Spansion Inc.
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2010

OR

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

For the transition period from to

Commission File Number 001-34747

SPANSION INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-3898239** **(I.R.S. Employer** **Identification No.)**
915 DeGuigne Drive **Sunnyvale, California** **(Address of principal executive offices)**	**94085** **(Zip Code)**

(408) 962-2500

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of the close of business on August 2, 2010:

Class	Number of Shares
Class A Common Stock, $0.001 par value	59,270,916
Class B Common Stock, $0.001 par value	1

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Spansion Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 27, 2010			Six Months Ended June 27, 2010		
	Successor (1)	Predecessor (1)	Predecessor (1)	Successor (1)	Predecessor (1)	Predecessor (1)
	Period from May 11, 2010 to June 27, 2010	Period from March 29, 2010 to May 10, 2010	Three Months ended June 28, 2009	Period from May 11, 2010 to June 27, 2010	Period from December 28, 2009 to May 10, 2010	Six Months ended June 28, 2009
Net sales	$ 124,569	$ 101,786	$ 272,117	$ 124,569	$ 324,914	$ 630,000
Net sales to related parties	4,801	24,496	104,184	4,801	78,705	145,929
Total net sales	129,370	126,282	376,301	129,370	403,619	775,929
Cost of sales (*Note 8*)	111,413	85,697	280,266	111,413	274,817	663,301
Research and development (*Note 8*)	13,420	12,115	37,889	13,420	35,068	82,635
Sales, general and administrative	18,259	20,497	33,788	18,259	68,105	137,817
Restructuring charges (credits)		(2,785)	14,212		(2,772)	38,154
Operating income (loss) before reorganization items	(13,722)	10,758	10,146	(13,722)	28,401	(145,978)
Interest and other income (expense), net	364	(3,190)	1,916	364	(2,904)	2,396
Interest expense (2)	(4,877)	(11,237)	(9,212)	(4,877)	(30,573)	(33,678)
Gain on deconsolidation of subsidiary						30,100
Gain (loss) before reorganization items and income taxes	(18,235)	(3,669)	2,850	(18,235)	(5,076)	(147,160)
Reorganization items		364,876	(9,842)		370,340	(372,299)
Income (loss) before income taxes	(18,235)	361,207	(6,992)	(18,235)	365,264	(519,459)
Provision for (benefit from) income taxes	(21)	1,235	261	(21)	1,640	429
Net income (loss)	$ (18,214)	$ 359,972	$ (7,253)	$ (18,214)	$ 363,624	$ (519,888)
Net income (loss) per share						
Basic	$ (0.31)	$ 2.22	$ (0.04)	$ (0.31)	$ 2.24	$ (3.22)
Diluted	$ (0.31)	$ 2.21	$ (0.04)	$ (0.31)	$ 2.24	$ (3.22)
Shares used in per share calculation						
Basic	59,271	162,513	161,778	59,271	162,439	161,530

Diluted	59,271	162,518	161,778	59,271	162,610	161,530

(1) Please refer to Notes 2 and 3 for an explanation of the basis of the Successor and Predecessor presentations.
(2) Contractual interest expense for the three and six months ended June 28, 2009 was approximately and $21.0 million and $48.0 million, respectively.

See accompanying notes

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Spansion Inc.

Condensed Consolidated Balance Sheets

(in thousands)

(Unaudited)

	Successor June 27, 2010	Predecessor December 27, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 254,145	$ 324,903
Auction rate securities	25,885	100,335
Accounts receivable	139,912	129,174
Accounts receivable from related parties	13,201	366,602
Allowance for doubtful accounts	(305)	(56,408)
Accounts receivables, net	152,808	439,368
Inventories	244,536	141,723
Deferred income taxes	1,141	13,332
Prepaid expenses and other current assets	44,930	49,533
Total current assets	723,445	1,069,194
Property, plant and equipment, net	329,601	322,710
Intangible assets, net	207,276	1,330
Goodwill	165,553	
Other assets	41,394	44,743
Total assets	$ 1,467,269	$ 1,437,977
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Short term note	$	$ 64,150
Accounts payable	30,870	16,979
Accounts payable to related parties (*Note 8*)	24,402	221,211
Accrued compensation and benefits	32,216	21,630
Other accrued liabilities	218,219	129,160
Deferred income	8,043	62,958
Current portion of long-term debt	13,798	
Income taxes payable	54	83
Deferred income taxes	11,578	
Total current liabilities	339,180	516,171
Deferred income taxes	12,073	13,405
Long-term debt, less current portion	447,733	
Other long-term liabilities	10,327	9,825
Total long-term liabilites	470,133	23,230
Liabilites subject to compromise		1,756,269
Total liabilities	809,313	2,295,670
Stockholders equity (deficit)		

Old Class A common stock, $0.001 par value, 714,999,998 shares authorized, 162,291,633 shares issued and outstanding		162
New Class A common stock, $0.001 par value, 150,000,000 shares authorized, 59,270,916 shares issued and outstanding	59	
New Class B common stock, $0.001 par value, 1 share authorized, 1 share issued and outstanding		
New preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding		
Additional paid-in capital	675,886	2,484,320
Accumulated deficit	(18,214)	(3,342,370)
Accumulated other comprehensive income	225	195
Total stockholders equity (deficit)	657,956	(857,693)
Total liabilities and stockholders equity (deficit)	$ 1,467,269	$ 1,437,977

See accompanying notes

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Spansion Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended June 27, 2010		
	Successor Period from May 11, 2010 to June 27, 2010	Predecessor Period from December 28, 2009 to May 10, 2010	Predecessor Six Months Ended June 28, 2009
Cash Flows from Operating Activities:			
Net income (loss)	$ (18,214)	$ 363,624	$ (519,888)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	26,146	43,788	106,976
Provision for doubtful accounts	310	7,229	18,438
Provision (benefit) for deferred income taxes	(3)	7,000	8
Gain on sale and disposal of property, plant and equipment, net	(266)	(2,107)	(1,902)
Compensation recognized under equity incentive plans	1,945	7,052	7,568
Gain from approved settlement of rejected capital leases and various licenses		(22,517)	
Gain on sale of Suzhou plant	(1,342)	(5,224)	
Gain on deconsolidation of subsidiary			(30,100)
Gain on discharge of pre-petion obligations		(434,046)	
Impairment of investments		3,011	
Write-off of financing costs for old debts		13,022	
Amortization of inventory fresh-start markup	18,597		
Changes in operating assets and liabilities, net of effects of deconsolidation of subsidiary and acquisition:			
Decrease (increase) in accounts receivable	(14,077)	10,156	(102,007)
(Increase) decrease in inventories	27,770	(7,242)	189,213
(Increase) in prepaid expenses and other current assets	(6,271)	(3,894)	(16,707)
Decrease (increase) in other assets	177	1,534	(6,510)
(Decrease) increase in accounts payable, accrued liabilities and accrued compensation and benefits	(29,734)	23,213	436,492
(Decrease) increase in deferred income	(6,468)	(3,240)	28,972
Net cash provided (used) by operating activities	(1,430)	1,359	110,553
Cash Flows from Investing Activities:			
Proceeds from sale of property, plant and equipment	4,278	9,620	60
Purchases of property, plant and equipment	(4,561)	(14,046)	(5,201)
Proceeds from redemption of auction rate securities	16,750	62,425	
Loan made to an investee			(5,263)
Cash decrease due to deconsolidation of subsidiary			(52,092)
Purchase of Kawasaki business	(13,125)		
Cash proceeds from sale of Suzhou plant		18,687	
Net cash provided (used) by investing activities	3,342	76,686	(62,496)
Cash Flows from Financing Activities:			
Proceeds from borrowings, net of issuance costs		438,082	117,758
Payments on debt and capital lease obligations	(2,715)	(691,176)	(58,639)
Proceeds from rights offering		104,875	
Net cash provided (used) by financing activities	(2,715)	(148,219)	59,119

Effect of exchange rate changes on cash and cash equivalents	219				(3,095)
Net increase (decrease) in cash and cash equivalents	(584)		(70,174)		104,081
Cash and cash equivalents at the beginning of period	254,729		324,903		116,387
Cash and cash equivalents at end of period	$ 254,145	$	254,729	$	220,468
Supplementary disclosure of non-cash investing and financing activities:					
Settlement of liabilities subject to compromise through issuance of reorganized Spansion Inc. common stock	$	$	486,064	$	
Netting of receivable/payable balances due from/to Spansion Japan	$ 283,191	$		$	

See accompanying notes

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Spansion Inc.

Condensed Consolidated Statements of Stockholders Equity (Deficit)

(in thousands)

(Unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity (Deficit)
Balance at December 27, 2009 (Predecessor)	$ 162	$ 2,484,320	$ (3,342,370)	$ 195	$ (857,693)
Comprehensive income:					
Net income from December 27, 2009 to May 10, 2010			363,624		363,624
Other comprehensive income					
Net change in cumulative translation adjustment					
Total other comprehensive income					
Total comprehensive income					363,624
Issuance of shares under old employee stock plans:					
Vesting of RSUs					
Exercise of options					
Equity settlement for liabilities subject to compromise	486	485,578			486,064
Compensation recognized under old employee stock plans		1,595			1,595
Cancellation of old employee stock plans		5,457			5,457
Balance at May 10, 2010 (Predecessor) (Unaudited)	648	2,976,950	(2,978,746)	195	(953)
Fresh start adjustments:					
Cancellation of Predecessor common stock	(648)	(2,976,950)			(2,977,598)
Elimination of Predecessor accumulated deficit and accumulated other comprehensive loss			2,978,746	(195)	2,978,551
Balance at May 11, 2010 (Successor) (Unaudited)					
Comprehensive income:					
Net loss from May 11 to June 27, 2010			(18,214)		(18,214)
Other comprehensive income:					
Net change in cumulative translation adjustment				225	225
Total other comprehensive income					225
Total comprehensive income					(17,989)
Issuance of Successor common stock ($0.001 per share)	46	569,066			569,112
Rights offering settlement	13	104,875			104,888
Compensation recognized under new employee stock plans		1,945			1,945
Balance at June 27, 2010 (Successor) (Unaudited)	$ 59	$ 675,886	$ (18,214)	$ 225	$ 657,956

See accompanying notes

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

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

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

2. Emergence from Chapter 11

General Information

On March 1, 2009, Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International, Inc., and Cerium Laboratories LLC (the Debtors) each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases). The Chapter 11 Cases were being jointly administered under Case No: 09-10690 (KJC). On May 10, 2010, the Debtors emerged from the Chapter 11 Cases, following the confirmation of the Plan of Reorganization (the Plan) by the U.S. Bankruptcy Court on April 16, 2010.

Prior to the Debtors filing of the Chapter 11 Cases, on February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC (Spansion Japan) filed a proceeding under the Corporate Reorganization Law of Japan to obtain protection from Spansion Japan s creditors (the Spansion Japan Proceeding). On March 3, 2009 the Tokyo District Court approved the filing of the Spansion Japan Proceeding and appointed the incumbent representative director of Spansion Japan as trustee. As a result, the Company no longer controls Spansion Japan despite its 100 percent equity ownership interest and, effective March 3, 2009, the Company deconsolidated Spansion Japan and has accounted for its interest in Spansion Japan as a cost basis investment.

Upon emergence from the Chapter 11 on May 10, 2010 (Emergence Date), the Company adopted fresh start accounting in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852 Reorganizations . The adoption of fresh start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 10, 2010 are not comparable to the Condensed Consolidated Financial Statements prior to that date.

The Company qualified for fresh start accounting, in accordance with ASC 852, due to:

- the reorganization value of the Debtors assets immediately before the date of confirmation being less than the total of all their post-petition liabilities and allowed claims; and

- holders of existing voting shares of the Company immediately before confirmation receiving less than 50 percent of the voting shares of the post-emerged Company.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Reorganization value is the value attributed to the reorganized entity, in addition to the expected net realizable value of those assets that will be disposed of before reorganization occurs. This reorganization value is viewed as the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. Reorganization value is generally determined by discounting future cash flows. Immediately prior to the Emergence Date, the Debtors reorganization value of $1.2 billion was less than the sum of post-petition liabilities of $617 million and allowed claims of $938 million.

Also, holders of Class A common stock outstanding prior to the Emergence Date (Old Common Stock) did not receive any consideration for their shares or any pre-determined allocation of Class A common stock of the reorganized Company (New Common Stock). Holders of New Common Stock issued by the reorganized Company after the Emergence Date primarily include unsecured creditors who have received or will receive shares of New Common Stock in settlement of their allowed claims, and participants in a rights offering that the Company conducted in February 2010, as described below under Effectiveness of the Plan and Exit Financing .

Fresh start accounting requires resetting the historical net book values of assets and liabilities of the Company as of Emergence Date to the related fair values by allocating the Company s reorganization value to its assets and liabilities pursuant to ASC 805 Business Combinations and ASC 852-10 Reorganizations . The excess reorganization value over the fair value of tangible and identifiable intangible assets has been recorded as goodwill on the Company s Condensed Consolidated Balance Sheet. Deferred taxes have been determined in conformity with ASC 740 Income Taxes . For additional information regarding the impact of fresh start accounting on the Company s Condensed Consolidated Balance Sheet as of the Emergence Date, see Fresh Start Consolidated Balance Sheet below.

References in these financial statements to Successor refer to Spansion and its consolidated subsidiaries after May 10, 2010, after giving effect to: (i) the cancellation of Old Common Stock issued prior to May 10, 2010; (ii) the issuance of New Common Stock and settlement of existing debt and other adjustments in accordance with the Plan; and (iii) the application of fresh start accounting. References to Predecessor refer to Spansion and its consolidated subsidiaries up to May 10, 2010.

Effectiveness of the Plan and Exit Financing

Under the Plan, most holders of allowed general, unsecured claims against the Predecessor received or will receive New Common Stock in satisfaction of their claims. Holders of allowed general, unsecured claims subject to a low payout threshold received cash in satisfaction of their claims. Holders of Senior Secured Floating Rate Notes (FRN) received cash of approximately $638 million to fully discharge their claims. The $638 million was primarily provided by the exit financing (Exit Financing) discussed below.

Pursuant to the Plan, the holders of allowed claims were offered the right to purchase a total of 12,974,496 shares of the New Common Stock upon emergence from the Chapter 11 Cases at a price of $8.43 per share (Rights Offering). The number of shares available to each eligible claimant was based on each claimant s proportionate allowed claim. In connection with the Rights Offering, the Company entered into a Backstop Rights Purchase Agreement with Silver Lake Sumeru Fund, L.P. (Silver Lake) whereby Silver Lake committed to purchase the remaining balance of Rights Offering shares that are not otherwise subscribed for by the Rights Offering participants. Based on the agreement, Silver Lake purchased 3,402,704 shares of the New Common Stock that had not been subscribed for by the Rights Offering participants. As of May 10, 2010, the Company received net proceeds of approximately $104.9 million through the Rights Offering that was used in full to partially discharge the FRN claims.

On February 9, 2010, the Company closed a five-year Senior Secured Term Loan agreement (Term Loan) of $450 million with a group of lenders. The proceeds of the Term Loan, together with cash proceeds from other sources of cash available to the Company, were used in full to partially discharge the remaining balance of the FRN claims. See Note 11 for further details.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

On May 10, 2010, the Company finalized an agreement with Bank of America and other financial institutions for a senior revolving credit facility (Revolving Credit Facility) in an aggregate amount of up to $65 million to fund bankruptcy related expenses and ongoing working capital. As of June 27, 2010, the Company has not drawn under this facility which was entered into as a pre-condition to obtaining the Term Loan facility. See Note 11 for further details.

The Plan contemplates the distribution of 65.8 million shares of New Common Stock, consisting of: (i) 46,247,760 shares to holders of allowed general, unsecured claims; (ii) 12,974,496 shares to subscribers of the Rights Offering; and (iii) 6,580,240 shares reserved for issuance to eligible employees in connection with grants of stock options and restricted stock units (RSUs) under the Company s new 2010 Equity Incentive Award Plan. The New Common Stock was listed on the NYSE Amex LLC Exchange on May, 18, 2010 and was re-listed on the New York Stock Exchange on June 23, 2010, in both cases under the trading ticker symbol CODE .

In accordance with the Plan, holders of Old Common Stock , or stock options exercisable for Old Common Stock and RSUs which convert into Old Common Stock, outstanding as of May 10, 2010 did not receive any distributions, and their equity interests were cancelled on May 10, 2010.

Business Relationship with Spansion Japan and Foundry Agreement

Spansion Japan manufactures and supplies silicon wafers to the Company, and provides sort services to the Company. It also functioned as the sole distributor of the Company s products in Japan whereby it purchased products from the Company and sold them to customers in Japan, primarily through a subsidiary of Fujitsu Limited. The wafers purchased from Spansion Japan are a material component of the Company s cost of goods sold, and historically the wafer prices were governed by a foundry agreement. Management believes that the prices under the foundry agreement greatly exceeded the amounts that the U.S. Bankruptcy Court would have required the Company to pay for wafers purchased during the period from February 9, 2009 through October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders).

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

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

On February 2, 2010, the Company and Spansion Japan entered into a foundry agreement whereby the Company agreed to purchase from Spansion Japan: (i) a minimum of 10 billion yen (equivalent to $111.8 million at June 27, 2010) worth of wafers over six quarters, beginning with the first

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

quarter of 2010 and ending with the second quarter of 2011; and (ii) minimum sort services of $7.7 million for the first quarter of 2010 and $8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011, with both sort services and wafer production to be subject to normal and customary foundry performance conditions. On March 29, 2010, the Company and Spansion Japan executed various agreements implementing the Settlement including the purchase of Spansion Japan s distribution business located at Kawasaki, Japan, which was consummated on May 24, 2010 for a total cash purchase price of $13.1 million. With the acquisition of Spansion Japan s distribution business, all material conditions of the Settlement were fulfilled and the Company set off the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). All transactions with Spansion Japan are now being settled on a regular basis on mutually agreed upon terms.

The purchase price was allocated to the acquired business based on its estimated fair values as of May 24, 2010, as set forth below:

	In millions
Tangible assets	$ 1.5
Customer relationships	10.1
Goodwill	3.3
Liabilities	(1.8)
Total purchase price	$ 13.1

Refer to Note 9 for disclosures relating to the above intangible assets.

Until May 24, 2010, Spansion Japan continued in its historical role as the sole distributor of the Company s products in Japan. After the purchase of the distribution business from Spansion Japan, the Company distributes its products in Japan through its newly formed, wholly owned subsidiary, Nihon Spansion Limited.

Effective June 27, 2010, Spansion Japan s Plan of Reorganization (POR) was confirmed by the Tokyo District Court. The POR provides for Spansion Japan to redeem shares held by the Company, its shareholders, without consideration, cancel such shares and issue new shares to unsecured creditors. According to the POR, the redemption, cancellation and new issuance is scheduled to take place at the end of September 2010. Until that time, the Company will continue to be the 100 percent equity owner of Spansion Japan. However, since the Company has not controlled Spansion Japan despite its equity ownership interest since March 3, 2009, the Company continues to account for its interest in Spansion Japan as a cost basis investment.

Ongoing Chapter 11 Matters

Resolution of Outstanding Claims

Pursuant to the Plan, a claims agent has been appointed to analyze and, at the claims agent s discretion, contest outstanding disputed claims amounting to $1.5 billion, which includes the $936 million general unsecured proof of claim filed by Spansion Japan as a result of the November 19, 2009 foundry agreement rejection order. The Company accrued its best estimate of the liability which is included in the $938 million of liabilities subject to compromise as of the Emergence Date. Since these claims are being handled by the claims agent and are under the jurisdiction of the U.S. Bankruptcy Court, their sole recourse is to receive shares reserved under the plan and, therefore, any outcome of the claims adjudication process will have no direct impact on the Successor Company.

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Liabilities Subject to Compromise

At June 27, 2010, the Company had a zero balance for liabilities subject to compromise (LSTC) due to its emergence from the Chapter 11 Cases on May 10, 2010. For information regarding the discharge of LSTC, see Fresh-Start Consolidated Balance Sheet below.

The following table summarizes the components of LSTC included in the Consolidated Balance Sheet at December 27, 2009:

	Predecessor December 27, 2009 (in thousands)
Accounts payable and accrued liabilities	$ 639,897
Accounts payable to related parties	109,941
Accrued compensation and benefits	16,138
Long-term debt	968,266
Capital lease obligations	18,861
Other long-term liabilities	3,166
Total liabilities subject to compromise	$ 1,756,269

LSTC refers to pre-petition obligations that were impacted by the Chapter 11 Cases. These liabilities represented the then estimated amounts expected to be allowed on known or potential claims to be resolved through the Chapter 11 Cases and included certain items that could be assumed under the Plan.

Reorganization Items

Entities in reorganization are required to disclose separately items such as professional fees directly related to the process of reorganizing the Predecessor under the Chapter 11 Cases, realized gains and losses, provisions for losses, and interest income resulting from the reorganization and restructuring of the business. These reorganization items are not applicable post Emergence Date of May 10, 2010.

The following table summarizes the components of reorganization items for the periods from March 29, 2010 to May 10, 2010 and from December 28, 2009 to May 10, 2010 and for the three and six months ended June 28, 2009, respectively:

		Predecessor		
	Period from March 29, 2010 to May 10, 2010	Three Months Ended June 28, 2009	Period from December 28, 2009 to May 10, 2010	Six Months ended June 28, 2009
		(in thousands)		
Professional and service fees directly related to reorganization [1]	$ 41,184	$ 9,963	$ 58,336	$ 17,114
Provision for allowed claims [2]	28,172		5,655	355,333
Gain on discharge of pre-petition obligations	(434,046)		(434,046)	
Interest income	(186)	(121)	(285)	(148)

Total reorganization items	$ (364,876)	$ 9,842	$ (370,340)	$ 372,299

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

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Cash paid for professional fees for the periods from March 29, 2010 to May 10, 2010 and from December 28, 2009 to May 10, 2010 was approximately $3.0 million and $10.6 million, respectively. Cash paid for professional fees for the three and six months ended June 28, 2009 was approximately $7.3 million and $15.3 million, respectively.

Fresh Start Condensed Consolidated Balance Sheet

Upon emergence from the Chapter 11 Cases, the Company adopted fresh start accounting as prescribed under ASC 852 Reorganizations , which requires the Company to revalue its assets and liabilities to their related fair values. As such, the Company adjusted its stockholders deficit to equal the reorganization value at the Emergence Date. Items such as accumulated depreciation, accumulated deficit, accumulated other comprehensive income (loss) and allowances for doubtful debt (AFDA) were reset to zero. The Company allocated the reorganization value to its individual assets and liabilities based on their estimated fair values. Items such as, accounts receivable, auction rate securities and cash (whose fair values approximated their book values) reflected values similar to those reported prior to emergence. Items such as prepaid and other current assets, inventory, property, plant and equipment, deferred income tax asset and liability, accounts payable, income tax payable, and deferred income were significantly adjusted from amounts previously reported. Because fresh start accounting was adopted at emergence and because of the significance of LSTC that were relieved upon emergence, the historical financial statements of the Predecessor and the financial statements of the Successor are not comparable.

To facilitate the calculation of the enterprise value of the Successor, management developed a set of financial projections for the Successor using a number of estimates and assumptions. With the assistance of financial advisors, management determined the enterprise value and corresponding equity value of the Successor based on the financial projections using various valuation methods, including: (i) a comparison of the Company s projected performance to the market values of comparable companies; and (ii) a calculation of the present value of future cash flows based on management projections, both of which were submitted to the Bankruptcy Court for confirmation. Utilizing these methodologies, the equity value of the Successor was estimated by the Bankruptcy Court to be in the range of $872 million and $944 million with an additional increase to the enterprise value by approximately $496 million for Bankruptcy Court-approved distributable value as well as the settlement of administrative claims. Based on the Bankruptcy Court-approved enterprise value ranges and guidance, the Company estimated the enterprise value of the Successor to be approximately $1.5 billion. The enterprise value and corresponding equity value are dependent upon achieving the future financial results set forth in management s projections, as well as the realization of certain other assumptions. We cannot provide any assurance that the projections will be achieved or that the assumptions will be realized. The excess equity value (using the midpoint of the range) over the fair value of tangible and identifiable intangible assets has been reflected as goodwill on the Consolidated Fresh Start Balance Sheet. All estimates, assumptions, valuations, appraisals and financial projections, including the fair value adjustments, the financial projections, the enterprise value and equity value projections, are inherently subject to significant uncertainties and the resolution of contingencies beyond the Company s control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, appraisals and the financial projections will be realized, and actual results could vary materially.

The adjustments set forth in the following Fresh Start Consolidated Balance Sheet in the columns captioned Plan Adjustments and Fresh Start Adjustments reflect the effect of the consummation of the transactions contemplated by the Plan, including the settlement of various liabilities, issuance of securities, incurrence of new indebtedness and cash payments as well as fair value adjustments as a result of the adoption of fresh start accounting.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The effects of the Plan and fresh start accounting on our Consolidated Balance Sheet at May 10, 2010 are as follows:

	Predecessor Balance Sheet	Plan Adjustments	Fresh Start Adjustments	Successor Balance Sheet
		(in thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 358,643	$ (103,914) (a)	$	$ 254,729
Auction rate securities	41,854			41,854
Accounts receivable	112,849	(7,133) (g)	(15,332) (q)(r)	90,384
Accounts receivable from related parties	374,417		(51,289) (q)	323,128 (t)
Allowance for doubtful accounts	(62,473)	3,814 (h)	58,659 (q)	
Accounts receivables, net	424,793	(3,319)	(7,962)	413,512
Inventories	148,966		141,937 (i)	290,903
Deferred income taxes	14,324		(13,183) (j)	1,141
Restricted cash	531,313	(525,515) (a)		5,798
Prepaid expenses and other current assets	27,476	(300)	(14,656) (s)	12,520
Total current assets	1,547,369	(633,048)	106,136	1,020,457
Property, plant and equipment, net	287,100		85,593 (k)	372,693
Intangible assets, net	1,212		198,288 (l)	199,500
Goodwill			162,253 (m)	162,253
Deferred income taxes			20,893 (j)	20,893
Other assets	36,180	(13,315) (c)	49	22,914
Total assets	$ 1,871,861	$ (646,363)	$ 573,212	$ 1,798,710 (t)
Liabilities and Stockholders Deficit				
Current liabilities:				
Short term note	$ 1,380	$	$	$ 1,380
Senior secured term loan	450,000	(445,500) (d)		4,500
Accounts payable	117,048	(24,411) (b.2)	25,483 (n)	118,120
Accounts payable to related parties	319,564			319,564 (t)
Accrued compensation and benefits	33,046	1,750 (f)	232	35,028
Other accrued liabilities	118,905	1,631(b.1)	19,772 (n)	140,308
Income taxes payable	176			176
Deferred income taxes			13,816 (g)	13,816
Rights offering deposits	75,783	29,092 (b)	(104,875) (b)	
Current portion of long-term debt and obligations under capital lease	638,108	(628,637) (b)(a)	(146)	9,325
Deferred income	59,718		(47,458) (o)(r)	12,260
Total current liabilities	1,813,728	(1,066,075)	(93,176)	654,477
Deferred income taxes	21,397		(9,324) (j)	12,073
		3,044 (b)	496	3,540

Long-term debt and obligations and capital lease obligations, less current portion				
Senior secured term loan		445,500 (d)		445,500
Other long-term liabilities	8,861		259	9,120
Commitments and contingencies				
Total long-term liabilities	30,258	448,544	(8,569)	470,233
Liabilities subject to compromise	938,522	(938,522)		
Total liabilities	2,782,508	(1,556,053)	(101,745)	1,124,710
New Common Stock			674,000 (p)	674,000
Stockholders deficit	(910,647)	909,690 (e)	957 (e)	
Total liabilities and stockholders deficit	$ 1,871,861	$ (646,363)	$ 573,212	$ 1,798,710 (t)

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Plan Adjustments.

The primary Plan adjustment is the elimination of LSTC which is based on all claims received by the Company and accruals made from these claims of estimated final settlements. LSTC amounted to $938.5 million on our Consolidated Balance Sheet immediately prior to May 10, 2010, which were discharged in the Chapter 11 Cases or settled by issuance of the Company s New Common Stock. In accordance with the Plan, the Company set aside, from total LSTC, those final settlements which were to be settled in cash (approximately $18.4 million) and stock (approximately $486.1 million) and recorded a reorganization gain of approximately $434.0 million in full settlement of the LSTC.

Other Plan adjustments include:

(a) *repayment of Predecessor debt* relating to (b) below;

(b) *repayment of FRN.* This was recorded in LSTC prior to May 10, 2010. Total principal amount owed to FRNs prior to the Emergence Date amounted to approximately $625.6 million (of the $628.6 million net plan adjustment as noted in (b) in the above table, approximately $3 million related to the reclass of capital lease obligations from short term liability to long term liability).

In addition, accumulated interest owed to FRNs prior to Emergence Date was approximately $13 million ($1.6 million net plan adjustment noted in (b.1) in the table above comprised of $17.6 million of LSTC, offset by the aforementioned $13 million of accumulated interest paid to FRNs and $3 million of accounts payable).

The Company also incurred approximately $19.6 million in professional fees and financing costs relating the settlement of amounts due to FRNs. (the $24.4 million net plan adjustment to accounts payable noted in (b.2) in the table above comprised of the aforementioned $19.6 million of professional fees as well as $4.8 million of accounts payable)

In accordance with the Plan, the Company settled the FRN principal, accumulated interest, professional fees and financing costs (as described above) fully in cash on the Emergence Date. Proceeds from the $450 million senior secured term loan, net proceeds of $104.9 million from the Rights Offering and the Company s cash balances were utilized to effect the above settlements;

(c) *extinguishment of debt financing costs.* In connection with the extinguishment of old debts (Senior Notes, Exchangeable Senior Subordinated Debentures and FRNs) in accordance with the Plan, the Company originally had capitalized and amortized all financing costs relating to such old debt. In accordance with the provisions of ASC 470, Early Extinguishment of Debt , the remaining unamortized costs of approximately $13 million was expensed as reorganization expense*;*

(d) *reclassification of the Term Loan between short-term and long-term obligations.* During the first quarter of 2010, prior to emergence and as part of its exit financing strategy, the Company closed a $450 million senior secured five-year term loan facility, the receipt of the proceeds which were contingent upon emergence from the Chapter 11 Cases. The

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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Company had recorded the receipts as restricted cash and short term liability as of March 28, 2010 pending the remaining outcome of the Chapter 11 Cases during the second quarter of 2010. Upon emergence, the Company received the loan proceeds and reclassified the long term portion of the loan to long term liability;

(e) *elimination of old equity.* Upon the effective date of the Plan, all existing Spansion equity plans (2005 & 2007 Equity Incentive Plans and Saifun Option Plans) and all equity awards thereunder were cancelled. In accordance with ASC 718, Compensation-Stock Compensation , the Company recorded, as an adjustment to stockholder s deficit, the remaining unamortized stock compensation expense of approximately $5.5 million as a reorganization expense in the Income Statement of the Predecessor during the second quarter of 2010. Total adjustments to stockholders deficit, net of all adjustments in the Plan Adjustments column in the above table, amounted to approximately $909.7 million;

(f) *Chapter 11 emergence bonus payable to the Chief Executive Officer of the Company.* In accordance with our employment agreement with our Chief Executive Officer, Mr. Kispert was entitled to a $1.7 million bonus upon the consummation of the Plan, which was consummated on May 10, 2010. Because this bonus was payable only upon the effectiveness of the Plan and was not contingent upon any other performance requirement in the post-emergence period, the Company accounted for the bonus as a Plan adjustment and a reorganization expense in accordance with ASC 805, Compensation payments for post-combination services ;

(g) *set-off of accounts payable and accounts receivable balances and reorganization gains realized from accounts receivable reserve balances.* Of the $7.1 million net plan adjustment noted in (g) in the above table, $11.4 million of accounts receivable relating to a customer was set-off against amounts owed to the same customer as these balances were rendered ineffective upon the confirmation of the Plan, and which was offset by a net $4.3 million reorganization gain, of which $3.9 million related to a credit note issued to a customer which was rendered ineffective as no unsecured claim was received from the customer during the Bankruptcy Court claims process period which closed during the first quarter of fiscal year 2010. Similarly, an additional $0.5 million gain was recorded for a accounts receivable reserve for a customer which was rendered ineffective upon plan confirmation; and

(h) *set-off of allowance for doubtful accounts balance against a gross accounts receivable balance* . A $3.8 million allowance for doubtful debt balance relating to a customer was set-off against the gross accounts receivable of $11.4 million ((as noted in (g) above)) as these balances were rendered ineffective upon the confirmation of the Plan.

Fresh Start Adjustments.

Significant adjustments reflected in the Fresh Start Consolidated Balance Sheet based on the revaluation of assets and liabilities are summarized as follows:

(i) *Inventories, net.* An adjustment of $ 141.9 million was recorded to increase the net book value of inventories to their estimated fair value. The fair value of finished goods was estimated based on the average selling price less the sum of disposal costs and a

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

reasonable profit allowance for the selling effort. The fair value of work-in-process was estimated based on the average selling price less the sum of cost to complete, disposal costs, and a reasonable profit allowance. Raw materials were carried on the Predecessor s and Successor s books at replacement costs and therefore no fair value adjustment was required.

(j) *Deferred Income Tax.* Due to various adjustments and revaluations arising from fresh start accounting, both on foreign and domestic entities, deferred tax assets and liabilities associated with certain tangible and intangible assets were revaluated and/or recomputed. Similarly, certain tax attributes such as tax credits, tax allowances and net operating losses were revaluated and/or recomputed, resulting in a net deferred tax adjustment of $3.2 million;

(k) *Land, Property and Equipment, net.* A net adjustment of $ 85.6 million was recorded to increase the net book value of tangible fixed assets to their estimated fair value. In valuing its long-lived tangible assets, the Company applied the fair value definition as set forth in ASC 820, Fair Value Measurement which states that fair value is the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The Company identified its long-lived assets as either in use or to be disposed off (either by sale or by scrap). Assets in use were valued under the continued use premise. This premise assumes that the assets will remain as-is, where is, and continue to be used at their present location for the continuation of business operations. This value includes all direct and indirect costs necessary to acquire, install, and make the asset operational. Assets to be disposed of were valued on an in-exchange value premise. This premise represents the highest and best use of the asset is an in-exchange if the asset would provide maximum value to market participants principally on a standalone basis;

(l) *Intangible Assets.* An adjustment of $198.3 million was recorded (for developed technology, customer relationships, trade name and in-process research and development (IPR&D) based on fair values determined by the Company. As part of its application of fresh start accounting, the Company allocated the reorganization value to its assets and liabilities, including intangible assets using: i) discounted cash flow methodology applied to its financial forecasts and also taking into consideration the enterprise value of the Successor based on the Bankruptcy Court approved enterprise value ranges and methodologies (refer to Fresh Start Consolidated Balance Sheet section of this footnote for discussion of the enterprise value), and ii) Guideline Public Company (GPC) methodology, considering data from public companies deemed to be comparable to the Company to develop relevant market multiples which were then applied to the Company s forecasts provided by Management to calculate its fair value. See Note 9 for details;

(m) *Goodwill.* An adjustment of $162.3 million was recorded to reflect the allocation of the reorganized enterprise value of the Successor in excess of the fair value of tangible and identified intangible net assets. See Note 9 for details;

(n) *Accounts Payable and Other Accrued Liabilities.* The increase of $25.4 million in Accounts Payable primarily related to the recording of a $25.2 million legal liability arising from the implementation of a new accounting policy upon the adoption of fresh start accounting. See Note 3 for further details.

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The increase of $19.8 million in other accrued liabilities was primarily due $16.4 million of liabilities reclassified from deferred income, a $1.3 million increase to an existing liability which was previously discounted to its net present value (when the liability was deemed to be long term in previous accounting periods and which was deemed to be short term as of the Emergence Date) and a $1.4 million accrual for committed purchase orders to vendors;

(o) *Deferred income.* An adjustment of $39.5 million was recorded to reduce deferred income to the fair value of the Company s related future performance obligations. Of the net fresh start adjustment of $47.5 million noted in (o) in the above table, $39.5 million related to deferred income as discussed above and $8.0 million related to other deferred revenue balances set-off against accounts receivable balances (see (r) below for details);

(p) *New Common Stock.* All Old Common Stock of the Predecessor was cancelled and the Successor issued New Common Stock in accordance with the Plan. See Note 4 for details;

(q) *Elimination of allowance for doubtful accounts (AFDA).* Upon the adoption of fresh start accounting, all of the Predecessor Company s reserves including AFDA are eliminated as the Successor Company commences operations as a new entity. Therefore, the remaining AFDA balance of $58.7 million prior to the adoption of fresh start accounting was eliminated by setting off the reserves against their original accounts receivable balances;

(r) *Deferred revenue set-off against accounts receivable.* In prior accounting periods, the Company had previously recorded deferred revenue from two customers amounting to approximately $8.0 million for invoice collection uncertainties (i.e. collectability of sales proceeds was not reasonably assured). The accounts receivable balances relating to these customers were fully reserved for in prior accounting periods. Therefore, as part of fresh start accounting, the fair values of the deferred revenue and accounts receivable balances in the balance sheet amounted to zero as there were no additional performance obligations to be rendered by the Company. Hence, these two balances were set-off against each other. There was no impact to retained earnings as a result of the above;

(s) *New debt financing costs write off.* During the first quarter of 2010, prior to emergence and as part of its exit financing strategy, the Company closed a $450 million five-year senior secured term loan facility resulting in debt financing costs of approximately $13.5 million which were capitalized in the predecessor s financial statements just prior to the Emergence Date. These were paid upon emergence. However, the Company concluded the fair value of the deferred financing costs to be zero as the fair value of the debt was deemed to be at par value. Similarly, the Company also recorded a fresh start adjustment of $0.6 million of financing costs relating to its new unutilized revolving credit facility for which there was no future performance obligations. This resulted in a zero fair value; and

(t) *Net adjustment to enterprise value.* Included in accounts receivable/payable to related parties is approximately $283 million receivable/payable to Spansion Japan, representing balances related to transactions between the two companies prior to October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). These balances were deemed expunged, released and satisfied on consummation of definitive agreements laid out in the January 8, 2010 Settlement as described above in Note 2. In accordance with the provisions of ASC 450, *Contingencies*, the Company had previously reserved the accounts receivable in excess

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of the accounts payable balance to ensure the loss contingency was adequately reserved so that there will be no income statement impact upon the consummation of the distribution of business. With the acquisition of Spansion Japan s distribution business on May 24, 2010, all material conditions of the Settlement were fulfilled. As a result, the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 were set-off subsequent to May 24, 2010, and prior to the end of the second quarter ended June 27, 2010. Therefore, the enterprise value as of the Emergence Date is the total assets of the Company (approximately $1.8 billion) less $283 million (which was grossed up in accounts receivable and payable in the opening balance sheet as of the Emergence Date). Thus, the enterprise value was approximately $1.5 billion.

3. Summary of Significant Accounting Policies

Basis of Presentation

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

In preparing the Condensed Consolidated Financial Statements for the Predecessor, the Company applied ASC 852 Reorganizations , which requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that were directly associated with the reorganization from the ongoing operations of the business. Accordingly, professional fees associated with the Chapter 11 Cases and certain gains and losses resulting from reorganization of the Company s business have been reported separately as reorganization items. In addition, interest expense for the Predecessor company has been reported only to the extent that it was paid during the Chapter 11 Cases or that it was probable that it would be an allowed priority, secured, or unsecured claim under the Chapter 11 Cases. Interest income earned during the Chapter 11 Cases is reported as a reorganization item.

Upon emergence from Chapter 11, the Company adopted fresh start accounting in accordance with ASC 852 Reorganizations . The adoption of fresh start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 10, 2010 are not comparable to the Condensed Consolidated Financial Statements prior to that date. The Company s Consolidated Statements of Operations for fiscal quarter ended June 27, 2010 and for subsequent periods through fiscal year 2013 will be split into Predecessor and Successor financial statements for as long as any Predecessor financial statements are disclosed.

Fresh start accounting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity s reorganization value to its assets and liabilities pursuant to ASC 805 Business Combinations and ASC 820 Fair Value Measurements and Disclosures . The excess reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill on the Condensed Consolidated Balance Sheet. Deferred taxes are determined in conformity with ASC 740 Income Taxes . For additional information regarding the impact of fresh start accounting on our Condensed Consolidated Balance Sheet as of June 27, 2010, see Fresh Start Consolidated Balance Sheet .

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

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

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

Use of Estimates

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

Inventories

Inventories are stated at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or market. The Company writes down inventories based on forecasted demand and technological obsolescence. These factors are impacted by market and economic conditions, technology changes, new product introductions and changes in strategic direction and require estimates that may include uncertain elements. Actual demand may differ from forecasted demand, and such differences may have a material effect on recorded inventory values.

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In connection with fresh start accounting, net inventories were adjusted to increase the carrying value of inventories to estimated fair value on May 11, 2010.

	Successor June 27, 2010	Successor May 11, 2010 (in thousands)	Predecessor December 27, 2009
Raw materials	$ 12,273	$ 15,675	$ 14,202
Work-in-process	209,138	236,510	112,469
Finished goods	23,125	41,625	15,052
Inventories	$ 244,536	$ 293,810	$ 141,723

Property, Plant and Equipment

Property, plant and equipment are stated at cost for the Predecessor and revalued at fair value on May 11, 2010 in accordance with fresh start accounting. Depreciation and amortization are provided on a straight-line basis over the existing useful lives of the assets. Pre-emergence fully depreciated assets will be deemed to have useful lives of 12 months post-emergence.

	Successor June 27, 2010	Successor May 11, 2010 (in thousands)	Predecessor December 27, 2009
Land	$ 51,778	$ 51,778	$ 20,107
Buildings and leasehold improvements	70,789	70,210	117,553
Equipment	214,460	235,463	318,592
Construction in progress	16,378	15,242	14,345
Accumulated depreciation and amortization	(23,804)		(147,887)
Property, plant and equipment, net	$ 329,601	$ 372,693	$ 322,710

Intangible Assets

Intangible assets other than intellectual property include developed technology, customer relationships, trade name and IPR&D which are amortized on a straight-line basis over periods ranging from seven to ten years. See Note 9 for further details.

Goodwill

Goodwill represents the allocated enterprise value in connection with fresh start accounting under ASC 852 and the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired in connection with the acquisition of the Spansion Japan Kawasaki distribution business (see Note 9). Goodwill amounts are not amortized, but rather are tested for impairment at least annually or more frequently if there are indicators of impairment present, at a level within the Company referred to as the reporting unit. The Company has historically performed its goodwill impairment analysis as of the last day of the fourth quarter of the fiscal year. With fresh start accounting, the Company plans to assess goodwill for impairment during the fourth quarter of each fiscal year.

Fair Value

The Company re-measured each major category of assets and liabilities at fair value in connection with fresh start accounting with guidance from ASC 820. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants

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Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

at the measurement date. In measuring fair value, the Company uses a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s best estimate of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset/liability s anticipated life.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for assets and liabilities categorized in Level 3. When observable prices are not available, the Company either uses implied pricing from comparables or valuation models based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company s own assumptions are set to reflect those it believes market participants would use in pricing the asset or liability at the measurement date. Please see Note 13 for fair value measurement.

Estimates relating to Litigation Reserve

Upon emergence and as part of fresh start accounting, the Company implemented its litigation reserve policy whereby it would record, on a rolling four quarter basis, the estimated litigation costs that it expects to incur in defending itself in connection with ongoing lawsuits in accordance with the provisions of ASC 450, Contingencies . Judgment is necessary to estimate these costs and an accrual is made when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

New Accounting Pronouncement

In April 2010, the FASB issued revised guidance to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The revised guidance should be implemented by recording a cumulative-effect adjustment to the opening balance of

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retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In January 2010, the FASB issued amended guidance on fair value measurements and disclosures. The new guidance requires additional disclosures regarding fair value measurements, amends disclosures about postretirement benefit plan assets, and provides clarification regarding the level of disaggregation of fair value disclosures by investment class. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain Level 3 activity disclosure requirements that will be effective for reporting periods beginning after December 15, 2010. Accordingly, we adopted this amendment on January 1, 2010, except for the additional Level 3 requirements which will be adopted in 2011. The adoption of this guidance has not had, and the Company believes the adoption will not have a material impact on its consolidated financial statements.

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

- require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence of selling price or third-party evidence of selling price; and

- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The accounting changes summarized in this guidance are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

Financial Statements Reclassifications

Certain prior period amounts in the condensed consolidated statements of operations have been revised to conform to the current period presentation. This is related to the revision of sales to Spansion Japan. There is no material impact to the Company s results from operations due to these revisions.

4. Capital Stock

Successor Company

Upon emergence, the total number of shares of capital stock that the Company is authorized to issue under its Amended and Restated Certificate of Incorporation is 200,000,001 shares, consisting of: (i)

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150,000,000 shares of New Common Stock, par value $0.001 per share; (ii) one share of Class B Common Stock, par value $0.001 per share; and (iii) 50,000,000 shares of Preferred Stock, par value $0.001 per share, issuable in one or more series. As of June 27, 2010, there are 59,270,916 shares of Class A Common Stock and one share of Class B Common Stock issued and outstanding.

Common Stock

Except as described below or as required by law, the holders of the Company s common stock are entitled to one vote per share on all matters to be voted on by stockholders and shall vote together as a single class. The holder of Class B Common Stock, which is Silver Lake, shall be entitled to vote for up to two directors to the Board. The holders of Class A Common Stock shall be entitled to vote for all other directors to the Board. The outstanding share of Class B Common Stock shall convert into shares of Class A Common Stock on a share-for-share basis: (i) upon the written consent of the holder of the outstanding Class B Common Stock; (ii) in the event that any person other than SLS Spansion Holdings, Silver Lake or their respective Affiliates and managed accounts becomes the holder of the share of Class B Common Stock; or (iii) after August 2010, Silver Lake s aggregate ownership interest in the Company ceases to be at least five percent.

Preferred Stock

The Company s board of directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, such as dividend rates, dividend rights, liquidation preferences, voting rights and the number of shares constituting any series and designation of such series which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying or preventing a change of control of Spansion without further action by the stockholders.

5. Equity Incentive Plan and Stock-Based Compensation

Plan Description

2010 Equity Incentive Award Plan

On May 10, 2010, upon emergence from the Chapter 11 Cases, the Company s Board of Directors approved the Spansion Inc. 2010 Equity Incentive Award Plan (the 2010 Plan), under which 6,580,240 shares of New Common Stock have been reserved and made available for issuance in the form of equity awards, including incentive and nonqualified stock options and restricted stock unit (RSU) awards. The 2010 Plan is administered by the Compensation Committee of the Company s Board of Directors, and that committee has the authority to, among other things, grant awards, delegate certain of

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its powers, accelerate or extend the vesting or exercisability of awards and determine the date of grant of an award. The maximum term of any stock option granted under the 2010 Plan is seven years from the date of grant and the exercise price of each option is determined under the applicable terms and conditions as approved by the Compensation Committee.

The 2010 Plan provides that grants may be awarded to an officer or employee, a consultant or advisor, or a non-employee director of the Company or its subsidiaries. Incentive stock options may only be granted to employees of the Company or its subsidiaries. The exercise price of each stock option shall not be less than 100 percent of the fair market value of the New Common Stock on the date of grant (not less than 110 percent if such stock option is granted to a person who has more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary.

Under the 2010 Plan, one third of the stock options vest on January 31, 2011, and then 1/36 per month for the next two years, and expire if not exercised by the seventh anniversary of the grant date. Ten percent of the RSU awards for U.S.-based employees granted on May 10, 2010 will vest immediately, up to a maximum of 100 shares per employee. The remainder will vest in four substantially equal installments on the last trading day in January of each year from 2011 through 2014. Shares that are subject to or underlie awards that expire or for any reason are cancelled, terminated or forfeited, or fail to vest will again be available for grant under the 2010 Plan.

Valuation and Expense Information

The following table sets forth the total recorded stock-based compensation expense by financial statement caption for the Successor (2010 Plan) and the Predecessor (2005 Plan, 2007 Plan, Saifun 2003 Plan, Saifun Semiconductor Ltd. 2001 Share Option Plan and Saifun Semiconductor Ltd. 1997 Share Option Plan), resulting from the Company s stock options and RSU awards for the three and six months ended June 27, 2010, respectively.

	Successor	Predecessor	Predecessor	Successor	Predecessor	Predecessor
	Period from May 11, 2010 (1) to June 27, 2010	Period from March 29, 2010 to May 10, 2010 (1)	Three Months Ended June 28, 2009	Period from May 11, 2010 (1) to June 27, 2010	Period from December 28, 2009 to May 10, 2010 (1)	Six Months ended June 28, 2009
			(in thousands)			
Cost of sales	$ 722	$ 73	$ 419	$ 722	$ 346	$ 1,802
Research and development	398	172	817	398	683	2,386
Sales, general and administrative	825	55	902	825	566	3,380
Expense on cancellation of old equity incentive plans		5,457			5,457	
Stock-based compensation expense before income taxes	1,945	5,757	2,138	1,945	7,052	7,568
Income tax benefit						
Stock-based compensation expense after income taxes	$ 1,945	$ 5,757	$ 2,138	$ 1,945	$ 7,052	$ 7,568

(1) May 10, 2010 is the date on which all old equity incentive plans were cancelled and the 2010 Plan took effect.

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The fair value of the Company s stock options granted on May 10, 2010 under the 2010 Plan was $5.04 per share. The fair value of each stock option was estimated at the date of grant using a Black-Scholes option pricing model, with the following assumptions for grants:

	Weighted Average for the period from May 10, 2010 to June 27, 2010
Expected volatility	58.00%
Risk-free interest rate	1.88%
Expected term (in years)	4.30
Dividend yield	0.00%

The Company s dividend yield is zero because the Company has never paid dividends and does not have plans to do so over the expected life of the stock options. As the Company emerged as a new public company for which historical information is not relevant, it considered historical and implied volatilities from peer companies who are in the same industry sector with similar characteristics to estimate the expected volatility over the option term. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bond with a remaining term equal to the expected stock option life. The expected term is based on the simplified method for developing the estimate of the expected life of a plain vanilla stock. Under this approach, the expected term is presumed to be the mid-point between the average vesting date and the end of the contractual term.

The Company estimated forfeitures based on its historical forfeiture rates. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company s best estimate of awards ultimately expected to vest. The forfeiture rate for stock options and RSUs granted on May 10, 2010 is estimated to be 16.8 percent and the Company will update the forfeiture rate on a periodic basis thereafter.

As of June 27, 2010, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately $31.7 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2014.

Successor

Authorized Shares; Limits on Awards

The aggregate number of shares of New Common Stock which may be issued or transferred pursuant to Awards under the 2010 Plan is the sum of (i) 6,580,240 (provided, that the aggregate number of shares of New Common Stock which may be issued or transferred pursuant to full value Awards is 3,290,120) and (ii) an annual increase on the first day of each year beginning in 2011 and ending in 2015, equal to the least of (A) seven million (7,000,000) shares; (B) a percentage of the shares of New Common Stock outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year as follows: 7% for the increase made January 1, 2011, 6% for the increase made January 1, 2012, 4.5% for the increase made January 1, 2013 and 3.5% for the increases made thereafter; and (C) such smaller number as may be determined by the Board prior to the first day of such year. No more than 6,580,240 shares of New Common Stock may be issued upon the exercise of incentive stock options.

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Shares Available to Grant

The numbers of shares of New Common Stock available for grant at June 27, 2010 under the 2010 Plan are shown in the following table:

Number of shares available for grant:	
Shares reserved for grant under the 2010 Plan [(1)]	6,580,240
Stock options granted through June 27, 2010, net of cancelled stock options	(3,031,436)
RSU awards granted through June 27, 2010, net of cancelled RSU awards	(3,018,481)
Shares available for grant under the 2010 Plan	530,323

(1) The 6,580,240 shares reserved for grant are in accordance with the Company s 2010 Equity Incentive Plan.

Stock Option and Restricted Stock Unit Activity

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

	Number of Shares	Weighted-Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options:				
Outstanding as of May 10, 2010		$		$
Granted	3,031,436	$ 10.51		
Cancelled		$		
Exercised		$		
Outstanding as of June 27, 2010	3,031,436	$ 10.51	6.87	$ 20,583
Exercisable as of June 27, 2010		$		$

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the New Common Stock s closing sales price of $17.30 as of June 25, 2010, which would have been received by the stock option holders had all stock option holders exercised their in-the-money stock options as of that date.

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

	Number of Shares	Weighted-Average Grant-date

			Fair Value
Restricted Stock Units:			
Unvested as of May 10, 2010		$	
Granted	3,033,686	$	10.51
Cancelled	(15,205)	$	10.51
Vested	(48,660)	$	10.51
Unvested as of June 27, 2010	2,969,821	$	10.51

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Predecessor

Under the Plan and upon the Company s emergence from the Chapter 11 Cases on the Emergence Date, the Predecessor s outstanding equity securities, including all shares of Old Common Stock and options to purchase shares of Old Common Stock, were cancelled. The Company accelerated approximately $5.5 million of unrecognized compensation cost as of May 10, 2010, related to unvested stock options and RSU awards under the Predecessor equity plans. The charge was recorded as a reorganization item during the second quarter of fiscal 2010.

No stock options were granted in the three and six months ended June 27, 2010 and June 28, 2009 respectively, under the Predecessor equity plans.

6. Net Income (Loss) Per Share

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

	Successor	Predecessor		Successor	Predecessor	
	Period from May 11, 2010 to June 27, 2010	Period from March 29, 2010 to May 10, 2010	Three Months Ended June 28, 2009	Period from May 11, 2010 to June 27, 2010	Period from December 28, 2009 to May 10, 2010	Six Months ended June 28, 2009
	(in thousands except for per-share amounts)					
Net income (loss)	$ (18,214)	$ 359,972	$ (7,253)	$ (18,214)	$ 363,624	$ (519,888)
Weighted-average shares basic	59,271	162,513	161,778	59,271	162,439	161,530
Effect of dilutive potential common		5			171	
Weighted-average shares diluted	59,271	162,518	161,778	59,271	162,610	161,530
Net income (loss) per share basic	$ (0.31)	$ 2.22	$ (0.04)	$ (0.31)	$ 2.24	$ (3.22)
Net income (loss) per share diluted	$ (0.31)	$ 2.21	$ (0.04)	$ (0.31)	$ 2.24	$ (3.22)

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

For the three and six months ended June 28, 2009, the Company excluded from its diluted per share computation approximately 20.7 million potential shares of Old Common Stock issuable upon exercise of outstanding stock options, upon vesting of outstanding RSUs and upon exchange of Spansion LLC s Exchangeable Senior Subordinated Debentures because they had an anti-dilutive effect due to the net loss recorded in the period.

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7. Comprehensive Income (Loss)

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

	Successor	Predecessor		Successor	Predecessor	
	Period from May 11, 2010 to June 27, 2010	Period from March 29, 2010 to May 10, 2010	Three Months Ended June 28, 2009	Period from May 11, 2010 to June 27, 2010	Period from December 28, 2009 to May 10, 2010	Six Months ended June 28, 2009
			(in thousands)			
Net income (loss)	$ (18,214)	$ 359,972	$ (7,253)	$ (18,214)	$ 363,624	$ (519,888)
Net change in pension plan, net of taxes						123
Net change in cumulative translation adjustment	225			225		(25,073)
Net change in unrealized losses on marketable securities, net of $0 taxes			(176)			(449)
Total comprehensive income (loss)	$ (17,989)	$ 359,972	$ (7,429)	$ (17,989)	$ 363,624	$ (545,287)

For the period from March 29, 2010 to May 10, 2010, the net income of $360.0 million was primarily attributable to the recognition of reorganization gain of $364.9 million as a result of discharge of prepetition obligations upon Emergence from Chapter 11 Cases, partially offset by various operating expenses.

8. Related Party Transactions

Spansion Japan

As discussed in Note 3, in the section entitled, Basis of Presentation, despite its 100 percent equity ownership interest in Spansion Japan, the Company has not included Spansion Japan in its consolidated financial statements since March 3, 2009 as it no longer controls Spansion Japan due to the appointment of a trustee in the Spansion Japan Proceeding. Since that date, the Company has accounted for its interest in Spansion Japan as a cost basis investment and treats Spansion Japan as a related party for financial reporting purposes.

Effective June 27, 2010, Spansion Japan s POR was confirmed by the Tokyo District Court. The POR provides for Spansion Japan to redeem shares held by its shareholders without consideration, cancel such shares and issue new shares to unsecured creditors. According to the POR, the redemption, cancellation and new issuance is scheduled to take place at the end of September 2010. Until that time, the Company will continue to be the 100 percent equity owner of Spansion Japan.

On February 2, 2010, the Company and Spansion Japan entered into a foundry agreement whereby the Company will purchase from Spansion Japan: (i) a minimum of 10 billion yen (equivalent to $111.8 million at June 27, 2010) worth of wafers over six quarters beginning with the first quarter of 2010 and ending with the second quarter of 2011; and (ii) minimum sort services of $7.7 million for the first quarter of 2010 and $8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011, with both sort services and wafer production subject to normal and customary foundry performance conditions. This agreement replaced an earlier foundry agreement whereby Spansion Japan manufactured wafers for the Company based on a five-quarter rolling production forecast and in exchange, the Company reimbursed Spansion

Japan for its manufacturing cost, plus a surcharge of 6 percent. The Company s motion to reject the earlier foundry agreement was approved by the U.S. Bankruptcy Court on November 19, 2009.

Spansion Japan continued in its historical role as the sole distributor of the Company s products in Japan, whereby it purchased products from the Company and sold them to customers in Japan, primarily through a subsidiary of Fujitsu Limited, until May 24, 2010. On May 24, 2010, the Company acquired the distribution business from Spansion Japan and subsequently has been distributing its products in Japan through a wholly owned subsidiary, Nihon Spansion Limited. With the acquisition of

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Spansion Japan s distribution business, all material conditions of the January 8, 2010 Settlement were fulfilled and the Company set off the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). All transactions with Spansion Japan are now being settled on a regular basis on mutually agreed upon terms.

The following tables present the significant related party transactions between the Company and Spansion Japan:

	Successor	Predecessor		Successor	Predecessor	
	Period from May 11, 2010 to June 27, 2010	Period from March 29, 2010 to May 10, 2010	Three Months Ended June 28, 2009	Period from May 11, 2010 to June 27, 2010	Period from December 28, 2009 to May 10, 2010	Period from March 3, 2009 to June 28, 2009
			(in thousands)			
Sales to Spansion Japan	$ 4,801	$ 24,496	$ 104,184	$ 4,801	$ 78,705	$ 145,929
Wafer purchases from Spansion Japan	$ 4,357	$ 25,432	$ 58,856	$ 4,357	$ 80,160	$ 95,839
Payment to Spansion Japan for R&D service	$ 143	$ 655	$ 5,838	$ 143	$ 2,686	$ 7,815

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

	Successor	Predecessor
	June 27, 2010	December 27, 2009
	(in thousands)	
Trade accounts receivable from Spansion Japan	$ 13,201	$ 366,602
Trade accounts payable to Spansion Japan	$ (24,402)	$ (331,151)
Deferred income on shipments to Spansion Japan	$ (397)	$ (12,029)

Fujitsu

Fujitsu Limited (Fujitsu) was a holder of greater than 10 percent of the Company s voting securities prior to its emergence from the Chapter 11 Cases on May 10, 2010. On emergence from the Chapter 11 Cases, the Company s common stock issued prior to May 10, 2010 was cancelled and New Common Stock issued in accordance with the Plan. As a result, Fujitsu no longer holds greater than 10 percent of the Company s voting securities and has ceased to be a related party since that date.

The Company did not have significant transactions and account balances directly with Fujitsu following the deconsolidation of Spansion Japan effective March 3, 2009. The following table presents the significant related party transactions between the Company and Fujitsu for the six months ended June 28, 2009.

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	Predecessor Six Months Ended June 28, 2009 (in thousands)
Net sales to Fujitsu	$ 50,208
Inventory and cost of sales:	
Other purchases of goods and services from Fujitsu and rental expense to Fujitsu	11,617
Subcontract manufacturing and commercial die purchases from Fujitsu	569
Wafer purchases, processing and sort services from Fujitsu	6,096
Net gain recognized on sale of assets to Fujitsu on April 2, 2007	(3,075)
Reimbursement on costs of employees seconded to Fujitsu	(2,633)
Equipment rental income from Fujitsu	(186)
Administrative services income from Fujitsu	(68)
	$ 12,320
Service fees to Fujitsu:	
Sales, general and administrative	$ 110

9. Intangible assets and Goodwill

As part of its application of fresh start accounting, the Company allocated the reorganization value to its assets and liabilities, including intangible assets using: i) discounted cash flow methodology applied to its financial forecasts and also taking into consideration the enterprise value of the Successor based on the Bankruptcy Court approved enterprise value ranges and methodologies (refer to Note 2 for discussion of the enterprise value), and ii) GPC methodology, considering data from public companies deemed to be comparable to the Company to develop relevant market multiples which were then applied to the Company s forecasts provided by Management to calculate its fair value. Amortizable intangible assets included developed technology, customer relationships, trade name and trademarks and their estimated useful lives are between seven to ten years. Indefinite-lived assets included IPR&D and goodwill.

Intangible assets at June 27, 2010 and December 27, 2009 are as follows:

	Successor June 27 , 2010	Predecessor December 27, 2009
	(in thousands)	
Developed technology	$ 65,900	$ 1,646
Customer relationships	92,524	
Trade name	8,200	
Total amortizable intangible assets	166,624	1,646
Less: accumulated amortization	(2,348)	(316)
Intangible assets, net	164,276	1,330
IPR&D	43,000	
Goodwill	165,553	

Intangible assets and goodwill, net	$ 372,829	$ 1,330

Customer relationships (which is amortized over a useful life of ten years) and goodwill included $10.1 million and $3.3 million, respectively, of intangibles assets arising from the acquisition of the Spansion Japan distribution business at Kawasaki, Japan (refer to Note 2) as of May 24, 2010.

The Company reviews Goodwill for impairment at least annually in the fourth quarter of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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In-Process Research and Development

As part of the application of fresh start accounting, approximately $43 million was allocated to IPR&D which includes projects that have not reached technological feasibility and have no alternative future use at the time of the valuation. These projects related to the development of process technologies to manufacture flash memory products based on 65 nanometer process technology. The values assigned to IPR&D was determined using a discounted cash flow methodology , specifically an excess earnings approach, which estimates value based upon the discounted value of future cash flow expected to be generated by the in-process projects, net of all contributory asset returns. The approach includes consideration of the importance of each project to the overall development plan, estimating costs to develop the purchased IPR&D into commercially viable products.

The discount rates applied to individual projects were selected after consideration of the overall estimated weighted average cost of capital and the discount rates applied to the valuation of the other assets acquired. Such weighted average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets. In developing the estimated fair values, the Company used a discount rate of 17.5 percent.

If an IPR&D project is completed, the carrying value of the related intangible asset is amortized over the remaining estimated life of the asset beginning in the period in which the project is completed and sales of related product commenced. If an IPR&D project becomes impaired or is abandoned, the carrying value of the related intangible asset would be written down to its fair value and an impairment charge would be recorded in the period in which the impairment occurs.

10. Warranties and Indemnities

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

	Three Months Ended June 27, 2010	Six Months Ended June 27, 2010
	(in thousands)	
Balance at beginning of period (Predecessor)	$ 3,619	$ 3,841
Provision for warranties issued	761	1,694
Settlements	(727)	(852)
Changes in liability for pre-existing warranties during the period	(484)	(1,514)
Balance at May 10, 2010 (Predecessor)	$ 3,169	$ 3,169
Provision for warranties issued	594	594
Settlements	(158)	(158)
Changes in liability for pre-existing warranties during the period	(187)	(187)
Balance at June 27, 2010 (Successor)	$ 3,418	$ 3,418

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Changes in the Company s liability for product warranty during the three and six months ended June 28, 2009 are as follows:

	Predecessor	
	Three Months Ended June 28, 2009	Six Months Ended June 28, 2009
	(in thousands)	
Balance at beginning of period	$ 1,478	$ 1,489
Provision for warranties issued	948	1,871
Settlements	(332)	(504)
Changes in liability for pre-existing warranties during the period	811	49
Balance at end of period	$ 2,905	$ 2,905

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

11. Debt and Capital Lease Obligations

The following table summarizes the Company s debt and capital lease obligations at June 27, 2010 and December 27, 2009:

	Successor	Predecessor
	June 27 , 2010	December 27, 2009
	(in thousands)	
Debt obligations:		
Senior Notes	$	$ 233,440
Exchangeable Senior Subordinated Debentures		109,233
Senior Secured Floating Rate Notes		625,593
UBS Loan Secured by Auction Rate Securities		64,150
Senior Secured Term Loan	450,000	
Obligations under capital leases	11,531	18,861
Total debt and capital lease obligations	461,531	1,051,277
Less: amount subject to compromise		987,127
Total debt and capital lease obligations not subject to compromise	461,531	64,150
Less: current portion	13,798	64,150

Long-term debt and capital lease obligations not subject to compromise	$ 447,733	$

New Debt and Capital Lease Obligations and Activities for the six months ended June 27, 2010

Exit Financing

Pursuant to the Plan, the holders of allowed claims were offered the right to purchase a total of 12,974,496 shares of the New Common Stock upon emergence from the Chapter 11 Cases at a price of $8.43 per share (the Rights Offering). The number of shares available to each eligible claimant was based on each claimant s proportionate allowed claim. On January 25, 2010, the Company entered into a Backstop Rights Purchase Agreement with Silver Lake whereby Silver Lake committed to purchase the balance of Rights Offering shares not otherwise subscribed for by the Rights Offering participants. The Company received net proceeds of approximately $104.9 million through the Rights Offering on February

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9, 2010. In addition, the Company closed a $450 million five-year Senior Secured Term Loan Agreement (Term Loan). Upon the Company s emergence on May 10, 2010, the proceeds from the Rights Offering and the Term Loan, together with other sources of cash available to the Company, were used to fully discharge the balance of the FRN claims of approximately $638 million.

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

In June 2010, the Company repaid the remaining balance outstanding under the UBS AG loan from proceeds from a partial redemption of the Company s ARS.

Senior Secured Term Loan

On February 9, 2010, Spansion LLC, the wholly owned operating subsidiary of the Company, borrowed $450 million under the Term Loan. In connection with the Term Loan, the Predecessor incurred financing points, fees to the arrangers and legal costs of approximately $11.1 million, of which approximately $3.3 million and $7.8 million were recorded as interest expense during the three months ended June 27, 2010 and March 28, 2010, respectively. In addition, the Company paid the lenders approximately $10 million of financing fees upon the release of Term Loan funds from escrow.

Interest on the Term Loan accrues at a rate per annum, reset quarterly, equal to the prime lending rate or the Federal Funds rate plus 0.50%, whichever is higher but not less than 3.00%, plus 4.50%. Alternatively, the Company has the option to choose 1-month, 3-month, and 6-month LIBOR rate, or choose 9-month and 12-month LIBOR with the consent of all the lenders and the interest on the Term loan accrues at a rate per annum equal to the LIBOR or 2.00%, whichever is higher, plus 5.50%. Interest is payable quarterly in arrears. As of June 27, 2010, the Term Loan carried interest at 7.5%.

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

The Company has entered into a hedging arrangement with a financial institution subsequent to June 27, 2010 to hedge the variability of interest payments attributable to fluctuations in the LIBOR benchmark interest rate.

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(Unaudited)

Revolving Credit Facility

On May 10, 2010, the Company finalized an agreement with Bank of America and other financial institutions for the Revolving Credit Facility in an aggregate amount of up to $65 million to supplement its working capital. Available amounts for borrowing under the Revolving Credit Facility, net of reserves, are limited to 85 percent of eligible accounts receivable and 25% of ineligible receivables subject to a cap of $10 million. The Revolving Credit Facility is subject to a number of covenants including fixed charge ratio coverage of 1.00 to 1.00 when unrestricted cash and availability under the facility is below $40 million. As of June 27, 2010, the Company has not made any draw downs against this facility and is in compliance with all of the financial covenants under the Revolving Credit Facility which was entered into as a pre-condition to obtaining the Term Loan.

Impact of Emergence from Chapter 11 Cases

Upon the Company s emergence from Chapter 11, the Senior Notes and Exchangeable Senior Subordinated Debentures are being settled by distribution from the 46,247,760 shares of the Company s New Common Stock reserved to holders of allowed general, unsecured claims. On May 10, 2010, the unamortized portion of the capitalized financing costs related to these two debts were fully written off as a result of the Company s Plan adjustments.

Impact of Chapter 11 Cases

As discussed in Note 3, the accounting guidance for entities in Chapter 11 reorganization provides that interest expense should be reported only to the extent that it will be paid during the Chapter 11 Cases proceeding or that it is probable that it will be an allowed priority, secured or unsecured claim. On that basis, the Company ceased accruing interest as of the Petition Date (March 1, 2009) on its Senior Notes and Exchangeable Senior Subordinated Debentures. In addition, accretion of the discounted carrying value of the Exchangeable Senior Subordinated Debentures ceased on March 1, 2009. The Company continued to accrue interest on the FRN through the Emergence Date and the UBS loan secured by ARS. For the period from March 29, 2010 to May 10, 2010, reported interest expense was $11.2 million while the contractual interest obligation was $16.1 million. For the period from December 28, 2009 to May 10, 2010, reported interest expense was $30.6 million while the contractual interest obligation was $46.2 million.

12. Income Taxes

The following table presents the provision for (benefit from) income taxes of the Company:

	Successor	Predecessor	Predecessor	Successor	Predecessor	Predecessor
	Period from May 11, 2010 to June 27, 2010	Period from March 29, 2010 to May 10, 2010	Three Months ended June 28, 2009	Period from May 11, 2010 to June 27, 2010	Period from December 28, 2009 to May 10, 2010	Six Months ended June 28, 2009
			(in thousands)			
(Benefit from) provision for income taxes	$ (21)	$ 1,235	$ 261	$ (21)	$ 1,640	$ 429

The Company recorded immaterial income tax benefits from May 11, 2010 to June 27, 2010 and $1.2 million income tax expenses from March 29, 2010 to May 10, 2010, as compared to an income tax expense of approximately $0.3 million in the three months ended June 28, 2009. The income tax expense recorded from March 29, 2010 to May 10, 2010 was primarily related to tax provisions in profitable foreign locations of $1.2 million. The income tax expense recorded in the three months ended June 28, 2009 was primarily related to tax provisions in profitable foreign locations of $0.3 million.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Company recorded an income tax expense of approximately $1.6 million in the six months ended June 27, 2010, as compared to an income tax expense of approximately $0.4 million in the six months ended June 28, 2009. The income tax expense recorded in the six months ended June 27, 2010 was primarily related to tax provisions in profitable foreign locations of $1.6 million. The income tax expense recorded in the six months ended June 28, 2009 was primarily related to tax provisions in profitable foreign locations of $0.4 million.

Due to emergence from bankruptcy, in the six months ended June 27, 2010, the Company also recorded an increase of $12.0 million in deferred tax liabilities, consisting of previously unrecognized tax benefits of $10.0 million and interest and penalties of $2.0 million in connection with certain intercompany arrangements.

As of June 27, 2010, all of the Company s U.S. deferred tax assets, net of deferred tax liabilities, continue to be subject to a full valuation allowance. The valuation allowance is based on the Company s assessment that it is more likely than not that the deferred tax assets will not be realizable in the foreseeable future.

13. Fair Value Measurements

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires, among other things, the Company s valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance was applied to the valuation of assets and liabilities in connection with the Company s fresh start accounting and as recorded by the Predecessor Company at May 10, 2010.

There are three general valuation techniques that may be used to measure fair value, as described below:

(A) Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

(B) Cost approach Based on the amount that currently would be required to reproduce or replace the service capacity of an asset (reproduction cost or replacement cost); and

(C) Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, option-pricing models, the excess earnings method, and the royalty savings method).

I. Net present value method is an income approach where a stream of expected cash flows is discounted at an appropriate discount rate.

II. The excess earnings method is a variation of the income approach where the value of a specific asset is isolated from its contributory assets.

Fair value information for each major category of assets and liabilities measured on a nonrecurring basis as part of fresh start accounting during the period is included in Note 2. The Company remeasured its assets and liabilities at fair value on May 10, 2010 as required by ASC 852 using the guidance for measurement found in ASC 805. The gains and losses related to these fair value adjustments were recorded by the Successor

Company as adjustments to accumulated deficit.

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(Unaudited)

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

	Successor				Predecessor			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	June 27, 2010				December 27, 2009			
	(in thousands)							
Money market funds	$	$	$	$	$ 20.0	$	$	$ 20
Auction rate securities			25,886	25,886			100,335	100,335
Put option							6,790	6,790
Total financial assets	$	$	$ 25,886	$ 25,886	$ 20	$	$ 107,125	$ 107,145

The tables below present reconciliations for the ARS and put option, the Company s Level 3 financial assets, measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 27, 2010 and June 28, 2009, respectively:

	Three Months Ended June 27, 2010		Six Months Ended June 27, 2010	
	Auction rate securities	Put option	Auction rate securities	Put option
	(in thousands)			
Balance at beginning of period (Predecessor)	$ 75,155	$ 4,645	$ 100,335	$ 6,790
Redemptions at par	(35,100)		(62,425)	
Change in fair value	1,800	(1,800)	3,945	(3,945)
Balance at May 10, 2010 (Predecessor)	$ 41,855	$ 2,845	$ 41,855	$ 2,845
Redemptions at par	(16,750)		(16,750)	
Change in fair value	781	(781)	781	(781)
Balance at June 27, 2010 (Successor)	$ 25,886	$ 2,064	$ 25,886	$ 2,064

	Predecessor			
	Three Months Ended June 28, 2009		Six Months Ended June 28, 2009	
	Auction rate securities	Put option	Auction rate securities	Put option
	(in thousands)			
Balance at beginning of period	$ 104,848	$ 16,314	$ 94,014	$ 27,465
Redemptions at par	(250)		(250)	
Change in fair value	6,241	(5,503)	17,075	(16,654)