor markets. The Flash memory market is characterized by intense competition. The basis of competition is cost, selling price, performance, quality, customer relationships and ability to provide value-added solutions. To compete successfully, a supplier of Flash memory must continuously invest in manufacturing capacity and process technologies while keeping unit manufacturing costs as low as possible. Economies of scale dictate that fabs must be large to achieve competitive manufacturing costs.

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

Basis of Presentation

Fiscal 2003, 2004 and 2005

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

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

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

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Financial Operations Overview

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

Revenue Recognition

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

Prior to the second quarter of fiscal 2006, AMD sold our products to its distributors under terms allowing these distributors certain rights of return, stock rotation and price protection privileges on unsold merchandise held by them. We extended the same rights on these Flash memory product sales to AMD. Accordingly, we deferred revenue and related product costs from such sales to AMD as deferred income on shipments to related party/member, until the merchandise was resold by AMD s distributors. Since the second quarter of fiscal 2006, we have deferred revenue and related product costs from such sales as deferred income until the merchandise is resold by our distributors. We also sell some of our products to some distributors under sales arrangement whose terms do not allow for rights of returns or price protection on unsold products held by them. In these instances, we recognize revenue when we ship the product directly to the distributors.

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

Net Sales to AMD and Fujitsu

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

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

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

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Cost of Sales

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

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

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

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

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

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

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

Research and Development

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

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Marketing, General and Administrative

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

Operating Income (Loss)

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

Interest and Other Income (Expense), Net

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

Interest Expense

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

Provision for Income Taxes

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

Results of Operations

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

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

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

Net Sales

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

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Gross Margin, Expenses, Interest and Other Income (Expense), Net, Interest Expense and Benefit for Income Taxes

The following is a summary of gross margin; expenses; interest and other income (expense), net; interest expense and benefit for income taxes for the six months ended June 26, 2005 and July 2, 2006:

	Jun. 26, 2005	Jul. 2, 2006	Variance in Dollar	Variance in Percent
	(in thousands, except for percentage)			
Cost of sales	$ 867,163	$ 976,285	$ 109,122	13%
Gross margin	3%	20%		
Research and development	$ 145,976	$ 176,358	$ 30,382	21%
Marketing, general and administrative	81,525	129,724	48,199	59%
Operating loss	(199,108)	(65,086)	134,022	-67%
Interest and other income (expense), net	2,064	(147)	(2,211)	-107%
Interest expense	(22,211)	(37,185)	(14,974)	67%
Benefit for income taxes	24,389	1,782	22,607	-93%

The increase in gross margin was primarily due to an increase in the sales of our higher margin MirrorBit products and improved factory utilization. MirrorBit sales represented approximately 39 percent of sales for the six months ended July 2, 2006 as compared to approximately 17 percent of sales for the six months ended June 26, 2005. The increase in gross margin is partially offset by the stock-based compensation expense of $7.0 million for the six months ended July 2, 2006, which was included in the cost of sales. We did not have a comparable charge for the corresponding period of fiscal 2005.

The increase in research and development expense was primarily due to an increase in 300-millimeter development costs, which represented approximately 36 percent of the increase for the six months ended July 2, 2006. Also, we incurred higher labor costs primarily related to increased headcount during the period and the impact of an extra work week for the six months ended July 2, 2006. The increase in labor costs accounted for approximately 25 percent of the increase for the six months ended July 2, 2006. Research and development expense included $3.6 million of stock-based compensation expense for the six months ended July 2, 2006. We did not have a comparable charge for the corresponding period of fiscal 2005.

The increase in marketing, general and administrative expense was primarily due to the additional information technology, legal and consulting fees incurred as a new public entity. These additional costs accounted for approximately 40 percent of the increase for the six months ended July 2, 2006. Additionally, the increase in headcount, partially offset by the reduction in service charges from AMD, accounted for approximately 38 percent of the increase for the six months ended July 2, 2006. Marketing, general and administrative expense included $3.6 million of stock-based compensation expense for the six months ended July 2, 2006. We did not have a comparable charge for the corresponding period of fiscal 2005.

The increase in interest and other expense, net was primarily due to a $17.3 million loss on early extinguishment of debt as a result of the repurchase and cancellation of Spansion LLC s 12.75% Senior Subordinated Notes, partially offset by approximately $6.9 million of realized gain from the sale of marketable securities in the second quarter of fiscal 2006. The increase in other expense, net is also partially offset by the increase in income generated from the investment of a portion of the proceeds from our initial public offering in cash equivalents and marketable securities during the six months ended July 2, 2006.

The increase in interest expense was primarily due to the additional interest expense on senior notes and senior subordinated notes issued at the end of the fourth quarter of fiscal 2005.

We recorded an income tax benefit of $1.8 million in the six months ended July 2, 2006 as compared to $24.4 million of tax benefits in the six months ended June 26, 2005. The income tax benefit recorded in the six months ended July 2, 2006 was primarily due to a benefit from resolution of a tax examination in a foreign

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

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

Other Items

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

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

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

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

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

Year to Year Comparisons

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

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

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

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Net Sales Comparison for Fiscal 2005 and Fiscal 2004

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

Net Sales Comparison for Fiscal 2004 and Fiscal 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest and other income net, of approximately $3.2 million in fiscal 2004 increased 140 percent from $1.3 million in fiscal 2003. The increase was primarily due to fiscal 2004 consisting of twelve months as compared to fiscal 2003 consisting of nine months and higher average cash balances in fiscal 2004.

Interest expense of approximately $45 million in fiscal 2005 increased 12 percent from approximately $40 million in fiscal 2004. The increase was primarily due to interest charges on new loans and capital lease obligations entered in fiscal 2005. We expect our interest expense to increase in fiscal 2006 from fiscal 2005 primarily as a result of the change in interest rates on our debt portfolio.

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Interest expense of $40 million in fiscal 2004 increased 94 percent compared to $21 million in fiscal 2003. The increase was due primarily to the fact that fiscal 2004 was comprised of 12 months while fiscal 2003 was comprised of nine months and during the first three months of fiscal 2003, prior to our reorganization in June 2003, we had fewer borrowing arrangements.

We recorded income tax benefits of approximately $23 million in fiscal 2005, approximately $14 million in fiscal 2004 and approximately $4 million in fiscal 2003. The income tax benefits were primarily the result of pre-tax operating losses in foreign jurisdictions.

The benefit for income taxes recorded for fiscal 2005 differs from the benefit for income taxes that would be derived by applying a U.S. statutory 35 percent rate to the loss before income taxes primarily due to our inability to benefit U.S. operating losses due to lack of a history of earnings, and losses that were incurred and tax effected in foreign jurisdictions with different tax rates.

The benefit for income taxes recorded for fiscal 2004 and fiscal 2003 differs from the benefit for income taxes that would be derived by applying a U.S. statutory 35 percent rate to the loss before income taxes primarily due to the fact that AMD and Fujitsu were responsible for U.S. taxes in these years, and losses were incurred and tax effected in foreign jurisdictions with different tax rates.

We expect the effective income tax rate in fiscal 2006 will be less than the 35 percent statutory rate.

Other Items

For the periods presented, we sold our products to AMD and Fujitsu, who then sold them to customers worldwide. The following table summarizes net sales by geographic areas for the periods presented:

	Nine Months Ended Dec. 28, 2003	Year ended Dec. 26, 2004	Year ended Dec. 25, 2005
		(in thousands)	
Geographical sales to AMD and Fujitsu:			
United States (net sales to AMD)	$ 650,097	$ 1,211,033	$ 1,114,150
Japan (net sales to Fujitsu)	543,115	1,051,194	888,655
Total	$ 1,193,212	$ 2,262,227	$ 2,002,805

Net sales to Fujitsu, which were primarily denominated in Japanese yen, as a percentage of net sales were approximately 44 percent in fiscal 2005, 46 percent in fiscal 2004 and approximately 46 percent for fiscal 2003. The impact on our operating results from changes in foreign currency exchange rates has not been material, principally because our expenses denominated in Japanese yen are generally comparable to our sales denominated in Japanese yen.

Financial Condition

Our cash and cash equivalents at July 2, 2006, totaled $355 million and consisted of cash, time deposits, money market funds and commercial paper. We are subject to restrictions on our distribution of cash due to provisions in certain third-party debt obligations described below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $73 million in the six months ended July 2, 2006. Non-cash charges included in the net loss consisted primarily of $272 million of depreciation and amortization, loss on debt extinguishment of $17 million and compensation cost recognized under stock plans of $14 million. The net changes in operating assets in the six months ended July 2, 2006 were primarily attributable to a decrease in accounts payable and accrued liabilities of $37 million, an increase in accounts receivable of $24 million and an increase in inventories of $26 million compared to December 25, 2005.

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Net cash provided by operating activities was $84 million in the six months ended June 26, 2005. Non-cash charges included in the net loss consisted primarily of $281 million of depreciation and amortization. The net changes in operating assets in the six months ended June 26, 2005 were primarily attributable to a decrease in accounts receivable of $25 million and a decrease in net inventory of $10 million compared to December 26, 2004.

Net cash provided by operating activities was $307 million in fiscal 2005. Non-cash charges included in the net loss, consisting primarily of $542 million of depreciation and amortization, contributed to the positive cash flow from operations. The net changes in operating assets in fiscal 2005 were primarily attributable to an increase in accounts payable and accrued liabilities of $178 million due to an increase in operating activities in fiscal 2005, partially offset by an increase in receivables of $40 million due to a 22 percent increase in net sales in the last quarter of fiscal 2005 as compared to the net sales in the last quarter of fiscal 2004.

Net cash provided by operating activities was $463 million in fiscal 2004. Non-cash charges included in the net loss, consisting primarily of $534 million of depreciation and amortization, contributed to the positive cash flow from operations. The net changes in operating assets in fiscal 2004 as compared to fiscal 2003 included an increase in net inventory of $18 million. The increased inventory primarily represented products based on 110-nanometer MirrorBit and floating gate technology. Inventory increased in anticipation of increased demand for our Flash memory products based on 110-nanometer technology.

Net cash provided by operating activities in fiscal 2003 was $134 million. Net income after adjustments for non-cash charges, consisting primarily of $316 million of depreciation and amortization, contributed to the positive cash flow from operations. Changes in operating assets and liabilities in fiscal 2003 as compared to fiscal 2002 were primarily attributable to an increase in accounts receivable due to a 24 percent increase in net sales.

Net Cash Used in Investing Activities

Net cash used in investing activities was $80 million in the six months ended July 2, 2006, primarily as a result of $291 million used to purchase property, plant and equipment and a cash outflow of $64 million for the purchase of marketable securities, offset in part by a cash inflow of $273 million from the maturity and sale of marketable securities.

Net cash used in investing activities was $120 million in the six months ended June 26, 2005, primarily as a result of $139 million used to purchase property, plant and equipment, and a cash outflow of $10 million from the purchases of marketable securities, offset in part by a cash inflow of $29 million from maturity of marketable securities.

Net cash used in investing activities was $553 million in fiscal 2005, primarily as a result of $425 million used to purchase property, plant and equipment and a cash outflow of $212 million for the purchase of available-for-sale securities, offset in part by a cash inflow of $78 million from the maturity of available-for-sale securities and $6 million in proceeds from sale of property, plant and equipment.

Net cash used in investing activities was $552 million in fiscal 2004, primarily as a result of $530 million used to purchase property, plant and equipment, and a net cash outflow of $58 million from the maturity and purchases of available-for-sale securities, offset by $36 million in proceeds from sale of property, plant and equipment.

Net cash used in investing activities was $187 million in fiscal 2003, primarily as a result of $215 million used to purchase property, plant and equipment, offset in part by $31 million in proceeds from sale of property, plant and equipment.

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Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was $162 million in the six months ended July 2, 2006. This amount included $477 million in payments on debt and capital lease obligations, including $197 million in payments to AMD, of which $175 million was used to repurchase the 12.75% Senior Subordinated Notes, and $6 million in payments to AMD for stock-based compensation, offset in part by a cash inflow of $320 million of proceeds from borrowings, net of issuance costs, of which approximately $204 million was from the issuance of 2.25% Exchangeable Senior Subordinated Debentures.

Net cash provided by financing activities was $28 million in the six months ended June 26, 2005. This amount included $78 million of proceeds received from equipment sale-leaseback transactions and $51 million of proceeds from borrowings, net of issuance costs, offset by $104 million in payments on debt and capital lease obligations, including $5 million in payments to AMD.

Net cash provided by financing activities was $612 million in fiscal 2005. This amount included $144 million of proceeds received from equipment sale-leaseback transactions, $569 million of proceeds from bank borrowings and debt offerings, and $526 million of proceeds from the issuance of common stock, net of offering costs. These amounts were partially offset by $630 million in payments on debt and capital lease obligations, including approximately $266 million in payments to AMD and Fujitsu.

Net cash used in financing activities was $126 million in fiscal 2004. This amount included $44 million of proceeds received from equipment sale-leaseback transactions and $50 million of proceeds from borrowings, net of issuance costs. These amounts were more than offset by $219 million in payments on debt and capital lease obligations, including approximately $37 million in payments to members, all of which was paid to AMD.

Net cash provided by financing activities was $373 million in fiscal 2003 primarily due to $307 million in cash contributions from AMD and Fujitsu upon our reorganization, $238 million of proceeds from sale-leaseback transactions and $325 million of proceeds from borrowings, net of issuance costs. These amounts were partially offset by $497 million in payments on debt and capital lease obligations, including approximately $109 million in payments to members, all of which was paid to AMD.

Contractual Obligations

The following table summarizes our principal contractual obligations at July 2, 2006. The table does not include estimated interest payments due on our various borrowings. The table is supplemented by the discussion following the table.

	Total	2006	2007	2008	2009	2010	2011 and Beyond
				(in thousands)			
Promissory Note	$ 1,500	$ 1,000	$ 500	$	$	$	$
Spansion China Bank Enterprise Cooperation Revolver	33,660	10,153	20,316	3,191			
Senior Notes	250,000						250,000
Spansion Japan 2006 Merged Revolving Credit Facility	8,739	8,739					
Spansion Penang Loan	4,186	785	1,570	1,570	261		
Exchangeable Senior Subordinated Debentures	207,000						207,000
Capital lease obligations	137,260	40,462	56,544	25,402	14,852		
Operating leases	27,397	9,195	12,199	5,203	348	226	226
Unconditional purchase commitments	96,805	36,207	31,578	27,271	1,749		
Total contractual obligations	$ 766,547	$ 106,341	$ 122,707	$ 62,637	$ 17,210	$ 226	$ 457,226

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Promissory Note

On February 27, 2006, we purchased a software license from AMD and, as payment, we issued a $3.0 million promissory note to AMD. As of July 2, 2006, we have repaid $1.5 million of the principal of the promissory note. The remaining balance of $1.5 million is due in three quarterly principal installments of $500,000.

Spansion China Bank Enterprise Cooperation Revolver

On December 1, 2005, Spansion China entered into a bank enterprise cooperation agreement with a local financial institution, effective as of October 24, 2005. Under the terms of the agreement, Spansion China may draw under two credit facilities, equal to U.S. $26 million and RMB 176 million (approximately $22 million as of October 24, 2005), respectively. Borrowings must be used for working capital purposes. The two credit facilities terminate on June 22, 2008. The interest rate for each loan denominated in RMB is a floating rate per annum and is initially set at the time each revolving loan agreement is entered into. The interest rate may thereafter be adjusted every 12 months at a rate equal to the benchmark rate published by the People s Bank of China for RMB loans of the same term less a ten percent discount. The RMB denominated loan currently bears interest at 5.18 percent. The interest rate for each loan denominated in U.S. dollars is a floating rate per annum and is initially set at the time each revolving loan agreement is entered into, ranging from 5.39 percent to 5.67 percent for the outstanding balance as of December 25, 2005. The interest rate is thereafter adjusted every six months at a rate equal to the six-month LIBOR plus one percent. As of December 25, 2005, the amount outstanding under the U.S. dollar denominated loan agreement was approximately $8.3 million, and the total amount outstanding under the RMB denominated loan agreement was approximately RMB 84 million (approximately $10.4 million). The dollar amounts for these RMB loans are calculated using an exchange rate as of December 25, 2005. The U.S. dollar denominated revolving loan agreements are unsecured. Under the terms of the agreements, Spansion China is prohibited from encumbering any of its assets.

Senior Notes

On December 21, 2005, we completed an offering of $250 million aggregate principal amount of 11.25% Senior Notes due 2016. The senior notes were issued at 90.302% of face value, resulting in net proceeds to us of approximately $218.1 million after deducting the initial purchasers discount and estimated offering expenses. The senior notes are general unsecured senior obligations of Spansion LLC and will rank equal in right of payment with any of our existing and future senior debt. Interest is payable on January 15 and July 15 of each year beginning July 15, 2006 until the maturity date of January 15, 2016.

Certain events may result in the accelerated maturity of the senior notes, including a default in any interest, principal or premium amount payment; a merger, consolidation or sale of all or substantially all of the Spansion LLC s property; a breach of covenants in the senior notes or the respective indenture; a default in certain debts; or if a court enters certain orders or decrees under any bankruptcy law. Upon occurrence of one of these events, the principal of and accrued interest on all of the senior notes, as the case may be, may be immediately due and payable. If we, our wholly owned subsidiary, Spansion Technology Inc., or STI, or Spansion LLC incurs any judgment for the payment of money in an aggregate amount in excess of $50 million or takes certain voluntary actions in connection to insolvency, all amounts on the senior notes shall be due and payable.

Spansion Japan 2006 Merged Revolving Credit Facility

On March 31, 2006, Spansion Japan entered into an Amended and Restated Uncommitted Revolving Credit Facility Agreement with a Japanese financial institution, or the Spansion Japan 2006 Merged Revolving Credit Facility, which provides for a revolving credit facility in the aggregate principal amount of up to 8.0 billion Japanese yen (or up to approximately $69.9 million as of July 2, 2006). The Spansion Japan 2006 Merged Revolving Credit Facility replaced the Spansion Japan Revolving Credit Facility and Spansion Japan Uncommitted Revolving Credit Facility as a result of the merger of the two respective financial institutions that had previously provided those separate facilities.

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Pursuant to the terms of the Spansion Japan 2006 Merged Revolving Credit Facility, Spansion Japan may borrow amounts in increments of 50 million Japanese yen (approximately $436,939 as of July 2, 2006), which may remain outstanding in monthly increments of up to three months. Amounts borrowed bear interest at a rate equal to TIBOR, at the time of the drawdown, plus a margin of 0.5 percent per annum.

Spansion Japan is not permitted, among other things, to create any security interests or liens on any of its assets, subject to certain exceptions; subordinate the payment of its debt under this credit facility to the payment of any unsecured debts; or enter into any merger, company partition, exchange or transfer of shares, assign all or a part of its business or assets to a third party or otherwise transfer all or a material part of its assets to a third party, subject to certain exceptions.

All of Spansion Japan s debts under the Spansion Japan 2006 Merged Revolving Credit Facility will automatically become due and payable without any notice or demand if proceedings of bankruptcy, insolvency, dissolution or similar matters are initiated by or against Spansion Japan. All of the debts under this credit facility will become due and payable upon notice to Spansion Japan by the lenders in an event of default, which includes, among other things, the following: a default in performance of payment; any of Spansion Japan s debts or guarantee obligations (other than those under Spansion Japan 2006 Merged Revolving Credit Facility) in an aggregate amount exceeding 10 million Japanese yen (approximately $87,388 as of July 2, 2006) become due and payable; or the suspension of the business of Spansion Japan by Spansion Japan or by a government authority, in each case if not cured within applicable time periods set forth in the Spansion Japan 2006 Merged Revolving Credit Facility.

The Spansion Japan 2006 Merged Revolving Credit Facility may be terminated in the event of default or by either party upon written notice in accordance with its terms.

On May 12, 2006, Spansion Japan borrowed 1.0 billion Japanese yen (approximately $8.7 million as of July 2, 2006) under this facility. This amount bears interest at a rate of 0.65 percent per annum and must be repaid no later than August 14, 2006. This amount is reflected as Notes payable on the condensed consolidated balance sheet at July 2, 2006.

Spansion Penang Loan

On January 29, 2004, our wholly owned subsidiary, Spansion Penang Sdn. Bhd., or Spansion Penang, entered into a financial arrangement with AMD Export Sdn. Bhd., or AMD Export, a wholly owned subsidiary of AMD located in Malaysia. Under the terms of the arrangement, Spansion Penang borrowed approximately 29 million Malaysian ringgit (approximately $8 million based on the exchange rate as of January 29, 2004) from AMD Export to fund the purchase of manufacturing equipment. The loan bears a fixed annual interest rate of 5.9 percent and is payable in equal, consecutive, monthly principal and interest installments through February 2009. The total amount outstanding as of July 2, 2006 was approximately 15 million Malaysian ringgit (approximately $4 million based on the exchange rate as of July 2, 2006). A third-party financial institution has a lien on the purchased equipment. In January 2006, this loan was transferred from AMD to a third-party financial institution.

Exchangeable Senior Subordinated Debentures

On June 12, 2006, Spansion LLC issued $180 million of aggregate principal amount of 2.25% Exchangeable Senior Subordinated Debentures due 2016. On June 26, 2006, Spansion LLC issued an additional $27 million of aggregate principal amount of 2.25% Exchangeable Senior Subordinated Debentures due 2016 upon the initial purchasers exercise of their over-allotment option. The debentures are general unsecured senior subordinate obligations and rank subordinated in right of payment to all of our senior indebtedness, including its 11.25% Senior Notes due 2016, equal in right of payment to all of Spansion LLC s senior subordinated indebtedness, senior in right of payment to all of Spansion LLC s subordinated indebtedness and structurally senior to our indebtedness. The debentures bear interest at 2.25 percent per annum. Interest is payable on June 15 and December 15 of each year beginning December 15, 2006, until the maturity date of June 15, 2016.

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The debentures are not exchangeable prior to January 6, 2007. On or after January 6, 2007, the debentures will be exchangeable for shares of our Class A common stock, at an initial exchange rate of 56.7621 shares per $1,000 principal amount of debentures, which is equivalent to an exchange price of approximately $17.62 per share. The debentures provide that under certain circumstances Spansion LLC may elect that the debentures be exchanged for cash (up to the principal amount of the debentures) and, with respect to any excess exchange value, into cash, shares of our Class A common stock or a combination of cash and shares of our Class A common stock. At the initial exchange rate, the debentures will be exchangeable for our Class A common stock at an exchange price of approximately $17.62 per share. The exchange rate will be adjusted for certain antidilution events and will be increased in the case of corporate events that constitute a fundamental change in us under certain circumstances. The holders of the debentures will have the ability to require Spansion LLC to repurchase the debentures in whole or in part for cash in the event of a fundamental change in us. In such case, the repurchase price would be 100 percent of the principal amount of the debentures plus any accrued and unpaid interest.

Certain customary events are considered events of default which may result in the acceleration of the maturity of the debentures, including a default by Spansion LLC, us or STI under any indebtedness that results in acceleration of such indebtedness, or the failure to pay any such indebtedness at maturity, in an aggregate principal amount in excess of $50 million and any judgment or judgments for the payment of money in an aggregate amount in excess of $50 million shall be rendered against Spansion LLC, us or STI and shall not be waived, satisfied or discharged for any period of 60 consecutive days during which a stay of enforcement shall not be in effect.

Senior Secured Revolving Credit Facility

On September 19, 2005, Spansion LLC entered into a new senior secured revolving credit facility with a certain domestic financial institution, as agent, and the lenders party thereto, in the aggregate amount of up to $175 million. We joined as a party to the revolving facility credit agreement on April 21, 2006 and are required to comply with the representations, warranties and covenants in the revolving credit facility. We also executed a guaranty in favor of the agent to guarantee Spansion LLC s obligations under the revolving credit facility. The actual amounts available under the revolving credit facility are based on 85 percent of accounts receivable meeting eligibility requirements plus the lesser of 75 percent of the appraised fair market value of our Fab 25 facility in Austin, Texas, and the maximum real estate loan amount (as defined in the agreement) minus reserves that limit the availability of credit under the agreement from time to time established by the agent in its reasonable credit judgment. Amounts borrowed under the revolving credit facility bear interest at a rate equal to the base rate, which is the prime rate publicly announced by the agent, or the London Interbank Offered Rate, or LIBOR, plus in each case a margin ranging from -0.25 percent to 0.50 percent for base rate loans and 1.25 percent to 2.0 percent for LIBOR loans. Borrowings under this revolving credit facility must be used to refinance existing indebtedness and for working capital purposes. The revolving credit facility will terminate and all outstanding borrowings must be repaid no later than September 19, 2010. As of July 2, 2006, no amounts were outstanding under this facility. The amount available under this facility was approximately $166 million as of July 2, 2006.

Pursuant to the terms of the revolving facility credit agreement, and subject to certain exceptions, we and our subsidiaries are not permitted, among other things, to:

- enter into any mergers, consolidations or sales of our property (except for our reorganization that occurred in connection with our prior initial public offering) or sales of inventory, equipment and assets except in the ordinary course of business;

- make any distributions except for future distributions to Spansion Inc. in certain circumstances;

- make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless Spansion LLC meets minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least $200 million, provided,

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however, that investments are limited to no more than a total of $50 million while the reduced minimum liquidity requirement is in place;

incur additional debt, enter into capital leases, debt incurred by our foreign subsidiaries, and in limited cases, loans to subsidiaries;

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

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

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

If the availability under the revolving credit facility is less than or equal to $35 million during a fiscal quarter, Spansion LLC will also be required to maintain EBITDA (as defined in the agreement), on a consolidated basis, on the last day of each of the fiscal quarter as follows:

Period Ending	EBITDA (in thousands)
10/01/2006	$ 450,000
12/31/2006	$ 500,000

Beginning in 2007, the required EBITDA level will be determined by the agent based on Spansion LLC s then current projections of our financial condition, results of operations and cash flows.

As security for amounts outstanding under the revolving credit facility, Spansion LLC pledged the stock of our domestic subsidiaries, the Fab 25 facility (other than production equipment contained therein) and all of our personal property. Spansion LLC s equipment, inventory and intellectual property, as well as all assets and stock pledges of Spansion LLC s foreign subsidiaries were excluded from the collateral securing the revolving credit facility.

Amounts outstanding under the revolving credit facility may become due and payable on demand upon the occurrence of certain customary events of default, including any default on third party debt of outstanding principal amount exceeding $25 million, judgments or awards entered against us of $10 million or more that remain for 30 days after the entry thereof, a change of control by which a person or group would acquire more than 30 percent of the combined voting power of all then-issued and outstanding voting interests in us and foreclosure on the Fab 25 facility.

Spansion Japan 2006 Revolving Credit Facility

On December 26, 2005, Spansion Japan entered into an uncommitted revolving credit facility agreement with a certain Japanese financial institution in the aggregate principal amount of up to 3.0 billion Japanese yen (or up to approximately $25.8 million as of December 26, 2005). Because the amount subject to the credit facility is denominated in yen, the dollar amount stated above is subject to change based on applicable exchange rates. As of July 2, 2006, no amounts were outstanding under this facility.

Capital Lease Obligations

As of July 2, 2006, we had aggregate outstanding capital lease obligations of approximately $137 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2009. Leased assets consist principally of machinery and equipment.

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The gross amount of assets recorded under capital leases totaled approximately $460 million as of July 2, 2006 and accumulated amortization of these leased assets was approximately $288 million as of July 2, 2006. These leased assets are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. AMD has guaranteed approximately $10 million of our aggregate outstanding capital lease obligations as of July 2, 2006. Fujitsu has guaranteed approximately $4 million of our aggregate outstanding capital lease obligations as of July 2, 2006.

In the fiscal quarter ended December 25, 2005, we entered into sale-leaseback transactions with a third-party financial institution for certain semiconductor manufacturing equipment in the amount of approximately $104 million. These transactions did not result in significant gains or losses. As the terms on these leaseback transactions are more than 75 percent of the remaining estimated economic life of the equipment, we accounted for the leaseback transactions as capital leases. As of July 2, 2006, the outstanding lease obligations under this agreement were approximately $73 million.

In January 2005, Spansion Japan entered into a sale-leaseback transaction for certain semiconductor manufacturing equipment in the amount of approximately 8.2 billion yen (approximately $78 million based on the exchange rates as of January 7, 2005). This transaction did not result in a significant gain or loss. At the expiration of the lease term, Spansion Japan has the option to purchase the equipment at an agreed upon price which we believe to be a bargain purchase option. In addition, Spansion Japan can renew the lease if the lessor and Spansion Japan both agree upon the renewal terms not later than six months prior to the expiration of the lease term. We accounted for this lease as a capital lease as it met the bargain purchase option criterion under SFAS 13, Accounting for Leases.

During the term of the lease, Spansion Japan is required to comply with the following financial covenants determined using accounting principles generally accepted in Japan:

- ensure that assets exceed liabilities as of the end of each fiscal year and each six-month (mid-year) period;
- maintain net adjusted tangible assets (as defined in the agreement) at an amount not less than 60 billion yen (approximately $516 million and $572 million as of December 25, 2005 and January 7, 2005) as of the last day of each fiscal quarter;
- maintain total net income plus depreciation of 21,125 million yen as of the last day of fiscal year 2005 and 19,550 million yen as of fiscal 2006 (approximately $182 million and $168 million as of December 25, 2005 and approximately $201 million and $186 million, respectively, as of January 7, 2005); and
- ensure that as of the last day of each of fiscal 2005 and fiscal 2006, the ratio of (a) net income plus depreciation to (b) the sum of interest expenses plus the amount of agreed repayments plus maintenance capital expenditures for its facilities located in Aizu-Wakamatsu, Japan, for such period is not less than 120 percent.

Because the amounts under the agreements referenced above are denominated in yen, the dollar amounts stated above are subject to change based on applicable exchange rates. We used the exchange rates as of July 2, 2006 to translate the amounts denominated in yen into U.S. dollars. As of July 2, 2006, the outstanding lease obligations under the agreements were approximately $36 million.

On June 30, 2004, Spansion Japan entered into sale-leaseback transactions with a third-party financial institution for certain equipment in the amount of 748 million yen (approximately $7 million on June 30, 2004) of cash proceeds. Upon execution of the agreement, the equipment had a net book value of approximately $7 million. As the present value of the minimum lease payments was more than 90 percent of the fair values of the equipment at the inception of the lease, we accounted for the leaseback transaction as a capital lease. As of July 2, 2006, the outstanding lease obligation under this agreement was approximately $2 million.

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On March 17, 2004, Spansion Japan entered into sale-leaseback transactions with a third-party financial institution for certain equipment in the amount of 3 billion yen (approximately $27 million on March 17, 2004) of cash proceeds. Upon execution of the agreement, the equipment had a net book value of approximately $26 million. As the present value of the minimum lease payments was more than 90 percent of the fair values of the equipment at the inception of the lease, we accounted for the leaseback transactions as a capital lease. This transaction did not result in a significant gain or loss. As of July 2, 2006, the outstanding lease obligation under this agreement was approximately $5 million.

On September 26, 2003, Spansion Japan entered into a sale-leaseback transaction with a third-party financial institution for certain equipment in the amount of approximately 7 billion yen (approximately $63 million on September 26, 2003) of cash proceeds. Upon execution of the agreement, the equipment had a net book value of approximately $64 million. As the present value of the minimum lease payments was more than 90 percent of the fair values of the equipment at the inception of the lease, we accounted for the leaseback transactions as a capital lease. This transaction did not result in a significant gain or loss. As of July 2, 2006, the outstanding lease obligations under this agreement were approximately $7 million.

On July 16, 2003, Spansion Japan entered into a sale-leaseback transaction with a third-party financial institution for certain equipment in the amount of 12 billion yen (approximately $100 million on July 16, 2003) of cash proceeds. Upon execution of the agreements, the equipment had a net book value of approximately $168 million. As the term on the leaseback transaction is more than 75 percent of the remaining estimated economic life of the equipment, we accounted for the leaseback transaction as a capital lease. We recognized an immediate loss of approximately $18 million on the transaction equal to the difference in the fair market value of the equipment and its net book value at the time of the transaction. We also recorded a deferred loss on the balance sheet of approximately $50 million, the difference between the remaining book value of the equipment after the immediate loss recognized and the proceeds from the sale lease-back transaction. This deferred loss is being amortized over the term of the lease in proportion to the amortization of the underlying leased assets. AMD and Fujitsu each guaranteed 50 percent of the outstanding obligations under the lease arrangement. As of July 2, 2006, the outstanding lease obligations under this agreement were approximately $7 million.

Other Financial Matters

Spansion Japan Lease Extension

On September 20, 2006, Spansion Japan renewed an expiring equipment lease agreement entered into with a third-party financial institution dated July 16, 2003 resulting in rental payments of approximately 194 million yen (approximately $1.6 million as of September 20, 2006) beginning on September 30, 2006. The rental payments will extend for a period of 36 months and the lease agreement will terminate on September 30, 2009, unless terminated earlier in the event of default, or by either party upon written notice in accordance with the terms of the equipment lease.

JV1/JV2 Transaction

On September 28, 2006, Spansion Japan Limited, our wholly-owned subsidiary, entered into an asset purchase agreement with Fujitsu, pursuant to which Spansion Japan will sell two wafer fabrication facilities located in Aizu-Wakamatsu, Japan, which we refer to as the JV1/JV2 Facilities, and certain assets located in the JV1/JV2 Facilities, to Fujitsu for a purchase price of approximately $150 million plus the value of the inventory at the time of closing. Concurrently with the execution of the asset purchase agreement, Spansion Japan and Fujitsu also executed (i) a master lease agreement, pursuant to which Spansion Japan will lease certain equipment to Fujitsu to use in the JV1/JV2 Facilities, (ii) a foundry agreement, pursuant to which Fujitsu has agreed to provide capacity (the foundry agreement also includes minimum capacity and purchase commitments between both the parties resulting in financial penalties if such capacity and purchase commitments are not achieved) for manufacturing wafers for us in the JV1/JV2 Facilities and we have agreed to purchase wafers from Fujitsu and (iii) a secondment and transfer agreement, pursuant to which Spansion Japan has agreed to second a

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specified number of employees to Fujitsu to work in the JV1/JV2 Facilities and ultimately to transfer certain of the employees to Fujitsu. We refer to these agreements collectively as the JV1/JV2 Transaction. We expect to close the JV1/JV2 Transaction in the second quarter of fiscal 2007. For more information on the JV1/JV2 Transaction, see Certain Relationships and Related Party Transactions JV1/JV2 Transaction.

New Equipment Lease

On September 29, 2006, we entered into equipment lease agreements with third-party financial institutions which provide for monthly equipment lease rental payments of approximately $600,000 beginning on September 29, 2006, for a period of 48 months. The equipment leases shall terminate on September 29, 2010, unless terminated earlier in the event of default, or by either party upon written notice in accordance with the terms of the equipment lease.

Spansion Japan 2006 Uncommitted Revolving Credit Facility

On September 29, 2006, Spansion Japan entered into an Uncommitted Revolving Credit Facility agreement with a Japanese financial institution, or the Spansion Japan 2006 Uncommitted Revolving Credit Facility, which provides for a revolving credit facility in the aggregate principal amount of up to 2.0 billion Japanese yen (or up to approximately $17 million as of September 29, 2006).

Pursuant to the terms of the Spansion Japan 2006 Uncommitted Revolving Credit Facility, Spansion Japan may borrow amounts in increments of 50 million yen (approximately $424,000 as of September 29, 2006), which may remain outstanding in monthly increments of up to three months. Amounts borrowed bear interest at a rate equal to TIBOR, at the time of the drawdown, plus a margin of 0.5 percent per annum.

Spansion Japan is not permitted, among other things, to create any security interests or liens on any of its assets, subject to certain exceptions; subordinate the payment of its debt under this credit facility to the payment of any unsecured debts; or enter into any merger, company partition, exchange or transfer of shares, assign all or a part of its business or assets to a third party, or otherwise transfer all or a material part of its assets to a third party, subject to certain exceptions.

All of Spansion Japan s debts under the Spansion Japan 2006 Uncommitted Revolving Credit Facility will automatically become due and payable without any notice or demand if proceedings of bankruptcy, insolvency, dissolution or similar matters are initiated by or against Spansion Japan. All of the debts under this credit facility will become due and payable upon notice to Spansion Japan by the lenders in an event of default, which includes, among other things, the following: a default in performance of payment; any of Spansion Japan s debts or guarantee obligations (other than those under Spansion Japan 2006 Uncommitted Revolving Credit Facility) in an aggregate amount exceeding 10 million yen (approximately $85,000 as of September 29, 2006) become due and payable; or the suspension of the business of Spansion Japan by Spansion Japan or by a government authority, in each case if not cured within applicable time periods set forth in the Spansion Japan 2006 Uncommitted Revolving Credit Facility.

The Spansion Japan 2006 Uncommitted Revolving Credit Facility may be terminated in the event of default or by either party upon written notice in accordance with its terms.

As of September 29, 2006, no amounts were outstanding under this uncommitted revolving credit facility.

Liquidity and Capital Resources

Our primary future cash needs on a recurring basis will be working capital, capital expenditures and debt service. The total amount due under contractual obligations during the remainder of fiscal 2006 is $106.5 million, excluding interest on our borrowings. We expect our interest payments to increase in fiscal 2006 compared to

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fiscal 2005 primarily as a result of the change in interest rates on our debt portfolio.

Our ability to fund our cash needs will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive and other factors, such as those discussed in Risk Factors, many of which are beyond our control. Should we require additional funding, such as to satisfy our short-term and long-term debt obligations when due or to make additional capital investments, we may need to raise the required additional funds through bank borrowings or public or private sales of debt or equity securities. We cannot assure you that such funding will be available in needed quantities or on terms favorable to us, if at all.

We believe that anticipated cash flows from operations and current cash balances, the JV1/JV2 Transaction, available external financing and our existing credit facilities will be sufficient to fund working capital requirements, capital investments, debt service and operations and meet our needs over at least the next twelve months. The total availability under our credit facilities, which is subject to certain borrowing base limitations and other covenants, was approximately $267.7 million as of July 2, 2006.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenues, inventories, asset impairments, income taxes and pension benefits. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been consistent with management s expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

We believe the following critical accounting policies are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Stock-Based Compensation

Effective December 26, 2005, we adopted Financial Accounting Standards Boards (FASB) Statement No. 123(R) Share-Based Payment, or Statement 123(R), which requires a public entity to reflect on its income statement, instead of pro forma disclosures in its financial footnotes, the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Statement 123(R) supersedes our previous accounting under Accounting Principles Board (APB) Opinion 25 Accounting for Stock Issued to Employees, or Opinion 25, for periods beginning in fiscal 2006.

We adopted Statement 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of December 26, 2005, the first day of our fiscal year ending December 31, 2006. Our condensed consolidated financial statements as of and for the three and six months ended July 2, 2006 reflected the impact of Statement 123(R). In accordance with the modified prospective transition method, our consolidated financial statements for prior periods had not been restated to reflect, and did not include, the impact of Statement 123(R). Stock-based compensation expense recognized under Statement 123(R) for the six months ended July 2, 2006 was $10.5 million, which consisted of stock-based compensation expense related to our stock options and RSU awards. We did not provide stock-based compensation to our employees or third parties prior to the initial public offering and there was no stock-based compensation expense related to stock options recognized under Opinion 25 during the six months ended June 26, 2005.

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We estimated the fair value of our stock-based awards to employees using the Black-Scholes-Merton option pricing model. The key estimates that management must make in applying this model are the volatility of our stock over the expected terms of our awards and the expected terms of our awards. The expected volatility is based on our recent historical volatility and the volatilities of our competitors who are in the same industry sector with similar characteristics (guideline companies) given our lack of historical realized volatility data. The expected term is based on the shortcut approach provided in SEC Staff Accounting Bulletin (SAB) No. 107 for developing the estimate of the expected term of a plain vanilla employee stock option. Under this approach, the expected term would be presumed to be the mid-point between the vesting date and the end of the contractual term. Each of these estimates requires a significant amount of management judgment.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in our condensed consolidated statement of operations for the six months ended July 2, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 25, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, or Statement 123, and compensation expense for the share-based payment awards granted subsequent to December 25, 2005, based on the grant date fair value estimated in accordance with the provisions of Statement 123(R). The compensation expense for all share-based payment awards was recognized using straight-line attribution method reduced for estimated forfeitures. Statement 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Because we do not have sufficient historical forfeiture experience related to our own stock-based awards, we estimated forfeitures based on AMD s historical forfeiture rates as we believe these forfeiture rates to be the most indicative of our own expected forfeiture rate. In our pro forma information required under Statement 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

Revenue Reserves

We record a provision for estimated sales returns and allowances on product sales and a provision for estimated future price reductions in the same period that the related revenues are recorded. We base these estimates on actual historical sales returns, allowances, historical price reductions, market activity, and other known or anticipated trends and factors. These estimates are subject to management s judgment, and actual provisions could be different from our estimates and current provisions, resulting in future adjustments to our revenues and operating results.

Inventory Valuation

At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand. These projections assist us in determining the carrying value of our inventory and are also used for near-term factory production planning. We do not value inventories on hand in excess of forecasted demand of six months. In addition, we write off inventories that we consider obsolete. We adjust remaining specific inventory balances to approximate the lower of our standard manufacturing cost or market value. Among other factors, management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. If we anticipate future demand or market conditions to be less favorable than our projections as forecasted, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made. This would have a negative impact on our gross margins in that period. If in any period we are able to sell inventories that were not valued or that had been written down in a previous period, related revenues would be recorded without any offsetting charge to cost of sales, resulting in a net benefit to our gross margin in that period.

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Impairment of Long-Lived Assets

We consider no less frequently than quarterly whether indicators of impairment of long-lived assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If these or other indicators are present, we determine whether the estimated future undiscounted cash flows attributable to the assets in question are less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. We may incur impairment losses in future periods if factors influencing our estimates of the undiscounted cash flows change.

Income Taxes

Prior to our reorganization into Spansion Inc. we operated as a Delaware limited liability company that had elected to be treated as a partnership for U.S. federal tax reporting purposes and, therefore, we were not a U.S. taxable entity. We now operate as Spansion Inc., which is a taxable entity for U.S. federal tax reporting purposes. Our foreign subsidiaries are wholly owned and are taxable as corporations in their respective foreign countries of formation. In determining taxable income for financial statement reporting purposes, we must make estimates and judgments. These estimates and judgments are applied in the calculation of specific tax liabilities and in the determination of recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

We must assess the likelihood that we will be able to recover our deferred tax assets. Unless recovery of these deferred tax assets is considered more likely than not, we must increase our provision for taxes by recording a charge to income tax expense, in the form of a valuation allowance, for the deferred tax assets that we estimate will not ultimately be recoverable. We consider past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment by the relevant tax jurisdiction. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result.

Pension and Post-retirement Benefits

We provide a pension plan for certain employees of Spansion Japan, and as a result, we have significant pension benefit costs and credits that are computed and recorded in our financial statements based on actuarial valuations. The actuarial valuations require assumptions and methods which must be used to develop the best estimate of the benefit costs. These valuation assumptions include salary growth, long-term return on plan assets, discount rates and other factors. The salary growth assumptions reflect our future and near-term outlook for salary growth within the industry. Long-term return on plan assets is determined based on historical results in the debt and equity markets and management s expectation of the current economic environment and the allocation target and expected future yields of each asset class. The discount rate assumption is based on current investment yields on Japanese government long-term bonds, as no deep corporate market exists for high quality corporate debt instruments. Actual results that differ from these assumptions are accumulated and amortized over the future life of the plan participants. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the pension costs and obligations.

Qualitative and Quantitative Disclosure About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. As of December 25, 2005, our investments in our portfolio were short-term investments and consisted of money market auction rate preferred stocks and commercial paper.

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As of December 25, 2005, approximately 39 percent of the principal amounts outstanding under our unrelated third party debt obligations were fixed rate and long term. With respect to our related party debt, substantially all was fixed rate and 88 percent was long term as of such date. As of December 25, 2005, approximately 18 percent of our total debt obligations were variable rate. We continually monitor market conditions and enter into hedges when appropriate. We do not currently have any hedges of interest rate risk in place. We do not use derivative financial instruments for speculative or trading purposes.

Default Risk

We mitigate default risk by investing in only high credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 25, 2005 and comparable fair values as of December 26, 2004:

	2006	2007	2008	2009	2010	Thereafter	Total	2005 Fair value	2004 Fair value
	(in thousands, except for percentages)								
Investment Portfolio									
Cash equivalents:									
Fixed rate amounts	$ 336,141	$	$	$	$	$	$ 336,141	$ 336,141	$ 29,958
Weighted-average rate	4.43%						4.43%	4.43%	2.32%
Variable rate amounts	$ 59,000	$	$	$	$	$	$ 59,000	$ 59,000	$ 35,000
Weighted-average rate	4.11%						4.11%	4.11%	2.11%
Marketable securities:									
Fixed rate amounts	$ 177,086	$	$	$	$	$	$ 177,086	$ 177,086	$
Weighted-average rate	4.58%						4.58%	4.58%	
Variable rate amounts	$	$	$	$	$	$ 15,000	$ 15,000	$ 15,000	$ 57,950
Weighted-average rate	4.44%						4.44%	4.44%	2.35%
Total Investment Portfolio	$ 572,227	$	$	$	$	$ 15,000	$ 587,227	$ 587,227	$ 122,908
Debt Obligations									
Debt fixed rate amounts	$	$	$	$	$	$ 225,787	$ 225,787	$ 225,787	$
Weighted-average rate						13.00%	13.00%	13.00%	
Debt to members fixed rate amounts	$ 21,638	$ 1,526	$ 1,526	$ 255	$	$ 158,970	$ 183,915	$ 183,915	$ 225,410
Weighted-average rate	6.92%	5.90%	5.90%	5.90%		14.00%	13.02%	13.02%	6.65%
Debt variable rate amounts	$ 103,041	$ 30,975	$	$	$	$	$ 134,016	$ 134,016	$ 204,487
Weighted-average rate	1.76%	1.64%					1.73%	1.73%	2.93%
Debt to members variable rate amounts	$	$	$	$	$	$	$	$	$ 160,000
Weighted-average rate									6.17%
Total Debt Obligations	$ 124,679	$ 32,501	$ 1,526	$ 255	$	$ 384,757	$ 543,718	$ 543,718	$ 589,897

Foreign Exchange Risk

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

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

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sales of our products to Fujitsu are primarily denominated in Japanese yen; and

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

As a consequence, movements in exchange rates could cause our net sales and our expenses to fluctuate, affecting our profitability and cash flows. We use foreign currency forward contracts to reduce our exposure to foreign currency exchange rate fluctuations. The objective of these contracts is to reduce the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisitions. We do not use these contracts for speculative or trading purposes.

We had an aggregate of $49.6 million (notional amount) of short-term foreign currency forward contracts denominated in Japanese yen outstanding as of December 25, 2005. Unrealized gains related to the foreign currency forward contracts for fiscal 2005 increased by $1.1 million. We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. In particular, we generally cover only a portion of our foreign currency exchange exposure. Moreover, we determine our total foreign currency exchange exposure using projections of long-term expenditures for items such as equipment and materials used in manufacturing. We cannot assure you that these activities will eliminate foreign exchange rate exposure. Failure to eliminate this exposure could have an adverse effect on our business, financial condition and results of operations.

In addition, even where revenues and expenses are matched, we must translate Japanese yen denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar versus the Japanese yen will affect our reported results of operations and the value of our assets and liabilities on our consolidated balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These transactions could significantly affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and stockholders equity and members capital.

The following table provides information about our foreign currency forward contracts as of December 25, 2005 and December 26, 2004. All of our foreign currency forward contracts mature within the next 12 months.

	As of Dec. 25, 2005			As of Dec. 26, 2004		
	Notional Amount	Average Contract Rate	Estimated Fair Value	Notional Amount	Average Contract Rate	Estimated Fair Value
	(in thousands, except contract rates)					
Foreign currency forward contracts:						
Japanese yen	$ 49,600	¥ 118.9516	$ 1,040	$ 10,542	¥ 104.3487	$ (73)

We experienced no significant changes in market risk during the first half of fiscal 2006 except when the Japanese yen strengthened against the U.S. dollar. As a result, the cumulative translation adjustment balance has increased during the six months ended July 2, 2006. This increase is primarily due to the translation impact of the functional currency used to account for the net assets of our subsidiary in Japan to our reporting currency, which is the U.S. dollar. However, this translation impact does not affect our earnings or our cash flows as this translation adjustment is recorded as a component of stockholders equity in our balance sheet. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to continue to incur significant foreign currency translation adjustments, which will either increase or decrease our total stockholders equity balance. In addition, we cannot give any assurance as to the effect that future changes in foreign currency rates will have on our consolidated financial position, results of operations or cash flows.

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BUSINESS

Our Company

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

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

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

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

Our Industry

Consumers are increasingly demanding access to digital content through sophisticated communications equipment, consumer electronic products and automotive electronics. People now expect to instantly access, store and interact with multimedia content, including photos, music, video and text files using such products as mobile phones, digital cameras, DVD players, set top boxes, or STBs, MP3 players and automotive electronics

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such as navigation systems. The primary semiconductor component used to store and access this kind of digital content is Flash memory, and as a result, Flash memory has become one of the most critical components of electronic products. Most electronic products use Flash memory to store important program instructions, known as code, as well as multimedia or other digital content, known as data. Code storage allows the basic operating instructions, operating system software or program code to be retained, which allows an electronic product to function, while data storage allows digital content, such as multimedia files, to be retained. There are two major architectures of Flash memory in the market today: NOR Flash memory, which is used for code and data storage in mobile phones and primarily for code storage in consumer electronics, and NAND Flash memory, which is primarily used for data storage in removable memory applications, such as Flash memory cards and USB drives, and is increasingly being used in some high-end mobile phones and embedded applications.

The Flash memory market can be divided into two major categories based on application: the integrated category, which includes wireless and embedded applications, and the removable storage category. Within the integrated category, portable, battery-powered communications applications are referred to as wireless and all other applications, such as consumer, industrial, telecommunications and automotive electronics, are referred to as embedded. Within the removable storage category, applications include Flash memory cards and USB drives. Based on iSuppli data, the wireless portion of the integrated category, which primarily consists of mobile phones, represented the largest market for NOR Flash memory in fiscal 2005. Sales in the wireless portion of the integrated category represented a majority of our sales in fiscal 2005 and in the first six months of fiscal 2006, and sales in the embedded portion of the integrated category represented the balance of our sales. We do not yet sell any products in the removable storage category. The following table illustrates the market size, applications and primary use for Flash memory in each of the two Flash memory categories.

Category	Applications	2005 Market Size	Primary Use
Integrated	Wireless		
	Mobile phones	$6.2 billion	Combined code
	Smartphones		and data storage
	Embedded		
	Consumer electronics (including MP3 players)	$5.9 billion	Combined code and data storage
	Automotive electronics		
	Personal computers and PC peripherals		
	Networking and telecom equipment (excluding mobile phones)		
	Industrial, medical and military products		
Removable Storage	USB drives	$6.5 billion	Data storage
	Flash memory cards		

Source: iSuppli, September 2006.

Trends in the Flash Memory Market

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

Growth in unit shipments and Flash memory content of mobile phones. According to iSuppli, worldwide mobile phone shipments are expected to increase from 820 million units in 2005 to 1,018 million

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units in 2010, representing a compound annual growth rate of approximately four percent over the period. The market research firm Gartner estimates that mobile phone shipments will increase from 820 million units in 2005 to over 1,400 million units in 2010, representing a compound annual growth rate of approximately 12 percent over the period. In addition, mobile phones are becoming increasingly complex as communications, computing and entertainment functions continue to converge onto a single handset. As a result, Flash memory content per mobile phone is growing to accommodate increased storage requirements for data applications, such as music downloads and pictures, as well as the higher-complexity program code associated with advanced mobile phones that include features such as color displays, global positioning systems, internet services, built-in cameras and advanced communications protocols. According to iSuppli, average Flash memory content per mobile phone is projected to grow dramatically from approximately 200 megabits in 2005 to over 10 gigabits in 2010.

Growth in unit shipments and Flash memory content for embedded applications. Demand for digital content is driving significant growth in the consumer electronics market. According to iSuppli, aggregate unit sales of digital consumer products such as digital cameras, DVD players and recorders, digital televisions, MP3 players and STBs are expected to grow from approximately 700 million units in 2005 to 1.1 billion units in 2010, representing a compound annual growth rate of approximately ten percent. We also expect consumer electronics products to increase in complexity, requiring larger amounts of Flash memory. Flash memory is also increasingly embedded in a variety of other applications, such as automotive engine control, navigation and entertainment systems and PC peripherals such as printers and home networking, with new emerging applications for Flash memory to replace rotating storage media in applications such as hard drive replacement in personal computers.

Proliferation of removable storage products. The widespread adoption of digital cameras and the increasing demand for portable access to digital content are driving the considerable growth of removable storage products such as Flash memory cards and universal serial bus, or USB, drives. iSuppli projects aggregate unit sales of Flash memory cards and USB drives to increase from approximately 440 million units in 2005 to approximately 1.5 billion units in 2010, representing a compound annual growth rate of approximately 28 percent.

Flash Memory Customer Requirements

Flash memory is used across a wide spectrum of applications. Within each of the integrated and removable storage categories of the Flash memory market, customer and application needs are influenced by whether the application will predominantly require code storage, data storage or a combination of the two. The integrated category has traditionally focused on combined code and data storage. The removable storage category has typically focused on data storage. Traditional criteria by which Flash memory customers evaluate Flash memory products include:

Density. Refers to the amount of content that can be physically stored and is measured in bits. Higher densities allow Flash memory customers to increase the amount of memory storage capacity on their electronic products. Code storage in most customer products typically requires lower densities, from 1 megabit to 512 megabits, while data storage typically requires higher densities, from 64 megabits to 1 gigabit in mobile phones and up to 32 gigabits for removable storage applications.

Cost Per Bit. Refers to the cost of Flash memory relative to its storage capacity in bits. Customers in the removable storage category have traditionally had a greater focus on getting the lowest cost per bit than customers in the integrated category.

Performance (Read/Write). Read performance refers to how quickly a Flash memory device can access its program code or stored content, which can impact the overall operating performance of electronic products. For example, read performance impacts how long it takes to turn on a mobile phone. Write performance refers to how quickly a Flash memory device can store or save information, such as how long it takes to store a picture. Applications that primarily use Flash memory for code storage purposes, such as automotive electronics, typically require higher read performance. Applications that primarily use Flash memory for data storage, such as removable cards and USB drives, typically require higher write performance.

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Reliability. Refers to attributes such as the length of time data is retained once stored on Flash memory, the durability of the Flash memory device in extreme environmental conditions and the number of times information can be saved to and erased from the device. Reliability is most critical in applications that primarily use Flash memory for code storage purposes. For example, in wireless and embedded applications, even a single bit failure in a Flash memory device used for code storage can lead to the failure of the overall system.

Power Consumption. Refers to the amount of power consumed in an electronic product at industry standard voltage levels, ranging from 1.8 to 5.0 volts. Lower power consumption enables longer lasting battery life. Flash memory devices with low power consumption are particularly important in the wireless portion of the integrated category.

In addition to having product-specific requirements, we believe Flash memory customers are increasingly relying on Flash memory suppliers to offer value-added solutions beyond the traditional criteria of the Flash memory components. Examples include:

- systems-level knowledge and software-based solutions to help customers differentiate their products, get to market quickly, reduce costs and improve performance;
- complete memory subsystems integrating various types of memory components into a variety of multi-chip-products, or MCPs, and Package-on-Package, or PoP, solutions;
- platform-based designs which ensure interoperability with a broad range of other system hardware and software components;
- scalable product offerings for the integrated category that offer a wide range of both standalone and MCP products utilizing common software and are available in a single package footprint;
- extended availability, sometimes up to ten years, of some products used in automotive and telecommunications applications; and
- broad product portfolios extending throughout low, mid-range and high densities with a variety of interface and performance options.

Customers in the integrated category have historically chosen NOR-based Flash memory products because NOR s fast read performance and superior reliability are better suited for program code storage as well as combined code and data storage. More recently, however, the need for greater data storage capacity in high-end mobile phones has resulted in some mobile phone manufacturers choosing NAND-based Flash memory products to address their data storage needs. NAND-based Flash memory has historically offered higher density, faster write speeds and lower cost per bit as compared to NOR-based Flash memory. For similar reasons, customers in the removable storage category have historically chosen NAND-based Flash memory products. We believe Flash memory customers would prefer to select products meeting the exact density, cost, reliability, performance and power consumption requirements for their code and data storage applications irrespective of NOR/NAND architecture. In addition, we believe customers will increasingly seek Flash memory providers that have the ability to add value beyond the Flash memory component itself.

Our Approach

We focus on the integrated category of the Flash memory market, including the wireless and embedded portions, where high reliability, a full range of densities, fast read performance and value-added, differentiated solutions are important. Our products designed for code storage applications are based on NOR Flash memory architecture and utilize either traditional floating gate technology or our MirrorBit technology. Our products designed for data storage applications are based on MirrorBit ORNAND architecture and also utilize our MirrorBit technology. Floating gate is the conventional technology that is used by most Flash memory companies today. MirrorBit technology is our proprietary technology that takes a fundamentally different approach from floating gate technology, with lower overall manufacturing costs and higher yields. We introduced our first product based on MirrorBit technology in July 2002. Sales of MirrorBit technology-based

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products increased from approximately 14 percent of our total net sales during the first quarter of fiscal 2005 to approximately 43 percent during the second quarter of fiscal 2006. The remainder of our sales have been based on floating gate technology.

We intend to continue to leverage our MirrorBit technology to strengthen our position as a market leader in the integrated category of the Flash memory market and to selectively participate in the removable storage category. We believe MirrorBit technology allows us to serve these markets with a full range of products meeting the density, low cost per bit, superior reliability and high read and write performance required by these market categories. We also believe MirrorBit technology has the capability to integrate logic functions as the foundation for new types of value-added memory solutions. Furthermore, we believe platform design by silicon manufacturers in conjunction with ODMs, OEMs and other silicon partners will become increasingly important. We believe we are well positioned to take advantage of this trend and plan to continue to grow our value-added offerings through system-level design and software support, scalable platform-based solutions and continued close collaboration with other semiconductor and software companies.

Our Strengths

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

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

Because we focus exclusively on Flash memory, we generally do not compete with our partners or Flash memory customers and therefore are well positioned to work with them to jointly develop products and collaborate freely on future technology roadmaps. We currently serve the global Flash memory market with design and manufacturing facilities located worldwide. Our local presence in many markets, such as the United States, Japan, Korea and China, enables us to effectively capitalize on the latest industry trends and customer needs to develop and position our products accordingly.

Proprietary MirrorBit Technology. Our proprietary MirrorBit technology is capable of storing two to four bits of data in a single memory cell, providing up to four times the capacity per cell of single-level cell floating gate technology. Our two-bit-per-cell MirrorBit technology also allows us to offer a broad range of product configurations and capabilities, including high read performance and superior reliability. Compared to competing floating gate MLC NOR technology, two-bit-per-cell MirrorBit technology has a simpler cell architecture requiring fewer manufacturing steps and supporting higher yields, resulting in lower costs. Our current family of NOR products based on MirrorBit technology features two bits-per-cell with densities from 4 megabits to 1 gigabit. We are currently producing a 1-gigabit MirrorBit ORNAND product and are sampling a 512-megabit MirrorBit ORNAND product. We plan to grow our family of MirrorBit ORNAND products to 2 gigabits by the end of fiscal 2006. We have also demonstrated working silicon of our four-bit-per-cell MirrorBit technology called MirrorBit Quad. With densities, die size and a cost structure comparable to floating gate MLC NAND at an equivalent process technology node, we believe MirrorBit Quad will allow us to compete in portions of the integrated and removable storage categories that would otherwise be served by floating gate MLC NAND Flash memory. We plan to begin production of MirrorBit Quad products by late fiscal 2006 and are planning production densities as high as 16 gigabits by late fiscal 2007. The ability to easily integrate logic with our

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MirrorBit technology will enable us to create new types of Flash memory product not available in the market today. We believe MirrorBit is a differentiated technology that will help us to retain and enhance our leadership position from entry level to high-end applications.

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

Customer-Centric Innovation. We work with customers to identify evolving needs and new applications in order to develop innovative products and features. For example, we developed a Flash memory-based security feature set called Advanced Sector Protection, or ASP. We originally designed ASP for the automotive sector to prevent the unauthorized alteration of a car s engine and transmission control systems to increase performance, thus enhancing consumer safety and protecting auto manufacturers from fraudulent warranty claims. This hardware-based security solution also protects devices such as mobile handsets against viruses while protecting wireless network operators and cable and satellite service providers against cloning and signal theft. Another innovation, which we developed for mobile phone OEMs, is our simultaneous read-write architecture, or SRW, which significantly improves system performance by enabling the Flash memory to simultaneously read and write. For example, a mobile camera phone with SRW can simultaneously receive a call and store a digital photograph.

Advanced Manufacturing, Lithography and Packaging Capabilities. We have developed advanced Flash memory manufacturing capabilities. We operate four dedicated manufacturing Flash memory wafer fabs and a development fab to accelerate the introduction of next-generation technologies. We were the first NOR Flash memory manufacturer to transition to 110-nanometer geometries, and we began production on 90-nanometer geometries in the first half of fiscal 2006. In addition, we have leading-edge packaging capabilities, including MCP and PoP, in our assembly and test facilities in Malaysia, Thailand and China. In fiscal 2005, we assembled, tested and shipped approximately 840 million Flash memory products. Our packaging capabilities better position us to capitalize on emerging trends such as demand for smaller form factors and complete memory subsystems.

Systems-Level Solutions, Alliances and Support. We have invested significant systems and engineering resources to establish alliances with other semiconductor and software companies, create innovative development tools and testing environments and bring our significant memory subsystems expertise to customers. For example, we collaborated with ARM Holdings PLC to create the Platform Independent Storage Module, or PISMO, a processor-peripheral interface standard for development platforms that accelerates customer evaluation of peripheral hardware including memory sub-systems. We are also collaborating with msystems Ltd. to create high-density Subscriber Identity Module, or SIM, card products with an innovative integrated, single-chip design for enhanced systems architecture, security benefits and streamlined system integration. We expect significant benefits to the SIM and smart card markets to include performance, reliability and an optimized cost structure. In addition, we are working with leading baseband suppliers to develop reference platforms and improve mobile platform performance, create smaller form factors and lower system cost based on mutual product optimization. For example, we worked with Philips to develop pre-validated memory subsystems for mobile phone platforms designed around Philips baseband offerings, and we have Flash memory solutions that are in the process of being pre-validated, as well as solutions that have been pre-validated, for select reference design platforms from QUALCOMM Incorporated.

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Our Strategy

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

Capitalize on Our Leadership Position. We plan to use our position as a market leader to increase our share in the integrated category of the Flash memory market. Our products are incorporated into products from many of the top OEMs in this category, including all of the top ten mobile phone OEMs, all of the top ten consumer electronics OEMs and all of the top ten automotive electronics OEMs. These OEM relationships provide us with insight into the latest industry trends and customer needs and enable us to develop and position our product offerings to ensure that we meet future customer demands. We believe we have the ability to maintain our top-tier relationships as well as broaden our customer base, particularly in the embedded portion of the integrated category.

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

Enter into New Markets. By leveraging the low cost structure of, and the ability to easily integrate logic with, our MirrorBit technology and our alliances with third parties, we are investigating opportunities to selectively participate in new markets. We believe that MirrorBit technology has the capability to integrate logic functions within high-density arrays of Flash memory more efficiently than competing technologies in the Flash memory market, which we expect will enable us to create new types of products not available today. For example, we are developing a single-chip high-density SIM solution which we call HD-SIM. The HD-SIM solution is being designed to integrate traditional SIM card security functions together with secured high-density MirrorBit Flash memory for data storage, to create a single-chip solution for wireless operators in a market currently served only by multi-chip solutions. In addition, we plan to leverage the lower cost structure of MirrorBit Quad to create differentiated solutions in the integrated category of the Flash memory market for applications such as MP3 players, Personal Media Players, or PMPs, and solid state mass data storage applications. We also plan to selectively address portions of the removable storage category, such as for Flash memory cards and USB drives.

Continue to Develop Systems-Level Solutions and Provide Increasing Value to Customers. We intend to continue to work with customers and with complementary silicon and software providers at the architecture level to optimize entire systems that incorporate Flash memory. Moreover, we intend to leverage the expertise of our dedicated software team to allow customers to upgrade, reduce costs or otherwise modify existing products quickly and easily, without requiring them to redesign circuit boards or rewrite software. We also plan to increase our level of support and design services to continue to build customer loyalty. By continuing to offer architectural and systems-level solutions, we believe we can strengthen our position as a trusted supplier in the Flash memory market.

Leverage Our Manufacturing and Technology Expertise. Our strategy includes accelerating the development and production of leading edge advanced technology for 90-nanometer production in fiscal 2006,

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65-nanometer production in fiscal 2007 and 45-nanometer production on 300-millimeter wafers at our new SP1 facility in fiscal 2008. We believe that the use of smaller geometries and larger wafers will contribute to lower manufacturing cost-per-unit at a given product density, particularly at higher memory densities. A core part of our manufacturing strategy is also to balance the mix of in-house manufacturing with outsourced capacity. For example, we have entered into a foundry agreement with Taiwan Semiconductor Manufacturing Company Limited, or TSMC, for 110-nanometer MirrorBit production on 200-millimeter wafers and 90-nanometer MirrorBit production on 300-millimeter wafers to augment our internal production capability. We believe that this balanced manufacturing approach enables us to maximize the impact of invested dollars spent on next generation technology for the integrated category of the Flash memory market while maintaining a long-term, stable supply of new and existing products for our customers.

Key Technology Product Building Blocks

Our products focus primarily on the integrated category of the Flash memory market where high reliability, a full range of densities, fast read performance and value-added solutions are important. Our products are currently based on NOR and MirrorBit ORNAND architectures and offer densities from 1 megabit to 1 gigabit with a breadth of interfaces and features. Our MirrorBit ORNAND architecture has been designed for certain applications currently addressed by NAND Flash memory products in the integrated category. We began production of a 1-gigabit MirrorBit ORNAND device in the second quarter of fiscal 2006 and produced engineering samples of a 2-gigabit MirrorBit ORNAND device in the third quarter of fiscal 2006. We have also demonstrated working silicon of MirrorBit Quad Flash memory technology, which we believe to be the first four-bit-per-cell Flash memory technology and plan to begin production of MirrorBit Quad products by late fiscal 2006, with densities as high as 16 gigabits in production by late fiscal 2007.

* SRW and ASP refer to Simultaneous Read/Write and Advanced Sector Protection.

Technology

Flash memory technology refers to the structure of an individual memory cell or transistor. Our products are based on two technologies, single-bit-per-cell floating gate technology and two-bit-per-cell MirrorBit technology, and we plan to introduce products based on MirrorBit Quad technology with four bits per cell.

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Floating Gate Technology. Floating gate is the conventional memory cell technology that is utilized by most Flash memory companies today for both NOR and NAND products. A memory cell comprises a transistor having a source, a drain and a control gate to regulate the current flow between the source and the drain, thereby defining whether the memory cell stores a 0 bit or a 1 bit by storing charge in the cell storage medium. Floating gate is a memory cell technology in which the floating gate is a conductive storage medium between the control gate and the source and drain. It is referred to as a floating gate as it is electrically isolated or floating from the rest of the cell to ensure that stored charge does not leak away resulting in memory loss. We have created innovations in floating gate that have become industry standards, such as negative gate erase, single power supply and embedded programming algorithms, and we continue to hold a leading position in the Flash memory market with our products based on floating gate technology. Our products using floating gate are typically used for code storage in applications requiring very high read speeds, extreme temperatures and harsh environments such as automotive applications and for the majority of low density applications.

Floating gate technology has traditionally stored one bit of data per memory cell, referred to as single level cell floating gate technology, or SLC. To achieve higher densities and lower costs per bit, the industry has developed floating gate technology to store two bits of data per memory cell, referred to as floating gate multi−level cell, or MLC, technology. MLC floating gate technology stores one of four different quantities of charge, known as fractional charge storage, in the memory cell; these different quantities of charge are decoded as equivalent to two bits of information. We do not use MLC floating gate technology to achieve two bits per cell in our products.

MirrorBit Technology. To achieve two bits per cell, and most recently four bits per cell, we developed MirrorBit technology, which we believe has significant advantages over competing floating gate solutions in areas of cost, density, performance and logic integration. MirrorBit takes a fundamentally different approach from both single-bit and two-bit-per-cell floating gate Flash memory technology. MirrorBit stores two bits of data in a single memory cell thereby doubling the density, or storage capacity, of each memory cell and enabling higher density products. However, contrary to the conductive storage medium used by floating gate technology, MirrorBit technology stores charge in a non−conductive storage medium, silicon nitride, which eliminates the need for a floating gate. While electrons stored on a floating gate will diffuse, those stored in a particular location of a MirrorBit nitride cell will stay in place. This enables MirrorBit to store charge in two physically distinct locations, as Figure 1 shows, to create two bits per cell, rather than using four levels of charge like MLC floating gate Flash memory. MirrorBit Quad applies MLC technology using four levels of charge to each of the two distinct storage locations in a MirrorBit cell. The result is a four bit per cell technology. Floating gate technology requires MLC technology using 16 levels of charge in order to achieve 4 bits per cell. Writing and reading 16 distinct levels of charge poses significant technical challenges.

In addition storing charge in a silicon nitride layer and eliminating the requirement for a floating gate greatly simplifies the manufacturing process, which results in higher yields compared to floating gate technology.

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We believe our MirrorBit technology enables our products to meet many of the key requirements of Flash memory customers:

Low cost per bit. MirrorBit technology offers manufacturing cost advantages compared to MLC floating gate NOR technology. MirrorBit has a simpler cell architecture that eliminates ten percent of the total manufacturing steps and 40 percent of the most critical manufacturing steps, as compared to MLC floating gate NOR technology. MirrorBit technology also enables a simpler connection of individual memory cells to form the Flash memory array. The reduction of manufacturing steps, combined with an efficient Flash memory array implementation, results in yields up to 30 percent higher than MLC floating gate NOR technology and a lower cost per bit. We believe two-bit-per-cell MirrorBit technology has a cost structure comparable to SLC floating gate NAND and MirrorBit Quad has a cost structure comparable to MLC floating gate NAND at an equivalent technology node.

High density. MirrorBit technology features NOR densities from 4 megabits to 1 gigabit today, with MirrorBit ORNAND in production at 1 gigabit. We also currently have engineering samples of both 512-megabit and 2-gigabit MirrorBit ORNAND devices and plan to develop higher density MirrorBit products for both architectures to expand this range. We believe the low cost structure and high yields of MirrorBit technology enable the production of higher-density NOR Flash memory products at a cost structure that is not achievable using competing MLC floating gate NOR technology at the same process geometry. We have designed our MirrorBit Quad technology to extend our portfolio to even higher densities for products targeted at data storage for the integrated category.

High performance. We have designed our MirrorBit-based products to provide optimized performance for code and data applications in the integrated category. We have designed our MirrorBit NOR products primarily for code storage and are optimized to provide the highest performance for code execution in applications such as mobile phones where slower read performance may be detected by a mobile phone user in applications such as game playing and power up time. MirrorBit ORNAND products are designed primarily for data storage applications where the combination of fast read and faster write than MirrorBit NOR is particularly suitable for applications such as storing and retrieving audio, video and photo images in applications such as mobile phones. MirrorBit technology s high performance is particularly well suited for the integrated category of the Flash memory market.

We believe our MirrorBit technology offers advantages from a cost, density and performance standpoint while meeting the high reliability and low power consumption requirements of Flash memory customers. MirrorBit is also the foundation for expanding our product roadmap with enhanced capabilities. For example, we have demonstrated MirrorBit technology s ability to store four bits per cell with working silicon, which we refer to as MirrorBit Quad. Furthermore, MirrorBit technology has the ability to efficiently integrate logic functions within high-density arrays of Flash memory which will enable us to create new types of Flash memory products not available on the market today, such as our HD-SIM product. We expect that our first products incorporating MirrorBit Quad architecture will target segments of the market that value higher-density lower-cost products, such as the mass data storage applications in the integrated category and portions of the removable storage category. Some of these products may integrate security functionality with high-density Flash memory on a single chip, which we intend to target to segments of the cellular handset, automotive electronics and STB markets. Also, we have leveraged our MirrorBit technology to expand our Flash memory offering into new areas such as serial Flash memory or Serial Peripheral Interface, or SPI. We believe that these Flash memory innovations made possible by MirrorBit technology will enable us to expand our opportunity in the Flash memory market.

Architecture

Flash memory architecture may be defined as the connection of cells in a memory array with circuits that give access to and manage these cells for read, write and erase operations. Traditionally, customers requiring fast read performance and superior reliability have chosen a NOR architecture for program code storage as well as for

combined code and data storage purposes. Flash memory customers requiring higher densities, faster write speeds and lower costs have typically chosen a NAND architecture mostly for removable data storage applications. Our products have historically implemented a NOR architecture and therefore have fast random and sequential read, fast random write and high reliability. We do not currently have products based on NAND architecture. We have instead developed a new architecture called ORNAND based on our MirrorBit technology that will draw from among some of the best attributes of NOR and NAND architectures. We believe that MirrorBit ORNAND will allow us to offer a family of products with higher densities and faster write performance than traditional NOR to meet the expanding data storage needs of the integrated category and products featuring higher reliability and faster read capabilities than NAND. We believe products based on our ORNAND architecture will both replace some products based on NOR architecture as well as drive incremental and new sales of products to current purchasers of NAND-based products. We began commercial shipments of ORNAND-based products to customers in the second quarter of fiscal 2006.

Features

Features are the capabilities we build into our products that add functionality beyond simple storage, retention and retrieval of code or data. Over time we have developed a number of features, which we have selectively incorporated into our products based on customer requirements within each category of the Flash memory market. At present, our key product features include:

Simultaneous Read/Write (SRW). This capability increases performance by enabling a device to conduct read, write or erase operations simultaneously. Products without this feature must suspend write or erase operations when they need to read the device. For example, a mobile camera phone with the SRW Flash memory feature can simultaneously receive a call and store a digital photograph.

Advanced Sector Protection (ASP). This suite of capabilities protects Flash memory content against inadvertent or deliberate changes to code or data for malicious or fraudulent reasons. For example, in automotive engine control systems, ASP can be beneficial in preventing the unauthorized alteration of a car s engine and transmission control systems, thus enhancing consumer safety and protecting auto manufacturers from fraudulent warranty claims.

Examples of additional features include Secured Silicon Sector which supports the ability to assign unique or random identification to Flash memory devices to help counter cloning, Versatile input/output, or I/O, to enable devices to operate in environments where the device interface must operate at different voltages to the supply voltage and Common Flash Interface, or CFI, an on-chip database of device parameters that may be interrogated by customer software to enable efficient control of and interaction with Flash memory devices.

Interfaces

The interface between a Flash memory device and the host processor or system logic enables the physical exchange of signals and supports different performance and voltage requirements. Our products predominantly use a parallel hardware interface, which writes or reads up to eight or 16 bits of data at a time to and from Flash memory, typically requiring packages with 32 to 84 I/Os. Our parallel interface options support different levels of performance. Customers typically focus on the read speed to determine which type of interface is appropriate for their requirements.

Standard/Asynchronous Access Interface. For less demanding performance requirements, we provide standard, or asynchronous, access interfaces with slower read speeds. Standard access interfaces are typically used by the embedded market.

Page-Mode Interface. For moderate performance requirements, we provide page-mode interfaces which are used in both embedded and wireless markets.

Burst-Mode Read Interface. For higher-performance requirements, we provide burst-mode read interfaces which are used primarily in the wireless market.

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In 2006, we started production of a serial interface product family using SPI. Unlike parallel interfaces, SPI inputs and outputs only one bit of data at a time requiring packages with as few as eight connections. SPI simplifies system design, reduces finished Flash memory device cost through lower package cost and can also lower the cost and complexity of other components in the system. SPI products are most attractive in markets where there is not a requirement for very fast read speed and where system cost reduction is a primary consideration. Examples include personal computers, PC peripheral applications such as hard disk drives and graphics cards and consumer applications such as DVD players.

Packaging

Packaging is an integral element of our products. Flash memory customers have various requirements for package types depending on characteristics such as form factor, package materials, manufacturing requirements and reliability. We offer a range of packaging options, from single-die configurations, MCPs and PoP solutions to package-less solutions, such as Known Good Die. Our packaging includes lead-frame and ball grid array, or BGA, which describe the mechanical connection between the package and the printed circuit board. Our packages in the embedded portion of the integrated category primarily use lead-frame solutions while our packages in the wireless market almost exclusively use BGA solutions due to the small physical size or form factor enabled by BGA. A large percentage of our products are shipped as MCPs due to increasing demand for smaller mobile phones. In order to facilitate production of smaller feature-rich mobile phones, OEMs are increasingly requiring that multiple semiconductors, such as Flash and SRAM, be stacked in a single package or an MCP. Our MCPs utilize BGA packaging and combine our Flash memory with third-party commercial die, such as SRAM or pSRAM. We produce over 250 different MCP solutions across a range of densities, interfaces and voltage ranges to meet the varying needs of Flash memory customers. We are also involved in an industry effort to further reduce wireless form factors with PoP solutions. PoP solutions stack entire memory subsystems, in the form of discrete MCPs, on top of discrete logic packages. We intend to sell PoP-enabled MCPs to customers, who will then purchase PoP-enabled logic packages from complementary silicon suppliers. Customers will have the ability to choose a variety of logic and memory combinations based on their varying application requirements. We are also working to standardize our PoP products through participation in the Joint Electron Device Engineering Council, or JEDEC, standards committee, and we have established relationships with logic providers to ensure compatibility of products from complementary silicon suppliers.

Software

We have invested in software and system engineering capabilities to help Flash memory customers in the integrated category achieve faster time-to-market and improve performance and quality by supporting standard and custom software solutions, in-region software integration and consulting services and validation of system/memory systems. We provide software solutions and services to customers of our products free of charge to enable rapid and efficient deployment of our products into their target markets. In addition, our engineers work with third-party suppliers of reference designs, tools and software to ensure that their products work with our devices. Our tools and platform development programs provide Flash memory customers with a broad range of off-the-shelf software solutions. These software solutions enable customers to create applications capable of controlling our products at every level, from the most minute device command to the highest level Flash file system. Our collaborations with embedded operating system and tools vendors allow us to offer customers an optimal solution for their applications. For example, our Peripheral Component Interconnect, or PCI, card with PISMO module enables customers, partners and third-party tools companies to use commodity personal computers and tools to prototype and debug memory-centric applications. Of more strategic value is our program for in-house development of market-specific computing and communications platforms. In working with these platforms and collaborating with customers, we are able to develop innovative products that are better suited to our customers needs. We have not generated any revenue from these software activities.

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Products

We currently manufacture the industry s broadest range of NOR Flash memory products using both floating gate and MirrorBit technologies. Our current product portfolio ranges from 1 megabit to 1 gigabit with a breadth of interfaces and features as illustrated in the table below. While historically our products have been based on floating gate technology, the majority of our new product designs use MirrorBit technology, with sales of products based on MirrorBit technology reaching approximately 43 percent of net sales during the second quarter of fiscal 2006. Our products have traditionally been designed to support code, or combined code and data storage, applications and serve the wireless and/or embedded portions of the integrated category of the Flash memory market.

	Primary End Markets	Example Applications	Product Families	Application Density Range	Interfaces	Prime Features
Wireless	Mobile Phone	Entry Level	**GL, PL**	16Mb - 32Mb	Standard, Page 1.8, 3-volt	SRW
		Mid-to High End, PDA	**GL, PL, NS, WS, MS**	64Mb - 1Gb	Page, Burst 1.8, 3-volt	SRW, ASP
	Consumer	DVD, Set Top Box	**AL, FL, GL**	4Mb - 128Mb	Standard, Serial, Page 3-volt	ASP
		Gaming, DVR, DTV	**AL, FL, GL, PL, JL, ML**	16Mb - 1Gb	Standard, Serial, Page 3, 5-volt	
	Automotive	Under-Hood			Standard, Burst	
		Engine and Transmission Control	BL, CD, F	1Mb - 32Mb	2.5, 3, 5-volt	SRW, ASP
		Dashboard Infotainment, Telematics	**GL, JL,**	32Mb - 1Gb	Page	
			PL, ML		3-volt	
Embedded	Personal Computers and PC Peripherals	Printers	**AL, FL, GL, PL**	16Mb - 128Mb	Standard, Serial, Page 3-volt	
		Storage (HDD, CD-RW, DVDROM),	**AL, FL**	1Mb - 16Mb	Standard, Serial	
		LCD monitors, Graphics and BIOS			3-volt	
	Networking and Telecom	Network Infrastructure	**AL,** F, **GL**	1Mb - 1Gb	Standard, Page	
		Routers, Wireless Base Stations, Switches			3, 5-volt	
		Consumer Wired Communications	**AL, FL, GL**	4Mb - 64Mb	Standard, Serial, Page	
		Cable and DSL Modems, VoIP			3-volt	
	Industrial, Medical and Military	Instrumentation	**AL, FL,** F,	1Mb - 256Mb	Standard, Serial, Page	SRW
			GL, JL, DL		3, 5-volt	
		Control and Automation	**AL, FL,**	1Mb - 1Gb	Standard, Serial, Page	
			F, **GL**		3, 5-volt	

Note: Bold denotes families that include MirrorBit-based technology.

Wireless Products

Our products for wireless applications, particularly for mobile phones, offer a combination of low power consumption with fast performance and competitive cost structure for a wide range of customer platforms and wireless applications with different interface requirements. Key wireless products include the following:

PL Family. The PL product family, with a 3-volt interface, is used for a broad range of mobile phones, from entry level, basic audio-only handsets to audio and data capable phones with higher resolution color displays. The PL family, which includes products based on floating gate and MirrorBit technology, combines a high speed page mode 3-volt interface, Simultaneous Read/Write capability and Advanced Sector Protection at

32- to 256-megabit densities for code-optimized requirements. PL products can be combined with third-party SRAM or pSRAM die to achieve Flash memory densities up to 512 megabits in a single MCP.

WS Family. The WS product family, with 1.8 volt interface, is optimized for higher-end mobile phones with capabilities such as complex ring tones, enhanced color displays, higher resolution cameras and larger internal storage for multimedia content including music, videos and pictures. The WS family, which includes products based on floating gate and MirrorBit technology, combines a high performance burst-mode 1.8-volt interface operating at up to 108 MHz, with Simultaneous Read/Write and Advanced Sector Protection features at 64- to 512-megabit densities for code and data requirements. WS products can also be combined with third-party SRAM, pSRAM or DRAM die in a single MCP that meets both code and data storage needs.

GL Family. The GL product family, with a 1.8-volt and/or 3-volt interface, enables code and data applications in low-end, mid-range and higher-end mobile phones. The GL product family, which is manufactured using MirrorBit technology, includes a page-mode interface at 32-megabit to 512-megabit densities for wireless applications providing a single scalable platform for code and data applications. GL products can be combined with third-party SRAM and pSRAM die in a single MCP that meets both code and data storage needs.

MS Family. In the second quarter of fiscal 2006, we began production of our first product in the MS family. This product, which is a 1-gigabit density device with a 1.8-volt interface, enables enhanced data applications in higher-end mobile phones. The MS family, which is manufactured using ORNAND architecture based on MirrorBit technology, has faster write speeds than NOR products and includes an interface similar to floating gate NAND. MS products, on their own or together with code-optimized Flash memory products such as those from the WS family, can be combined with third-party low-power DRAM die to achieve Flash memory densities of up to 1.5 gigabits in a single MCP that meets both code and data storage needs.

Embedded Products

We offer a variety of general purpose as well as highly optimized products to serve the diverse needs of the embedded portion of the integrated category. Key embedded products include the following:

AL and GL Families. The AL and GL product families address applications where high reliability coupled with low cost are important, including consumer, networking and telecommunications. The AL product family offers densities as low as 4 megabits, supports a simpler feature set and provides a standard interface for value-focused applications, such as DVD players. The GL product family offers densities up to 1 gigabit in production and includes a page-mode interface and Advanced Sector Protection to support high performance consumer applications, such as high-end STBs and digital video recorders, or DVRs. MirrorBit technology is utilized for the GL family, while both MirrorBit and floating gate technology are utilized for the AL family.

CD Family. The CD product family addresses automotive engine and transmission control applications, which require high reliability and feature rich, high performance solutions operating over wide temperature ranges. The CD product family combines a high performance burst-mode 2.5-volt 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, this family operates at up to 145°C and is available in a fully tested die-only solution for incorporation into special customer modules. We use our floating gate technology to meet the extreme operating temperature range and very high reliability requirements of automotive Flash memory customers.

FL Family. The FL product family addresses the need for continued cost reduction in applications such as personal computers and PC peripherals, for example in hard disk drives and graphics cards and in consumer applications such as DVD players and home networking. The FL family utilizes our MirrorBit technology and a SPI with a low pin count package to provide a low cost package for optimal low cost solutions at densities from 4 to 64 megabits.

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Development Platforms

We provide customers of our Flash memory products development tools and subsystems that help them easily and quickly design Flash devices into their integrated products. We assist these customers in prototyping their designs with our Flash memory devices by providing the necessary hardware development tools and platforms for design, development, verification, evaluation and programming. Our goal is to streamline and simplify the design and development cycle by providing consistent and comprehensive tools to support the design and development process, from initial system bring-up to final product deployment.

For example, our Productivity, Adaptive Communication & Entertainment, or PACE, development platform offers customers of our Flash memory products the benefit of utilizing our products in fully functional cell phone and PDA platforms running with multiple operating systems and with a variety of popular baseband and CPU chipsets. We believe this reference platform can remove significant design overhead and complexity from product development cycles. Additionally, PACE allows the ability to provide system tuning and optimization before final product release. PACE is used in generating benchmarks, creating reference designs, debugging software, integrating new hardware platforms and systems and prototyping next generation wireless architectures.

Together with our key partners, we created the PISMO standard memory interface. PISMO is a standard memory module recommended for development platforms. We offer comprehensive support of our Flash memory products on PISMO modules. PISMO enables our partners and customers to significantly reduce system development and debugging time. The PISMO standard is further supported by a large number of system and chipset companies. Designed with debugging support in mind, the PISMO modules have a companion Logic Analyzer Module option to simplify the design of the evaluation systems without adding the complexity of costly logic-analyzer sockets on every board. PISMO allows design of memory combinations before any MCP is produced, allowing system design and software development to start while the final chip is being manufactured. Together with our partners, we offer a comprehensive set of personal computer and embedded development environments based on PISMO.

Other examples of our development tools include Spansion USB Programmer, or SUP, and a variety of devices models. SUP is a portable Flash programmer system used to program and verify our Flash memory devices. The SUP provides basic programming and verification functions in addition to the ability to exercise our advanced Flash features and enhancements all through the USB port of any personal computer or laptop. Verilog, VHDL and IBIS models are also available for many of our products.

Sales and Marketing

We market and sell our products worldwide under the Spansion trademark. Fujitsu acts as our sole distributor in Japan and also as a nonexclusive distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions. AMD s sales force responsible for selling our products and related personnel was transferred to us in the second quarter of fiscal 2005 and we more recently have completed the transition of some related support functions, including booking and billing and logistical support services.

We market our products through a variety of direct and indirect channels. For wireless Flash memory customers, we focus on direct relationships with many of the top mobile phone OEMs worldwide. We supplement this effort with programs designed to support design-in of our products on reference designs, which are typically used by a broad base of wireless providers when choosing Flash memory solutions. These reference designs are produced by complementary silicon providers, such as baseband processor or controller vendors, or other independent companies. We have ongoing marketing efforts in place targeted at reference design houses choosing our Flash memory products for their reference designs. For embedded Flash memory customers, we focus our marketing efforts on providers of complementary silicon to ensure our products interoperate effectively with the most widely used components in various embedded applications.

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Our marketing activities targeting customers, reference design houses and our potential partners include 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

We serve our customers worldwide directly or through our distributors, including Fujitsu, who buy product from us and resell it to their customers, either directly or through third-party distributors of Fujitsu. Customers for our products consist of OEMs, ODMs and contract manufacturers. For fiscal 2004, fiscal 2005 and the first six months of fiscal 2006, AMD accounted for approximately 54 percent, 56 percent and 28 percent of our net sales, and Fujitsu accounted for approximately 46 percent, 44 percent and 40 percent of our net sales. AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005. In the second quarter of fiscal 2006, we began to sell directly to customers previously served by AMD. We continue to use Fujitsu as our sole distributor in Japan and as a nonexclusive distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions.

Original Equipment Manufacturers

OEMs consist primarily of foreign and domestic manufacturers of mobile phones, consumer electronics, automotive electronics and networking equipment companies, selected regional accounts and target market customers.

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 return rights for discontinued products or for products that are not more than twelve months older than their manufacturing date code. In addition, some of our agreements with distributors may contain standard stock rotation provisions permitting limited levels of product returns. Our distribution agreement with Fujitsu grants limited stock rotation rights to Fujitsu and allows Fujitsu to provide similar limited rights to some of its distributors. However, to date, Fujitsu has not extended these rights to its distributors.

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.

Research and Development

Research and development is critical to our success and is focused on process, product and system level development. We conduct our product and system engineering activities primarily in Sunnyvale, California and in Kawasaki, Japan with additional design and development engineering teams located in the United States, Europe and Asia. Our primary development focus is on MirrorBit products for the integrated category of the Flash memory market. We conduct our process development primarily at our SDC facility located in Sunnyvale, California, our Fab 25 facility located in Austin, Texas and our facilities in Aizu-Wakamatsu, Japan. Currently, we are developing new non-volatile memory process technologies and have announced plans for development of 65- and 45-nanometer technology. We are developing manufacturing processes on 200-millimeter and 300-millimeter wafer technology at our SDC facility.

We also participate in alliances or other arrangements with external partners in the area of product technology and systems solutions to reduce the cost of development for ourselves and our Flash memory customers, broaden our product offerings and accelerate access to new technologies.

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Our research and development expenses for fiscal 2003, fiscal 2004 and fiscal 2005 were $147 million, $281 million and $296 million. Our research and development expenses for the first half of fiscal 2006 were $176 million. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Manufacturing

We own and operate eight manufacturing facilities, of which four, Fab 25, JV1, JV2 and JV3, are wafer fabrication facilities and four are assembly and test facilities. We are beginning to equip a new wafer fabrication facility in Aizu-Wakamatsu, Japan (SP1), in which we expect to produce 300-millimeter wafers at 45-nanometer process technology nodes. We also have an agreement with TSMC to augment our internal production capacity for our 110- and 90-nanometer MirrorBit technology. On September 28, 2006, we agreed to sell the JV1 and JV2 wafer fabrication facilities and certain equipment, assets and inventory located at these facilities to Fujitsu for approximately $150 million plus the value of the inventory at the time of closing. Fujitsu has agreed to provide foundry services for the manufacture of our products at JV1 and JV2. We expect to close this sale in the second quarter of fiscal 2007. For more information, see Certain Relationships and Related Party Transactions JV1/JV2 Transaction.

The locations of our wafer fabrication facilities, the production technologies employed and the approximate clean room square footage are described in the table below.

Wafer Fabrication Facilities

Name/Location	Wafer Size (diameter in millimeters)	Production Technology (in nanometers)	Approximate Clean Room Square Footage
Austin, Texas			
Fab 25	200	90 to 110	120,000
Aizu-Wakamatsu, Japan			
JV1*	200	200 to 320	70,000
JV2*	200	200 to 230	91,000
JV3	200	110 to 170	118,000

* We have agreed to sell JV1 and JV2 to Fujitsu. We expect to close this sale in the second quarter of fiscal 2007.

The following table describes the location and approximate clean room square footage of our assembly and test facilities.

Assembly and Test Facilities

Location	Approximate Clean Room Square Footage
Bangkok, Thailand	78,000
Kuala Lumpur, Malaysia	71,300
Penang, Malaysia	71,000
Suzhou, China	30,250

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.

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Properties

Our principal engineering, manufacturing and administrative facilities comprise approximately 4.4 million square feet and are located in the United States, France, Japan, Korea, Malaysia, Thailand and China. Over 4.2 million square feet of this space is in buildings we own. The remainder of this space is leased, primarily from AMD, including our assembly and test facility in Penang, Malaysia. We also lease from Fujitsu approximately 2.9 million square feet of land in Aizu-Wakamatsu, Japan for our wafer fabs including the land upon which JV1/JV2 are located and we lease office space in Aichi, Japan from a subsidiary of Fujitsu, Fujitsu VLSI. We lease approximately 625,000 square feet of land in Suzhou, China for our assembly and test facility. Our Fab 25 facility in Austin, Texas is encumbered by a lien securing our senior secured revolving credit facility. See 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. Our land lease in Aizu-Wakamatsu expires in 2033 and the land lease relating to JV1/JV2 will be terminated at the effective time of the JV1/JV2 transaction.

Environmental Matters

Many of our facilities are located on properties or in areas with a long history of industrial activity. Prior to our reorganization as Spansion LLC in June 2003, environmental audits were conducted for each of our manufacturing, assembly and test 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 of former chlorinated solvent storage tanks. This property is listed on the U.S. Environmental Protection Agency s Superfund National Priorities List. AMD, as former owner of the property, and another third party, are investigating and remediating this contamination. In addition, our former Woburn, Massachusetts site is located within the Wells G&H Superfund Site on leased, redeveloped property. In connection with our reorganization in June 2003, each of AMD and Fujitsu indemnified us against losses arising out of the presence or release, prior to June 30, 2003, of hazardous substances at or from these, and the other, sites they each contributed to us. Conversely, our subsidiary indemnified 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. To the extent AMD and Fujitsu cannot meet their obligations under their indemnity, 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.

Our Aizu-Wakamatsu manufacturing facilities are located adjacent to other manufacturing facilities of Fujitsu. As a result, we share some permits and facilities. In connection with our reorganization in June 2003, AMD and Fujitsu, on the one hand, and we, on the other, agreed to indemnify the other against permit violations attributable to our respective activities.

We have made and will continue to make capital and other expenditures to comply with environmental laws, but we do not expect environmental requirements will result in material expenditures in the foreseeable future. Environmental laws and regulations are complex, change frequently and have tended to become more stringent over time. We expect that the foreign laws to which we and our products are subject, particularly in China, will become more stringent in the near future. See Risk Factors We are subject to a variety of environmental laws that could result in liabilities.

Competition

Our principal competitors are Intel Corporation, Samsung Electronics Co., Ltd., STMicroelectronics, Silicon Storage Technology, Inc., Macronix International Co., Ltd., Toshiba Corporation, Sharp Electronics Corp.,

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Renesas Technology Corp., Micron Technology, Inc. and Hynix Semiconductor Inc. In the future, our principal competitors may also include IM Flash Technology LLC, the joint venture between Intel and Micron Technology, Inc., SanDisk Corporation and msystems Ltd. Most of these competitors offer or plan to develop floating gate Flash memory devices incorporating MLC floating gate technology to address markets using NOR and NAND product architectures.

We expect competition in the market for Flash memory devices to intensify as existing manufacturers introduce new products, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share. Competition also may increase if NOR memory vendors merge, if NAND memory vendors acquire NOR businesses or other NAND businesses, or if our competitors otherwise consolidate their operations. Furthermore, we face increasing competition from NAND Flash memory vendors in some portions of the integrated Flash memory market. We believe, however, that our ORNAND architecture based on MirrorBit technology and our plans to continue to transition to more advanced process technologies will enable us to compete in portions of the integrated category against NAND Flash memory vendors.

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

- strong relationships with OEMs, ODMs and contract manufacturers that are acknowledged leaders within their respective industries;
- strong market focus to identify emerging Flash memory applications;
- leadership in 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;
- the ability to establish and sustain strategic relationships and alliances with key industry participants; and
- rapid time to market for new products, measured by the time elapsed from first conception of a new product to its commercialization.

Competitors are working on a number of new technologies, including FRAM, MRAM, polymer and phase-change based memory technologies. If successfully developed and commercialized as a viable alternative to Flash memory, these or other technologies could pose a competitive threat to a number of Flash memory companies, including us. In addition, we and some of our competitors have licensed Flash memory intellectual property associated with NROM technology from a third party. NROM technology has similar characteristics to our MirrorBit technology, which may allow these competitors to develop Flash memory technology that is competitive with MirrorBit technology. To compete successfully, we must decrease our manufacturing costs and develop, introduce and sell products that meet the increasing demand for greater Flash memory content in mobile phones, consumer electronics and automotive applications, among other markets, at competitive prices.

Some of our competitors, including Intel, Samsung, STMicroelectronics, Toshiba, Sharp and Renesas, are more broadly diversified than we are and may be able to sustain lower operating margins in their Flash memory business based on profitability of their other, non-Flash memory businesses, allowing them to offer their Flash memory products at prices with which it is difficult for us to compete.

Employees

As of October 1, 2006, we had approximately 9,200 employees. Some employees of our wholly owned Japanese subsidiary, Spansion Japan, are represented by a company union.

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Backlog

We generally manufacture and market standard lines of products. Consequently, a significant portion of our sales are made from inventory on a current basis. Sales are made primarily pursuant to purchase orders for current 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 and Licensing

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. Our U.S. patents are potentially valid and enforceable for either 17 years from the date they were issued or 20 years from the date they were filed. Accordingly, some of our existing patents will only survive for a few more years while others will survive for approximately another 15 years. We do not believe that the expiration of any specific patent will have a material adverse effect on us. In addition, the duration of our valid and enforceable trademarks is indefinite.

AMD and Fujitsu have each contributed to us various intellectual property rights pursuant to an Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement. Under this agreement, we became owners, or joint owners with each of Fujitsu and AMD, of certain patents, patent applications, trademarks, and other intellectual property rights and technology. AMD and Fujitsu reserved rights, on a royalty-free basis, to practice the contributed patents and to license these patents to their affiliates and successors-in-interest to their semiconductor groups. AMD and Fujitsu each have the right to use the jointly-owned intellectual property for their own internal purposes and to license such intellectual property to others to the extent consistent with their non-competition obligations to us. Subject to our confidentiality obligations to third parties, and only for so long as AMD s and Fujitsu s ownership interests in us remain above specific minimum levels, we are obligated to identify any of our technology to each of AMD and Fujitsu, and to provide copies of and training with respect to that technology to them. In addition, we have granted a non-exclusive, perpetual, irrevocable fully paid and royalty-free license of our rights in that technology to each of AMD and Fujitsu.

AMD may grant licenses under our patents, provided that these licenses are of no broader scope than, and are subject to the same terms and conditions that apply to, any license of AMD s patents granted in connection with such license, and the recipient of such license grants to us a license of similar scope under its patents.

In connection with our reorganization in June 2003, we entered into separate patent cross-license agreements with each of AMD and Fujitsu in which we granted to AMD or Fujitsu, as applicable, and AMD or Fujitsu, as applicable, each granted to us, non-exclusive licenses under certain patents and patent applications of their semiconductor groups to make, have made, use, sell, offer to sell, lease, import and otherwise dispose of specific semiconductor-related products anywhere in the world. The patents and patent applications that are licensed are those with an effective filing date prior to the termination of our patent cross-license agreements. Each agreement will automatically terminate on the later of June 30, 2013 and the date AMD or Fujitsu, whichever is the other party to the agreement, sells its entire equity interest in us. Each agreement may be terminated by a party on a change in control of the other party or its semiconductor group. The licenses to patents under license at the time of the termination will survive until the last such patent expires.

Under each agreement, in cases where there is a change of control of us or the other party (AMD or Fujitsu, or each of their semiconductor groups, as applicable), the other party shall have the right to terminate the agreement (or to invoke the provisions described in this paragraph if the agreement had been previously terminated) by giving 30 days written notice within 90 days after receiving notice of the change of control. If so terminated, the rights, licenses and immunities granted under the agreement will continue solely with respect to those licensed patents that are entitled to an effective filing date that is on or before, and are licensed as of, the

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date of such change of control, and will continue until the expiration of the last to expire of such licensed patents. Moreover, with respect to circuit patents, which are patents (other than process patents) covering elements relating to electrical signals to achieve a particular function, the rights, licenses and immunities granted to the party undergoing the change of control are limited solely to:

(i) each existing and pending product of such party as of the date of change of control;

(ii) each existing and pending product of the acquiring third party of such party as of the date of change of control that would have been in direct competition with products described in (i) above; and

(iii) successor products of products described in (i) and (ii) above provided such successor product is based substantially on the same technology.

We will continue to make royalty payments associated with licenses that survive the termination of the cross-license agreement. In fiscal 2005 and the first half of 2006, we incurred royalty expenses of approximately $14 million and $3 million to each of AMD and Fujitsu under their respective patent cross-license agreements. In fiscal 2004, we incurred royalty expenses in the amounts of approximately $18 million to each of AMD and Fujitsu under these agreements. We currently pay royalties to each of AMD and Fujitsu in the amount of 0.3 percent of net sales of our products. The royalty rates for both AMD and Fujitsu will be further reduced to 0.15 percent at the time the Class D common stock is converted into Class A common stock, which will occur immediately prior to the completion of this offering, and thereafter to zero percent on the second anniversary of the date of such conversion.

As a subsidiary of AMD up until our initial public offering, we were the beneficiary of AMD s intellectual property arrangements with third parties, including patent cross-license agreements with other major semiconductor companies such as Intel, Motorola and IBM, and licenses from third parties for technology incorporated in our products and software used to operate our business. Since the completion of our initial public offering in December 2005, we are no longer a beneficiary under a number of these agreements. Furthermore, upon the conversion of the outstanding shares of Class D common stock into shares of Class A common stock immediately prior to the completion of this offering, we will lose all rights as a beneficiary under most of these license agreements. As a result, we may be subject to claims that we are infringing intellectual property rights of third parties through the manufacture and sale of our products and the operation of our business. Therefore, absent negotiating our own license agreements with the third parties who own such intellectual property, we will be vulnerable to claims by such parties that our products or operations infringe such parties patents or other intellectual property rights.

Under our Amended and Restated Intellectual Property Contribution and Ancillary Matters Agreement with AMD and Fujitsu that we executed in December 2005, AMD agreed to enforce its applicable patents to minimize, to the extent reasonably possible, any of our losses incurred as a result of the infringement of third-party patents, provided that the details of the manner in which AMD enforces its patents, including which of its patents AMD enforces, is left to AMD s reasonable discretion. However, as a result of the conversion of the Class D common stock immediately prior to the completion of this offering, AMD will no longer be obligated to provide us this benefit. We will continue to attempt to negotiate our own agreements and arrangements with third parties for intellectual property and technology that is important to our business, including the intellectual property that we previously had access to through our relationship with AMD. We will also attempt to acquire new patents as our success in negotiating patent cross-license agreements with other industry participants will depend in large part upon the strength of our patent portfolio relative to that of the third party with which we are negotiating. If the third-party benefits from an existing patent cross-license agreement with AMD, in many cases it will retain the rights that it has under that agreement even after we cease to be an AMD subsidiary, including rights to utilize the patents that AMD and Fujitsu transferred to us in connection with our reorganization as Spansion LLC in June 2003 and in connection with our initial public offering. In many cases, any such third party will also retain such rights to utilize any patents that have been issued to us or acquired by us subsequent to our reorganization and prior to our no longer being a subsidiary of AMD. Our negotiating position will therefore be impaired, because the other party will already be entitled to utilize a large number, or even all, of our patents,

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while we will no longer have the right to utilize that party s patents. As a result, we may be unable to obtain access to the other party s patent portfolio on favorable terms or at all. Similarly, with respect to licenses from third parties for technology incorporated in our products or software used to operate our business, we may not be able to negotiate prices with these third parties on terms as favorable to us as those available when we were a subsidiary of AMD because we are not able to take advantage of AMD s size and purchasing power. These parties, and other third parties with whom AMD had no prior intellectual property arrangement, may file lawsuits against us seeking damages (potentially including treble damages) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted. Such litigation could be extremely expensive and time-consuming. We cannot assure you that such litigation would be avoided or successfully concluded. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture or sale of some or all of our products, would have a material adverse effect on us.

As of October 1, 2006, we had 1,001 U.S. patents and 498 foreign patents as well as 1,703 patent applications pending in the United States. In some cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. In addition, under our cross-license agreement with AMD, AMD granted us the right to use a substantial number of patents that AMD owns. Similarly, under our cross-license agreement with Fujitsu, Fujitsu also granted us the right to use a substantial number of patents that Fujitsu owns.

Legal Proceedings

On October 7, 2005, Tessera, Inc. filed a complaint, Civil Action No. 05-04063, for patent infringement against Spansion LLC and AMD in the United States District Court for the Northern District of California under the patent laws of the United States of America, 35 U.S.C. section 1, *et seq.*, including 35 U.S.C. section 271. The complaint alleges that Spansion LLC s ball grid array and multichip packages infringe the following Tessera patents: United States Patent No. 5,679,977, United States Patent No. 5,852,326, United States Patent No. 6,433,419 and United States Patent No. 6,465,893. On December 16, 2005, Tessera filed a First Amended Complaint naming Spansion and Spansion Technology Inc., our wholly owned subsidiary, as defendants. On January 31, 2006, Tessera filed a Second Amended Complaint adding Advanced Semiconductor Engineering, Inc., Chipmos Technologies, Inc., Chipmos U.S.A., Inc., Silicon Precision Industries Co., Ltd., Siliconware USA, Inc., ST Microelectronics N.V., ST Microelectronics, Inc., Stats Chippac Ltd., Stats Chippac, Inc., and Stats Chippac (BVI) Limited. The Second Amended Complaint alleges that Spansion LLC s ball grid array and multichip packages infringe on four Tessera patents. The Second Amended Complaint further alleges that each of the newly named defendants is in breach of a Tessera license agreement and is infringing on five Tessera patents. The Second Amended Complaint seeks unspecified damages and injunctive relief. On February 9, 2006, Spansion filed an answer to the Second Amended Complaint and asserted counterclaims against Tessera. On April 18, 2006, U.S. District Court Judge Claudia Wilken issued a Case Management Order that sets a trial date of January 28, 2008.

Tessera has requested the following findings and remedies:

- a finding that Tessera s patents are valid and enforceable and that we are deliberately and willfully infringing Tessera s patents;
- injunctive relief prohibiting us from engaging in any further conduct that would infringe Tessera s patents;
- an award to Tessera to recover all damages, including interest on damages, from the alleged infringement;
- an award of treble damages for deliberate and willful conduct;
- a finding that the case is exceptional, in which case attorney fees should be awarded to the prevailing party; and
- an unspecified award of attorneys fees and costs.

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

From time to time, we may become a party to litigation and subject to claims incident to the ordinary course of business. As of October 1, 2006, we were not subject to any litigation or claims that we believe will have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of costs, diversion of management resources and other factors.

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MANAGEMENT

Executive Officers and Board of Directors

Our executive officers and members of the board of directors, and their ages (as of October 2, 2006) and the positions they hold with us are set forth in the table below.

Name	Age	Executive Officers
Bertrand F. Cambou	50	President and Chief Executive Officer, Member of Board of Directors
James E. Doran	58	Executive Vice President and Chief Operating Officer
Thomas T. Eby	46	Executive Vice President and Chief Marketing and Sales Officer
Kazunori Imaoka	58	Executive Vice President and President, Spansion Japan Limited
Amir Mashkoori	44	Executive Vice President, Wireless Solutions Division
Jose Mejia	45	Executive Vice President, Operations
Robert C. Melendres	41	Executive Vice President, Corporate Development, General Counsel and Corporate Secretary
Dario Sacomani	50	Executive Vice President and Chief Financial Officer
Sylvia Summers	53	Executive Vice President, Consumer, Smart Card and Industrial Division
		Board of Directors
David K. Chao[(1)(2)(3)]	39	Member of Board of Directors
Patti S. Hart[(1)(2)(3)]	50	Member of Board of Directors
Toshihiko Ono	59	Member of Board of Directors
Robert J. Rivet	52	Member of Board of Directors
David E. Roberson[(1)(2)(3)]	52	Member of Board of Directors
Hector de J. Ruiz	60	Chairman of Board of Directors

(1) Member of the nominating and corporate governance committee.
(2) Member of the audit committee.
(3) Member of the compensation committee.

Bertrand F. Cambou has served as our president and chief executive officer since July 2003. Since July 2003 until November 2005, he served as a member of Spansion LLC s board of managers and, since November 2005, has served as a member of our board of directors. From January 2002 until December 2005, he served as a vice president of AMD, first as group vice president of AMD s memory group, and later as an executive vice president. Dr. Cambou was chief operating officer and co-President of Gemplus International S.A. from June 1999 to January 2002. Also during this time, he was a board member of Gemplus International S.A. and of Ingenico Ltd. Dr. Cambou s career includes a 15-year tenure at Motorola Inc. where he held various management positions including senior vice president and general manager of the networking and computing system group as well as chief technical officer of the Semiconductor Sector. Dr. Cambou received his engineering degree from Supelec, Paris, and his doctorate in electrical engineering from Paris XI University. He is the author of 15 U.S. patents.

James E. Doran has served as our executive vice president and chief operating officer since February 2006. He served as our executive vice president of group operations from April 2004 until February 2006. From July 2003 through April 2004, Mr. Doran was Spansion LLC group vice president of worldwide technology development and manufacturing. In addition, from July 2003 until November 2005, Mr. Doran served as a member of Spansion LLC s board of managers and, from November 2005 until the consummation of our initial public offering in December 2005, served as a member of our board of directors. From March 2001 to June 2003, Mr. Doran served as vice president of worldwide technology development and manufacturing for the AMD memory group. Prior to that, Mr. Doran was vice president and general manager of Advanced Micro Devices Saxony GmbH in Dresden, Germany from September 1999 to March 2001. Prior to September 1999, Mr. Doran served as vice president of Fab 25 and earlier as vice president, of Submicron Development Center (SDC)

operations. Mr. Doran joined AMD in 1990 as director of the SDC. Before joining AMD, Mr. Doran was vice president of operations for Paradigm Semiconductor and a fab manager at Intel Corporation. Mr. Doran holds a bachelor s degree in physics from Northwestern University and a master s degree in physics from the University of Wisconsin.

Thomas T. Eby has served as our executive vice president and chief marketing and sales officer since October 2005. He is responsible for corporate strategic marketing and corporate communications, regional marketing, business development, systems engineering, sales, sales operations and field applications engineering. From January 2005 until October 2005, he served as our executive vice president and chief marketing officer. From July 2003 to December 2004, he was our executive vice president with responsibility for leading the integration of the former AMD and Fujitsu assets that were contributed to Spansion LLC. Between 1998 and July 2003, Mr. Eby served as a vice president of AMD, including roles as group vice president of AMD s communication group, then as the group vice president of strategy & business development for AMD and later as senior vice president. In addition, Mr. Eby has held a wide range of sales and marketing positions both in the U.S. and Europe. Mr. Eby holds a bachelor s degree in electrical engineering and computer sciences from Princeton University.

Kazunori Imaoka has served as our executive vice president and president of Spansion Japan Limited since July 2006. Prior to this appointment he was executive vice president of Spansion s group operations. Before Spansion, Mr. Imaoka spent 10 years with FASL, the first joint venture between AMD and Fujitsu. He served on the board of directors of FASL, and holds a bachelor s degree in physics from Yamaguchi University, Japan, and a master s degree in applied physics from Nagoya University, Japan.

Amir Mashkoori serves as our executive vice president of the wireless solutions division. Mr. Mashkoori became our senior vice president and general manager in May 2004 before he assumed his current role in September 2005. In this position, Mr. Mashkoori is responsible for running the wireless business and overseeing the division s marketing, engineering, operations and program management functions. From July 2003 until May 2004, he served as our vice president and general manager of the wireless business unit. From January 1999 through June 2004, Mr. Mashkoori served as vice president for memory group operations at AMD. Mr. Mashkoori was also a director for AMD s memory group operations from April 1994 until November 1995, and held other positions going back to December 1978. From 1996 to 1998, Mr. Mashkoori served at Trident Microsystems Inc., first as vice president of operations, and then as senior vice president of operations and business development. Mr. Mashkoori received both a bachelor s degree in business and an MBA from San Jose State University.

Jose Mejia has served as executive vice president, operations since July 2006. Prior to Spansion, Mejia served in several executive positions at Lucent Technologies, most recently as president of Lucent s supply chain networks business. Prior to Lucent, Mejia was at Ford Motor Company, held executive management roles at Bay Networks, Nortel Networks and IBM. Mejia is also a member of the board of directors of the Pella Corporation, Liberty Property Trust, the Smithsonian Institute Latino Center and the advisory board to Duke University s Fuqua School of Business. Mejia holds a bachelor s degree in Industrial Operations and Engineering from the University of Michigan and an honorary MBA from the University of Arizona.

Robert C. Melendres has served as our executive vice president, corporate development, general counsel and corporate secretary since February 2006. He was appointed as our corporate secretary in March 2005. He served as our corporate vice president, corporate development and general counsel from January 2005 until February 2006. From July 2002 to January 2005, Mr. Melendres served at AMD in various executive positions responsible for business development, most recently as the corporate vice president, business development. Prior to joining AMD, Mr. Melendres served in various senior management positions, including president and general counsel of WebGain, Inc. from July 2000 to July 2002. He also served as director of worldwide contracts and business practices for IBM, and IBM legal counsel from June 1993 to July 2000. Mr. Melendres holds a bachelor s degree in economics from the University of California at Los Angeles and a juris doctorate from Harvard Law School.

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Dario Sacomani has served as our executive vice president and chief financial officer since February 2006. From June 2002 until December 2005, he was employed at Richardson Electronics, Ltd., where he served as chief financial officer, senior vice president and board director from June 2002 until July 2005. Prior to Richardson Electronics, Mr. Sacomani was senior vice president, chief financial officer and treasurer of ON Semiconductor, a spin-off of Motorola, Inc., from August 1999 until April 2002. Mr. Sacomani also spent 18 years at Motorola in several finance positions within Motorola s Semiconductors Products Sector, including as vice president and group controller of the Semiconductor Components Group.

Sylvia Summers serves as our executive vice president of the consumer smart card and industrial division. Ms. Summers was our senior vice president and general manager of the embedded memory division before she assumed her current role in September 2005. From July 2003 through March 2004 she was our vice president and general manager of the embedded media memory division. Prior to joining us, from March 2003 through July 2003, Ms. Summers served as vice president and general manager of the embedded business unit for AMD s memory products business. Prior to joining AMD, from August 2001 to May 2002, Ms. Summers served as president and chief executive officer of Silvan Networks. Ms. Summers served as group vice president and general manager for the public access management network services group at Cisco Systems from November 1999. Ms. Summers was vice president and general manager of the multi-platform group at Storage Technology Corporation from May 1997 to June 1999. She has also held senior-level management positions in systems businesses at Group Bull, Thomson CSF-RCM Division and Matra Datasystems. She holds a bachelor s degree in electrical engineering from Ecole Polytecnique Feminine in France, a master s degree in electrical engineering from the University of California, Berkeley and a master s degree in business administration from Thomson CSF in France.

David K. Chao has served as a Class A director since the consummation of our initial public offering in December 2005. Mr. Chao is a co-founder of Doll Capital Management, or DCM, a venture capital firm based in the Silicon Valley, and has been a managing general partner since 1996. Prior to founding DCM, Mr. Chao was a co-founder and member of the board of directors of Japan Communications, Inc. He also worked as a management consultant at McKinsey & Company and as a marketing manager at Apple Computer. Prior to these positions, he was an account executive for Recruit, a Japanese human resources, advertising and services company. Mr. Chao serves on the boards of numerous DCM portfolio companies, including 51job, Inc., where he has served since 2000. He is a management board member of the Stanford Graduate School of Business board of trustees and a member of The Thacher School board of trustees. Mr. Chao received a bachelor s degree in economics and East Asian studies from Brown University and a master s degree in business administration from Stanford University.

Patti S. Hart has served as a Class A director since the consummation of our initial public offering in December 2005. Ms. Hart most recently served as chairman and chief executive officer of Pinnacle Systems from March 2004 until August 2005. Prior to joining Pinnacle Systems in 2004, Ms. Hart was chairman and chief executive officer of Excite@Home from April 2001 until March 2002. Excite@Home filed for bankruptcy protection in September 2001. Prior to joining Excite@Home in 2001, Ms. Hart served as chairman, president and chief executive officer of Telocity and as a member of Telocity s board of directors from July 1999 through its sale to DirecTV in March 2001. From 1986 to 1999, Ms. Hart worked at Sprint Corporation, most recently as president and chief operation officer of Sprint s long distance division. Ms. Hart is also a member of the board of directors for Korn Ferry International and International Game Technology and is a former board member of Plantronics Inc., Vantive Corporation, EarthLink, Inc. and Premisys Corporation. Ms. Hart holds a bachelor s degree in marketing and economics from Illinois State University.

Toshihiko Ono has served as the chairman of Spansion LLC s board of managers since July 2003 and, since November 2005, has served as our Class C director. Since June 2004, Mr. Ono has also served as a board member of Fujitsu. Since June 2006, Mr. Ono has served as a corporate senior executive vice president and representative director with the principal responsibility for manufacturing innovation and electronic devices. From June 2005 to June 2006, Mr. Ono served as a corporate executive vice president of Fujitsu, in charge of electronic devices. From June 2004 to June 2005, Mr. Ono served as a corporate executive vice president of

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Fujitsu, and as the president of Fujitsu s electronic devices business group. From April 2003 to June 2004, Mr. Ono served as Fujitsu s corporate senior vice president and as the group president of Fujitsu s electronic devices business group and its LSI group. Mr. Ono served as Fujitsu s corporate vice president and the group president of its LSI group from June 2002 to April 2003. Prior to that, Mr. Ono served as the group executive vice president of the electronic devices group from April 2000 to June 2002. Mr. Ono began his career at Fujitsu in 1973, and served in various positions, including group senior vice president and group executive vice president of its LSI group. Mr. Ono received a bachelor s degree in engineering from Chiba University, Japan.

Robert J. Rivet has served as a member of Spansion LLC s board of managers since July 2003 and, since November 2005, has served as one of our Class B directors. Mr. Rivet has also served as a director of various subsidiaries of the Company. Mr. Rivet is AMD s executive vice president and chief financial officer and since 2001 has served as a director of various AMD subsidiaries. Before joining AMD in October 2000, he served as senior vice president and director of finance of the semiconductor products sector of Motorola from 1997 to 2000. Mr. Rivet joined Motorola in 1976 as a senior financial analyst and senior accountant and, from 1981 to 1997, he served in a number of positions in Motorola s semiconductor operations. Mr. Rivet holds a bachelor s degree in accounting from the University of Illinois and a master s degree in business administration from the University of Texas.

David E. Roberson has served as a Class A director since the consummation of our initial public offering in December 2005. Mr. Roberson is president and chief executive officer and is a member of the board of directors of Hitachi Data Systems. With more than 20 years of experience at Hitachi Data Systems, Mr. Roberson has held a number of key positions in finance, leasing, IT, logistics, legal, administration and human resources. Mr. Roberson has served as a board member and advisor to several public and private companies, including GlassHouse Technologies, IDT, RagingWire Enterprise Solutions and Xythos. Mr. Roberson received a bachelor s degree in social ecology from the University of California, Irvine and a law degree from Golden Gate University School of Law in San Francisco, California. Mr. Roberson also studied financial management at Harvard Business School.

Hector de J. Ruiz has served as a member of Spansion LLC s board of managers since July 2003 and, since November 2005, has served as one of our Class B directors and as chairman of our board of directors. Dr. Ruiz is currently the chairman of the board and chief executive officer of AMD. Dr. Ruiz joined AMD as president and chief operating officer in January 2000 and became AMD s chief executive officer in April 2002. Dr. Ruiz was appointed chairman of the board of AMD in April 2004. Before joining AMD, Dr. Ruiz served as president of the Motorola, Inc. semiconductor products sector from 1997 to 1999. From 1991 to 1995, Dr. Ruiz was senior vice president and general manager of Motorola s paging and messaging businesses and in 1996 became executive vice president and general manager of those businesses. Dr. Ruiz joined Motorola in 1977 and, from 1977 to 1991, he held various executive positions in Motorola s semiconductor products sector. Before joining Motorola, Dr. Ruiz worked at Texas Instruments, Inc. from 1972 to 1977. Dr. Ruiz is also a member of the board of directors of Eastman Kodak Company. Dr. Ruiz holds a bachelor s and master s degree in electrical engineering from the University of Texas, Austin and a doctorate degree in electronics from Rice University.

Board Structure

Our directors are divided into three classes, designated Class I, Class II and Class III. At each annual meeting of our stockholders, directors will be elected to succeed the class of directors whose terms have expired. Class II directors terms will expire at the 2007 annual meeting of our stockholders, Class III directors terms will expire at the 2008 annual meeting of our stockholders and Class I directors terms will expire at the 2009 annual meeting of our stockholders. The directors are assigned to the classes as follows:

Class I: Hector de J. Ruiz (Class B), David K. Chao (Class A);

Class II: Robert J. Rivet (Class B), Patti S. Hart (Class A); and

Class III: Bertrand F. Cambou (Class A), Toshihiko Ono (Class C), David E. Roberson (Class A).

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Board Composition and Committees

Currently, we are governed by a seven-member board of directors, of which three members are independent directors, two directors are elected by AMD, one director is elected by Fujitsu and one director is the chief executive officer of Spansion Inc.

In accordance with our certificate of incorporation, the number of Class B directors serving on the board of directors will be reduced as a result of AMD s decreased aggregate ownership interest in us. At the time that there occurs such a reduction in the number of Class B or Class C directors eligible to serve on the board of directors, then upon the affirmative vote of the majority of directors, any such vacancies may be filled with that number of additional directors elected at the direction of the Class A common stock needed to maintain seven directors serving on the board. For more information, see Description of Capital Stock.

Audit Committee

The audit committee was formed on December 15, 2005 and consists of Mr. David E. Roberson, as chair, Mr. David K. Chao and Ms. Patti S. Hart, each of whom was determined by the board of directors to be financially literate and independent. The board of directors determined that Mr. Roberson was qualified to be, and would be, designated our audit committee financial expert. The audit committee assists the board of directors with its oversight responsibilities regarding the integrity of our financial statements, our compliance with legal and regulatory requirements, the independent registered public accounting firm s qualifications and independence and the performance of our internal audit function and the independent registered public accounting firm. The audit committee is also directly responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accounting firm, who reports directly to the committee. The audit committee meets alone with our financial and legal personnel, our internal auditor and with our independent registered public accounting firm, who have free access to the audit committee at any time. We employ an internal auditor who reports to the audit committee and to our chief financial officer.

Compensation Committee

The compensation committee was formed on December 15, 2005. The compensation committee consists of Ms. Hart, as chair, and Messrs. Chao and Roberson each of whom was determined by the board to be independent. The compensation committee has the authority to determine the form and amount of compensation to be paid or awarded to all our executive officers and to all other employees as delegated from time to time by the board of directors. The compensation committee s responsibilities, among other things, include (i) reviewing and approving the corporate goals and objectives relevant to chief executive officer compensation and evaluating chief executive officer performance in light of those goals and objectives, (ii) reviewing and approving the corporate goals and objectives relevant to non-CEO executive officer compensation, (iii) reviewing and making recommendations to the board of directors with respect to the adoption and approval of, or amendments to, all umbrella cash-based plans, incentive compensation plans and equity-based compensation plans and approving for submission to stockholders all new stock option and equity compensation plans, (iv) providing oversight with respect to succession planning for the chief executive officer and other executive officers, and (v) reviewing and making recommendations to the board of directors with respect to all forms and amounts of compensation for members of the board of directors.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee was formed on December 15, 2005. The nominating and corporate governance committee consists of Mr. Chao as chair, Ms. Hart and Mr. Roberson, each of whom was determined by the board of directors to be independent. The nominating and corporate governance committee assists the board of directors in discharging its responsibilities regarding the identification of qualified candidates to become members of the board of directors, the selection of nominees for election as directors at the next annual meeting of stockholders (or special meeting of stockholders at which directors are to be elected), the

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