Spansion Inc.
Form S-1/A
December 15, 2005
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**As filed with the Securities and Exchange Commission on December 15, 2005.**

**Registration No. 333 -124041**

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

**AMENDMENT NO. 11**

**TO**

# FORM S-1

**REGISTRATION STATEMENT**

***UNDER***

***THE SECURITIES ACT OF 1933***

# SPANSION INC.

**(Exact name of registrant as specified in its charter)**

| | | |
|---|---|---|
| **Delaware** | **3674** | **20-3898239** |
| **(State or other jurisdiction of incorporation or organization)** | **(Primary Standard Industrial Classification Code Number)** | **(I.R.S. Employer Identification No.)** |

**915 DeGuigne Drive**

**P.O. Box 3453**

**Sunnyvale, CA 94088**

**(408) 962-2500**

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

**Bertrand F. Cambou**

**Chief Executive Officer**

**Spansion Inc.**

**915 DeGuigne Drive**

**P.O. Box 3453**

**Sunnyvale, CA 94088**

**(408) 962-2500**

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

***Copies to:***

**Tad J. Freese**

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**505 Montgomery Street, Ste. 2000**

**San Francisco, CA 94111**

**(415) 391-0600**

**Alan F. Denenberg**

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**1600 El Camino Real**

**Menlo Park, CA 94025**

**(650) 752-2000**

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

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

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to Be Registered | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|---|---|
| Class A Common Stock, par value $0.001 per share | $ 632,000,000(2) | $ 74,387(3) |

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.
(2) Including shares of Class A common stock that may be purchased by the underwriters to cover overallotments, if any.
(3) Previously paid.

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

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

**SUBJECT TO COMPLETION, DATED DECEMBER 15, 2005.**

**P R O S P E C T U S**

# 39,215,702 Shares

# Spansion Inc.

## Class A Common Stock

## $ per share

We are selling 39,215,702 shares of Class A common stock. We have granted the underwriters an option to purchase up to 5,882,355 additional shares of Class A common stock to cover over-allotments.

This is the initial public offering of our Class A common stock. We currently expect the initial public offering price to be between $13.00 and $14.00 per share. We have applied to have the Class A common stock included for quotation on the Nasdaq National Market under the symbol SPSN.

Our common stock will consist of four classes of stock: Class A common stock, Class B common stock, Class C common stock and Class D common stock. Advanced Micro Devices, Inc., or AMD, will own 47,973,846 shares of our Class A common stock and all of our outstanding shares of Class B common stock. As the holder of our Class B common stock, AMD will have the right initially to elect two of our directors. Fujitsu Limited, or Fujitsu, will own all of our outstanding shares of Class C and Class D common stock. As the holder of our Class C common stock, Fujitsu will have the right initially to elect one of our directors. Holders of all classes of our common stock are entitled to one vote per share on all matters to be voted on by stockholders, except that our Class D common stock has no voting rights with respect to the election of directors. Upon completion of this offering, and assuming no exercise of the underwriters over-allotment option, the Class A and Class B common stock owned by AMD will represent approximately 40.3% of the total outstanding shares of our common stock, and the Class C and Class D common stock owned by Fujitsu will represent approximately 26.8% of the total outstanding shares of our common stock. For more information, see Description of Capital Stock beginning on page 137.

Concurrently with this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue $400 million aggregate principal amount of unsecured notes in a private placement. The notes will not be listed or traded on any securities exchange or trading market.

**Investing in our Class A common stock involves risks. See Risk Factors beginning on page 17.**

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

| | Per Share | Total |
|---|---|---|
| Public Offering Price | $ | $ |
| Underwriting Discount | $ | $ |
| Proceeds to Spansion (before expenses) | $ | $ |

The underwriters expect to deliver the shares to purchasers on or about , 2005.

**Citigroup** **Credit Suisse First Boston**

**JPMorgan**

**Merrill Lynch & Co.**

**Morgan Stanley**

**Deutsche Bank Securities**

**UBS Investment Bank**

**Dresdner Kleinwort Wasserstein**

, 2005

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

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Until , 2006 (25 days after commencement of this offering), all dealers that effect transactions in shares of our Class A common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Spansion and MirrorBit are our trademarks. Other names are for informational purposes only and may be trademarks of their respective owners.

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## SUMMARY

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

## Our Company

***Overview***

We are one of the largest Flash memory providers and the largest company in the world dedicated exclusively to developing, designing and manufacturing Flash memory, a critical semiconductor component of nearly every electronic product and one of the fastest growing segments of the semiconductor industry. For fiscal 2004 and the first nine months of fiscal 2005, our net sales were $2.3 billion and $1.4 billion. Our net losses for these periods were $20 million and $257 million. According to market research firm iSuppli, in 2004 we were the largest supplier of NOR Flash memory, with a 25.9 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with a 15.1 percent market share, based on end sales of our products by Advanced Micro Devices, Inc., or AMD, and Fujitsu Limited, or Fujitsu, who have acted as our sole distributors. In the first six months of 2005, based on iSuppli quarterly data, we were the second largest supplier of NOR Flash memory, with a 24.9 percent market share, which again made us one of the largest suppliers for the overall Flash memory market, with an 11.5 percent market share, based on end customer sales. Our Flash memory is incorporated into a broad range of electronic products, including mobile phones, consumer electronics, automotive electronics, networking and telecommunications equipment and PC peripherals. Our products are integrated into products from many of the top original equipment manufacturers, or OEMs, in each of these markets, including all of the top ten mobile phone OEMs, all of the top ten consumer electronics OEMs and all of the top ten automotive electronics OEMs. We operate four Flash memory wafer fabrication facilities, or fabs, four assembly and test sites and a development fab, known as our Submicron Development Center, or SDC. We are headquartered in Sunnyvale, California, with Japanese headquarters in Tokyo, Japan, and as of November 20, 2005, we employed approximately 8,300 people worldwide.

The Flash memory market is very capital intensive and requires that suppliers make significant capital expenditures in order to remain competitive. In the first nine months of fiscal 2005, our capital expenditures were $324 million, and we expect to spend approximately an additional $195 million in the remainder of the fiscal year. We have historically funded our capital expenditures through both debt financing and operating cash flow. In addition to capital expenditures, our primary future cash needs on a recurring basis will be for working capital and debt service. As of September 25, 2005, we had $781 million principal amount of outstanding debt including $381 million owed to AMD and Fujitsu. Should we require additional funding, we may need to raise the required additional funds through bank borrowings or public or private sales of debt or equity.

***Our History***

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

By 2003, AMD and Fujitsu desired to expand the operations of FASL to: achieve economies of scale; add additional Flash memory wafer fabrication capacity; include assembly, test, mark and pack operations; include

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research and development capabilities; and include various marketing and administrative functions. To accomplish these goals, in 2003, AMD and Fujitsu reorganized our business as a Flash memory company called FASL LLC, later renamed Spansion LLC, by integrating the manufacturing venture with other Flash memory assets of AMD and Fujitsu. Since this reorganization, we have manufactured and sold finished Flash memory devices to customers worldwide through our sole distributors, AMD and Fujitsu.

AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005. Although the transition of some related support functions, including booking and billing, is still underway, we expect to sell to customers directly as well as through distributors. We also agreed with Fujitsu that Fujitsu will remain our sole distributor in Japan and a distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions.

| **FASL** | è | **Spansion LLC** | è | **Spansion Inc.** |
|---|---|---|---|---|
| **Manufacturing Venture** | | **AMD / Fujitsu**<br>**Flash Memory Company** | | **Public Standalone**<br>**Flash Memory Company** |
| **March 1993** | | **June 2003** | | **Planned** Ø |
| Flash memory wafers sold to AMD and Fujitsu | | Finished Flash memory products sold through AMD and Fujitsu as sole distributors<br><br>Dedicated research and development, marketing and administrative functions | | Dedicated sales force<br><br>Fujitsu sole distributor in Japan and a distributor throughout the rest of the world, other than Europe and the Americas with limited exceptions |

***Our Industry***

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

Flash memory is one of the largest semiconductor markets and, according to iSuppli, it reached total worldwide sales of $15.9 billion in 2004, of which 58.4 percent was classified as sales of NOR-based Flash memory products and 41.6 percent was classified as sales of NAND-based Flash memory products. For the first six months of 2005, total worldwide sales reached $8.1 billion, of which 46.3 percent was classified as NOR-based Flash memory products and 53.7 percent was classified as sales of NAND-based Flash memory products. During 2003, 2004 and the first six months of 2005, sales of NAND-based Flash memory products grew at a higher rate than sales of NOR-based Flash memory products. We expect this trend to continue in the foreseeable future. iSuppli projects that sales of NAND-based Flash memory products will grow by 40 percent from 2004 to

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2005 and grow at a 13 percent compound annual growth rate from 2005 to 2009, while sales of NOR-based Flash memory products will decline by 16 percent from 2004 to 2005 and grow at a four percent compound annual growth rate from 2005 to 2009. Because to date we have sold only NOR-based Flash memory products, this trend could materially adversely affect us if we are unsuccessful in executing our strategy described below.

The Flash memory market can be divided into three major categories based on application: wireless, embedded and removable storage. Portable, battery-powered communications applications are categorized as wireless, and solid-state removable memory applications are categorized as removable storage. All other applications, such as consumer and automotive electronics, are categorized as embedded. In 2004, and in the first six months of 2005, the wireless category of the Flash memory market, which primarily consists of mobile phones, represented the largest market for NOR Flash memory, according to iSuppli. Sales by our distributors to end customers in the wireless category drove a majority of our sales in fiscal 2004 and in the first nine months of fiscal 2005.

Overall, the Flash memory market has grown significantly over the past six years, from worldwide sales of $2.9 billion in 1998 to $15.9 billion in 2004. iSuppli projects that the Flash memory market will reach sales of $24.4 billion in 2009, representing a compound annual growth rate of nine percent from 2004 to 2009. We believe much of this growth in the Flash memory market will be driven by a growth in unit shipments and Flash memory content of mobile phones, growth in unit shipments and Flash memory content for embedded applications and a proliferation of removable storage products.

Flash memory is used across a wide spectrum of applications. Within each of the wireless, embedded and removable storage Flash memory market categories, customer and application needs are influenced by whether the application will predominantly require code storage, data storage or a combination of the two. Traditional criteria by which Flash memory customers evaluate Flash memory products include density, or a Flash memory product s storage capacity, cost per bit, performance, reliability and power consumption. In addition to having product-specific requirements, we believe Flash memory customers will increasingly seek Flash memory providers that have the ability to add value beyond the Flash memory component itself.

***Our Strengths***

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

*Proprietary MirrorBit Technology.* MirrorBit is our proprietary technology which stores two bits of data in a single memory cell, doubling the density of each memory cell. MirrorBit technology allows us to offer a broad range of product configurations with the advantages of NOR architecture. Compared to competitive two-bit-per-cell floating gate technology, MirrorBit technology requires fewer manufacturing steps, resulting in higher yields and lower costs.

*Broad Product Offerings.* Currently, we serve the wireless and embedded categories of the Flash memory market and produce the industry s broadest range of NOR-based Flash memory products with offerings from 1 to 512 megabits, voltages from 1.8 to 5 volts and a breadth of performance options.

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

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

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

*Largest Dedicated Flash Memory Player with a Leading Market Position.* We are the largest company focused exclusively on the development and manufacture of Flash memory, and in 2004 according to iSuppli we were the largest NOR Flash memory supplier, with a 25.9 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with a 15.1 percent market share, based on end customer sales. In the first six months of 2005, based on iSuppli quarterly data, we were the second largest supplier of NOR Flash memory, with a 24.9 percent market share, which again made us one of the largest suppliers for the overall Flash memory market, with an 11.5 percent market share, based on end customer sales.

***Our Strategy***

Our goal is to leverage our proprietary MirrorBit technology, broad product offerings, customer-centric innovation, systems-level solutions, advanced manufacturing capabilities and leading market position to grow our leadership position in the wireless and embedded categories and enter new, high-growth portions of the Flash memory market. To achieve these goals, we are pursuing the following key strategies:

*Capitalize on Our Leadership Position.* We plan to use our position as a market leader to increase our share in the wireless and embedded categories of the Flash memory market.

*Bridge the NOR/NAND Divide.* We are developing a new architecture called ORNAND based on our MirrorBit technology that we believe will draw from among the best features of both NOR and NAND architectures and will be an important part of our strategy to address data storage applications within the wireless and embedded categories of the Flash memory market, which are currently primarily served by NAND-based Flash memory products. Through our MirrorBit technology, we expect to deliver products primarily for code and data applications in the wireless and embedded categories of the Flash memory market that combine the attributes of performance, reliability, cost-per-bit and density that we believe will be tailored to our customers needs.

*Enter New Markets Not Traditionally Served by Flash Memory.* By leveraging our MirrorBit technology, we intend to develop a diverse range of products that meets the needs of a broader range of customer requirements in areas not traditionally served by Flash memory.

*Continue to Develop Systems-Level Solutions and Provide Increasing Value to Customers.* We intend to leverage the expertise of our dedicated software development team and design engineers to work with customers and complementary silicon and software providers to optimize entire systems that incorporate Flash memory.

*Leverage Our Manufacturing and Technology Expertise.* We plan to continue to migrate toward smaller geometries and larger silicon wafers, which we believe will result in a lower manufacturing cost-per-unit at a given product density. We also have recently entered into an agreement with Taiwan Semiconductor Manufacturing Company, or TSMC, to augment our internal production capacity for our 110-nanometer MirrorBit technology.

**Concurrent Debt Offering**

Concurrently with the consummation of this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue $400 million aggregate principal amount of senior unsecured notes in a private placement and apply the net proceeds from the sale of the notes to repay a portion of our outstanding borrowings, including all amounts owed under our promissory notes to AMD and Fujitsu. To the extent that Spansion LLC is unable to place the full $400 million aggregate principal amount of senior unsecured notes on acceptable terms, one or both of AMD and Fujitsu will purchase senior subordinated unsecured notes such that the total aggregate principal amount of senior unsecured notes and senior subordinated unsecured notes will total $400 million. Any notes purchased by one or both of AMD and Fujitsu will be subordinated to the senior unsecured notes and consequently may bear interest at a rate that is up to 150 basis points higher than the interest rate on the senior unsecured notes, but the terms of which will otherwise be substantially similar to the senior unsecured notes. The notes will be offered by Spansion LLC because it is the operating company that will generate the cash required to make interest payments on the notes. The concurrent offering and sale of the notes is not being registered under the Securities Act of 1933, and the notes offered thereby may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The completion of the sale of $400 million aggregate principal amount of notes is a condition to the completion of this offering. For illustration of the pro forma effect of the issuance of our senior unsecured notes, see Unaudited Pro Forma Consolidated Financial Data.

We have decided to issue a combination of Class A common stock and, through Spansion LLC, senior unsecured notes, in order to create an appropriate capital structure and balance between debt and equity, optimize our access to capital from different types of investors and increase our likelihood of success in raising the amount of capital that we are seeking.

**Transition Towards Operating as a Standalone Entity**

As we continue our transition towards operating as a standalone entity, we intend over time to reduce our reliance on AMD and Fujitsu for administrative and other services and functions. For example, AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005 and AMD ceased to earn any distribution margin on the sale of our products. Although the transition of some related support functions, including booking and billing, is still underway, we expect to sell directly to customers formerly served by AMD, as well as potential customers not served solely by Fujitsu. We also reached an agreement with Fujitsu to reduce the distribution margin earned by Fujitsu on the sale of our products from 6.5 percent to 4.3 percent beginning in the second quarter of fiscal 2005. In addition, we have agreed with each of AMD and Fujitsu to pay them a reduced royalty rate for the use of their intellectual property.

The impact of these changes on our results of operations beginning in the second quarter of fiscal 2005 included the following:

- net sales were positively affected because we captured all of the distribution margin formerly earned by AMD on sales of our products, and we captured some of the distribution margin formerly earned by Fujitsu on sales of our products; and

- marketing, general and administrative costs increased by the addition of sales personnel and associated administrative costs required to support the sales function.

In addition, we expect that the future impact of these changes on our results of operations would include the following:

- cost of sales would decrease by the amount of the reduction in royalties that we currently pay to AMD and Fujitsu pursuant to our licenses for their intellectual property, but such decrease would likely be offset, at least in part, by increased royalty payments for licenses and cross licenses with various third parties, and by the increased logistics and related costs formerly paid by AMD and Fujitsu; and

- the increase in marketing, general and administrative expenses described above would be partially offset by a decrease in such expenses as a result of our working with AMD and Fujitsu to reduce costs under our services agreements with them.

For more information on the impact of the AMD sales force transfer and the reduction in distribution margin under the Fujitsu distribution agreement, see Unaudited Pro Forma Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations Continuing Transition to Independence elsewhere in this prospectus.

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In addition to the activities outlined above, with the assistance of AMD, we also expect to attempt to negotiate our own agreements and arrangements with third parties for intellectual property and technology that is important to our business, including the material intellectual property that we previously had access to through our relationship with AMD. As a subsidiary of AMD, we have been the beneficiary of AMD s intellectual property arrangements with third parties. Following the completion of this offering, we will no longer be a beneficiary under a number of these agreements. Under other agreements, we believe we will continue to be a beneficiary for some period of time after the consummation of this offering while AMD continues to hold a majority of our shares entitled to vote for the election of directors. If we are unable to negotiate our own license agreements, we may be subject to claims that we are infringing intellectual property rights of third parties through the manufacture and sale of our products and the operation of our business. For more information, see Risk Factors We will lose rights to key intellectual property arrangements once we are no longer a beneficiary of AMD s patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against us.

**Company Information**

We were formed as FASL LLC, a Delaware limited liability company, on April 15, 2003 and changed our name to Spansion LLC on June 28, 2004. Effective as of June 30, 2003, AMD and Fujitsu had contributed various assets to us, and as a result became our two members. Prior to this offering, Spansion LLC will be reorganized into a corporate structure. A holding company, Spansion Inc., will be the entity that offers shares to the public. Spansion Inc. will have a wholly-owned subsidiary, Spansion Technology Inc., that, subsequent to the completion of this offering, will be the successor to the operations of Spansion LLC.

The reorganization will occur through the following steps. First, AMD Investments, Inc., an indirect wholly-owned subsidiary of AMD, will contribute its 60 percent ownership interest in Spansion LLC to a newly formed Delaware corporation, Spansion Inc., in exchange for 43,529,402 shares of Class A common stock and one share of Class B common stock of Spansion Inc. Fujitsu will contribute all of the outstanding capital stock of Fujitsu Microelectronics Holding, Inc., or FMH, the wholly-owned Fujitsu subsidiary that holds Fujitsu s 40 percent ownership interest in Spansion LLC, to Spansion Inc. in exchange for one share of Class C common stock and 29,019,601 shares of Class D common stock of Spansion Inc. FMH will be renamed Spansion Technology Inc. Subsequent to the completion of this offering, Spansion Inc. will contribute the 60 percent ownership interest in Spansion LLC that it received from AMD Investments to Spansion Technology Inc. Spansion LLC will then be a wholly-owned subsidiary of Spansion Technology Inc. and will ultimately be merged into Spansion Technology Inc.

Upon the consummation of this offering, Fujitsu will cancel $40 million of the aggregate principal amount outstanding under the Fujitsu Cash Note, the terms of which are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, in exchange for that number of shares of our Class D common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 2,962,962 shares assuming an initial public offering price per share of $13.50.

Upon the consummation of this offering, AMD will cancel $60 million of the aggregate principal amount outstanding under the AMD Cash Note, the terms of which are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, in exchange for that number of shares of our Class A common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50.

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

## THE OFFERING

| | |
|---|---|
| Shares of Class A common stock offered | 39,215,702 shares of Class A common stock (or 45,098,057 shares if the underwriters exercise their over-allotment option in full). |
| Shares of Class A common stock to be outstanding after this offering (1)(2) | 87,189,548 shares of Class A common stock (or 93,071,903 shares if the underwriters exercise their over-allotment option in full). |
| Common stock owned by AMD after this offering | 47,973,846 shares of Class A common stock; one share of Class B common stock.(2)(3) |
| Common stock owned by Fujitsu after this offering | One share of Class C common stock; 31,982,563 shares of Class D common stock.(3)(4)(5) |
| Voting rights of Class A common stock | One vote per share. |
| Use of proceeds | We estimate that the net proceeds from the sale of shares of our Class A common stock in this offering will be approximately $493 million.<br><br>We intend to use the net proceeds from this offering for working capital, capital expenditures and general corporate purposes. See Use of Proceeds. |
| Dividend policy | We currently do not intend to pay cash dividends and, under conditions where our cash is below specified levels, are prohibited from doing so under agreements governing our borrowing arrangements. |
| Risk factors | See Risk Factors and the other information included in this prospectus for a discussion of the factors you should consider before deciding to invest in shares of our Class A common stock. |
| Proposed Nasdaq National Market symbol | SPSN. |
| Concurrent notes offering | Concurrently with the consummation of this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue $400 million aggregate principal amount of senior unsecured notes in a private placement and apply the net proceeds from the sale of the notes to repay a portion of our outstanding borrowings, including all amounts owed under our promissory notes to AMD and Fujitsu. To the extent that Spansion LLC is unable to place the full $400 million aggregate principal amount of senior unsecured notes on acceptable terms, one or both of AMD and Fujitsu will purchase senior subordinated unsecured notes such that the total aggregate principal amount of senior unsecured notes and senior subordinated unsecured notes will total $400 million. Any notes purchased by one or both of AMD and Fujitsu will be subordinated to the senior unsecured notes and consequently may bear interest at a rate that is up to 150 basis points higher than the interest rate on the senior unsecured notes, but the terms of which will |

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otherwise be substantially similar to the senior unsecured notes. The completion of the sale of $400 million aggregate principal amount of notes is a condition to the completion of this offering. The concurrent offering and sale of the notes is not being registered under the Securities Act of 1933, and the notes offered thereby may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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(1) Excludes an aggregate of 31,982,563 shares of our Class A common stock reserved for issuance upon conversion of our shares of Class D common stock held by Fujitsu which will convert to Class A common stock on a one-for-one basis upon the earlier of (1) the date that is one year from the consummation of this offering and (2) the date upon which our board of directors elects to cause the Class D common stock to convert to Class A common stock following a determination that such conversion is in our best interests. Also excludes an aggregate of 11,750,000 shares of our Class A common stock to be reserved for issuance under our equity incentive plan and employee stock purchase plan. At the time of the consummation of this offering, we intend to grant stock options or restricted stock units for approximately 6,000,000 shares of our Class A common stock to our employees under our 2005 equity incentive plan.

(2) Includes that number of shares of our Class A common stock that will be issued to AMD upon the consummation of this offering in exchange for AMD s cancellation of $60 million of the aggregate principal amount outstanding under the AMD Cash Note, the terms of which are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our Class A common stock issued to AMD in exchange for its cancellation of indebtedness by 306,513 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our Class A common stock issued to AMD in exchange for its cancellation of indebtedness by 355,556 shares.

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

(4) Includes that number of shares of our Class D common stock that will be issued to Fujitsu upon the consummation of this offering in exchange for Fujitsu s cancellation of $40 million of the aggregate principal amount outstanding under the Fujitsu Cash Note, the terms of which are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 2,962,962 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our Class D common stock issued to Fujitsu in exchange for its cancellation of indebtedness by 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our Class D common stock issued to Fujitsu in exchange for its cancellation of indebtedness by 237,038 shares.

(5) The Class D common stock will be identical to the Class A common stock, except that the Class D common stock will not have the right to vote for the election of any directors to our board of directors. With respect to all other matters on which stockholders are entitled to vote, the Class D common stock will have the same voting rights of the Class A common stock. The Class D common stock will convert to Class A common stock on a one-for-one basis upon the earlier of (1) the date that is one year from the consummation of this offering and (2) the date upon which our board of directors elects to cause the Class D common stock to convert to Class A common stock following a determination that such conversion is in our best interests. For additional information, see Description of Capital Stock.

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## CONVENTIONS AND ASSUMPTIONS USED IN THIS PROSPECTUS

We were originally organized as a manufacturing venture called Fujitsu AMD Semiconductor Limited, a Japanese corporation. Effective June 30, 2003, we were reorganized as a Delaware limited liability company named FASL LLC, which was later renamed Spansion LLC. As Spansion LLC, we are owned by two members: AMD Investments, Inc., a Delaware corporation and wholly-owned subsidiary of AMD, and Fujitsu Microelectronics Holding, Inc., a Delaware corporation and wholly-owned subsidiary of Fujitsu. Shortly prior to the consummation of this offering, Spansion LLC will be reorganized into a corporate structure with a Delaware corporation holding company named Spansion Inc. and a wholly-owned operating company subsidiary. At that time, AMD Investments, Inc. and Fujitsu Limited will be our only stockholders. Unless we indicate otherwise, all of the information in this prospectus assumes that (i) all limited liability company interests in Spansion LLC held by our members have been exchanged for equity interests in Spansion Inc. and (ii) the reorganization into a corporate structure has been completed such that our authorized capital stock is as set forth under Description of Capital Stock.

In this prospectus, unless the context otherwise requires: (1) references to we, us, Spansion, our and our company refer to (i) Spansion LLC its subsidiaries prior to the consummation of this offering and (ii) Spansion Inc. and its subsidiaries after the consummation of this offering; (2) references to AMD and Fujitsu in the context of being members of Spansion LLC will be deemed to refer to AMD Investments, Inc. and Fujitsu Microelectronics Holding, Inc.; (3) references to AMD in the context of being a stockholder of Spansion Inc. will be deemed to refer to AMD Investments, Inc.; (4) references to Spansion LLC in the context of Spansion LLC s concurrent notes offering in a private placement refer to Spansion LLC, our indirect wholly-owned operating subsidiary following our reorganization into a corporate structure; (5) unless otherwise specified as Class B, Class C or Class D common stock, references to common stock refer to Spansion Inc. s Class A common stock; and (6) references to our customers refer to customers of our sole distributors, AMD and Fujitsu.

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

Unless we indicate otherwise, all of the information in this prospectus assumes: (i) that the underwriters do not exercise their option to purchase up to 5,882,355 shares of our common stock within 30 days from the date of this prospectus to cover over-allotments; (ii) that Spansion LLC s concurrent issuance of $400 million aggregate principal amount of notes in a private placement has been completed; (iii) that Fujitsu has cancelled $40 million of the aggregate principal amount outstanding under the Fujitsu Cash Note in exchange for that number of shares of our Class D common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 2,962,962 shares assuming an initial public offering price per share of $13.50; and (iv) that AMD has cancelled $60 million of the aggregate principal amount outstanding under the AMD Cash Note in exchange for that number of shares of our Class A common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 306,513 and 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 355,556 and 237,038 shares.

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## SUMMARY HISTORICAL AND UNAUDITED PRO FORMA FINANCIAL DATA

The following table sets forth summary historical consolidated financial data and unaudited pro forma consolidated financial data. In fiscal 2002, we used a fiscal year beginning April 1, 2002 and ending March 31, 2003, which consisted of 52 weeks. In connection with our reorganization effective June 30, 2003, we adopted a fiscal year ending the last Sunday in December. Fiscal 2003 was therefore a transition period beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and operated as Spansion LLC for the final six months. Fiscal 2003 consisted of approximately 39 weeks. Fiscal 2004 began December 29, 2003 and ended December 26, 2004, which consisted of 52 weeks. The summary consolidated statement of operations data for the fiscal years ended March 31, 2003, December 28, 2003 and December 26, 2004 and the summary consolidated balance sheet data as of December 26, 2004 have been derived from, and should be read together with, our audited consolidated financial statements and the related notes included elsewhere in this prospectus. The summary unaudited consolidated statement of operations data for the nine months ended September 26, 2004 and September 25, 2005 and the summary unaudited consolidated balance sheet data as of September 25, 2005 have been derived from, and should be read together with, our unaudited consolidated financial statements included elsewhere in this prospectus. Other unaudited quarterly financial data are derived from our unaudited interim condensed consolidated financial statements not included elsewhere in this prospectus. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The historical results are not necessarily indicative of the results to be expected in any future periods, and the results for the nine months ended September 25, 2005 should not be considered indicative of results to be expected for the full fiscal year.

We prepared the unaudited pro forma consolidated statement of operations data for the fiscal year ended December 26, 2004, set forth in the table below, from our audited consolidated financial statements for the fiscal year ended December 26, 2004, which are included elsewhere in this prospectus, and we prepared the unaudited pro forma consolidated statement of operations data for the nine months ended September 25, 2005, set forth in the table below, from our unaudited consolidated financial statements for the nine months ended September 25, 2005, which are included elsewhere in this prospectus, to reflect our results of operations as if the events described below had occurred as of December 29, 2003.

As we continue our transition towards operating as a standalone entity, we intend over time to reduce our reliance on AMD and Fujitsu for administrative and other services and functions. For example, AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005 and AMD ceased to earn any distribution margin on the sale of our products. Although the transition of some related support functions, including booking and billing, is still underway, we expect to sell directly to customers formerly served by AMD, as well as potential customers not solely served by Fujitsu. We also reached an agreement with Fujitsu to reduce the distribution margin earned by Fujitsu on the sale of our products from 6.5 percent to 4.3 percent beginning in the second quarter of fiscal 2005. As set forth below, we have included adjustments in our unaudited pro forma consolidated statement of operations data for our assumption of freight, duty and logistics and related costs, our assumption of warehousing and related costs, and our assumption of direct and indirect marketing, general and administrative expenses in connection with employing AMD s sales force responsible for selling our products. Each of these adjustments represents the costs that AMD incurred in connection with selling our products in fiscal 2004 and in the first nine months of fiscal 2005, all of which were incurred by AMD prior to the transfer of AMD s sales force as of April 1, 2005. We believe that the costs that were actually incurred by AMD in connection with selling our products are representative of the costs that we would have incurred if the transfer of AMD s sales force had occurred as of December 29, 2003. Moreover, as of April 1, 2005, we and AMD entered into an Agency Agreement whereby we agreed to pay AMD for the provision of transitional support services for shipping, invoicing and billing, purchase order processing and other

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related functions, including worldwide sales and marketing support services such as credit and collections. We believe that the negotiated fees for these marketing, general and administrative transitional services substantially approximate the expenses that we would incur if we were to perform these services internally. In the aggregate, these pro forma adjustments, as well as the elimination of the AMD distribution margin and the reduction of the Fujitsu distribution margin, increased both operating and net income, which subsequently resulted in an incremental expense in connection with our profit sharing program.

The unaudited pro forma consolidated statement of operations data for the fiscal year ended December 26, 2004 and for the nine months ended September 25, 2005 set forth below gives effect to:

- the contemplated termination of the AMD Distribution Agreement, which would have resulted in an elimination of the seven percent distribution margin thereunder for fiscal 2004, which would have added approximately $80.3 million to net sales for fiscal 2004, and resulting in an elimination of the 6.5 percent distribution margin thereunder for the first nine months of fiscal 2005, which would have added approximately $14.1 million to net sales for the first nine months of fiscal 2005;

- a reduction from seven percent to 4.3 percent in the distribution margin under the Fujitsu Distribution Agreement for fiscal 2004, which would have added approximately $26.2 million to net sales for fiscal 2004 and a reduction from 6.5 percent to 4.3 percent in the distribution margin under the Fujitsu Distribution Agreement for the first nine months of fiscal 2005, which would have added approximately $4.4 million to net sales for the first nine months of fiscal 2005;

- our assumption of freight, duty and logistics related costs for our products currently incurred by AMD which we believe would have increased cost of sales for fiscal 2004 by approximately $4.4 million and by approximately $1.4 million for the first nine months of fiscal 2005;

- our assumption of warehousing and related costs for our products currently incurred by Fujitsu, which we believe would have increased cost of sales for fiscal 2004 by approximately $4.0 million and by approximately $1.0 million for the first nine months of fiscal 2005;

- our assumption of direct and indirect marketing, general and administrative expenses in connection with employing AMD s sales force responsible for selling our products, which we believe would have increased marketing, general and administrative expenses for fiscal 2004 by approximately $47.4 million and by approximately $10.4 million for the first nine months of fiscal 2005;

- the inclusion of an incremental expense in connection with our profit sharing program for the increase in net income resulting from the foregoing adjustments, which we calculated as ten percent of incremental operating income before profit sharing expense, and which we believe would have increased marketing, general and administrative expenses for fiscal 2004 by approximately $5.1 million, but with no corresponding increase in the expense for the first nine months of fiscal 2005 since there was no profit on a pro forma basis in that period;

- the inclusion of incremental interest expense and amortization of capitalized debt issuance costs in connection with our concurrent private placement of notes, assuming the notes had been issued on December 29, 2003, net of a reduction of interest expense actually recorded on those outstanding debt obligations which will be repaid from the proceeds of the notes, assuming they had been repaid on December 29, 2003, and net of a reduction of interest expense related to the $100 million of debt to AMD and Fujitsu that will be cancelled in exchange for shares of our common stock, which we believe would have increased interest expense for fiscal 2004 by approximately $20.2 million and by approximately $13.4 million for the first nine months of fiscal 2005. We have assumed an interest rate of 11 percent payable on the notes based upon our financial condition and expected credit ratings and the current interest rate environment and market conditions, although the actual interest rate on our notes may differ from this assumed rate as a result of the interest rate environment and market conditions in effect at the time of pricing of the notes offering. A 100 basis point (one percent) increase

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in the interest rate on the notes would result in incremental annual increased interest expense of $4 million per year. A 100 basis point (one percent) decrease in the interest rate on the notes would result in incremental decreased interest expense of $4 million per year;

the inclusion of a tax provision for the incremental taxes owed on incremental net income before tax which would have been earned by our foreign subsidiaries and taxed at local statutory rates resulting from the foregoing adjustments, which we believe would have decreased the income tax benefit for fiscal 2004 by approximately $7.7 million and by approximately $1.3 million for the first nine months of fiscal 2005; and

the inclusion of a $3.1 million reduction of tax benefit that reflects the additional U.S. tax which we would have incurred if we were taxed as a corporation rather than a limited liability company for fiscal 2004 and no reduction of tax benefit for the first nine months of fiscal 2005.

The agreements that we have reached which resulted in the foregoing adjustments to our unaudited pro forma consolidated statement of operations data have not resulted in material assets being contributed to us or liabilities assumed by us.

The unaudited pro forma consolidated statement of operations data for the fiscal year ended December 26, 2004 and the nine months ended September 25, 2005 does not include all expected or potential changes to our cost structure. For example, the unaudited pro forma consolidated statement of operations data does not give effect to other costs or benefits that have been or will be incurred or realized as we transition to a standalone company, including costs or benefits related to:

designing and implementing new enterprise-wide information systems;

obtaining licenses from third parties for technology incorporated in our products or software used to operate our business, including any licenses required to replace the intellectual property rights we will lose once we are no longer a beneficiary under AMD s existing cross-license agreements. These costs will be offset to some extent by the reduction in royalty rates we pay under our patent cross-license agreements with AMD and Fujitsu. For more information, see Risk Factors We will lose rights to key intellectual property arrangements once we are no longer a beneficiary of AMD s patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against us and Certain Relationships and Related Party Transactions Patent Cross-License Agreements;

being a public company, including significant legal, accounting and other expenses we did not incur as a private company;

implementing our planned cost reduction efforts; and

a possible increase in the cost of procuring goods and services from third parties as a result of changes in our purchasing power. For more information, see Risk Factors We may experience increased costs resulting from a decrease in the purchasing power we currently have due to our being a majority-owned subsidiary of AMD.

The unaudited pro forma earnings per share information assumes our reorganization into a corporate structure occurred on December 29, 2003 and is based on the number of shares owned by AMD and Fujitsu immediately prior to the consummation of this offering.

Also set forth below is unaudited consolidated as adjusted balance sheet data as of September 25, 2005, which has been prepared from our unaudited consolidated balance sheet as of September 25, 2005, which is included elsewhere in this prospectus. The unaudited consolidated as adjusted balance sheet data adjusts the actual data to reflect the receipt and application of the net proceeds from this offering and the receipt and

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application of the net proceeds from the concurrent private placement of notes by Spansion LLC, our indirect wholly-owned subsidiary, in each case after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The other pro forma adjustments discussed above do not impact the unaudited consolidated as adjusted balance sheet data.

Our unaudited pro forma consolidated financial data is not intended to represent what our financial condition and results of operations actually would have been had the transactions described above occurred or to be indicative of our future financial performance.

**Summary Historical and Unaudited Pro Forma Financial Data**

| | Year Ended Mar. 31, 2003 | Nine Months Ended Dec. 28, 2003 | Year Ended Dec. 26, 2004 | Pro Forma for the Year Ended Dec. 26, 2004[2] | Nine Months Ended Sept. 26, 2004 | Nine Months Ended Sept. 25, 2005 | Pro Forma for the Nine Months Ended Sept. 25, 2005[2] |
|---|---|---|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | | | | |
| **Statement of Operations Data[1]:** | | | | | | | |
| Net sales | $ 961,950 | $ 1,193,212 | $ 2,262,227 | $ 2,368,766 | $ 1,775,251 | $ 1,411,209 | $ 1,429,749 |
| Cost of sales | 921,924 | 1,086,030 | 1,840,862 | 1,849,290 | 1,425,905 | 1,312,470 | 1,314,822 |
| Gross profit | 40,026 | 107,182 | 421,365 | 519,476 | 349,346 | 98,739 | 114,927 |
| Other expenses: | | | | | | | |
| Research and development | | 146,947 | 280,954 | 280,954 | 209,199 | 220,100 | 220,100 |
| Marketing, general and administrative | 4,811 | 74,200 | 137,159 | 189,641 | 100,616 | 126,784 | 137,177 |
| Operating income (loss) | 35,215 | (113,965) | 3,252 | 48,881 | 39,531 | (248,145) | (242,350) |
| Interest and other income (expense), net | (202) | 1,335 | 3,198 | 3,198 | 2,223 | 2,496 | 2,496 |
| Interest expense | (1,867) | (20,733) | (40,165) | (60,376) | (29,972) | (33,574) | (47,015) |
| Income (loss) before income taxes | 33,146 | (133,363) | (33,715) | (8,297) | 11,782 | (279,223) | (286,869) |
| Provision (benefit) for income taxes | 12,169 | (4,420) | (14,013) | (6,266) | 4,897 | (22,634) | (21,320) |
| Net income (loss) | $ 20,977 | $ (128,943) | $ (19,702) | $ (2,031) | $ 6,885 | $ (256,589) | $ (265,549) |
| Net income (loss) per share: | | | | | | | |
| Basic and diluted | $ 21.50 | n/a[4] | n/a[4] | n/a[4] | n/a[4] | n/a[4] | n/a[4] |
| Shares used in per share calculation: | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Basic and diluted | 975,753 | n/a(4) | n/a(4) | n/a(4) | n/a(4) | n/a(4) | n/a(4) |
| **Unaudited Pro Forma Effects of Assumed Reorganization into Corporate Structure(3):** | | | | | | | |
| Actual income (loss) before income taxes | n/a(4) | $ (133,363) | $ (33,715) | $ (8,297) | $ 11,782 | $ (279,223) | $ (286,869) |
| Pro forma provision (benefit) for income taxes | n/a(4) | (43,369) | (11,566) | (3,151) | 7,344 | (22,634) | (21,320) |
| Pro forma net income (loss) | n/a(4) | $ (89,994) | $ (22,149) | $ (5,146) | $ 4,438 | $ (256,589) | $ (265,549) |
| Pro forma income (loss) per share: | | | | | | | |
| Basic and diluted | n/a(4) | $ (1.24) | $ (0.31) | $ (0.06) | $ 0.06 | $ (3.54) | $ (3.32) |
| Pro forma shares used in per share calculation: | | | | | | | |
| Basic and diluted | n/a(4) | 72,549 | 72,549 | 79,956(5) | 72,549 | 72,549 | 79,956(5) |

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| | As of Sept. 25, 2005 | | |
|---|---|---|---|
| | Actual | Pro Forma(6) | Pro Forma as Adjusted(6)(7) |
| **Balance Sheet Data:** | | | |
| Cash and cash equivalents | $ 119,024 | $ 161,450 | $ 634,497 |
| Other assets | 25,760 | 36,060 | 36,060 |
| Working capital (deficit) | (116,091) | 309,895 | 802,942 |
| Total assets | 2,759,948 | 2,812,674 | 3,305,721 |
| Accrued liabilities to members | 20,472 | 14,183 | 14,183 |
| Other accrued liabilities | 61,049 | 60,965 | 60,965 |
| Long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans | 780,500 | 739,599 | 739,599 |
| Members capital/stockholders equity | 1,348,125 | 1,448,125 | 1,941,172 |

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

(2) Reflects adjustments in connection with our transition towards operating as a standalone entity by giving effect to the assumptions set forth in Unaudited Pro Forma Consolidated Financial Data found elsewhere in this prospectus.

(3) Reflects the impact of the planned reorganization of Spansion LLC into Spansion Inc. and the pro forma effects as if we had been subject to U.S. taxes and had outstanding shares equivalent to those held by AMD and Fujitsu at the time of our reorganization into Spansion Inc.

(4) Effective June 30, 2003, we were reorganized as a Delaware limited liability company with ownership in the form of limited liability company units held by AMD and Fujitsu. Therefore, net income (loss) per share data is not applicable for periods subsequent to June 30, 2003, and pro forma net income (loss) per share data is not applicable for periods prior to June 30, 2003 for which net income (loss) per share data is already presented.

(5) The increase in shares used in the basic and diluted net income (loss) per share calculation for the pro forma results for the year ended December 26, 2004 and for the nine months ended September 25, 2005 is directly related to the 4,444,444 shares of Class A common stock that we will issue to AMD in exchange for its cancellation of $60 million principal amount outstanding under the AMD Cash Note and 2,962,962 shares of Class D common stock that we will issue to Fujitsu in exchange for its cancellation of $40 million principal amount outstanding under the Fujitsu Cash Note, in each case calculated by dividing the principal amount cancelled by the assumed Class A common stock initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 306,513 and 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 355,556 and 237,038 shares.

(6) The unaudited consolidated pro forma balance sheet data as of September 25, 2005 adjusts the actual data to reflect the receipt and application of the net proceeds from the concurrent private placement of notes by Spansion LLC, our indirect wholly-owned subsidiary, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. These adjustments consist of:

The adjustment to cash and cash equivalents is related to total net proceeds from Spansion LLC s issuance of notes of $400 million, net of issuance costs of $10.3 million, reduced by long-term debt (and accrued and unpaid interest) that will be repaid of $347.3 million.

The adjustment to other assets is related to the $10.3 million of capitalized financing costs as a result of Spansion LLC s issuance of the notes.

The adjustments to accrued liabilities to members and other accrued liabilities are comprised of (i) $6.3 million that would have been deducted from our accrued liabilities to members as a result of our repayment of interest on indebtedness to members, and (ii) $84,000 that would have been deducted from our other accrued liabilities as a result of our repayment of interest on indebtedness to third parties.

The adjustments to long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans are comprised of (i) $400 million, which represents the amounts that would have been added to our long-term debt as a result of Spansion LLC s issuance of its notes, (ii) $120 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the remaining $60 million of the AMD Cash Note after AMD s cancellation of $60 million of the principal amount outstanding under the AMD Cash Note in exchange for shares of Class A common stock as described in (5) above, (iii) $161.9 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the AMD Asset Note, (iv) $38.5 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the Spansion Penang Asset Note, (v) $15 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the Spansion China Line of Credit, (vi) $5.6 million, which represents the amounts that would have been deducted from our long-term obligations to members as a result of our repayment of the Spansion Penang Loan, (vii) $40 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a

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result of the cancellation of $40 million of the principal amount outstanding under the Fujitsu Cash Note in exchange for shares of Class D common stock as described in (5) above and (viii) $60 million, which represents the amounts that would have been deducted from our long-term debt as a result of our repayment of the Senior Secured Credit Facility. The terms of each of these debt instruments are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations.

The adjustments to stockholders equity are related to the $100 million that would have been added to our additional paid-in capital as a result of the cancellation of the AMD Cash Note and the Fujitsu Cash Note in exchange for shares of our common stock as described in (5) above.

(7) The adjustments are related to the $493.0 million that represents the net proceeds that would have been added to our additional paid-in capital as a result of our issuance of approximately 39.2 million shares of Class A common stock, par value $0.001 per share. A $1.00 increase (decrease) in the assumed initial public offering price of $13.50 per share would increase (decrease) the net proceeds to us from this offering by $37 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

For more information, see Use of Proceeds and Capitalization. The other pro forma adjustments discussed in (1) through (4) above do not impact the unaudited consolidated as adjusted balance sheet data.

| | Year Ended Mar. 31, 2003 | Nine Months Ended Dec. 28, 2003 | Year Ended Dec. 26, 2004 | Nine Months Ended Sept. 26, 2004 | Nine Months Ended Sept. 25, 2005 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Supplemental Information:** | | | | | |
| EBITDA[1] | $ 313,994 | $ 202,450 | $ 538,017 | $ 433,287 | $ 166,001 |
| Capital expenditures | (190,228) | (214,752) | (530,095) | (426,753) | (323,870) |
| Net cash provided by operating activities | 356,200 | 134,046 | 463,298 | 441,842 | 220,614 |
| Net cash used for investing activities | (190,228) | (186,914) | (551,613) | (477,488) | (264,077) |
| Net cash provided by (used in) financing activities | (165,977) | 372,879 | (125,576) | (88,743) | 24,341 |

(1) The term earnings before interest, income taxes, depreciation and amortization (EBITDA) is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. We believe that EBITDA enhances an investor s understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness. Our management uses EBITDA to assess financial performance and debt service capabilities. In assessing financial performance, our management reviews EBITDA as a general indicator of economic performance compared to prior periods. Because EBITDA excludes interest, income taxes, depreciation and amortization, EBITDA provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, our management believes this type of measurement is useful for comparing general operating performance from period to period and making related management decisions. EBITDA is also used by securities analysts, lenders and others in their evaluation of different companies because it excludes items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be highly dependent on a company s capital structure, debt levels and credit ratings. Therefore, the impact of interest expense on earnings can vary significantly among companies. In addition, the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. As a result, effective tax rates and tax expense can vary considerably among companies. Finally, companies employ productive assets of different ages and utilize different methods of acquiring and depreciating such assets. This can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. Our management also believes that our investors use EBITDA as a measure of our ability to service indebtedness as well as to fund capital expenditures and working capital requirements. However, when assessing our operating performance or liquidity, you should not consider this data in isolation, or as a substitute for our net cash from operating activities or other cash flow data that is calculated in accordance with U.S. GAAP. In addition, EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do. A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA for each of the respective periods indicated is as follows:

| Year Ended Mar. 31, 2003 | Nine Months Ended Dec. 28, 2003 | Year Ended Dec. 26, 2004 | Nine Months Ended Sept. 26, 2004 | Nine Months Ended Sept. 25, 2005 |
|---|---|---|---|---|

| | (in thousands) | | | | |
|---|---|---|---|---|---|
| Net income (loss) | $ 20,977 | $ (128,943) | $ (19,702) | $ 6,885 | $ (256,589) |
| Interest expense, net | 1,867 | 19,816 | 37,457 | 28,137 | 31,234 |
| Income tax provision (benefit) | 12,169 | (4,420) | (14,013) | 4,897 | (22,634) |
| Depreciation and amortization expense | 278,981 | 315,997 | 534,275 | 393,368 | 413,990 |
| EBITDA | $ 313,994 | $ 202,450 | $ 538,017 | $ 433,287 | $ 166,001 |

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### Quarterly Financial Data

The following table sets forth our statements of operations data for the nine fiscal quarters immediately following our reorganization in June 2003. This unaudited quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data. This information should be read together with the consolidated financial statements and related notes included elsewhere in this prospectus.

| | Quarter Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sept. 28, 2003 | Dec. 28, 2003 | Mar. 28, 2004 | June 27, 2004 | Sept. 26, 2004 | Dec. 26, 2004 | Mar. 27, 2005 | June 26, 2005 | Sept. 25, 2005 |
| | (in thousands) | | | | | | | | |
| Net sales to members | $ 395,161 | $ 540,050 | $ 606,331 | $ 650,687 | $ 518,233 | $ 486,976 | $ 433,189 | $ 462,367 | $ 515,653 |
| Cost of sales | 336,128 | 460,235 | 502,293 | 517,459 | 406,153 | 414,957 | 436,686 | 430,477 | 445,307 |
| Gross profit (deficit) | 59,033 | 79,815 | 104,038 | 133,228 | 112,080 | 72,019 | (3,497) | 31,890 | 70,346 |
| Other expenses: | | | | | | | | | |
| Research and development | 70,534 | 76,413 | 67,181 | 70,043 | 71,975 | 71,755 | 71,379 | 74,597 | 74,124 |
| Marketing, general and administrative | 39,421 | 33,298 | 34,872 | 32,014 | 33,730 | 36,543 | 36,099 | 45,426 | 45,259 |
| Operating income (loss) | (50,922) | (29,896) | 1,985 | 31,171 | 6,375 | (36,279) | (110,975) | (88,133) | (49,037) |
| Interest and other income, net | 616 | 538 | 291 | 1,181 | 751 | 975 | 1,285 | 779 | 432 |
| Interest expense | (9,941) | (10,582) | (9,797) | (10,179) | (9,996) | (10,193) | (11,135) | (11,076) | (11,363) |
| Income (loss) before income taxes | (60,247) | (39,940) | (7,521) | 22,173 | (2,870) | (45,497) | (120,825) | (98,430) | (59,968) |
| Provision (benefit) for income taxes | 4,872 | 4,543 | (3,126) | 9,216 | (1,193) | (18,910) | (11,983) | (12,406) | 1,755 |
| Net income (loss) | $ (65,119) | $ (44,483) | $ (4,395) | $ 12,957 | $ (1,677) | $ (26,587) | $ (108,842) | $ (86,024) | $ (61,723) |

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## RISK FACTORS

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

### Risks Related to Our Business and Industry

***The demand for our products depends in large part on continued growth in the industries into which they are sold. A market decline in any of these industries, or a decline in the demand for NOR Flash memory products in these industries, would have a material adverse effect on our results of operations.***

Sales of our Flash memory products, which to date have been based on the Boolean logic-based Not Or, or NOR, architecture, are dependent to a large degree upon consumer demand for mobile phones. In 2004 and in the first six months of 2005, the wireless category of the Flash memory market, which primarily consists of mobile phones, represented the largest market for NOR Flash memory because mobile phone original equipment manufacturers, or OEMs, have traditionally used products based on NOR architecture to satisfy both code and data storage requirements within their mobile phones. The market research firm iSuppli has estimated that mobile communications represented approximately 53.8 percent of the NOR Flash memory market in 2004 and will represent approximately 60.2 percent of the NOR Flash memory market in 2005. In fiscal 2004 and in the first nine months of fiscal 2005, sales to the wireless category of the Flash memory market drove a majority of our sales. If demand for mobile phones is below our expectations or if the functionality of successive generations of mobile phones does not require increasing NOR Flash memory density, we would be materially adversely affected.

Similarly, sales of our products targeting the embedded category of the Flash memory market are dependent upon demand for consumer electronics such as set top boxes, or STBs, and DVD players, automotive electronics, industrial electronics such as networking equipment and PC peripheral equipment such as printers. Sales of our products are also dependent upon the inclusion of increasing amounts of NOR Flash memory content in some of these products. In fiscal 2004 and in the first nine months of fiscal 2005, sales to the embedded category of the Flash memory market drove a significant portion of our sales. If demand for these products, or NOR Flash memory content in these products, is below our expectations, we would be materially adversely affected.

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

As a subsidiary of AMD we have been the beneficiary of AMD s intellectual property arrangements with third parties, including patent cross-license agreements with other major semiconductor companies such as Intel, Motorola and IBM, and licenses from third parties for technology incorporated in our products and software used to operate our business. Following the completion of this offering, we will no longer be a beneficiary under a number of these agreements. As a result, we will lose rights to use important intellectual property that we are currently licensed to use and may therefore be subject to claims that we are infringing intellectual property rights of third parties through the manufacture and sale of our products and the operation of our business. Therefore, absent negotiating our own license agreements with the third parties who own such intellectual property, we will be vulnerable to claims by such parties that our products or operations infringe such parties patents or other intellectual property rights. In addition, third parties may have refrained from asserting intellectual property infringement claims against us because we have been a majority-owned subsidiary of AMD. Following this offering, they may elect to pursue such claims against us.

While we will eventually lose the benefits that we previously enjoyed under some of AMD s patent cross-license agreements and other licenses, we believe we will continue to be a beneficiary for some period of time

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after the consummation of this offering while AMD continues to hold a majority of our shares entitled to vote for the election of directors and while AMD continues to be a party to such agreements and licenses. However, we expect that AMD will no longer hold a majority of such voting shares upon the conversion of the Class D common stock held by Fujitsu. The Class D common stock held by Fujitsu will convert to Class A common stock on a one-for-one basis upon the earlier of (1) the date that is one year from the consummation of this offering and (2) the date upon which our board elects to cause the Class D common stock to convert to Class A common stock, following a determination that such conversion is in our best interests. Although we believe we will be entitled to remain a beneficiary under these patent cross-license agreements and other licenses for so long as AMD continues to hold a majority of our shares entitled to vote for the election of directors and while AMD continues to be a party to such agreements and licenses, we cannot assure you that the other parties thereunder will not challenge our ability to assert rights as a beneficiary under these patent cross-license agreements and other licenses after the consummation of this offering.

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

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

Market acceptance of products based on our MirrorBit technology is a critical factor impacting our ability to increase revenues and market share in the wireless and embedded categories of the Flash memory market, as well as to enter new markets. MirrorBit technology is a memory cell architecture that enables Flash memory products to store two bits of data in a single memory cell thereby doubling the density or storage capacity of each memory cell. If adoption of our MirrorBit technology occurs at a slower rate than we anticipate, our ability to compete will be reduced, and we would be materially adversely affected. For example, in the first six months of fiscal 2005, we introduced a new product for wireless applications based on our second generation MirrorBit technology. If we do not achieve market acceptance of this product or subsequent versions of this product, our future operating results would be materially adversely affected.

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

Flash memory products are generally based either on NOR architecture, or Not And, or NAND, architecture. To date, our Flash memory products have been based on NOR architecture, which are typically

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produced at a higher cost-per-bit than NAND-based products. We do not currently manufacture products based on NAND architecture. During 2003 and 2004, industry sales of NAND-based Flash memory products grew at a higher rate than sales of NOR-based Flash memory products, resulting in NAND vendors in aggregate gaining a greater share of the overall Flash memory market and NOR vendors in aggregate losing overall market share. This trend has continued in 2005 and sales of NAND-based Flash memory products represented a majority of the Flash memory products sold in the overall Flash memory market in the first six months of 2005. In 2004, according to iSuppli, total sales for the Flash memory market reached $15.9 billion, of which 58.4 percent was classified as sales of NOR-based Flash memory products and 41.6 percent was classified as sales of NAND-based Flash memory products. In the first six months of 2005, total sales for the Flash memory market reached $8.1 billion, of which 46.3 percent was classified as sales of NOR-based Flash memory products and 53.7 percent was classified as sales of NAND-based Flash memory products. We expect this trend to continue in the future. For example, on November 21, 2005, Intel Corporation and Micron Technology, Inc. announced the creation of a joint venture for the manufacture and sale of NAND-based Flash memory products. iSuppli projects that sales of NAND-based Flash memory products will grow by 40 percent from 2004 to 2005 and grow at a 13 percent compound annual growth rate from 2005 to 2009, while sales of NOR-based Flash memory products will decline by 16 percent from 2004 to 2005 and grow at a four percent compound annual growth rate from 2005 to 2009. Moreover, the removable storage category of the Flash memory market, which is currently the second largest category after wireless, and is predominantly served by NAND vendors, is expected to be the fastest growing portion of the Flash memory market for the foreseeable future. As mobile phones and other consumer electronics become more advanced, they will require higher density Flash memory to meet the increased data storage requirements associated with music downloads, photos and videos. Because storage requirements will increase to accommodate data-intensive applications, OEMs may increasingly choose NAND-based Flash memory products over NOR-based Flash memory products for their applications. Moreover, some NAND vendors are manufacturing on 300-millimeter wafers or are utilizing more advanced manufacturing process technologies than we are today, which result in an ability to offer products with a lower cost-per bit at a given product density. If NAND vendors continue to increase their share of the Flash memory market, our market share may decrease, which would materially adversely affect us.

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

As mobile phones become more advanced, they will require higher density Flash memory to meet increased data storage requirements. We intend to position ourselves to address the increasing demand for higher density Flash memory within the high-end wireless market by offering products based on our ORNAND architecture, which we are currently developing. The success of our ORNAND architecture requires that we timely and cost effectively develop, manufacture and market ORNAND-based products that are competitive with NAND-based Flash memory products in the wireless category of the Flash memory market. We expect to begin commercial shipments of ORNAND-based products to customers in 2006. However, if we fail to develop and commercialize our ORNAND architecture on a timely basis or if our ORNAND-based products fail to achieve acceptance in the wireless market, our future operating results would be materially adversely affected.

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

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

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

We currently have, and following this offering will continue to have, a substantial amount of indebtedness. As of September 25, 2005, we had an aggregate principal amount of approximately $781 million in outstanding debt. Of this amount, we owed approximately $381 million to AMD and Fujitsu. On September 19, 2005, we entered into a new $175 million senior secured revolving credit facility and as of December 14, 2005, approximately $60 million was outstanding thereunder. Concurrently with this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue $400 million aggregate principal amount of notes in a private placement and apply the net proceeds from the sale of the notes to repay a portion of our outstanding borrowings, including all amounts owed under our promissory notes to AMD and Fujitsu. Upon completion of this offering and the concurrent private placement of the notes we will have an aggregate of approximately $740 million in outstanding debt. The completion of the issuance of $400 million aggregate principal amount of notes is a condition to the completion of this offering.

Our substantial indebtedness may:

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

***Spansion LLC intends to issue notes in a private placement concurrently with this offering and we are currently party to and intend to enter into debt arrangements in the future, each of which may subject us to restrictive covenants which could limit our ability to operate our business; in addition, a portion of our existing indebtedness may become due and payable as a result of this offering.***

Concurrently with the completion of this offering, Spansion LLC, our indirect wholly-owned subsidiary, expects to issue $400 million aggregate principal amount of notes in a private placement. The indenture or indentures governing the notes will impose various restrictions and covenants on us which could limit our ability to respond to market conditions, make capital investments or take advantage of business opportunities. We expect that the notes will bear a higher rate of interest than our current debt, which will adversely affect our results of operations. For illustration of the pro forma effect of the issuance of our notes, see Unaudited Pro Forma Consolidated Financial Data.

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

enter into any mergers, consolidations or sales of property (except for our reorganization that will occur in connection with this offering), or sales of inventory, equipment and assets except in the ordinary course of business;

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

make investments, except for the purchase of inventory, equipment and intellectual property in the ordinary course of business, unless we meet minimum liquidity requirements consisting of availability under the revolving credit facility and domestic cash of at least $50 million prior to December 31, 2005 (or if earlier, the date of consummation of this offering) and $200 million thereafter, provided, however, that investments are limited to no more than a total of $50 million while the reduced minimum liquidity requirement is in place;

incur additional debt other than the debt to be incurred concurrently with this offering (including the notes being offered by Spansion LLC in a private placement), capital leases, debt incurred by our foreign subsidiaries, and in limited cases, loans to subsidiaries;

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

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

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

In the future, we may incur additional indebtedness through arrangements such as credit agreements or term loans that may also impose similar restrictions and covenants. These restrictions and covenants limit and any future covenants and restrictions likely will limit our ability to respond to market conditions, to make capital investments or to take advantage of business opportunities. Any debt arrangements we enter into will likely require us to make regular interest payments, which would adversely affect our results of operations. Our ability to satisfy the covenants, financial tests and ratios of our debt instruments can be affected by events beyond our control. We cannot assure you that we will meet those requirements. A breach of any of these covenants, financial tests or ratios could result in a default under the applicable agreement, which in turn could trigger cross-defaults under our other debt instruments, any of which would materially adversely affect us.

A portion of the indebtedness of our subsidiary, Spansion Japan, will become due and payable as a result of this offering if we cannot amend the terms of, or arrange for a new facility to refinance such indebtedness by December 31, 2005. This indebtedness consists of borrowings under the Spansion Japan Term Loan and a sale-leaseback transaction entered into in January 2005 which are described under Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations. As of September 25, 2005, these borrowings amounted to approximately $139 million. If we cannot amend the terms of, or arrange for a new facility to refinance, this indebtedness prior to December 31, 2005, we will use a portion of the net proceeds from this offering to repay such indebtedness and we will no longer have the benefit of the borrowing capacity provided by these facilities.

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

Our ability to fund anticipated capital expenditures depends on generating sufficient cash flow from operations and the availability of external financing. For example, in the first nine months of fiscal 2005, our capital expenditures were $324 million, and we expect to spend approximately an additional $195 million in the remainder of the fiscal year.

The completion of the issuance of $400 million aggregate principal amount of notes by Spansion LLC is a condition to the completion of this offering. We currently anticipate that one or both of AMD and Fujitsu may have to purchase a substantial portion of the notes in order to satisfy this condition. However, upon consummation of this offering, AMD and Fujitsu will no longer have an obligation to fund cash flow needs or provide new guarantees to our third-party lenders and they have advised us that they will not make funding available to us or provide new guarantees. We may not have access to financial markets on terms as favorable as we did when AMD and Fujitsu provided guarantees of our indebtedness.

Our capital expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and may decrease our cash balances. The timing and amount of our capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for our products, product mix, changes in industry conditions and market competition. We intend to assess regularly markets for external financing opportunities, including debt and equity. Such financing may not be available when needed or, if

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available, may not be available on satisfactory terms. Any equity financing would cause further dilution to our stockholders. See Dilution elsewhere in this prospectus. Our inability to obtain needed financing or to generate sufficient cash from operations may require us to abandon projects or curtail capital expenditures. For example, we plan to have 300-millimeter wafer manufacturing capacity in 2007, although our board of directors has not yet approved a definitive capital expenditure plan for achieving such capacity. However, if we cannot generate sufficient operating cash flow or obtain external financing, we may be delayed in achieving such capacity, and we could be materially adversely affected.

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

We incurred a net loss in each of fiscal 2003 and fiscal 2004 of approximately $129 million and $20 million. Our net loss for the first nine months of fiscal 2005 was approximately $257 million and we expect a net loss in the fourth quarter of fiscal 2005. As a result, we are undertaking a number of actions prior to or in connection with this offering in an effort to significantly reduce our expenses. These actions include streamlining operations, continuing to align manufacturing utilization to our level of demand, controlling increasing testing costs and working with AMD and Fujitsu to reduce costs under our service agreements with them. We cannot assure you that we will be able to achieve significant cost reductions. In addition, we expect to incur significant expenses including cash charges in connection with our cost reduction efforts. If our cost reduction efforts are unsuccessful, we would be materially adversely affected.

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

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

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

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

- substantial declines in average selling prices, particularly due to aggressive pricing by competitors and an imbalance in product supply and demand;

a decline in demand for end-user products that incorporate our products; and

excess inventory accumulation in distribution channels such as by mobile phone OEMs in China.

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For example, our net sales in the second half of fiscal 2004 decreased significantly compared to the first half of fiscal 2004. Similarly, our net sales for the first half of fiscal 2005 decreased significantly compared to the second half of 2004. During this time, average selling prices for our products decreased as a result of aggressive pricing by our competitors due in most cases to oversupply of products in the NOR Flash memory market. Net sales in the second half of fiscal 2004 were also adversely affected by a decrease in demand from the mobile phone market and several events that occurred in the first half of fiscal 2004, such as excess inventory accumulation by mobile phone OEMs in China and our inability to meet demand for some of our lower density products for the embedded category of the Flash memory market. This inability to meet demand adversely impacted our relationship with these customers and our competitors were able to take advantage of this situation to increase their market share. If these or other similar conditions continue or occur again in the future, we would likely be materially adversely affected.

***Manufacturing capacity constraints may adversely affect us.***

There may be situations in which our manufacturing facilities are inadequate to meet the demand for some of our products. For example, in the first half of fiscal 2004, we were not able to meet demand for some of our lower density products for the embedded category of the Flash memory market because in fiscal 2003 we underestimated demand for these products, and were unable to install additional wafer fabrication capacity on a timely basis. We believe this adversely impacted our relationships with customers who received reduced allocations, or did not receive allocations, of our embedded products and our competitors were able to take advantage of this situation to increase their market share in the second half of fiscal 2004. More recently, in the third quarter of fiscal 2005, we experienced capacity constraints for final test and assembly of some of our products and we are continuing to experience such constraints in the fourth quarter of fiscal 2005. While we are working internally and with subcontractors to increase capacity to meet anticipated demand, we do not expect to be able to do so at least in the short term. These capacity constraints limit our ability to respond to rapid and short term surges in demand for our products. Our inability to obtain sufficient manufacturing capacity to meet anticipated demand, either in our own facilities or through foundry, subcontractor or similar arrangements with third parties, could have a material adverse effect on us.

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

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

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

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

Many of our costs are fixed. Accordingly, during periods in which we under-utilize our manufacturing facilities as a result of reduced demand for some of our products, our costs cannot be reduced in proportion to the reduced revenues for such periods. When this occurs, our operating results are materially adversely affected.

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

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

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

Our historical financial information included in this prospectus does not necessarily indicate what our results of operations, financial condition or cash flows will be in the future. Since our reorganization as Spansion LLC, we have been a majority-owned subsidiary of AMD, and we have sold all of our products to our sole distributors, AMD and Fujitsu, who in turn have sold our products to customers worldwide. We intend to continue to transition to being an independent standalone entity by, among other things:

- integrating AMD s sales force responsible for selling our products that was transferred to us in the second quarter of fiscal 2005;
- begin selling products directly to AMD s former customers and potential customers not served solely by Fujitsu;
- working with AMD and Fujitsu to reduce costs under our service agreements with them; and
- expanding our own administrative functions.

Although we have included unaudited pro forma historical financial data based on assumptions reflecting some of these expected and potential changes, the unaudited pro forma historical financial data does not include all expected and potential changes to our cost structure. For additional information, see Unaudited Pro Forma Consolidated Financial Data, elsewhere in this prospectus.

If we cannot successfully reduce our reliance on AMD and Fujitsu to become an independent, standalone entity, we may be materially adversely affected.

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

Our principal competitors in the Flash memory market are Intel Corporation, Samsung Electronics Co., Ltd., STMicroelectronics, Silicon Storage Technology, Inc., Macronix International Co., Ltd., Toshiba Corporation, Sharp Electronics Corp. and Renesas Technology Corp. and may also include the recently announced joint ventures between Intel and Micron Technology, Inc. and between Intel and STMicroelectronics. The Flash memory market is characterized by intense competition. The basis of competition is cost, selling price, performance, quality and customer relationships. In particular, in the past, our competitors have aggressively

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priced their products in order to increase market share, which resulted in decreased average selling prices for our products in the second half of fiscal 2004 and the first quarter of fiscal 2005 and adversely impacted our results of operations. Some of our competitors, including Intel, Samsung, STMicroelectronics, Toshiba, Sharp and Renesas, are more diversified than us and may be able to sustain lower operating margins in their Flash memory business based on the profitability of their other, non-Flash memory businesses. In addition, recent capital investments by competitors have resulted in substantial industry manufacturing capacity, which may further contribute to a competitive pricing environment.

To compete successfully, we must decrease our manufacturing costs and develop, introduce and sell products that meet the increasing demand for greater Flash memory content in mobile phones, consumer electronics and automotive applications, among other markets, at competitive prices. We expect competition in the Flash memory market to increase as existing manufacturers introduce new products and process technologies, new manufacturers enter the market, industry-wide production capacity increases and competitors aggressively price their Flash memory products to increase market share.

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

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

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

We serve our customers worldwide through our sole distributors, AMD and Fujitsu, who buy products from us and resell them to these customers, either directly or through their distributors. These customers consist of OEMs, original design manufacturers, or ODMs, and contract manufacturers.

In fiscal 2004, the five largest of these customers accounted for a significant portion of end sales of our products by AMD and Fujitsu. Our business strategy is to continue to maintain and increase our market share and diversify our customer base in the wireless and embedded categories of the Flash memory market. We intend to penetrate further the embedded category in part by expanding the number of customers who buy through our distribution channel as well as the number of customers in emerging markets. If we are unsuccessful in executing this strategy, we could be materially adversely affected.

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

We make substantial investments in research and development for design and process technologies in an effort to design and manufacture advanced Flash memory products. For example, in fiscal 2004 our research and development expenses were $281 million, or approximately 12 percent of our net sales. Of this amount we incurred $54 million of expenses related to research and development services provided by AMD and Fujitsu. In the first nine months of fiscal 2005, our research and development expenses were $220 million, or approximately 16 percent of our net sales. Of this amount, we incurred $26 million of expenses related to research and development services provided by AMD and Fujitsu.

Currently, we are developing new non-volatile memory process technologies, including 90-nanometer floating gate technology and 90-nanometer MirrorBit technology, and have announced plans for development of 65-nanometer process technology. Our SDC facility is developing manufacturing process technologies on 200-millimeter and 300-millimeter wafers. We cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive, which could materially adversely affect us.

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

We intend to develop manufacturing capacity on 300-millimeter wafers. Our goal is to have this capacity in place in 2007, although our board of directors has not yet approved a definitive capital expenditure plan for achieving such capacity. The timing for developing 300-millimeter capacity will depend in part on the demand for our Flash memory products and on our ability to fund the construction of such a facility if we choose to develop the capacity internally. If we are delayed in developing this capability or are unable to timely and efficiently ramp production on 300-millimeter wafers, we would not achieve anticipated cost savings associated with this technology and we could be materially adversely affected.

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

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

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

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

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

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

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

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

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

Tessera, Inc. has recently filed a lawsuit against us alleging that we have infringed certain of Tessera s patents. Tessera has sought to enjoin such alleged infringement and to recover an unspecified amount of damages. In addition, Fujitsu has informed us that it has been informed by Texas Instruments Inc. that Texas Instruments believes that several of our products infringe some of Texas Instruments patents. Fujitsu has also informed us that it expects us to defend and indemnify Fujitsu against Texas Instruments claims in accordance with the terms of our distribution agreement with Fujitsu. Defending these claims and similar claims could be extremely expensive and time-consuming and defending these claims or others or the award of damages or an injunction could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of ours or others can be avoided or will be successfully concluded.

***We may not be successful in establishing a brand identity.***

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

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

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for

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another or one piece of equipment for another. Some raw materials we use in the manufacture of our products are available from a limited number of suppliers. For example, we purchase commercial memory die, such as SRAM, pSRAM, lpSDRAM and NAND, from third-party suppliers and incorporate these die into multi-chip package, or MCP, products. Our production was constrained in the first half of fiscal 2004 because of difficulties in procuring adequate supply of pSRAM. In addition, some of our major suppliers, including Samsung, are also our competitors. Interruption of supply from a competitor that is a supplier or otherwise or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure these materials, we may have to reduce our manufacturing operations. Such a reduction has in the past had and could in the future have a material adverse effect on us.

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

Our future success depends upon the continued service of numerous qualified engineering, manufacturing, marketing and executive personnel. We expect to have our own equity incentive plan and employee stock purchase plan following this offering, but we cannot assure you that such plans, any other employee benefit plans or the performance of our management system will be effective in motivating or retaining our employees or attracting new employees. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees could materially adversely affect us.

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

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

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

Flash memory suppliers compete in part on the basis of their ability to deliver products to end customers on short lead times and it is common for prevailing lead times in the market to be shorter than the minimum manufacturing cycle time. To deliver products with competitive lead times, we must maintain a buffer stock of product to fulfill customer orders. Because our buffer stock must be produced before customer orders are received, our production levels are based on forecasts of customer demand. AMD and Fujitsu are currently the sole distributors of our products. Typically, customers place an order with AMD or Fujitsu who simultaneously places an order with us. AMD and Fujitsu do not maintain any significant buffer inventory. Consequently, we are responsible for producing and holding any necessary buffer stock. Generally, AMD or Fujitsu sells our products pursuant to individual purchase orders from these customers. These customers may cancel their orders for standard products with AMD or Fujitsu thirty days prior to shipment without incurring a significant penalty. We extend similar rights to AMD and Fujitsu. Customer demand may be difficult to predict because such customers may change their inventory practices on short notice for any reason or they may cancel or defer product orders. Inaccurate forecasts of customer demand or cancellation or deferral of product orders could result in excess or obsolete inventory, which could result in write-downs of inventory. Historically, we based our inventory levels on AMD s and Fujitsu s non-binding forecasts of demand, which in turn were based on forecasts by their customers. In the future, we expect to sell directly to customers currently served by AMD, but we will continue to experience such inventory risks with respect to these customers. Because market conditions are uncertain, these factors could materially adversely affect us.

***We may not achieve the sales that are suggested by our book-to-bill ratio.***

Our book-to-bill ratio is a demand-to-supply ratio for orders, which we calculate by dividing the value of orders booked during a fiscal quarter by the value of orders invoiced during that quarter. We determine bookings

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based on orders that are received. However, the rate of booking new orders can vary significantly from month to month as demand for our products fluctuates frequently and orders may be cancelled or delayed. For these reasons, our book-to-bill ratio should not be relied on as an indication of future sales.

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

As we transition towards becoming a standalone entity, we are designing and preparing to implement our own enterprise-wide information systems. These systems will be designed to automate more fully our business processes and will affect most of our functional areas including sales, finance, procurement, inventory control, collections, order processing and manufacturing. Implementation may require significant upgrades to our existing computer hardware and software systems. Historically, other companies have experienced substantial delays in the implementation of such information systems. Implementation of these information systems will be complex, expensive and time consuming and successful implementation could be delayed or otherwise adversely affected by various factors including: (i) any failure to provide adequate training to employees; (ii) any failure to retain key members of the implementation team or to find suitable replacements for such personnel; (iii) any failure to develop and apply appropriate testing procedures that accurately reflect the demands that will be placed on these information systems following implementation; and (iv) any failure to develop and implement adequate back-up systems and procedures in the event that difficulties or delays arise during or following the implementation of these information systems.

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

***Unfavorable currency exchange rate fluctuations could adversely affect us.***

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

- some of our manufacturing costs are denominated in yen, Chinese renminbi and other foreign currencies such as the Thai baht and the Singapore dollar;
- some of the sales of our products to Fujitsu are denominated in yen; and
- some fixed asset purchases are denominated in yen.

After we begin to sell directly to customers currently served by AMD, we expect to also have sales denominated in euro. As a consequence, movements in exchange rates could cause our U.S. dollar-denominated expenses to increase as a percentage of net sales, affecting our profitability and cash flows. Whenever we believe appropriate, we cover a portion of our foreign currency exchange exposure to protect against fluctuations in currency exchange rates. As of December 26, 2004, we had an aggregate of $10.5 million (notional amount) of short-term foreign currency forward exchange contracts denominated in yen. However, generally, we cover only a portion of our foreign currency exchange exposure. Moreover, we determine our total foreign currency exchange exposure using projections of long-term expenditures for items such as equipment and materials used in manufacturing. We cannot assure you that these activities will be successful in reducing our foreign exchange rate exposure. Failure to do so could have a material adverse effect on us.

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

Worldwide economic conditions may adversely affect demand for our products. For example, China s economy has been growing at a fast pace over the past several years, and the Chinese government has recently introduced various measures to slow down the pace of economic growth. We believe some of these measures negatively impacted demand for our Flash memory products in the second half of fiscal 2004. Moreover, if Chinese authorities are not able to stage an orderly slowdown of the economic growth, China s economy may suffer. A decline in economic conditions in China could lead to declining worldwide economic conditions. If economic conditions decline, whether in China or worldwide, we could be materially adversely affected.

The occurrence and threat of terrorist attacks and the consequences of sustained military action in the Middle East have in the past, and may in the future, adversely affect demand for our products. In addition, terrorist attacks may negatively affect our operations, directly or indirectly, and such attacks or related armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive, which could materially adversely affect us.

The United States has been and may continue to be involved in armed conflicts that could have a further impact on our sales and our supply chain. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable, and we may not be able to foresee events that could have a material adverse effect on us.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. economy and worldwide financial markets. Any of these occurrences could have a material adverse effect on us.

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

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

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

- expropriation;
- changes in political or economic conditions;
- changes in tax laws, trade protection measures and import or export licensing requirements;
- difficulties in protecting our intellectual property;

- difficulties in achieving headcount reductions;
- changes in foreign currency exchange rates;
- restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and
- loss or modification of exemptions for taxes and tariffs.

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

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

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

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

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

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

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

In addition, the operations of our suppliers could be subject to natural disasters and other business disruptions, which could cause shortages and price increases in various essential materials. For example, the recent Hurricane Katrina may affect our supply of liquid hydrogen, a raw material used in our wafer manufacturing processes. If we are unable to procure an adequate supply of liquid hydrogen or a substitute raw material, or if the operations of our other suppliers are affected by natural disasters or business disruptions, we may have to reduce our manufacturing operations. Such a reduction could in the future have a material adverse effect on us.

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**Risks Related to Our Relationship with AMD and Fujitsu**

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

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

- enter into any joint venture, strategic alliance or similar arrangement:
  - with an integrated electronics manufacturer having the majority of its assets or business operations in Japan and annual semiconductor revenue in excess of one hundred billion yen;
  - prior to June 30, 2007, relating to manufacturing, memory product design or CMOS product development that involves actual or potential contribution of cash or assets by us to such joint venture or to a third party exceeding $50 million in any fiscal year or $250 million in the aggregate over the life of the joint venture or arrangement, excluding arrangements for providing foundry services with entities that derive more than 75 percent of their revenue from foundry services or arrangements for the assembly, pack, mark and test of semiconductor devices; or
  - relating to activities unrelated to manufacturing, memory product design or CMOS process development that involve the actual or potential contribution of cash or assets by us exceeding $200 million in any fiscal year or $1 billion in the aggregate over the life of the joint venture or arrangement;

  for so long as AMD s or Fujitsu s aggregate ownership interest is at least 22.5 percent;
- engage in or undertake any material activity unrelated to our current Flash memory business, for so long as AMD s or Fujitsu s aggregate ownership interest is at least 20 percent;
- amend the charter documents of any of our subsidiaries if such amendment would adversely and disproportionately affect either AMD or Fujitsu, for so long as AMD s or Fujitsu s aggregate ownership interest is at least 15 percent;
- amend our certificate of incorporation or bylaws or effect any resolution to wind up Spansion Inc. or any other subsidiary, for so long as AMD s or Fujitsu s aggregate ownership interest is at least ten percent;
- shut down operations at JV3 before April 1, 2007, shut down any facilities of the non-manufacturing organization of our wholly-owned subsidiary, Spansion Japan, before April 1, 2007, shut down operations at JV1 or JV2 before April 1, 2007 without giving AMD and Fujitsu six months advance notice, or shut down operations at our assembly and test facility in Kuala Lumpur, Malaysia before April 1, 2007 without giving AMD and Fujitsu three months advance notice, for so long as AMD or Fujitsu owns shares of our common stock; or

reduce headcount at JV1, JV2 or JV3 by more than ten percent prior to April 1, 2007 or reduce headcount at any facilities of the non-manufacturing organization of Spansion Japan by more than 15 percent prior to April 1, 2007 for so long as AMD or Fujitsu owns shares of our common stock.

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

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

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

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

Upon our reorganization from Spansion LLC into Spansion Inc. and the consummation of this offering, AMD and Fujitsu will be our two largest stockholders. AMD will have the right to elect two members to our board of directors. Fujitsu will have the right to elect one member to our board of directors. Each stockholder s ability to elect directors is subject to reduction based on the amount of our common stock that they own and this right terminates when their ownership in us falls below ten percent.

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

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

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

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***We currently rely on AMD and Fujitsu for a number of services and our business may suffer if we do not timely and cost-effectively establish our own administrative and support systems.***

We currently rely on AMD and Fujitsu for a large number of administrative and information technology services. We intend to reduce our reliance on AMD and Fujitsu and the services they provide to us. Accordingly, we will need to create our own systems, or we may choose to contract with other third parties to replace AMD or Fujitsu. However, during the transition period, which could be substantial, we will still rely on AMD and Fujitsu for a large number of services. Although we are working with AMD and Fujitsu to reduce the costs under our existing service agreements with them, if we are unable to successfully reduce our costs under these agreements or if we are unable to make this transition to our own systems in a timely and cost-effective manner, the costs associated with these services may have a material adverse effect on us.

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

We currently rely on Fujitsu to act as the sole distributor of our products to customers in Japan, which in fiscal 2004 was one of our most important geographic markets. Under our distribution agreement with Fujitsu, Fujitsu has agreed to use its best efforts to promote the sale of our products in Japan and to other customers served by Fujitsu. In the event that we reasonably determine that Fujitsu s sales performance in Japan and to those customers served by Fujitsu is not satisfactory based on specified criteria, then we have the right to require Fujitsu to propose and implement an agreed-upon corrective action plan. If we reasonably believe that the corrective action plan is inadequate, we can take steps to remedy deficiencies ourselves through means that include appointing another distributor as a supplementary distributor to sell products in Japan and to customers served by Fujitsu. Pursuing these actions would be costly and disruptive to the sales of our products in Japan. If Fujitsu s sales performance in Japan were unsatisfactory, and we could not timely find a suitable supplementary distributor, we would be materially adversely affected.

***The assets of Spansion Japan are pledged to Fujitsu in connection with Spansion Japan s term loan.***

Spansion Japan is party to a term loan with a Japanese financial institution. Fujitsu has guaranteed 100 percent of the amounts outstanding under this facility, and AMD has agreed to reimburse Fujitsu for 60 percent of any amounts paid out by Fujitsu under this guaranty. Spansion Japan agreed to pledge its assets to Fujitsu as security for its guarantee. If Spansion Japan were to default on its obligations under the term loan and AMD did not reimburse Fujitsu for 60 percent of amounts paid by Fujitsu pursuant to its guaranty, Fujitsu would be able to seize assets of Spansion Japan to recover the amounts not reimbursed. If this were to occur, we would be materially adversely affected.

***We may experience increased costs resulting from a decrease in the purchasing power we currently have due to our being a majority-owned subsidiary of AMD.***

Because we have been a majority-owned subsidiary of AMD since our reorganization in June 2003, AMD has procured goods, such as raw materials, technology, such as software licenses, and services on our behalf, and we have benefited from AMD s size and purchasing power. Following the completion of this offering, we will no longer be a majority-owned subsidiary, and AMD will not be able to procure goods, technology and services for us under AMD s existing agreements with suppliers. Because we will be a smaller and less diversified company than AMD is today, and we will not have access to financial and other resources comparable to those of AMD, we may be unable to obtain goods, technology and services at prices and on terms as favorable as those available to us while we were a majority-owned subsidiary of AMD, which could have a material adverse effect on us.

In addition, AMD relies on third-party providers to deliver our products to customers, to distribute materials for our wafer fabrication facilities and to provide some information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration and voice, video and remote access. Following the

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completion of this offering, we will no longer be a beneficiary under these agreements, and we may need to renegotiate the terms with these suppliers or bring these capabilities in-house. Vendors may require the payment of additional fees, which could have a material adverse effect on us.

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

In connection with our reorganization in June 2003, AMD and Fujitsu transferred approximately 400 patents and patent applications to us. In addition, AMD and Fujitsu have agreed to contribute additional patents to us shortly before this offering. However, both AMD and Fujitsu have retained the rights to use any patents contributed to us prior to the consummation of this offering for an unlimited period of time. In addition, under their respective patent cross-license agreements with us, AMD and Fujitsu have also obtained licenses to our present and future patents with effective filing dates prior to the later of June 30, 2013 or such date on which they have transferred all of their shares in us, although the scope of patents under license can be impacted by a change in control of the parties or their semiconductor groups. These licenses continue until the last to expire of the patents under license expires. Furthermore, while the cross-license agreements provide AMD and Fujitsu with ongoing perpetual licenses to all of our present and future patents and technologies in existence through such cross-license termination date, our right to Fujitsu s patents and technologies is more limited.

Under our non-competition agreement, both AMD and Fujitsu have agreed that they will not directly or indirectly engage in a business, and have agreed to divest any acquired business, that manufactures or supplies standalone semiconductor devices (including single chip, multiple chip or system devices) containing only Flash memory, which is the business in which we primarily compete. With respect to each of AMD and Fujitsu, this non-competition restriction will last until the earlier of (i) two years from the date such stockholder s ownership in us falls below five percent, or (ii) the dissolution of our company. After that time, should it ever decide to re-enter the Flash memory business, AMD or Fujitsu could use on a perpetual basis our present and future patents and technologies in existence through the cross-license termination date to compete against us. If either AMD or Fujitsu were to compete with us, we could be materially adversely affected. For more information on the patent cross-license agreements and the non-competition agreement, see Certain Relationships and Related Party Transactions elsewhere in this prospectus.

***Our share price may decline because of the ability of AMD and Fujitsu to sell shares of our common stock.***

Sales of substantial amounts of our common stock after this offering, or the possibility of those sales, could adversely affect the market price of our common stock and impede our ability to raise capital through the issuance of additional equity securities. See Shares Eligible for Future Sale for a discussion of possible future sales of our common stock.

Subject to transfer restrictions described below to which we are not a beneficiary and any applicable U.S. federal and state securities laws, after the expiration of a 180-day lock-up period (which may be waived by representatives of the underwriters), AMD and Fujitsu may sell shares of our common stock that they beneficially own. In addition, after the expiration of this 180-day period, we could issue and sell additional shares of our common stock. Any sale by AMD, Fujitsu or us of our common stock in the public market, or the perception that sales could occur, could adversely affect prevailing market prices for our common stock. In connection with this offering, AMD and Fujitsu will enter into a stockholders agreement with us, which will provide for, among other things, restrictions on their ability to transfer their shares. AMD and Fujitsu have agreed with each other that neither of them will transfer any shares of our common stock, except to certain affiliates, until the earlier of one year from the date of this offering or the conversion of the Class D common stock. In addition, neither stockholder can transfer shares in an amount equal to or greater than one percent of the then common stock outstanding to any entity whose principal business competes with us, unless first obtaining the written consent of the non-transferring stockholder, such consent not to be unreasonably withheld after June 30, 2007.

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## Risks Related to this Offering

***Our share price may be volatile, and you may be unable to sell your shares at or above the offering price.***

The initial public offering price for our shares will be determined by negotiations between us and representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. The market price of shares of our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- changes in projections of our operating results by securities analysts;
- fluctuations in the valuation of companies perceived to be comparable to us; and
- share price and volume fluctuations attributable to inconsistent trading volume levels or other factors.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of shares of our common stock. If the market price of shares of our common stock after this offering does not exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management s attention from other business concerns, which could materially adversely affect us.

***No public market for our common stock currently exists, and an active trading market may not develop or be sustained following this offering.***

Prior to this offering, there has been no public market for our common stock. An active trading market may not develop following the closing of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration, which in turn could materially adversely affect our business.

***If securities or industry analysts do not publish research reports about our business, or publish negative reports about our business, the price and trading volume of our securities could decline.***

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

***We will have broad discretion in the use of net proceeds from this offering and may not use them effectively.***

Although our management currently intends to use the net proceeds from this offering in the manner described in Use of Proceeds, they will have broad discretion in the application of the net proceeds. The failure by our management to apply these funds effectively could affect our ability to continue to manufacture and sell our products.

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***Being a public company will increase our expenses and administrative burden.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, our administrative staff will be required to perform additional tasks. For example, in anticipation of becoming a public company, we will need to create or revise the roles and duties of our board committees, adopt additional internal controls and disclosure controls and procedures, retain a transfer agent, adopt an insider trading policy and bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the Securities and Exchange Commission and the Nasdaq Stock Market, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We are currently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

***We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.***

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

***Our issuance of preferred stock could adversely affect holders of our common stock.***

Our board of directors is authorized to issue additional series of shares of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of shares of preferred stock that may be issued, including voting rights, dividend

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rights and preferences over our common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up of our affairs, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

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

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

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## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, intend, anticipate, believe predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in Risk Factors and the following factors, any of which could cause our actual results to differ materially from any forward-looking statement:

- our ability to successfully introduce our next generation products to market in a timely manner;
- our ability to effectively and timely achieve volume production of our next generation products;
- our ability to increase market acceptance of our products based on our MirrorBit technology;
- our ability to accelerate our product development cycle;
- our ability to penetrate further the embedded category of the Flash memory market with our high density embedded products and expand the number of customers who buy through AMD and Fujitsu as well as the number of customers in emerging markets;
- our ability to successfully develop and transition to the latest technologies, including 90-nanometer manufacturing process technology in the first half of fiscal 2006;
- our ability to have 300-millimeter Flash memory wafer manufacturing capacity in 2007;
- our ability to implement successfully our cost reduction efforts;
- our ability to reduce our reliance on AMD and Fujitsu for administrative and other services and functions;
- our ability to work with AMD and Fujitsu to reduce costs under our service agreements with them;
- our ability to control our operating expenses, particularly our marketing, general and administrative costs;
- our ability to design and implement new enterprise-wide information systems in a timely and cost-effective manner;
- our ability to develop our ORNAND architecture, introduce new products based on this architecture, and to achieve customer acceptance of these products, particularly among mobile phone OEMs;

our ability to develop systems-level solutions that provide value to customers of our products;

our ability to enter new markets not traditionally served by Flash memory by, for example, integrating logic functions within high density arrays of Flash memory; and

our ability to negotiate successfully patent and other intellectual property licenses and patent cross-licenses and acquire additional patents after we lose key intellectual property rights once we are no longer a beneficiary under AMD s existing cross-license agreements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. Moreover, we cannot guarantee the accuracy and completeness of the forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or to changes in our expectations.

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## USE OF PROCEEDS

The net proceeds from the sale of the shares of Class A common stock offered hereby will be approximately $493 million, based on an assumed initial public offering price of $13.50 per share after deducting underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $13.50 per share would increase (decrease) the net proceeds to us from this offering by $37 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, the net proceeds from this offering will be approximately $568 million, based on an assumed initial public offering price of $13.50 per share after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The primary purposes of this offering are to create a public market for our Class A common stock, obtain additional equity capital and facilitate future access to public markets.

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

A portion of the indebtedness of our subsidiary, Spansion Japan, will become due and payable as a result of this offering if we cannot amend the terms of, or arrange for a new facility to refinance, such indebtedness by December 31, 2005. This indebtedness consists of borrowings under the Spansion Japan Term Loan and a sale-leaseback transaction entered into in January 2005, the terms of which are described under Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations. As of September 25, 2005, these borrowings amounted to approximately $139 million, of which approximately $85 million was outstanding under the Spansion Japan Term Loan and approximately $53.7 million was outstanding under the Spansion Japan sale-leaseback transaction. If we cannot amend the terms of, or arrange for a new facility to refinance, this indebtedness prior to December 31, 2005, we will use a portion of the net proceeds from this offering to repay this indebtedness.

Concurrently with this offering, Spansion LLC, our indirect wholly-owned subsidiary, intends to issue $400 million aggregate principal amount of senior unsecured notes in a private placement. To the extent that Spansion LLC is unable to place the full $400 million aggregate principal amount of senior unsecured notes on acceptable terms, one or both of AMD and Fujitsu will purchase senior subordinated unsecured notes such that the total aggregate principal amount of senior unsecured notes and senior subordinated unsecured notes will total $400 million. Any notes purchased by one or both of AMD and Fujitsu will be subordinated to the senior unsecured notes and consequently may bear interest at a rate that is up to 150 basis points higher than the interest rate on the senior unsecured notes, but the terms of which will otherwise be substantially similar to the senior unsecured notes.

We intend to apply a portion of the net proceeds from the sale of the notes to repay in full the outstanding principal and interest on the AMD Cash Note and the AMD Asset Note, the terms of which are described under Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, which we issued to AMD in connection with our reorganization as Spansion LLC in June 2003. These notes bear interest at the London Interbank Offered Rate, or LIBOR, plus four percent, to be paid quarterly. The interest rate adjusts each calendar quarter based on LIBOR and cannot exceed seven percent. We are required to repay the principal amount of these notes as follows: 75 percent on March 31, 2006 and any remaining amounts on June 30, 2006, provided that upon completion of this offering and the concurrent notes offering, we will repay the AMD Cash Note and AMD Asset Note in full including accrued and unpaid interest. As of September 25, 2005, the remaining principal balance on the AMD Cash Note was $120 million and the remaining principal balance on the AMD Asset Note was approximately $162 million. Upon the consummation of this offering, AMD will cancel $60 million of the aggregate principal amount outstanding under the AMD

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Cash Note in exchange for that number of shares of our Class A common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD in exchange for its cancellation of indebtedness by 306,513 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD in exchange for its cancellation of indebtedness by 355,556 shares. We will use the net proceeds from the concurrent notes offering to repay any remaining amounts outstanding (including accrued and unpaid interest) under the AMD Cash Note and AMD Asset Note.

In connection with our reorganization in June 2003, we issued an unsecured promissory note in an amount of approximately 146 million Malaysian Ringgit (approximately $38 million based on the exchange rate as of September 25, 2005), payable to AMD s subsidiary in Malaysia, AMD Export Sdn. Bhd., or AMD Export, in connection with the sale of assets by AMD Export to our wholly-owned subsidiary in Malaysia, Spansion Penang Sdn. Bhd., or Spansion Penang. This note bears interest at a fixed rate of seven percent, to be paid quarterly. Spansion Penang is required to repay approximately 110 million Malaysian Ringgit (approximately $29 million based on the exchange rate as of September 25, 2005) of the principal amount of the note on March 31, 2006 and the remaining principal amount of the note on June 29, 2006, provided that upon completion of this offering and our concurrent notes offering, Spansion Penang is required to repay the note in full including accrued and unpaid interest on the note. As of September 25, 2005, the remaining balance on this note was approximately 146 million Malaysian Ringgit (approximately $38 million based on the exchange rate as of September 25, 2005). As part of our reorganization as Spansion LLC in June 2003, we also assumed $60 million of unsecured debt, payable by our subsidiary in the People s Republic of China, Spansion China Limited, or Spansion China, to AMD. Amounts outstanding bear interest at rates ranging from two percent to six percent, to be paid quarterly. Spansion China is required to pay the remaining balance on the debt on March 26, 2006 or such later date as the parties may agree upon in writing, and all borrowings made by Spansion China after the effective date of the amendment shall bear interest at a rate of 3.46 percent, compounded annually. As of September 25, 2005, the remaining balance on this unsecured debt was approximately $15 million. On January 29, 2004, Spansion Penang entered into a financial arrangement with AMD Export. Under the terms of the arrangement, Spansion Penang borrowed approximately 29 million Malaysian Ringgit (approximately $8 million based on the exchange rate as of September 25, 2005) from AMD Export to fund the purchase of manufacturing equipment. A third-party financial institution has a lien on the purchased equipment. The loan bears interest at a fixed rate of 5.9 percent and is payable in equal, consecutive, monthly principal and interest installments through February 2009. The total amount outstanding under this arrangement as of September 25, 2005 was approximately 20 million Malaysian Ringgit (approximately $6 million based on the exchange rate as of September 25, 2005). We also intend to apply a portion of the net proceeds from the sale of the notes, and to the the extent required, a portion of the net proceeds from this offering, to repay in full the outstanding principal and interest on such indebtedness.

On September 19, 2005, we entered into a new senior secured revolving credit facility, the terms of which are described under Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, and we borrowed approximately $60 million under this facility, a portion of which was used to pay off in full approximately $24 million of our outstanding borrowings under our July 2003 Spansion Term Loan with the remainder being used for working capital. As of December 14, 2005, $60 million was outstanding under this facility and bears interest at a rate of 7.25 percent. We intend to apply a portion of the net proceeds from Spansion LLC s sale of the notes, and to the extent required, a portion of the net proceeds from this offering, to repay in full the outstanding principal and interest on such indebtedness.

For additional information regarding the debt obligations that will be repaid with the net proceeds from the sale of the notes, see Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations. Any remaining proceeds from the sale of the notes will be used to repay a portion of our other outstanding debt. The completion of the sale of $400 million aggregate principal amount of notes is a condition to the completion of this offering.

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## DIVIDEND POLICY

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. In addition, our common stock will rank junior as to payment of dividends to any series of preferred stock that we may issue in the future. The terms of our senior secured revolving credit facility limit our ability to pay cash dividends on any shares of our common stock. Similar prohibitions will be applicable under the indenture governing the notes being concurrently offered in a private placement by Spansion LLC, our indirect wholly-owned subsidiary. In addition, because we are a holding company, our ability to pay cash dividends on shares of our common stock may be limited by restrictions on our ability to obtain sufficient funds through dividends from our subsidiaries, including the restrictions under our senior secured revolving credit facility and the indenture governing the notes. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, our overall financial condition and any other factors deemed relevant by our board.

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## CAPITALIZATION

The following table summarizes our capitalization as of September 25, 2005 on an actual basis as Spansion LLC, and on an as adjusted basis as Spansion Inc. to give effect to (i) this offering at an assumed initial public offering price of $13.50 per share and (ii) the concurrent private placement and application of the proceeds of $400 million aggregate principal amount of notes by Spansion LLC, our indirect wholly-owned subsidiary, in each case after deducting underwriting discounts and commissions and estimated offering expenses payable by us. The completion of the sale of $400 million aggregate principal amount of notes is a condition to the completion of this offering.

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

| | As of September 25, 2005 | |
|---|---|---|
| | Actual | As Adjusted |
| | (in thousands, except share data) | |
| Total long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans | $ 780,500 | $ 739,599 |
| Member s capital/stockholders equity: | | |
| Members capital in Spansion LLC: | | |
| Contributed capital AMD Investments, Inc. | 891,266 | |
| Contributed capital Fujitsu Microelectronics Holding, Inc. | 594,177 | |
| Stockholders equity in Spansion Inc.: | | |
| Class A common stock, $0.001 par value authorized 714,999,998 shares; 87,189,548 shares issued and outstanding on an as adjusted basis | | 87 |
| Class B common stock, $0.001 par value authorized 1 share; 1 share issued and outstanding on an as adjusted basis | | |
| Class C common stock, $0.001 par value authorized 1 share; 1 share issued and outstanding on an as adjusted basis | | |
| Class D common stock, $0.001 par value authorized 35,000,000 shares; 31,982,563 shares issued and outstanding on an as adjusted basis | | 32 |
| Additional paid-in capital | | 2,078,371 |
| Retained earnings (deficit) | (83,891) | (83,891) |
| Accumulated other comprehensive loss | (53,427) | (53,427) |
| Total members capital/stockholders equity | $ 1,348,125 | $ 1,941,172 |
| Total capitalization | $ 2,128,625 | $ 2,680,771 |

The table above does not reflect an aggregate of 11,750,000 shares of Class A common stock that we intend to reserve for future issuance under our 2005 equity incentive plan and 2005 employee stock purchase plan, of which we intend to grant to our employees at the time of pricing of this offering restricted stock units for approximately two million shares and stock options for approximately four million shares at an exercise price equal to the initial public offering price.

The information set forth in the table above assumes that (i) Fujitsu has cancelled $40 million of the aggregate principal amount outstanding under the Fujitsu Cash Note in exchange for that number of shares of our Class D common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 2,962,962 shares assuming an initial public offering price per share of $13.50, and (ii) AMD has cancelled $60 million of the aggregate principal amount outstanding

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under the AMD Cash Note in exchange for that number of shares of our Class A common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 306,513 and 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 355,556 and 237,038 shares. A $1.00 increase (decrease) in the assumed initial public offering price of $13.50 per share would increase (decrease) each of additional paid-in-capital, total members capital/stockholders equity and total capitalization by $37 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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## DILUTION

This offering will not be dilutive to new investors.

The following table sets forth as of September 25, 2005, on a pro forma as adjusted basis, the difference between the number of shares of common stock purchased from us, the total consideration paid, and the average price per share paid by the existing stockholders, and the number of shares of common stock purchased from us, the total consideration paid, and the average price per share paid by investors purchasing shares in this offering, based on an assumed initial public offering price of $13.50 per share and before deducting estimated underwriting discounts and commissions and estimated offering expenses:

| | Shares Purchased | | Total Consideration | | Average Price |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | Per Share |
| | (amounts in thousands, except percentages and per share amounts) | | | | |
| Existing stockholders (AMD and Fujitsu) | 79,956 | 67.1% | $ 1,585,443 | 75.0% | $ 19.83 |
| New investors | 39,216 | 32.9 | 529,412 | 25.0 | 13.50 |
| Total | 119,172 | 100% | $ 2,114,855 | 100% | |

A $1.00 increase (decrease) in the assumed initial public offering price of $13.50 per share would increase (decrease) total consideration paid by existing stockholders, total consideration paid by new investors, total consideration paid by all stockholders and average price per share paid by existing stockholders by $0, $39 million, $39 million and $0.13/$(0.15) per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and before deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The tables and calculations above are based on the number of shares of common stock outstanding after our reorganization into a corporate structure and the consummation of this offering. If the underwriters fully exercise their option to buy additional shares of common stock from us, the number of shares of common stock held by new investors will increase to approximately 45,098,057 shares, or approximately 36.1 percent and our existing stockholders would own approximately 63.9 percent of our total outstanding common stock.

In addition, under our 2005 equity incentive plan we intend to reserve 9,500,000 shares for future grant or issuance to current and future employees and independent directors thereunder and under our 2005 employee stock purchase plan, we intend to reserve 2,250,000 shares. At the time of the consummation of this offering, we intend to grant stock options or restricted stock units for approximately 6,000,000 shares of our Class A common stock to our employees under our 2005 equity incentive plan. The table and calculations above exclude such shares. To the extent the options are exercised and awards are granted under these plans, there may be dilution to new investors.

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## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

We prepared the following unaudited pro forma consolidated statement of operations data for the fiscal year ended December 26, 2004 from our audited consolidated financial statements for the fiscal year ended December 26, 2004, which are included elsewhere in this prospectus, and we prepared the following unaudited pro forma consolidated statement of operations data for the nine months ended September 25, 2005 from our unaudited consolidated financial statements for the nine months ended September 25, 2005, which are included elsewhere in this prospectus, to reflect our results of operations as if the events described below had occurred as of December 29, 2003.

As we continue our transition towards operating as a standalone entity, we intend over time to reduce our reliance on AMD and Fujitsu for administrative and other services and functions. For example, AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005 and AMD ceased to earn any distribution margin on the sale of our products. Although the transition of some related support functions, including booking and billing, is still underway, we expect to sell directly to customers formerly served by AMD, as well as potential customers not solely served by Fujitsu. We also reached an agreement with Fujitsu to reduce the distribution margin earned by Fujitsu on the sale of our products from 6.5 percent to 4.3 percent beginning in the second quarter of fiscal 2005. As set forth below, we have included adjustments in our unaudited pro forma consolidated statement of operations data for our assumption of freight, duty and logistics and related costs, our assumption of warehousing and related costs, and our assumption of direct and indirect marketing, general and administrative expenses in connection with employing AMD s sales force responsible for selling our products. Each of these adjustments represents the costs that AMD incurred in connection with selling our products in fiscal 2004 and in the first nine months of fiscal 2005, all of which were incurred by AMD prior to the transfer of AMD s sales force as of April 1, 2005. We believe that the costs that were actually incurred by AMD in connection with selling our products are representative of the costs that we would have incurred if the transfer of AMD s sales force had occurred as of December 29, 2003. Moreover, as of April 1, 2005, we and AMD entered into an Agency Agreement whereby we agreed to pay AMD for the provision of transitional support services for shipping, invoicing and billing, purchase order processing and other related functions, including worldwide sales and marketing support services such as credit and collections. We believe that the negotiated fees for these marketing, general and administrative transitional services substantially approximate the expenses that we would incur if we were to perform these services internally. In the aggregate, these pro forma adjustments, as well as the elimination of the AMD distribution margin and the reduction of the Fujitsu distribution margin, increased both operating and net income, which subsequently resulted in an incremental expense in connection with our profit sharing program.

The following table sets forth unaudited pro forma consolidated statement of operations data for the fiscal year ended December 26, 2004 and for the nine months ended September 25, 2005 and gives effect to:

- the contemplated termination of the AMD Distribution Agreement, which would have resulted in an elimination of the seven percent distribution margin thereunder for fiscal 2004, which would have added approximately $80.3 million to net sales for fiscal 2004, and resulting in an elimination of the 6.5 percent distribution margin thereunder for the first nine months of fiscal 2005, which would have added approximately $14.1 million to net sales for the first nine months of fiscal 2005;

- a reduction from seven percent to 4.3 percent in the distribution margin under the Fujitsu Distribution Agreement for fiscal 2004, which would have added approximately $26.2 million to net sales for fiscal 2004 and a reduction from 6.5 percent to 4.3 percent in the distribution margin under the Fujitsu Distribution Agreement for the first nine months of fiscal 2005, which would have added approximately $4.4 million to net sales for the first nine months of fiscal 2005;

- our assumption of freight, duty and logistics related costs for our products currently incurred by AMD, which we believe would have increased cost of sales for fiscal 2004 by approximately $4.4 million and by approximately $1.4 million for the first nine months of fiscal 2005;

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our assumption of warehousing and related costs for our products currently incurred by Fujitsu which we believe would have increased cost of sales for fiscal 2004 by approximately $4.0 million and by approximately $1.0 million for the first nine months of fiscal 2005;

our assumption of direct and indirect marketing, general and administrative expenses in connection with employing AMD s sales force responsible for selling our products, which we believe would have increased marketing, general and administrative expenses for fiscal 2004 by approximately $47.4 million and by approximately $10.4 million for the first nine months of fiscal 2005;

the inclusion of an incremental expense in connection with our profit sharing program for the increase in net income resulting from the foregoing adjustments, which we calculated as ten percent of incremental operating income before profit sharing expense, and which we believe would have increased marketing, general and administrative expenses for fiscal 2004 by approximately $5.1 million, but with no corresponding increase in the expense for the first nine months of fiscal 2005 since there was no profit on a pro forma basis in that period;

the inclusion of incremental interest expense and amortization of capitalized debt issuance costs in connection with our concurrent private placement of notes, assuming the notes had been issued on December 29, 2003, net of a reduction of interest expense actually recorded on those outstanding debt obligations which will be repaid from the proceeds of the notes, assuming they had been repaid on December 29, 2003, and net of a reduction of interest expense related to the $100 million of debt to AMD and Fujitsu that will be cancelled in exchange for shares of our common stock, which we believe would have increased interest expense for fiscal 2004 by approximately $20.2 million and by approximately $13.4 million for the first nine months of fiscal 2005. We have assumed an interest rate of 11 percent payable on the notes based upon our financial condition and expected credit ratings and the current interest rate environment and market conditions, although the actual interest rate on our notes may differ from this assumed rate as a result of the interest rate environment and market conditions in effect at the time of pricing of the notes offering. A 100 basis point (one percent) increase in the interest rate on the notes would result in incremental annual increased interest expense of $4 million per year. A 100 basis point (one percent) decrease in the interest rate on the notes would result in incremental decreased interest expense of $4 million per year;

the inclusion of a tax provision for the incremental taxes owed on incremental net income before tax which would have been earned by our foreign subsidiaries and taxed at local statutory rates resulting from the foregoing adjustments, which we believe would have decreased the income tax benefit for fiscal 2004 by approximately $7.7 million and by approximately $1.3 million for the first nine months of fiscal 2005; and

the inclusion of a $3.1 million reduction of tax benefit that reflects the additional U.S. tax which we would have incurred if we were taxed as a corporation rather than a limited liability company for fiscal 2004 and no reduction of tax benefit for the first nine months of fiscal 2005.

The agreements that we have reached which resulted in the foregoing adjustments to our unaudited pro forma consolidated statement of operations data have not resulted in material assets being contributed to us or liabilities assumed by us.

This unaudited pro forma consolidated statement of operations data does not include all expected changes to our cost structure. For example, the unaudited pro forma consolidated statement of operations data does not give effect to other costs or benefits that have been or will be incurred or realized as we transition to a standalone company, including costs or benefits related to:

designing and implementing new enterprise-wide information systems;

obtaining licenses from third parties for technology incorporated in our products or software used to operate our business, including any licenses required to replace the intellectual property rights we will lose once we are no longer a beneficiary under AMD s existing cross-license agreements. The costs will be offset to some extent by the reduction in royalty rates we pay under our patent cross-license agreements with AMD and Fujitsu. For more information, see Risk Factors We will lose rights to key intellectual property arrangements once we are no longer a beneficiary of AMD s patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against us and Certain Relationships and Related Party Transactions Patent Cross-License Agreements;

being a public company, including significant legal, accounting and other expenses we did not incur as a private company;

implementing our planned cost reduction efforts; and

a possible increase in the cost of procuring goods and services from third parties as a result of changes in our purchasing power. For more information, see Risk Factors We may experience increased costs resulting from a decrease in the purchasing power we currently have due to our being a majority-owned subsidiary of AMD.

The pro forma net income (loss) per share information assumes our reorganization into a corporate structure occurred on December 29, 2003 and is based on the number of shares owned by AMD and Fujitsu immediately prior to the consummation of this offering.

Also set forth below is unaudited consolidated pro forma balance sheet data as of September 25, 2005 which has been prepared from our unaudited consolidated financial statements for the nine months ended September 25, 2005, which are included elsewhere in this prospectus. The unaudited consolidated pro forma balance sheet data reflects: (i) the receipt and application of the net proceeds from the concurrent private placement of notes by Spansion LLC, our indirect wholly-owned subsidiary, after deducting underwriting discounts and commissions and estimated offering expenses payable by us; (ii) that Fujitsu has cancelled $40 million of the aggregate principal amount outstanding under the Fujitsu Cash Note in exchange for that number of shares of our Class D common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 2,962,962 shares assuming an initial public offering price per share of $13.50; and (iii) that AMD has cancelled $60 million of the aggregate principal amount outstanding under the AMD Cash Note in exchange for that number of shares of our Class A common stock calculated by dividing the principal amount cancelled by the initial public offering price per share of our Class A common stock, which would be 4,444,444 shares assuming an initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 306,513 and 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 355,556 and 237,038 shares. The other pro forma adjustments discussed above do not impact the unaudited consolidated as adjusted balance sheet data.

Our unaudited pro forma consolidated financial data and unaudited as adjusted balance sheet data is not intended to represent what our financial condition or results of operations actually would have been had the transactions described above occurred or to be indicative of our future financial performance.

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| | For the Year Ended Dec. 26, 2004 | | | | |
|---|---|---|---|---|---|
| | Actual | Adjustments for Tax as a Corporation | Adjustments for Transfer of Sales Force and Other Changes | Adjustments for the Issuance of Notes and the Repayment and Conversion to Equity of Outstanding Debt Obligations | Pro Forma |
| | (in thousands, except per share amounts) | | | | |
| **Pro Forma Consolidated Statement of Operations Data:** | | | | | |
| Net sales | $ 2,262,227 | $ | $ 106,539[1] | $ | $ 2,368,766 |
| Cost of sales | 1,840,862 | | 8,428[2] | | 1,849,290 |
| Gross profit | 421,365 | | 98,111 | | 519,476 |
| Other expenses: | | | | | |
| Research and development | 280,954 | | | | 280,954 |
| Marketing, general and administrative | 137,159 | | 52,482[3] | | 189,641 |
| Operating income | 3,252 | | 45,629 | | 48,881 |
| Interest and other income, net | 3,198 | | | | 3,198 |
| Interest expense | (40,165) | | | (20,211) | (60,376) |
| Income (loss) before income taxes | (33,715) | | 45,629 | (20,211) | (8,297) |
| Provision (benefit) for income taxes | (14,013) | 2,447[4] | 8,415[4] | | (3,151) |
| Net income (loss) | $ (19,702) | $ (2,447) | $ 37,214 | $ (20,211) | $ (5,146) |
| Net income (loss) per share: | | | | | |
| Basic and diluted | $ (0.27) | | | | $ (0.06) |
| Shares used in per share calculation: | | | | | |
| Basic and diluted | 72,549 | | | | 79,956[5] |

| | For the Nine Months Ended Sept. 25, 2005 | | | | |
|---|---|---|---|---|---|
| | Actual | Adjustments for Tax as a Corporation | Adjustments for Transfer of Sales Force and Other Changes | Adjustments for the Issuance of Notes and the Repayment and Conversion to Equity of Outstanding Debt Obligations | Pro Forma |
| | (in thousands, except per share amounts) | | | | |
| **Pro Forma Consolidated Statement of Operations Data:** | | | | | |
| Net sales | $ 1,411,209 | $ | $ 18,540[6] | $ | $ 1,429,749 |
| Cost of sales | 1,312,470 | | 2,352[7] | | 1,314,822 |
| Gross profit | 98,739 | | 16,188 | | 114,927 |
| Other expenses: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Research and development | 220,100 | | | | 220,100 |
| Marketing, general and administrative | 126,784 | | 10,393(8) | | 137,177 |
| Operating income | (248,145) | | 5,795 | | (242,350) |
| Interest and other income, net | 2,496 | | | | 2,496 |
| Interest expense | (33,574) | | | (13,441) | (47,015) |
| Income (loss) before income taxes | (279,223) | | 5,795 | (13,441) | (286,869) |
| Provision (benefit) for income taxes | (22,634) | | 1,314(9) | | (21,320) |
| Net income (loss) | $ (256,589) | $ | $ 4,481 | $ (13,441) | $ (265,549) |
| Net income (loss) per share: | | | | | |
| Basic and diluted | $ (3.54) | | | | $ (3.32) |
| Shares used in per share calculation: | | | | | |
| Basic and diluted | 72,549 | | | | 79,956(5) |

| | As of Sept. 25, 2005 | | |
|---|---|---|---|
| | Actual | Adjustments for the Issuance of Notes and the Repayment and Conversion to Equity of Outstanding Debt Obligations(10) | Pro Forma(10) |
| | | (in thousands) | |
| **Pro Forma Consolidated Balance Sheet Data:** | | | |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 119,024 | $ 42,426 | $ 161,450 |
| Trade and other accounts receivable from members, net | 389,906 | | 389,906 |
| Total inventories | 482,234 | | 482,234 |
| Prepaid expenses and other current assets | 71,293 | | 71,293 |
| Total current assets | 1,062,457 | 42,426 | 1,104,883 |
| Property, plant and equipment, net | 1,646,557 | | 1,646,557 |
| Other assets | 50,934 | 10,300 | 61,234 |
| Total assets | $ 2,759,948 | $ 52,726 | $ 2,812,674 |
| **Liabilities and Members Capital/Stockholders Equity** | | | |
| Current liabilities: | | | |
| Notes payable to banks under revolving loans | $ 75,656 | $ | $ 75,656 |
| Accounts payable and other accrued liabilities | 418,089 | (84) | 418,005 |
| Accounts payable and other accrued liabilities to members | 114,852 | (6,289) | 108,563 |
| Deferred income on shipments to a member | 27,277 | | 27,277 |
| Current portion of long-term obligations to members | 377,187 | (377,187) | |
| Current portion of long-term debt | 62,354 | | 62,354 |
| Current portion of long-term obligations under capital leases | 103,133 | | 103,133 |
| Total current liabilities | 1,178,548 | (383,560) | 794,988 |
| Long-term accrued liabilities to a member | 10,652 | | 10,652 |
| Long-term obligations to members, less current portion | 3,699 | (3,699) | |
| Long-term debt, less current portion | 102,739 | 339,985 | 442,724 |
| Long-term obligations under capital leases, less current portion | 55,732 | | 55,732 |
| Other long-term liabilities | 60,453 | | 60,453 |
| Members capital/stockholders equity | 1,348,125 | 100,000 | 1,448,125 |
| Total liabilities and members capital/stockholders equity | $ 2,759,948 | $ 52,726 | $ 2,812,674 |

(1) Comprised of (i) $80.3 million, which represents the amount that would have been added to our net sales had AMD s seven percent distribution margin been eliminated, and (ii) $26.2 million, which represents the amount which would have been added to our net sales had Fujitsu s distribution margin been reduced from seven percent to 4.3 percent.

(2) The increase in cost of sales of $8.4 million consists of increases in logistics and related costs of $4.4 million incurred by AMD associated with shipping our products to their customers and $4.0 million incurred by Fujitsu for warehousing and transporting our product, activities which we have agreed to assume in the future.

(3) The increase in marketing, general and administrative costs of $52.5 million consists of $47.4 million, which is the estimated direct and indirect cost of the AMD sales force responsible for selling our products, and $5.1 million of incremental expense which would have been incurred in connection with our continued participation in our profit sharing program, which we have estimated as ten percent of incremental operating income before profit sharing expense.

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(4) The incremental tax provision which we would have incurred in fiscal 2004 if we had operated as a corporation subject to U.S. taxes rather than as an LLC is estimated at $2.4 million (See Note 17 to the historical consolidated financial statements). The incremental tax provision we would have incurred in fiscal 2004 as a result of the adjustments discussed above is estimated to be $7.7 million resulting from incremental taxable income which would have been earned by our foreign subsidiaries and taxed at local statutory rates and an incremental tax provision for U.S. taxes estimated to be approximately $0.7 million.

(5) The increase in shares used in the basic and diluted net income (loss) per share calculation for the pro forma results for the year ended December 26, 2004 and for the nine months ended September 25, 2005 is directly related to the 4,444,444 shares of Class A common stock that we will issue to AMD in exchange for its cancellation of $60 million principal amount outstanding under the AMD Cash Note and 2,962,962 shares of Class D common stock that we will issue to Fujitsu in exchange for its cancellation of $40 million principal amount outstanding under the Fujitsu Cash Note, in each case calculated by dividing the principal amount cancelled by the assumed Class A common stock initial public offering price per share of $13.50. A $1.00 increase in the assumed initial public offering price of $13.50 per share would decrease the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 306,513 and 204,342 shares. A $1.00 decrease in the assumed initial public offering price of $13.50 per share would increase the number of shares of our common stock issued to AMD and Fujitsu in exchange for their cancellation of indebtedness by 355,556 and 237,038 shares.

(6) Comprised of (i) $14.1 million, which represents the amount that would have been added to our net sales had AMD s distribution margin of 6.5 percent been eliminated, and (ii) $4.4 million which represents the amount which would have been added to our net sales had Fujitsu s distribution margin been reduced from 6.5 percent to 4.3 percent.

(7) The increase in cost of sales of $2.4 million consists of increases in logistics and related costs of $1.4 million incurred by AMD associated with shipping our products to their customers and $1.0 million incurred by Fujitsu for warehousing and transporting our products, activities which we have agreed to assume in the future.

(8) The increase in marketing, general and administrative costs of $10.4 million is the estimated direct and indirect costs of the AMD sales force responsible for selling our products.

(9) The incremental tax provision which we would have incurred in the first nine months of fiscal 2005 if we had operated as a corporation subject to U.S. taxes rather than as a limited liability company is estimated to be zero. This is because the benefit for first quarter U.S. losses would be offset by an increase to the existing valuation allowance covering U.S. net operating losses and credits. The incremental tax provision we would have incurred in the first nine months of fiscal 2005 as a result of the adjustments discussed above is estimated to be $1.3 million resulting from incremental taxable income which would have been earned by our foreign subsidiaries and taxed at local statutory rates.

(10) The unaudited consolidated pro forma balance sheet data as of September 25, 2005 adjusts the actual data to reflect the receipt and application of the net proceeds from the concurrent private placement of notes by Spansion LLC, our indirect wholly-owned subsidiary, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. These adjustments consist of:

The adjustment to cash and cash equivalents is related to total net proceeds from Spansion LLC s issuance of the notes of $400 million net of issuance costs of $10.3 million reduced by long-term debt and accrued and unpaid interest that will be repaid of $347.3 million.

The adjustment to other assets is related to the $10.3 million of capitalized financing costs as a result of Spansion LLC s issuance of the notes.

The adjustments to accrued liabilities to members and other accrued liabilities are comprised of (i) $6.3 million that would have been deducted from our accrued liabilities to members as a result of our repayment of interest on indebtedness to members, and (ii) $84,000 that would have been deducted from our other accrued liabilities as a result of our repayment of interest on indebtedness to third parties.

The adjustments to long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans are comprised of (i) $400 million, which represents the amounts that would have been added to our long-term debt as a result of Spansion LLC s issuance of its notes, (ii) $120 million, which represents the amounts that would have been deducted from our current portion of

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long-term obligations to members as a result of our repayment of the remaining $60 million of the AMD Cash Note after AMD s cancellation of $60 million of the principal amount outstanding under the AMD Cash Note in exchange for shares of Class A common stock as described in (5) above, (iii) $161.9 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the AMD Asset Note, (iv) $38.5 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the Spansion Penang Asset Note, (v) $15 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of our repayment of the Spansion China Line of Credit, (vi) $5.6 million, which represents the amounts that would have been deducted from our long-term obligations to members as a result of our repayment of the Spansion Penang Loan, (vii) $40 million, which represents the amounts that would have been deducted from our current portion of long-term obligations to members as a result of the cancellation of $40 million of the principal amount outstanding under the Fujitsu Cash Note in exchange for shares of Class D common stock as described in (5) above, and (viii) $60 million, which represents the amounts that would have been deducted from our long-term debt as a result of our repayment of the senior secured revolving credit facility. The terms of each of these debt instruments are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations.

The adjustment to stockholders equity is related to the $100 million that would have been added to our additional paid-in capital as a result of the cancellation of the AMD Cash Note and the Fujitsu Cash Note in exchange for shares of our common stock as described in (5) above.

For more information, see Use of Proceeds and Capitalization. The other pro forma adjustments discussed above do not impact the unaudited consolidated as adjusted balance sheet data.

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**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected historical consolidated financial data. For periods prior to April 1, 2003, we used fiscal years beginning April 1 and ending March 31, which included 52 weeks. In connection with our reorganization effective June 30, 2003, we adopted a fiscal year ending the last Sunday of December. Fiscal 2003 was therefore a transition year beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and then operated as Spansion LLC for the final six months. Fiscal 2003 included approximately 39 weeks. Fiscal 2004 ended December 26, 2004 and included 52 weeks. The selected consolidated statement of operations data for the years ended March 31, 2003, December 28, 2003 and December 26, 2004 and the selected balance sheet data as of December 28, 2003 and December 26, 2004 have been derived from, and should be read together with, our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the years ended March 31, 2001 and March 31, 2002 and the selected balance sheet data as of March 31, 2001, March 31, 2002 and March 31, 2003 have been derived from our audited consolidated financial statements not included in this prospectus. The selected unaudited consolidated statement of operations data for the nine months ended September 26, 2004 and September 25, 2005 and the selected unaudited consolidated balance sheet data as of September 25, 2005 have been derived from, and should be read together with, our unaudited consolidated financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of the results to be expected in any future periods, and the results for the nine months ended September 25, 2005 should not be considered indicative of results to be expected for the full fiscal year. The following summary historical financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations.

| | Year Ended | | | Nine Months Ended | Year Ended | Nine Months Ended | |
|---|---|---|---|---|---|---|---|
| | Mar. 31, 2001 | Mar. 31, 2002 | Mar. 31, 2003 | Dec. 28, 2003 | Dec. 26, 2004 | Sept. 26, 2004 | Sept. 25, 2005 |
| | (in thousands, except per share amounts) | | | | | | |
| **Statement of Operations Data[(1)]:** | | | | | | | |
| Net sales | $ 916,624 | $ 816,183 | $ 961,950 | $ 1,193,212 | $ 2,262,227 | $ 1,775,251 | $ 1,411,209 |
| Cost of sales | 798,153 | 776,323 | 921,924 | 1,086,030 | 1,840,862 | 1,425,905 | 1,312,470 |
| Gross profit | 118,471 | 39,860 | 40,026 | 107,182 | 421,365 | 349,346 | 98,739 |
| Other expenses: | | | | | | | |
| Research and development | | | | 146,947 | 280,954 | 209,199 | 220,100 |
| Marketing, general and administrative | 3,931 | 871 | 4,811 | 74,200 | 137,159 | 100,616 | 126,784 |
| Operating income (loss) | 114,540 | 38,989 | 35,215 | (113,965) | 3,252 | 39,531 | (248,145) |
| Interest and other income (expense), net | (3,144) | 3,143 | (202) | 1,335 | 3,198 | 2,223 | 2,496 |
| Interest expense | (335) | (1,271) | (1,867) | (20,733) | (40,165) | (29,972) | (33,574) |
| Income (loss) before income taxes | 111,061 | 40,861 | 33,146 | (133,363) | (33,715) | 11,782 | (279,223) |
| Provision (benefit) for income taxes | 45,833 | 17,084 | 12,169 | (4,420) | (14,013) | 4,897 | (22,634) |
| Net income (loss) | $ 65,228 | $ 23,777 | $ 20,977 | $ (128,943) | $ (19,702) | $ 6,885 | $ (256,589) |
| Net income (loss) per share: | | | | | | | |
| Basic and diluted | $ 102.56 | $ 25.61 | $ 21.50 | n/a(3) | n/a(3) | n/a(3) | n/a(3) |
| Shares used in per share calculation: | | | | | | | |
| Basic and diluted | 636,000 | 928,591 | 975,753 | n/a(3) | n/a(3) | n/a(3) | n/a(3) |

| | Year Ended | Nine Months Ended | Year Ended | Nine Months Ended |
|---|---|---|---|---|

| | Mar. 31, 2001 | Mar. 31, 2002 | Mar. 31, 2003 | Dec. 28, 2003 | Dec. 26, 2004 | Sept. 26, 2004 | Sept. 25, 2005 |
|---|---|---|---|---|---|---|---|
| | | | (in thousands, except per share amounts) | | | | |
| **Unaudited Pro Forma Effects of Assumed Reorganization into Corporate Structure[(2)]:** | | | | | | | |
| Actual income (loss) before income taxes | n/a(3) | n/a(3) | n/a(3) | $ (133,363) | $ (33,715) | $ 11,782 | $ (279,223) |
| Pro forma provision (benefit) for income taxes | n/a(3) | n/a(3) | n/a(3) | (43,369) | (11,566) | 7,344 | (22,634) |
| Pro forma net income (loss) | n/a(3) | n/a(3) | n/a(3) | $ (89,994) | $ (22,149) | $ 4,438 | $ (256,589) |
| Pro forma income (loss) per share: | | | | | | | |
| Basic and diluted | n/a(3) | n/a(3) | n/a(3) | $ (1.24) | $ (0.31) | $ 0.06 | $ (3.54) |
| Pro forma shares used in per share calculation: | | | | | | | |
| Basic and diluted | n/a(3) | n/a(3) | n/a(3) | 72,549 | 72,549 | 72,549 | 72,549 |

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| | As of | | | | | |
|---|---|---|---|---|---|---|
| | Mar. 31, 2001 | Mar. 31, 2002 | Mar. 31, 2003 | Dec. 28, 2003 | Dec. 26, 2004 | Sept. 25, 2005 |
| | (in thousands) | | | | | |
| **Balance Sheet Data[4]:** | | | | | | |
| Cash, cash equivalents and short-term investments | $ 8 | $ 30 | $ 25 | $ 329,544 | $ 196,138 | $ 119,024 |
| Working capital (deficit) | (213,680) | (208,794) | (110,741) | 640,184 | 359,420 | (116,091) |
| Total assets | 1,033,843 | 1,189,877 | 1,273,072 | 3,125,623 | 2,919,515 | 2,759,948 |
| Long-term debt and capital lease obligations, including current portion, and notes payable to banks under revolving loans | 31,178 | 287,219 | 152,704 | 899,684 | 773,597 | 780,500 |
| Members capital/stockholders equity | 505,061 | 717,085 | 808,600 | 1,657,595 | 1,647,207 | 1,348,125 |

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

(2) Reflects the planned reorganization of Spansion LLC into Spansion Inc. and the pro forma effects as if we had been subject to U.S. taxes and had outstanding shares equivalent to those held by AMD and Fujitsu at the time of our reorganization into Spansion Inc.

(3) Effective June 30, 2003, we were reorganized as a Delaware limited liability company with ownership in the form of limited liability company units held by AMD and Fujitsu. Therefore, net income (loss) per share data is not applicable for periods subsequent to June 30, 2003, and pro forma net income (loss) per share data is not applicable for periods prior to June 30, 2003 for which net income (loss) per share data is already presented.

(4) As discussed more fully in Management s Discussion and Analysis of Financial Condition and Results of Operations, as of June 30, 2003 AMD and Fujitsu had transferred their Flash memory business assets to us so that we could begin producing and selling finished Flash memory devices, which significantly affected our net assets as compared to earlier periods when we solely produced and sold Flash memory wafers.

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| | Year Ended | | | Nine Months Ended | Year Ended | Nine Months Ended | |
|---|---|---|---|---|---|---|---|
| | Mar. 31, 2001 | Mar. 31, 2002 | Mar. 31, 2003 | Dec. 28, 2003 | Dec. 26, 2004 | Sept. 26, 2004 | Sept. 25, 2005 |
| | (in thousands) | | | | | | |
| **Supplemental Information:** | | | | | | | |
| EBITDA[1] | $ 342,924 | $ 272,892 | $ 313,994 | $ 202,450 | $ 538,017 | $ 433,287 | $ 166,001 |
| Capital expenditures | (551,314) | (518,766) | (190,228) | (214,752) | (530,095) | (426,753) | (323,870) |
| Net cash provided by operating activities | 516,316 | 9,312 | 356,200 | 134,046 | 463,298 | 441,842 | 220,614 |
| Net cash used for investing activities | (551,314) | (518,766) | (190,228) | (186,914) | (551,613) | (477,488) | (264,077) |
| Net cash provided by (used in) financing activities | 34,998 | 514,565 | (165,977) | 372,879 | (125,576) | (88,743) | 24,341 |

(1) The term earnings before interest, income taxes, depreciation and amortization (EBITDA) is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. We believe that EBITDA enhances an investor s understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness. Our management uses EBITDA to assess financial performance and debt service capabilities. In assessing financial performance, our management reviews EBITDA as a general indicator of economic performance compared to prior periods. Because EBITDA excludes interest, income taxes, depreciation and amortization, EBITDA provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, our management believes this type of measurement is useful for comparing general operating performance from period to period and making related management decisions. EBITDA is also used by securities analysts, lenders and others in their evaluation of different companies because it excludes items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be highly dependent on a company s capital structure, debt levels and credit ratings. Therefore, the impact of interest expense on earnings can vary significantly among companies. In addition, the tax positions of companies can vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the various jurisdictions in which they operate. As a result, effective tax rates and tax expense can vary considerably among companies. Finally, companies employ productive assets of different ages and utilize different methods of acquiring and depreciating such assets. This can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. Our management also believes that our investors use EBITDA as a measure of our ability to service indebtedness as well as to fund capital expenditures and working capital requirements. However, when assessing our operating performance or liquidity, you should not consider this data in isolation, or as a substitute for our net cash from operating activities or other cash flow data that is calculated in accordance with U.S. GAAP. In addition, EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do. A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA for each of the respective periods indicated is as follows:

| | Year Ended | | | Nine Months Ended | Year Ended | Nine Months Ended | |
|---|---|---|---|---|---|---|---|
| | Mar. 31, 2001 | Mar. 31, 2002 | Mar. 31, 2003 | Dec. 28, 2003 | Dec. 26, 2004 | Sept. 26, 2004 | Sept. 25, 2005 |
| | (in thousands) | | | | | | |
| Net income (loss) | $ 65,228 | $ 23,777 | $ 20,977 | $ (128,943) | $ (19,702) | $ 6,885 | $ (256,589) |
| Interest expense, net | 326 | 1,271 | 1,867 | 19,816 | 37,457 | 28,137 | 31,234 |
| Income tax provision (benefit) | 45,833 | 17,084 | 12,169 | (4,420) | (14,013) | 4,897 | (22,634) |
| Depreciation and amortization expense | 231,537 | 230,760 | 278,981 | 315,997 | 534,275 | 393,368 | 413,990 |
| EBITDA | $ 342,924 | $ 272,892 | $ 313,994 | $ 202,450 | $ 538,017 | $ 433,287 | $ 166,001 |

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## MANAGEMENT S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Overview

We are one of the largest Flash memory providers and the largest company in the world dedicated exclusively to developing, designing and manufacturing Flash memory, a critical semiconductor component of nearly every electronic product and one of the fastest growing segments of the semiconductor industry. According to market research firm iSuppli, in 2004 we were the largest supplier of NOR Flash memory, with a 25.9 percent market share, which made us one of the largest suppliers for the overall Flash memory market, with a 15.1 percent market share, based on end customer sales. In the first six months of 2005, based on iSuppli quarterly data, we were the second largest supplier of NOR Flash memory, with a 24.9 percent market share, which again made us one of the largest suppliers for the overall Flash memory market, with an 11.5 percent market share, based on end customer sales. Our net sales to our sole distributors, AMD and Fujitsu, for fiscal 2004 and for the first nine months of fiscal 2005 were $2.3 billion and $1.4 billion. Our net losses for these periods were $20 million and $257 million. Our Flash memory is incorporated into a broad range of electronic products, including mobile phones, consumer electronics, automotive electronics, networking and telecommunications equipment and PC peripheral applications. Our products are integrated into products from many of the top original equipment manufacturers, or OEMs, in each of these markets, including all of the top ten mobile phone OEMs, all of the top ten consumer electronics OEMs and all of the top ten automotive electronics OEMs. We believe we owe our position to our leading-edge technology, including our proprietary MirrorBit technology, our broad product portfolio derived through continued customer-centric innovation and our advanced manufacturing capabilities, systems-level solutions and customer relationships.

#### *History*

In 1993, AMD and Fujitsu formed a Japanese corporation, Fujitsu AMD Semiconductor Limited, or FASL, for the purpose of building and operating advanced Flash memory wafer fabrication facilities, or fabs, to manufacture Flash memory wafers. FASL, headquartered in Japan, sold the wafers produced at its fabs to AMD and Fujitsu, who converted the wafers into finished Flash memory products for sale to their customers. AMD and Fujitsu were also responsible for all research and development and marketing activities, including the development of Flash memory manufacturing processes and the Flash memory devices to be manufactured using those processes. AMD and Fujitsu also provided FASL with various support and administrative services. As of June 30, 2003, FASL was operating three Flash memory wafer fabs, all located in Aizu-Wakamatsu, Japan.

By 2003, AMD and Fujitsu desired to expand the operations of FASL to:

- achieve economies of scale;

add additional Flash memory wafer fabrication capacity;

include assembly, test, mark and pack operations;

provide research and development capabilities by combining their respective Flash product design and engineering resources; and

include various marketing and administrative functions.

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To accomplish these goals, in 2003, AMD and Fujitsu reorganized our company as FASL LLC, later renamed Spansion LLC, a Delaware limited liability company, and as of June 30, 2003, AMD and Fujitsu had transferred all of their respective interests in FASL to us. In addition, AMD had contributed its Flash memory inventory, its Fab 25 wafer manufacturing facility in Texas, its Submicron Development Center, or SDC, in California and its Flash memory assembly and test operations in China, Malaysia and Thailand. Fujitsu had contributed its Flash memory inventory and its Flash memory assembly and test operations in Malaysia. Both AMD and Fujitsu had transferred employees to us to perform various research and development, marketing and administrative functions. AMD and Fujitsu had provided working capital to us in the form of loans and cash contributions. As a result of this reorganization, AMD and Fujitsu owned 60 percent and 40 percent of us, our headquarters were established in the United States and we became for financial reporting purposes a consolidated subsidiary of AMD. Following the completion of this offering, we expect that AMD s ownership in us will fall below 50 percent and that we will no longer be its consolidated subsidiary for financial reporting purposes.

We now manufacture finished Flash memory devices that we sell to AMD and Fujitsu pursuant to distribution agreements we have with each of them. Under each agreement, our prices are based on AMD s and Fujitsu s sales prices to their customers, less an agreed-upon discount which we refer to as the distribution margin.

As part of our reorganization, AMD and Fujitsu also entered into agreements to provide various administrative and other support services to us. Under our services agreements with AMD, AMD provides various information technology (IT) services, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration, and voice, video and remote access, and also provides research and development, quality assurance, insurance, facilities, logistics, legal, tax, finance, human resources, and environmental health and safety services to us. Under our services agreements with Fujitsu, Fujitsu provides various IT, research and development, quality assurance, insurance procurement, facilities, environmental and human resources services primarily to our manufacturing facilities in Japan. For services provided by AMD and Fujitsu, we pay AMD and Fujitsu service fees in an amount equal to cost plus five percent, except for services procured on our behalf by AMD and Fujitsu from third parties, which are provided to us at cost. We also agreed to provide services to AMD, such as research and development and manufacturing support services. In fiscal 2004 and the first nine months of fiscal 2005, the total charges to us for services from AMD were approximately $111 million and $77 million. During these periods, the total charges to us for services from Fujitsu were $33 million and $16 million. The charges for these services are negotiated annually between us and AMD and Fujitsu based on our expected requirements and the estimated future costs of the services to be provided. Each of these service agreements expires on June 30, 2007, with an ability to extend the term by mutual agreement. In addition to these services agreements, we have and for the foreseeable future will continue to have other significant business relationships with AMD and Fujitsu. For more information regarding these relationships, see Certain Relationships and Related Party Transactions, elsewhere in this prospectus, and Note 4 to our consolidated financial statements.

***Continuing Transition to Independence***

Our reorganization was the first step toward our operating as an independent entity. As we continue our transition, we intend over time to reduce our reliance on AMD and Fujitsu for administrative and IT-related services. In the case of administrative services, we will need to expand our own administrative functions or find alternative providers of the services currently provided by AMD and Fujitsu. AMD s sales force responsible for selling our products was transferred to us in the second quarter of fiscal 2005. Although the transition of some related support functions, including booking and billing, is still underway, we expect to sell directly to customers formerly served by AMD, as well as potential customers not served solely by Fujitsu. Since AMD s sales force was transferred to us, we are able to capture additional revenue from sales because we no longer pay AMD a distribution margin. This additional revenue will be offset, at least in part, by increased marketing, general and administrative expenses that we will incur as we use our own sales force to sell our products directly to customers. For a period of time we need continued support from AMD for incremental administrative services related to our newly acquired sales force. In addition, because we do not currently have direct contracts with customers, AMD provides logistical support services in connection with the sale of our products. We reimburse AMD for costs incurred in conducting these activities, including accepting orders, freight and shipping. Once we have entered into direct agreements with customers not served solely by Fujitsu, we will sell to those customers directly.

We also reached an agreement with Fujitsu to reduce the distribution margin earned by Fujitsu on the sale of our products from 6.5 percent to 4.3 percent beginning in the second quarter of fiscal 2005. In addition, we have agreed with each of AMD and Fujitsu to reduce the royalty rate for the use of their intellectual property from one percent to 0.5 percent beginning October 1, 2005.

AMD and Fujitsu will also transfer additional intellectual property to us shortly prior to the consummation of this offering. Following this contribution, we will pay AMD and Fujitsu a reduced royalty rate of 0.3 percent for the use of their intellectual property that has not been contributed. However, these savings could be more than offset by the fact that once we are no longer a beneficiary under AMD s intellectual property licenses and cross licenses, we will have to negotiate and enter into our own licenses and cross licenses with third parties. We expect that we may have to pay royalties under some of these new licenses and cross licenses. We do not have enough information at this time to be able to quantify the impact of this transition on our results of operations or financial condition. See Risk Factors Risks Related to Our Business and Industry We will lose rights to key intellectual property arrangements once we are no longer a beneficiary of AMD s patent cross-license agreements and other licenses, which creates a greatly increased risk of patent or other intellectual property infringement claims against us.

The impact of these changes on our results of operations beginning in the second quarter of fiscal 2005 included the following:

- net sales were positively affected because we captured all of the distribution margin formerly earned by AMD on sales of our products, and we captured some of the distribution margin formerly earned by Fujitsu on sales of our products; and

- marketing, general and administrative costs increased by the addition of sales personnel and associated administrative costs required to support the sales function.

In addition, we expect that the future impact of these changes on our results of operations would include the following:

- cost of sales would decrease by the amount of the reduction in royalties that we currently pay to AMD and Fujitsu pursuant to our licenses for their intellectual property, but such decrease would likely be offset, at least in part, by increased royalty payments for licenses and cross licenses with various third parties, and by the increased logistics and related costs formerly paid by AMD and Fujitsu; and

- The increase in marketing, general and administrative expenses described above would be partially offset by a decrease in such expenses as a result of our working with AMD and Fujitsu to reduce costs under our services agreements with them.

For more information on the impact of the AMD sales force transfer, the reduction in distribution margin under the Fujitsu Distribution Agreement and the changes in royalty payments under the patent cross-license agreements, see Unaudited Pro Forma Consolidated Financial Data elsewhere in this prospectus.

***Flash Memory Market***

Flash memory is one of the largest semiconductor markets. According to iSuppli, it reached total worldwide sales of $15.9 billion in 2004, of which 58.4 percent was classified as sales of NOR-based Flash memory products and 41.6 percent was classified as sales of NAND-based Flash memory products. For the first six months of 2005, total worldwide sales reached $8.1 billion, of which 46.3 percent was classified as sales of

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NOR-based Flash memory products and 53.7 percent was classified as sales of NAND-based Flash memory products. The Flash memory market is characterized by intense competition. The principal bases of competition in the Flash market are cost, selling price, performance, quality and customer relationships. To compete successfully, a supplier of Flash memory must continuously invest in manufacturing capacity and process technologies while keeping unit manufacturing costs as low as possible. Economies of scale dictate that fabs must be large to achieve competitive manufacturing costs.

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

We believe our critical success factors include our ability to:

- introduce successfully our next generation products to market in a timely manner;
- achieve efficient and timely volume production of our next generation products;
- increase market acceptance of our products based on our MirrorBit technology;
- accelerate our product development cycle;
- penetrate further the embedded category of the Flash memory market by expanding the number of customers who buy through AMD s and Fujitsu s distributors as well as the number of customers in emerging markets;
- develop successfully and transition to the latest manufacturing process technologies, including 90-nanometer process technology in the first half of fiscal 2006;
- control or reduce further our operating expenses, particularly our marketing, general and administrative costs; and
- expand our market share in emerging global markets, including Korea, China, Latin America, India and Eastern Europe.

**Basis of Presentation**

***Fiscal 2002, 2003 and 2004***

Fiscal 2002 was a twelve-month period beginning April 1, 2002 and ending March 31, 2003, consisting of 52 weeks. In connection with our reorganization, we adopted a fiscal year ending on the last Sunday of December. Fiscal 2003 was therefore a transition year beginning April 1, 2003 and ending December 28, 2003, during which we operated as FASL for the first three months and then operated as Spansion for the final six months. Fiscal 2003 consisted of approximately 39 weeks. Fiscal 2004 began on December 29, 2003 and ended on December 26, 2004, consisting of 52 weeks.

***Nine Months Ended September 26, 2004 and September 25, 2005***

The nine months ended September 26, 2004 and September 25, 2005 each consisted of 39 weeks.

**Financial Operations Overview**

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

***Revenue Recognition***

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

AMD also sells our products to its distributors under terms allowing these distributors certain rights of return, stock rotation and price protection privileges on unsold merchandise held by them. We extend the same rights on these Flash memory product sales to AMD. Accordingly, we defer the gross margin resulting from the deferral of both revenue and related product costs from such sales to AMD until the merchandise is resold by AMD s distributors.

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

***Net Sales to Members***

Prior to June 30, 2003, we generated net sales by selling Flash memory wafers to AMD and Fujitsu on a cost plus a pre-determined margin (cost plus) basis. Since June 30, 2003, we have generated net sales by selling finished Flash memory devices to AMD and Fujitsu, who in turn have sold them to customers worldwide (end sales). Our prices to AMD and Fujitsu are based on AMD s and Fujitsu s sales prices to their customers, less an agreed-upon distribution margin. As a result, following June 30, 2003, our results of operations have included significantly increased net sales due to our sale of finished Flash memory products as compared to Flash memory wafers.

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

***Cost of Sales***

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

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

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

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

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

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

As an increasing portion of our business migrates to MCPs, cost of finished goods will increasingly include the cost of combining SRAM, pseudo SRAM or other third-party commercial die that we purchase from Fujitsu and other, unrelated manufacturers and package together with our Flash memory devices. This may adversely affect gross margin percentage due to higher cost of sales associated with our purchase of third-party commercial die that we incorporate into these MCPs. In addition, after this offering, cost of sales is also expected to include any royalties to be paid under future licenses or cross-licenses with various third parties.

***Research and Development***

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

***Marketing, General and Administrative***

Prior to our reorganization in June 2003, we conducted no marketing activities and maintained a small general and administrative function sufficient to support operation of our fabs. After our reorganization, we added our own marketing functions and some administrative functions, although we continue to rely on AMD and Fujitsu to provide various administrative services under our services agreements with them.

Marketing, general and administrative expenses consist primarily of general administrative functions, such as information technology, human resources, finance, marketing, planning and fees paid under our service agreements with

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AMD and Fujitsu. We expect that our marketing, general and administrative expenses will increase as we incorporate the sales force transferred by AMD. Following the consummation of this offering, we also expect to incur additional expenses in connection with being a public company independent from AMD and Fujitsu.

***Operating Income (Loss)***

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

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

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

***Interest Expense***

Interest expense is associated with our borrowings under credit agreements with financial institutions and borrowings from AMD and Fujitsu.

***Provision for Income Taxes***

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

**Results of Operations**

***Nine Months Ended September 26, 2004 and September 25, 2005 Comparisons***

The following is a summary of our net sales for the nine months ended September 26, 2004 and September 25, 2005.

| | Nine Months Ended | |
|---|---|---|
| | Sept. 26, 2004 | Sept. 25, 2005 |
| | (in thousands) | |
| Total net sales | $ 1,775,251 | $ 1,411,209 |

***Net Sales Comparison for the Nine Months Ended September 26, 2004 and September 25, 2005***

Total net sales of $1,411 million in the first nine months of fiscal 2005 decreased 21 percent compared to net sales of $1,775 million in the first nine months of fiscal 2004. The decrease in total net sales was primarily attributable to a 30 percent decrease in average selling prices, partially offset by an increase of 14 percent in unit shipments. Average selling prices decreased from the first nine months of 2004 as a result of aggressive pricing due in most cases to oversupply of products in the NOR Flash memory market. The decrease in net sales for the period was mitigated by the reduction in the distribution margin earned by AMD under the AMD Distribution Agreement in the first quarter of fiscal 2005 and the elimination of the distribution margin earned by AMD in the second quarter of fiscal 2005, which added approximately $31 million to net sales as compared to the first nine months of fiscal 2004. The decrease in net sales for the period was also mitigated by the reduction in the distribution margin earned by Fujitsu under the Fujitsu Distribution Agreement in the first quarter of fiscal 2005 and the further reduction in the second quarter of fiscal 2005, which added approximately $10 million to net sales, as compared to the first nine months of fiscal 2004. The distribution margin earned by AMD and Fujitsu in

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the first quarter of fiscal 2005 was 6.5 percent while the distribution margin earned by AMD and Fujitsu in the first quarter of fiscal 2004 was seven percent. The distribution margin earned by AMD in the second and third quarters of fiscal 2005 was zero percent, while the distribution margin earned by AMD in the second and third quarters of fiscal 2004 was seven percent. The distribution margin earned by Fujitsu in the second and third quarters of fiscal 2005 was 4.3 percent, while the distribution margin earned by Fujitsu in the second and third quarters of fiscal 2004 was seven percent.

***Comparison of Gross Margin, Expenses, Interest and Other Income (Expense), Net, Interest Expense and Income Tax Provision (Benefit)***

The following is a summary of gross margin; expenses, interest and other income (expense), net; interest expense and income tax provision (benefit) for the first nine months of fiscal 2004 and fiscal 2005.

| | **Nine Months Ended** | |
|---|---|---|
| | **Sept. 26, 2004** | **Sept. 25, 2005** |
| | **(in thousands, except for percentages)** | |
| Net Sales | $ 1,775,251 | $ 1,411,209 |
| Cost of sales | 1,425,905 | 1,312,470 |
| Gross margin | 20% | 7% |
| Research and development | 209,199 | 220,100 |
| Marketing general and administrative | 100,616 | 126,784 |
| Operating income (loss) | 39,531 | (248,145) |
| Interest and other income (expense), net | 2,223 | 2,496 |
| Interest expense | (29,972) | (33,574) |
| Income tax provision (benefit) | 4,897 | (22,634) |

Gross margin of seven percent in the first nine months of fiscal 2005 declined from 20 percent in the first nine months of fiscal 2004. The decline in gross margin was primarily due to a decrease in net sales of 21 percent relative to a decrease in cost of sales of only 8 percent. Cost of sales declined at a lower rate than net sales because many of our costs are fixed and cannot be reduced in proportion to the reduced revenues. Amounts paid to AMD and Fujitsu totaled 15 percent of cost of sales in the first nine months of fiscal 2005 compared to 20 percent in the first nine months of fiscal 2004.

Research and development expenses of $220 million in the first nine months of fiscal 2005 increased five percent compared to $209 million in the first nine months of fiscal 2004. The increase from the first nine months of fiscal 2004 was primarily due to an increase in research and development activities in Fab 25 and the SDC, offset in part by reduced payments to Fujitsu for research and development activities in the first nine months of fiscal 2005. We incurred $17.1 million of expenses in the first nine months of fiscal 2005 and $20.3 million of expenses in the first nine months of fiscal 2004 related to research and development activities performed by AMD. We incurred $5.1 million of expenses in the first nine months of fiscal 2005 and $14.0 million of expenses in the first nine months of fiscal 2004 related to research and development activities performed by Fujitsu. We incurred $4.3 million of expenses in the first nine months of fiscal 2005 and $6.2 million of expenses in the first nine months of fiscal 2004 related to research and development activities performed by employees seconded from Fujitsu. Amounts incurred related to activities performed by AMD, Fujitsu and Fujitsu seconded employees represented in the aggregate 12 percent of our total research and development expenses in the first nine months of fiscal 2005 compared to 19 percent in the first nine months of fiscal 2004.

Marketing, general and administrative expenses of $127 million in the first nine months of fiscal 2005 increased 26 percent compared to $101 million in the first nine months of fiscal 2004. The increase from the first nine months of fiscal 2004 was primarily due to the transfer of AMD s sales force in the second quarter of fiscal 2005. Under our services agreements with AMD, we incurred $40.5 million of expenses in the first nine months of fiscal 2005 and $43.9 million of expenses in the first nine months of fiscal 2004 related to marketing, general

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and administrative services provided by AMD. Under our services agreements with Fujitsu, we incurred $10.4 million of expenses in the first nine months of fiscal 2005 and $11.3 million of expenses in the first nine months of fiscal 2004 related to marketing, general and administrative services provided by Fujitsu. Amounts incurred under our services agreements with AMD and Fujitsu represented in the aggregate 40 percent of our total marketing, general and administrative expenses in the first nine months of fiscal 2005 compared to 55 percent in the first nine months of fiscal 2004.

Interest and other income, net of approximately $2.5 million in the first nine months of fiscal 2005, increased from $2.2 million in the first nine months of fiscal 2004. This increase was primarily due to higher interest income earned from cash, cash equivalents and short-term investments during the first nine months of fiscal 2005 as a result of higher yield investments.

Interest expense of approximately $34 million in the first nine months of fiscal 2005 increased 12 percent from approximately $30 million in the first nine months of fiscal 2004. The increase was primarily due to interest charges on new loans and capital lease obligations entered in the first nine months of fiscal 2005.

We recorded an income tax benefit of approximately $23 million in the first nine months of fiscal 2005 and an income tax provision of approximately $5 million in the first nine months of fiscal 2004. The income tax provision (benefit) was the result of pre-tax operating income (losses) in foreign jurisdictions.

***Other Items***

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

| | Nine Months Ended | |
|---|---|---|
| | **Sept. 26, 2004** | **Sept. 25, 2005** |
| | **(in thousands)** | |
| Geographical Sales to AMD and Fujitsu: | | |
| United States (net sales to AMD) | $ 932,210 | $ 776,941 |
| Japan (net sales to Fujitsu) | 843,041 | 634,268 |
| Total | $ 1,775,251 | $ 1,411,209 |

Net sales to Fujitsu, which were denominated primarily in yen, were approximately 45 percent of net sales in the first nine months of fiscal 2005 and approximately 47 percent in the first nine months of fiscal 2004. The impact on our operating results from changes in foreign currency exchange rates has not been material, principally because our expenses denominated in yen are generally comparable to our sales denominated in yen.

***Year to Year Comparisons***

The following is a summary of our net sales for fiscal 2002, fiscal 2003 and fiscal 2004.

| | Fiscal 2002[(1)] (Twelve months ended Mar. 31, 2003) | Fiscal 2003[(1)] (Nine months ended Dec. 28, 2003) | Fiscal 2004[(1)] (Twelve months ended Dec. 26, 2004) |
|---|---|---|---|
| | | (in thousands) | |
| Total net sales | $ 961,950 | $ 1,193,212 | $ 2,262,227 |

(1) Net sales for fiscal 2002 and the first three months of fiscal 2003 consisted of sales of Flash memory wafers to AMD and Fujitsu at transfer prices on a cost-plus basis. Net sales for the last six months of fiscal 2003 and net sales for fiscal 2004 consisted of sales of finished Flash memory devices to AMD and Fujitsu at prices based on AMD s and Fujitsu s sales prices to their customers, less an agreed-upon distribution margin.

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*Net Sales Comparison for Fiscal 2004 and Fiscal 2003*

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

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

*Net Sales Comparison for Fiscal 2003 and Fiscal 2002*

Total net sales of $1,193 million in fiscal 2003 increased 24 percent compared to net sales of $962 million in fiscal 2002. During the last six months of fiscal 2003 we sold finished Flash memory products to AMD and Fujitsu based on AMD s and Fujitsu s sales prices to their customers, less an agreed-upon distribution margin, while for the first three months of fiscal 2003 and all of fiscal 2002 we sold only Flash memory wafers to AMD and Fujitsu at transfer prices set on a cost plus basis. The increase in net sales was partially offset by the fact that there were only nine months in fiscal 2003 compared to twelve months in fiscal 2002. Quantification of the breakdown in the increase in net sales from fiscal 2002 to fiscal 2003 is not practical due to our reorganization in June 2003.

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***Comparison of Gross Margin, Expenses, Interest and Other Income (Expense), Net, Interest Expense and Income Tax Provision (Benefit)***

The following is a summary of gross margin; expenses, interest and other income (expense), net; interest expense and income tax provision (benefit) for fiscal 2002, 2003 and 2004:

| | Fiscal 2002(1) (Twelve months ended Mar. 31, 2003) | Fiscal 2003(1) (Nine months ended Dec. 28, 2003) | Fiscal 2004 (Twelve months ended Dec. 26, 2004) |
|---|---|---|---|
| | | (in thousands, except for percentages) | |
| Net sales | $ 961,950 | $ 1,193,212 | $ 2,262,227 |
| Cost of sales | 921,924 | 1,086,030 | 1,840,862 |
| Gross margin | 4% | 9% | 19% |
| Research and development | $ | $ 146,947 | $ 280,954 |
| Marketing, general and administrative | 4,811 | 74,200 | 137,159 |
| Operating income (loss) | 35,215 | (113,965) | 3,252 |
| Interest and other income (expense), net | (202) | 1,335 | 3,198 |
| Interest expense | (1,867) | (20,733) | (40,165) |
| Income tax provision (benefit) | 12,169 | (4,420) | (14,013) |

(1) Cost of sales for fiscal 2002 and the first three months of fiscal 2003 were for sales of Flash memory wafers to AMD and Fujitsu at transfer prices on a cost-plus basis. Cost of sales for the last six months of fiscal 2003 and costs of sales for fiscal 2004 were for sales of finished Flash memory devices to AMD and Fujitsu at prices based on AMD s and Fujitsu s sales prices to their customers, less an agreed-upon distribution margin.

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

Gross margin increased to nine percent in fiscal 2003 compared to four percent in fiscal 2002. This increase was primarily due to an increase in net sales of 24 percent partially offset by an 18 percent increase in cost of sales and the fact that finished Flash memory devices generally commanded higher profit margins as compared to Flash memory wafers. Cost of sales increased in fiscal 2003 compared to fiscal 2002 primarily because during the last six months of fiscal 2003 we sold finished Flash memory devices as opposed to Flash memory wafers.

Research and development expenses of $281 million in fiscal 2004 increased 91 percent compared to $147 million in fiscal 2003. We had no research and development expense in fiscal 2002 because prior to our reorganization, AMD and Fujitsu conducted all research and development activities. As part of our reorganization, AMD contributed to us the SDC, a development fab dedicated to research and development of Flash memory manufacturing processes, and engineering teams dedicated to research and development for new Flash memory devices. With these resources, we conducted significant research and development for the last six months of fiscal 2003 and for all of fiscal 2004. We incurred $27.6

million of expenses in fiscal 2004 and $13.9 million of expenses in fiscal 2003 related to research and development activities performed by AMD. We incurred $18.4 million of expenses in fiscal 2004 and $16.8 million of expenses in fiscal 2003 related to research

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