



**Title of each class** **(Name of each exchange on which registered)**  
**Class A Common Stock, \$0.001 par value per share** **New York Stock Exchange**  
**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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

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

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

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

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

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

Non-accelerated filer

Large accelerated filer Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of Class A Common Stock (Common Stock) held by non-affiliates of the registrant based upon the closing sale price on the New York Stock Exchange on June 29, 2014 was approximately \$1,080.9 million. Shares held by each executive officer, director and by certain persons that own 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

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As of February 5, 2015, the registrant had 63,176,537 shares of Class A Common Stock outstanding at \$0.001 par value per share.

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**Definitions of Commonly Used Terms**

References in this Report to “Spansion”, “the Company”, “we,” “our,” “us”, and similar terms include Spansion, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. Abbreviations, terms or acronyms are commonly used or found in multiple locations throughout this report and include the following:

<b>Term</b>	<b>Definition</b>
AD&D	Accidental Death and Dismemberment Insurance
CD&A	Compensation Discussion and Analysis
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operation Officer
Cypress	Cypress Semiconductor Corporation
DRAM	Dynamic Random Access Memory
DRC	Democratic Republic of Congo
e.MMC	Embedded managed NAND solution
eCT	Embedded Charge Trap Technology
EIP	Employee Incentive Plan
EPS	Earnings per Share
ESPP	2014 Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FEI	Fujitsu Electronics Inc.
FSL	Fujitsu Semiconductor Limited
IC	Integrated Circuit
IoT	Internet of Things
IPR&D	In-Process Research and Development
ITC	U.S. International Trade Commission
JPY	Japanese yen
Key Executive RSUs	Performance awards granted in fiscal 2010, 2011 and 2012
KGD	Known Good Die
KL	Kuala Lumpur
LIBOR	London Interbank Offered Rate
Macronix	Macronix International Co. Ltd and affiliates
Macronix patents	Certain patents owned by Macronix
MCA business	Microcontroller and Analog business
MCU	Microcontroller Unit
Merger Agreement	Agreement and Plan of Merger and Reorganization, dated as of December 1, 2014, by and among Cypress Semiconductor Corporation, Mustang Acquisition Corporation, and Spansion Inc.
NEO	Named Executive Officers
NOL	Net Operating Losses
Notes	2.00% Senior Exchangeable Notes due 2020
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer

PBO	Projected Benefit Obligation
PMIC	Power Management Integrated Circuit
PSUs	Performance Stock Units
R&D	Research and Development
RSU	Restricted Stock Units
SEC	Securities and Exchange Commission
SG&A	Sales, General and administrative
SK Hynix	SK Hynix Inc.
SMIC	Semiconductor Manufacturing International Corporation
SoC	System on Chip
Term Loan	Senior Secured Term Loan Facility
The "Committee"	The Compensation Committee
TSR	Total Shareholder Return
UMC	United Microelectronics Corporation
UPCs	Unconditional Purchase Commitments
VIE	Variable Interest Entity
XMC	Wuhan Xin Xin Semiconductor Manufacturing Corporation

**Spansion Inc.**

**FORM 10-K**

**For The Fiscal Year Ended December 28, 2014**

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## **PART I**

### **Cautionary Statement Regarding Forward-Looking Statements**

*This Annual Report on Form 10-K contains forward-looking statements. These statements relate to future events or our future financial performance. Forward-looking statements may include words such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or other wording indicating future results or expectations. Forward-looking statements are subject to risks and uncertainties, and actual events or results may differ materially. Factors that could cause our actual results to differ materially include, but are not limited to, those discussed under “Risk Factors” in this report. We also face risks and uncertainties associated with substantial indebtedness and its impact on our financial health and operations; fluctuations in foreign currency exchange rates; the sufficiency of workforce and cost reduction initiatives. Other risks and uncertainties relating to our business include our ability to: implement our business strategy focused on the embedded flash memory, microcontrollers, mixed-signal and analog markets; maintain or increase our average selling price and lower our average costs; accurately forecast customer demand for our products; attract new customers; obtain additional financing in the future; maintain our distribution relationships and channels in the future; successfully enter new markets and manage our international expansion; successfully compete with existing and new competitors, or with new memory or other technologies; successfully develop new applications and markets for our products; maintain manufacturing efficiency; obtain adequate supplies of satisfactory materials essential to manufacture our products; successfully develop and transition to the latest technologies; negotiate patent and other intellectual property licenses and patent cross-licenses and acquire additional patents; protect our intellectual property and defend against infringement or other intellectual property claims; maintain our business operations and demand for our products in the event of natural or man-made catastrophic events; and to obtain the benefits of the proposed merger with Cypress and effectively manage, operate and compete in the current highly competitive business environment. Except as required by law, we undertake no obligation to revise or update any forward-looking statements to reflect any events or circumstances that arise after the date of this report, or to conform such statements to actual results or changes in our expectations.*

### **ITEM 1. BUSINESS**

#### **Corporate Information**

Spansion Inc. was incorporated in Delaware in 2005. Our mailing address and the address of our executive offices is 915 Deguigne Drive, Sunnyvale, California 94085, and our telephone number is (408) 962-2500. We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended or Exchange Act, and, in accordance therewith, file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information are available for inspection and copying at the SEC’s Public Reference Room at 100 F Street, NE., Washington, DC 20549 or may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at <http://www.sec.gov> that contains reports, proxy



statements and other information regarding issuers that file electronically with the SEC. We also post on the Investor Relations section of our website, <http://www.spansion.com>, under “Financial Information” a link to our filings with the SEC. We post our Code of Ethics for our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other Senior Finance Executives, our Code of Business Conduct, which applies to all directors and all our employees, and the charters of our Audit, Compensation and Nominating and Corporate Governance committees under “Corporate Governance” on the Investor Relations section of our website. Our filings with the SEC are posted as soon as reasonably practical after they are filed electronically with the SEC. Please note that information contained on our website is not incorporated by reference in, or considered to be a part of, this report.

## **Overview**

We are a leading designer, manufacturer and developer of embedded systems solutions. Our flash memory, microcontroller, analog and mixed-signal products drive the development of high performance, intelligent and energy-efficient electronics.

The embedded markets we focus on are transportation, industrial, consumer, communications and gaming. These markets are generally characterized by longer design and product life cycles, stable pricing, more predictable supply-demand outlook and lower capital investments.

Within this embedded industry, we serve a well-diversified customer base through a predominantly differentiated, non-commodity, service oriented model that strives to meet our customers’ needs. Our embedded solutions are incorporated in products manufactured by leading OEMs. We have many years of experience refining our product and service strategy to address market requirements and deliver high-quality products.

## Corporate Strategy

We are at the forefront of a fast-paced interconnected world, delivering a broad portfolio of flash memory, microcontrollers, analog, mixed-signal, and integrated system-on-chip solutions. Our strategy is to efficiently grow our business, improve our profitability and our cash generation, by expanding our addressable market, leveraging our leading-edge intellectual property to provide high quality, reliable and economical devices that are high performing, intelligent, efficient and secure. Our focus areas are the following:

Growing our microcontroller business worldwide. Our product portfolio includes general-purpose and application-specific 8-, 16- and 32-bit MCUs for a wide range of consumer, automotive, industrial, medical and other applications.

(ii) Expanding our analog business across all markets and regions. Our analog products range from PMICs and intelligent, single-chip LED driver ICs to energy harvesting solutions.

(iii) Extending our flash memory leadership position. Our portfolio includes non-volatile memory NOR and NAND products targeted specifically to the embedded market.

Developing integrated solutions that combine our technologies, such as our embedded flash technology, MCUs, (iv) software, application-specific middleware, security, and new interfaces, as a means to offer differentiated solutions to our customers across a number of markets worldwide.

Successfully commercializing and protecting our intellectual property. We license our intellectual property to third (v) parties and assist our customers in developing and prototyping their designs by providing software and hardware development tools and support, drivers and simulation models for system-level integration.

## Proposed Merger with Cypress Semiconductor Corporation

On December 1, 2014, we entered into the Merger Agreement. In accordance with the Merger Agreement, each share of common stock of Spansion, par value \$0.001 per share, will be converted into the right to receive 2.457 shares of common stock, par value \$0.01 per share, of Cypress, subject to the calculation adjustments specified in the agreement. Cypress will assume all outstanding options to purchase shares of the Spansion common stock, Spansion restricted stock units, and Spansion performance stock units. Upon completion of the proposed merger, shares of Spansion common stock will cease trading on the New York Stock Exchange or any other stock exchange or quotation system. Shares of Cypress Common Stock are listed on the Nasdaq Global Select Market. The merger is expected to close in the first half of fiscal 2015, subject to customary closing conditions, including approval by Spansion and Cypress stockholders.

During the fiscal year ended December 28, 2014, we incurred \$4.1 million of merger costs which have been recorded in the sales, general and administrative expense line of the Consolidated Statements of Operations.

### **Other Highlights**

On January 23, 2014, we sold our property in Sunnyvale, California, consisting of 24.5 acres of land with approximately 471,000 square feet of buildings that included our headquarters building and submicron development center, a Pacific Gas & Electric transmission facility and a warehouse building, for net consideration of \$59.0 million. We concurrently leased back approximately 170,000 square feet of the headquarters building on a month-to-month basis with the option to continue the lease for up to 24 months; thereafter either party can terminate the lease. The first six months of the lease were rent free; thereafter the rents were lower than the market rates. For accounting purposes, these rents are deemed to have been netted against the sale proceeds and represent prepaid rent. As such, our use of the property after its sale constitutes continuing involvement, and recognition of the sale of the property and the related gain is deferred until the lease period ends. On account of the proposed merger with Cypress, we expect to continue to lease the Sunnyvale property at least until the first half of fiscal 2015.

On May 22, 2014, we also entered into a new headquarters lease for office space in San Jose, California. The lease is for a period of 12 years, with two options to extend for periods of five years each after the initial lease term. The initial term of the lease will commence on January 1, 2015 and expire on December 31, 2026. In light of the pending merger with Cypress, we are evaluating alternatives with respect to the new headquarters lease and will decide whether to terminate the lease after paying the requisite penalties or sublease the property or occupy part of the property if needed.

On July 16, 2014, a final order was entered by the Bankruptcy Court closing all Chapter 11 cases. We recognized a gain of \$3.2 million for the fiscal year ended December 28, 2014, relating to reversal of the reserve for bankruptcy claims. This has been recorded with interest income and other, net in the Consolidated Statement of Operations. As of December 28, 2014, we had resolved all outstanding disputed claims and had distributed the 46,264,760 shares of stock that were reserved for holders of allowed general unsecured claims.

## **Industry Overview**

The proliferation of electronic systems such as broadband access devices, automotive infotainment, clusters and safety as well as connected devices in homes and industrial applications are driving the increasing use of embedded systems solutions to deliver an enhanced end-user experience. The global digital industry is rapidly transitioning from traditional computing architectures toward a world where people, objects and machines are in a perpetual mode of communication and interactivity. Data and applications are accelerating at breakneck speed, requiring electronics to work more quickly and be more intuitively responsive. Advances in memory and processor technology will fuel this ongoing evolution of the digital infrastructure.

## **Overview of embedded systems solutions**

Embedded systems solutions address a variety of applications, including automotive, consumer electronics, networking and telecommunications equipment, tablets, PCs, gaming consoles and industrial equipment with a broad range of products. We have two major product groups for embedded applications: flash memory and microcontrollers/analog products.

The flash memory market consists of two major architectures: NOR and NAND flash memory. NOR flash memory is predominantly used for reliable code execution and performance-oriented storage in consumer electronics, automobiles, communications, gaming and industrial applications. NAND flash memory is predominantly used for data storage in applications, such as solid-state drives, removable storage devices and embedded managed NAND devices. Overall, customers seeking fast read performance and superior reliability traditionally have chosen NOR flash memory, while those seeking high density and fast write speeds have chosen NAND flash memory. Spansion offers a broad family of parallel and serial NOR flash memory and a select range of lower density NAND and embedded managed NAND flash memory products targeting non-commodity embedded applications.

Microcontrollers are a small computer on a single IC containing a processor core, memory, and programmable input/output peripheral capability. Microcontrollers are designed for embedded applications where they are frequently the principal, and sometimes sole integrated circuit. Microcontrollers are also frequently designed with flexibility for applicability across multiple applications and uses. We have a family of 8-, 16-, 32-bit proprietary and 32-bit ARM based microcontrollers that are used in automotive applications such as body electronics, chassis and safety, power train and hybrid, home appliances, digital audio/video equipment, industrial and office equipment. The ARM based solutions offer some of the most innovative feature sets for advanced automotive dashboard and instrument clusters and the automation and industrial control segments.

Analog semiconductors measure, condition and regulate “real world” functions such as temperature, speed, sound and electrical current. We offer environmentally-friendly power management technology through our lineup of power management integrated circuits, including DC/DC converters, voltage regulators and supervisors, and power monitoring and reset ICs. In addition, we offer a family of LED lighting driver ICs and energy harvesting solutions.

## Technology

We own and use fundamental intellectual property in two flash memory technologies, floating gate and charge trapping MirrorBit technology. Compared to competing floating gate multi-level cell NOR technology, two-bit-per-cell MirrorBit technology has a simpler cell architecture that requires fewer manufacturing steps and supports higher yields, resulting in lower manufacturing costs. Our current mid- and high-density products and new advanced products are based primarily on MirrorBit two-bit-per-cell technology.

***Floating Gate Technology.*** Floating gate is the conventional flash memory cell technology that is utilized by most flash memory companies today for both NOR and NAND products. We have created innovations in floating gate technology that have become industry standards, such as negative gate erase, single power supply and embedded programming algorithms. Some of our new products designed to service the low density market are based on floating gate technology. We also use floating gate embedded flash technology for our MCU products down to the 55nm technology node.

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

***eCT.*** Our 40nm embedded charge trap technology is the foundation process technology for our next generation microcontrollers and system-on-chip solutions.

We license the ARM® Cortex®-R and Cortex-M series processors to support microcontrollers and system on chip product portfolio for a broad range of applications. These processors help deliver advanced intelligence and energy efficiency for embedded applications.

## **Sales and Marketing**

We market and sell substantially all of our products worldwide under the Spansion trademark. We sell to our customers directly or through distributors.

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

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

## **Customers**

We serve our customers worldwide directly or through our distributors. Customers for our products consist of OEMs, ODMs, distributors and contract manufacturers. Our global direct sales force is predominantly organized by customer end markets in order to bring dedicated expertise, knowledge and response to our customers. No end customer accounted for more than 10% of our net sales for the fiscal years 2014, 2013 or 2012.

## **Third-Party Distributors**

Our distributors bring to us a large, global customer base, sales and technical support, inventory, flexible payment options, and customized value added services. In addition we increase our online presence and enrich our relationships with chipset partners through our distribution channel. Distributors stock our inventory in various locations globally to

enable our customers to have ready access to our products. Our distributors not only have the inventory available for sale, they also have the logistical infrastructures to support same day order fulfillment on one device or multiple devices in small or large quantities. Our third-party distributors typically resell to OEMs, ODMs and contract manufacturers. Sales through our direct distributors are made pursuant to agreements that provide them price protection and limited rights of return for discontinued products or for other products within one year of their date of manufacture. Distributors get price protection by way of credits for the difference between the original price paid and the current price that we offer. Price protection is based on market conditions, competitive considerations and other factors. In addition, our agreements with distributors may also contain standard stock rotation provisions permitting limited levels of product returns. Since the price is not fixed and determinable, we are unable to estimate the resale price to our end customer and returns under the stock rotation rights to our distributors and therefore defer the recognition of revenue and related product costs on these sales as deferred income until distributors submit Point of Sales reports to us. We also sell some of our products to certain distributors under sales arrangements that do not allow for rights of return or price protection on unsold products. We recognize revenue on these sales when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, fixed or determinable pricing and when collectability is reasonably assured.

Approximately 70%, 71%, and 68% of our sales were through distributors for fiscal 2014, fiscal 2013, and fiscal 2012 respectively. One distributor, FEI, and its subsidiaries accounted for approximately 42%, 39%, and 33% of our total net sales for fiscal 2014, fiscal 2013, and fiscal 2012 respectively. Sales through FEI was higher in both fiscal 2014 and fiscal 2013 compared to fiscal 2012 because of the inclusion of the MCA business which we acquired on August 1, 2013 for which FEI is the sole distributor.

## **Research and Development**

Our investment and strategy in research and development are geared towards providing competitive, embedded solutions to our customers through two product families: flash memory and microcontrollers/analog. Our R&D efforts span across process technology, product design, systems engineering, and software, with teams in various locations around the world, including the Sunnyvale, California headquarters, as well as Israel, Japan, Germany, Malaysia, and China.

In fiscal 2014 in our flash business, we introduced Spansion HyperBus™ interface and HyperFlash™ memory, high performance NOR flash memory. The Spansion HyperBus is being implemented broadly by many of our partners. It is being designed across our industrial, automotive, and communication segments. We are also developing HyperRAM products based on our HyperBus interface, through an agreement with ISSI. We also completed development of our 32nm NAND products this year and introduced the industrial grade e.MMC product family.

In our microcontroller business, we made significant progress in new product developments, introducing a number of new products for automotive, industrial, communications, and targeted consumer applications. For the automotive market, we recently announced our latest product line-up in our Traveo™ MCU family to offer high-performance Human Machine Interfaces for automotive dashboards.

The new microcontroller integrates 2-D and 3-D graphic engines. This is a development where we are integrating our flash memory technologies with our microcontrollers and analog IP. This family also features our HyperBus memory interface. The combination of our HyperFlash memory with the HyperBus interface eliminates memory bottlenecks, increases performance, and extends the memory space for MCU and graphic engines without increasing the package pin count. We have recently added a new family of MCUs to our FM4 family of microcontrollers, including 95 derivatives, to be used in applications such as factory automation, machine-to-machine systems, building management systems, smart meters, and printers. These new MCUs, running at 200 megahertz, offer up to 2 megabytes of flash memory, 12 different types of communication interfaces, advanced security, and 5-volt input/output design, for robust industrial environment applications.

Additionally, we have entered into partnerships to create new families of differentiated microcontrollers to be ramped into production in the future. Among the new products we plan to bring to market is a sensor fusion solution, which brings data up from several sensors and provides intelligence and control to improve application performance.

Innovations driven by R&D are a key enabler in delivering the long-term value to our customers. Through judicious planning and by leveraging strategic arrangements, we expect to continue to maximize the return on our R&D investment. Our research and development expenses for fiscal 2014, fiscal 2013 and fiscal 2012 were \$171.2, \$126.8 and \$107.9 million, respectively. For more information, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.

## **Manufacturing**

We own and operate one wafer fabrication facility, Fab 25, which is located in Austin, Texas and has approximately 114,000 square feet of clean room space. This facility produces 200-millimeter wafers using 180 nanometer, 130-nanometer, 110-nanometer, 90-nanometer and 65-nanometer process technologies. We own and operate a final



manufacturing facility in Bangkok, Thailand. Final manufacturing consists of assembly, test, mark and pack operations. We also own a manufacturing facility in Penang, Malaysia, which does small volumes of sort and pack operations for KGD products.

We direct significant efforts toward the invention and development of manufacturing process technologies to achieve the objectives of reducing our manufacturing costs, improving our device performance and adding product features and capabilities. We achieve these objectives primarily through a combination of optimizing the number of process steps required to produce a product and by reducing the scale or size of key structures in our integrated circuits, such as the memory cells used to store and charge the surrounding circuits that manage and interface to these cells. We develop each process technology using particular design rules and refer to this as the process or technology node designated in nanometers. By shrinking the features, we enable more transistors in the same area. For example in flash memory this allows us to incorporate more bits per area at each successive process node, decreasing the cost per bit; either increasing the number of die per wafer for a given density or increasing the memory density per die.

In addition to our own internal capacity, we outsource wafer manufacturing and assembly and test services to third parties to supplement our internal resources. We set expectations for supplier performance and reinforce those expectations with periodic assessments. We communicate those expectations to our suppliers regularly and work with them to implement improvements when necessary. We have agreements with FSL, XMC and SK Hynix. Agreements with FSL include agreements for the supply of product wafer foundry services, sort services and assembly and test services relating to the microcontroller and analog businesses. These agreements are at competitive market rates and enable us to leverage FSL's existing manufacturing capabilities and relationships with its partners spanning across various technologies, processes, geometries and wafer sizes in their wafer fabrication facilities and package solutions in their back-end manufacturing facilities, until such time that we can either move these internally to our fabrication and back-end facilities or find alternative solutions. For FSL, the fabrication facilities are all located in Japan, while the back-end facilities are in Japan and other Asian countries. The supply agreements do not call for any minimum purchase commitments. The arrangement with XMC provides production support for advanced NOR technology products at 65, 45 and development of 32 nanometers. The arrangement with SK Hynix provides for the development and supply of SLC NAND products at the 4x and 3x nodes. Cooperation with foundries for advanced process node development allows for a cost effective solution for process technology development as an alternative to an in-house research and development facility.

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

## **Environmental Matters**

We must comply with many different federal, state, local and foreign governmental regulations related to the use, storage, discharge and disposal of certain chemicals and gases used in our manufacturing processes. Our facilities have been designed to comply with these regulations and we believe that our activities are conducted in compliance with such regulations. We have made and will continue to make capital and other expenditures to comply with environmental laws and do not expect compliance with environmental requirements to result in material expenditures in the foreseeable future. However environmental laws and regulations are complex, change frequently and have tended to become more stringent over time, all of which are factors that could alter the current outlook. See Item 1A. “Risk Factors—We are subject to a variety of environmental laws that could result in liabilities.”

## **Competition**

Our competitors include but are not limited to:

- Analog Devices, Inc.
- Freescale Semiconductor, Inc.
- Infineon Technologies Corporation
- Intel Corporation
- Macronix International Co., Ltd.
- Maxim Integrated Products, Inc.
- Micron Technology, Inc.
- Microchip Technology, Inc.
- Renesas Electronics Corp.
- SK Hynix
- ST Microelectronics N.V.
- Toshiba Semiconductor Company Inc.
- Winbond Electronics Corporation

We believe providers of embedded systems solutions must possess the following attributes to remain competitive:

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

## **Employees**

We had 3,893 employees as of December 28, 2014.

## **Backlog**

We generally manufacture and market standard lines of our products. Sales are made primarily pursuant to purchase orders for delivery or agreements covering purchases over a period of time. These orders or agreements may be revised or canceled without penalty. In this respect, the amount of backlog as of any particular date is not the sole indicator of future results.

## **Patents, licenses and trademarks**

Our success depends in part on our proprietary technology. We rely on a combination of protections provided by contracts, including confidentiality and non-disclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property against infringement or misappropriation by others and to ensure that we have the ability to generate royalty and other licensing revenues. We intend to continue to license our intellectual property to third parties and sell some patents that are non-essential to our core businesses. We may enter into other business arrangements with third parties for individual patents or portfolios of patents on a selective basis.

As of December 28, 2014, we had 2,496 U.S. patents and 2,332 foreign patents as well as 290 patent applications pending in the United States and 457 patent applications pending outside the United States. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. There can be no assurance that the claims allowed on any patents we hold will be sufficiently broad to protect our technology, or that any patents will be issued from any application pending or filed by us.

## **ITEM 1A. RISK FACTORS**

*You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K. If any of the following risks materialize, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected.*

*The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and liquidity.*

***We will be subject to business uncertainties and contractual restrictions while the merger with Cypress is pending.***

Uncertainty about the effect of the merger with Cypress may impair our ability to retain and motivate key personnel and could cause customers and others that deal with us to defer entering into contracts, or making other decisions, concerning doing business with us or seek to change existing business relationships with us. In addition, the Merger Agreement restricts us from making certain acquisitions and taking other specified actions without the consent of Cypress. These uncertainties and restrictions could disrupt or adversely affect our business and prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

***The Merger Agreement limits our ability to pursue alternatives to the merger.***

In the Merger Agreement we agreed to immediately cease all existing activities, discussions or negotiations with any persons previously conducted with respect to certain acquisition proposals. The Merger Agreement prohibits us from soliciting, initiating, or knowingly encouraging or facilitating certain acquisition proposals with any third party. The Merger Agreement also provides for the payment by Spansion of a termination fee of \$60 million if the Merger Agreement is terminated in certain circumstances in connection with a competing third party acquisition proposal. These provisions limit our ability to pursue offers from third parties that could result in greater value to our stockholders. The obligation to pay the termination fee also may discourage a third party from pursuing an acquisition proposal. In the event the merger is terminated in circumstances that obligate us to pay the termination fee, our stock prices may decline.

***We will incur significant transaction and merger-related transition costs.***

We have incurred and expect that we will continue to incur significant costs in connection with completing the merger and integrating the operations of the two companies. Some of these costs are payable regardless of whether the transaction is completed. If the merger is not completed, we will not receive any benefit from these expenditures.

***Two lawsuits have been filed against Spansion, its board members, Cypress and the subsidiary formed for purposes of the merger challenging the transaction, and an adverse ruling in any of these lawsuits may prevent the transaction from becoming effective or delay its completion.***

Spansion, our board members, Cypress and the Cypress subsidiary formed for purposes of the merger have been named as defendants in lawsuits brought by and on behalf of Spansion stockholders challenging the merger and seeking, among other things, to enjoin the defendants from completing it on the agreed-upon terms, to rescind the merger if completed and damages.

One of the conditions to the closing of the transaction is that no order preventing the completion of the merger has been issued by a court of competent jurisdiction. If the plaintiffs in these lawsuits are successful in obtaining an injunction prohibiting the defendants from completing the merger on the agreed-upon terms, then it may not be completed within the expected timeframe, or at all.

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

The semiconductor market is mature and subject to business cycles that can include extended periods of oversupply and constant downward price pressure, which is due, in substantial part, to the relatively large number of competing firms and technologies. Our competitors include Analog Devices, Inc., Freescale Semiconductor, Inc., Infineon Technologies Corporation, Intel Corp., Macronix International Co., Ltd, Microchip Technology, Inc., Maxim Integrated Products, Inc., Micron Technology, Inc., Renesas Electronics Corp., SK Hynix, ST Microelectronics N.V., Toshiba Semiconductor Company Inc. and Winbond Electronics Corporation.

During economic downturns, periods of extremely intense competition, or the presence of oversupply in the industry, the selling prices for our products have declined at a rapid rate over relatively short time periods as compared to historical rates of decline. When such pricing declines occur, we may not be able to mitigate their effects by selling

more or higher margin units, or by reducing our manufacturing costs in a corresponding fashion. In such circumstances, our operating results could be materially adversely affected and we may determine that goodwill or other intangible assets have become impaired.

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

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

A significant portion of our sales are through independent distributors that are not under our control. For example, sales through distributors accounted for 70%, 71% and 68% of our net sales for fiscal 2014, 2013 and 2012, respectively. Generally, our agreements with third party distributors may be terminated for convenience by either party upon relatively short notice and are non-exclusive, permitting our distributors to offer our competitors' products. We generally do not require letters of credit from our distributors and are not protected against accounts receivable default or bankruptcy of these distributors. While historically the inability to collect open accounts receivable has not been an issue for us, we cannot be assured that we will not encounter such collection problems in the future. Termination of a significant distributor, whether at our initiative or the distributor's initiative, could disrupt our business, and if we are unable to find suitable replacements, our operating results could be adversely affected.

In Japan, which is an important geographic market for us, we currently rely primarily on FSL through one of its subsidiaries (FEI) to distribute our products to customers. For example, sales of our products through FEI represented 42% of our total net sales for fiscal 2014.

Our agreement with FSL for flash memory sales is non-exclusive in Japan. Our agreement with FSL for the distribution of MCA products within Japan is also non-exclusive, however, Spansion may only appoint up to two additional distributors each year during the term of the agreement. Either party may terminate the flash memory distribution agreement for convenience upon 60 days written notice to the other party. Either party may terminate the MCA distribution agreement for breach upon 120 days written notice to the other party. If FSL unexpectedly terminates either of the distribution agreements with us, or otherwise ceases its support of our customers in Japan, we would be required to develop and rely on a relationship with another distributor or establish our own local sales organization and support functions. We cannot be certain that we would be successful in selling our products to customers currently served by FSL or new customers. If our sales in Japan were to decline, our operating results could be materially adversely affected.

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

Distributors typically maintain an inventory of our products. For certain distributors, we have signed agreements that protect the value of their inventory of our products against price reductions, and/or provide for rights of return under specific conditions. Certain agreements with our distributors also contain standard stock rotation provisions permitting limited levels of product returns.

We do not recognize revenue on our sales to these distributors until the applicable products are re-sold by the distributors and reported to us. However, in the event of an unexpected significant decline in the price of our products or significant return of unsold inventory, we may experience inventory write-downs, charges to reimburse costs incurred by distributors, or other charges or adjustments, any of which could result in a material adverse impact to our revenues and operating results.

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

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



*A number of factors, including our fab utilization and, inventory strategy, can impact our gross margins.*

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

*Our global customer base and support structure expose us to regional risks that could materially adversely affect our business globally.*

Sales to customers outside the United States were approximately 89% of our total net sales for fiscal 2014. Additionally, we operate in more than ten countries, and a substantial portion of our manufacturing operations and those of our third party manufacturers are located outside the United States, primarily in Japan, China, Taiwan, Korea, Thailand and Malaysia. As a result, our business is subject to a variety of risks that are specific to the regions and countries in which we operate, including:

- currency exchange rate fluctuations and restrictions on the transfer of funds;
- natural disasters, such as tsunamis, earthquakes, fires and floods;
- political and economic instability;
- difficulties in protecting our intellectual property;
- problems with the transportation or delivery of our products;

- longer payment cycles and greater difficulty in collecting accounts receivable;
- compliance with trade, technical standards and other laws in a variety of jurisdictions;
- difficulties in staffing and managing international operations; and
- adverse global economic conditions.

These factors may materially adversely affect our business, results of operations or financial condition. To the extent practicable, we seek to proactively reduce our exposure to these risks where possible, but we may not be successful. For example, we use foreign currency forward contracts to reduce our exposure to foreign currency exchange rate fluctuations. The objective of these contracts is to reduce the impact of foreign currency exchange rate movements on our operating results and on our foreign currency denominated monetary assets and liabilities. We do not use these contracts for speculative or trading purposes. We cannot assure you that these activities will be successful in reducing our foreign currency exchange rate exposure. If these activities are unsuccessful, our financial condition could be materially adversely affected. In addition, our compliance with foreign laws, regulations and similar requirements may be onerous and expensive, and these laws and regulations may be inconsistent from jurisdiction to jurisdiction, further increasing the cost and difficulty of compliance. Any such costs could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with these laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies.

***Our reliance on third party manufacturers for scale and cost benefits entails risks that could materially adversely affect us.***

We currently have, and plan in the future to enter into, foundry, subcontractor and other arrangements with third parties to meet demand for our products. Third party manufacturers we currently use or expect to use in the future for foundry and other manufacturing services include SK Hynix, SMIC, XMC, FSL, and UMC. We also use independent contractors to perform some of the assembly, testing and packaging of our products, including ChipMOS Technologies Inc. and J-Devices Corporation. We depend on these manufacturers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs. Just as we are generally under no obligation to provide any specified minimum purchase quantities, third party manufacturers are generally under no obligation to provide us with any specified minimum quantity of product. We also depend on these manufacturers to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis at acceptable prices. In addition, we rely on these manufacturers to invest capital into their facilities and process technologies to meet our needs for new products using advanced process technologies. We also cannot assure you that these manufacturers will be able to meet our near-term or long-term manufacturing requirements and that we will be able to attain qualification from our customers, which may be required prior to production of products at a third party facility. In addition, any significant change in the payment terms we have with these manufacturers could adversely affect us.

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

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

The semiconductor industry is characterized by rapid technological changes. For example, new manufacturing process technologies using smaller feature sizes and offering better performance characteristics are generally introduced every one to two years. The introduction of new manufacturing process technologies allows us to increase the functionality of our products while at the same time optimizing performance parameters and, for flash memory, increasing storage capacity. In addition, the reduction of feature sizes enables us to produce smaller chips offering the same functionality and thereby considerably reducing the cost. In order to remain competitive, it is essential that we secure the capabilities to develop and qualify new manufacturing process technologies. For example, our leading NOR flash memory products must be manufactured at 45-nanometer and more advanced process technologies. If we are delayed in transitioning to these technologies and other future technologies, we could be materially adversely affected. In addition, some competitors for our microcontroller and analog products have developed and have access to more advanced processes than we do. For example, while some of our competitors manufacture on 300mm wafer technology, some of our internal production is manufactured on 200mm wafers, and may be on less advanced process nodes. If we are delayed in transitioning to newer technologies, or unable to take advantage of larger wafer production in a timely manner, we could be materially adversely affected.

Manufacturing our products involves highly complex processes that require advanced equipment. We continuously modify our manufacturing processes in an effort to improve yields and product performance and decrease costs. Improving our manufacturing efficiency in future periods is dependent on our ability to:

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

Our manufacturing efficiency is an important factor in achieving profitability, and we cannot be sure that we will be able to maintain or increase our manufacturing efficiency to the same extent as our competitors. A failure to do so could adversely impact our relationships with customers, cause harm to our reputation in the marketplace, cause customers to move future business to our competitors or cause us to make financial concessions to our customers, in which case our business could be materially adversely affected.

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

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

materially adversely affected.

In addition, some of our suppliers may also be our competitors. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we are unable to procure these materials we may have to reduce our manufacturing operations or our manufacturing yields may be adversely affected. Such a reduction and yield issues could have a material adverse effect on us.

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

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

***Our ability to generate sufficient operating cash flows depends in part on maintaining our low cost strategy.***

Our ability to generate operating cash flows depends in large part on the maintenance of a low cost strategy. As part of our strategy, we intend to continue our cost reduction efforts which have included restructuring and technology development agreements. Cost reduction activities may require initial cash outlays before the anticipated benefits are realized. We cannot assure you that we will be able to achieve anticipated expense reductions. If our low cost strategy is unsuccessful, our operating results and business may be materially adversely affected. Furthermore, in certain instances our cost reductions may make it more difficult for us to succeed in the extremely competitive semiconductor market.

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

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

***We cannot be certain that we will have sufficient resources to invest in the level of research and development required to remain competitive or that our substantial research and development investments will lead to timely improvements in technology needed to successfully develop, introduce and commercialize new products and technologies.***

The semiconductor industry is highly competitive and subject to rapid technological change. In order to compete, we are required to make substantial investments in research and development for product design, process technologies and production techniques in an effort to design and manufacture advanced and innovative products.

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

In order to grow and diversify our microcontroller business, we may need to manufacture products on significantly more advanced process technologies than are used in our microcontroller products today in order to achieve higher performance, enhanced capabilities such as greater code and data storage integrated on the die and lower costs. For example, some of our competitors have 40-nanometer class process technologies in production today and are developing more advanced process technologies at smaller process nodes. We are developing 40-nanometer class technology in a joint development with UMC, including the ability to integrate our embedded Charge Trap (eCT) flash memory technology. Delays in developing this technology or in the availability of products based on this technology could materially adversely affect us. In our MCA business we will compete with well-established, significantly larger competitors with the ability to deploy significantly greater resources than our own, to address automotive and other broader market applications. We cannot assure you that we will have sufficient resources independently or through joint development agreements to maintain the level of investment in research and development that is required for us to remain competitive and to grow and diversify our MCA business, which could materially adversely affect us.

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

***Competitors may introduce new memory or other technologies that may make our flash memory products uncompetitive or obsolete, or may create new microcontroller or analog products with configurations, capabilities and features that are more desirable than ours.***

Our flash memory competitors are working on a number of potentially competitive technologies compared to the industry standard floating gate and MirrorBit flash memory technologies utilized today. If products based on these new technologies are successfully developed and commercialized as a viable alternative to floating gate or MirrorBit flash memory, these products could pose a competitive threat to existing flash memory companies, including us. We may be materially adversely affected by loss of our existing market share due to such competition.

In our MCA business, we compete with well-established, significantly larger competitors with the ability to deploy significantly greater resources than our own to address automotive and other broader market applications. If we are unable to develop new and innovative products to compete, or unable to develop such new products in a sufficient number of variations and with desirable features and capabilities to meet our customers' needs, we may be materially adversely affected.

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

Our bank agreements require us to comply with covenants, financial tests and ratios. We cannot assure you that we will be able to satisfy or comply with these covenants, financial tests and ratios, because our ability to do so may be affected by events beyond our control. If we fail to satisfy or comply with the covenants, financial tests and ratios, or if we disagree with our lenders about whether or not we are in compliance, we cannot assure you that we will be able to obtain waivers or amendments if required to avoid a default. A breach of any of the provisions, covenants, financial tests or ratios under our debt instruments could prevent us from being able to draw down under our bank loans and result in an event of default under the applicable agreement, which in turn could trigger cross-defaults under other debt instruments, any of which would materially adversely affect us.

***Our cash requirements may require us to seek additional financing, which may not be available to us.***

Our debt facilities may not be sufficient for our future working capital, investments and cash requirements, in which case we would need to seek additional financing or scale back our operations. We may not be able to access additional financing resources due to a variety of reasons, including the restrictive covenants in our lending agreements and the lack of available capital due to tight global credit markets. If our financing requirements are not met and we are unable to access additional financing, our business, operations, financial condition and cash flows will be materially adversely affected.

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

We rely on a combination of protections provided by contracts, including confidentiality and non-disclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from third party infringement or from misappropriation in the United States and abroad. Any patent owned or licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted



under these patents or licenses may not provide a competitive advantage to us. Furthermore, patent applications that we file may not result in issuance of a patent or, if a patent is issued, the patent may not be issued in a form that is advantageous to us. Despite our efforts to protect our intellectual property rights, others may independently develop similar products, duplicate our products or design around our patents and other intellectual property rights. In addition, it is difficult to monitor compliance with, and enforce, our intellectual property rights on a worldwide basis in a cost-effective manner. Foreign laws may provide less intellectual property protection than is afforded in the United States. Our efforts to protect our intellectual property in the United States and abroad through lawsuits may be time-consuming and costly.

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

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

***We may be involved in intellectual property litigation in the future that could be found to have infringed on intellectual property rights.***

Technology companies, including many of our competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained often without regard to their use of these patents for the production and sale of products.

We are subject, and may become subject in the future, to claims in the future and may be required to enter into litigation and to defend against such actions in courts and before the U.S. International Trade Commission, as well as internationally in Europe and Asia. For more information, see “Part I, Item 3. Legal Proceedings,” in this Annual Report on Form 10-K. The plaintiffs in these actions frequently seek injunctions and substantial damages. Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in protracted litigation. Such litigation is expensive, time-consuming, disruptive to operations, and distracting to management. In recognition of these considerations, we may decide to enter into arrangements to settle litigation. If we are found to infringe on one or more patents or other intellectual property rights, regardless of whether we can develop non-infringing technology, we may be required to pay substantial damages or royalties to a third party or we may be subject to a temporary or permanent injunction prohibiting us from marketing or selling certain products. In certain cases, we may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. Any such licenses may also significantly increase our operating expenses. The outcome of any litigation is inherently uncertain and if the outcome is unfavorable to us, we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies, including matters related to infringement of intellectual property rights and we could be materially adversely affected.

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

Our security measures may be breached as a result of third party action, including computer hackers, employee error, malfeasance or otherwise, and result in unauthorized access to our customers’ data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in disclosure of our trade secrets, confidential customer, supplier or employee data, which could result in legal liability, harm to our reputation and otherwise harm our business.

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

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

- actual or anticipated changes in our operating results;
- changes in financial estimates by securities analysts;

fluctuations in the valuation of companies perceived to be comparable to us;

- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;

- unfavorable results in litigation; and

- stock price and volume fluctuations attributable to inconsistent trading volume levels or other factors.

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

***Our ability to utilize our net operating loss carry-forwards and certain other tax attributes in the future may be impaired.***

Pursuant to U.S. federal and state tax rules, a corporation is generally permitted to deduct from taxable income in any year net operating losses carried forward from prior years. We have U.S. federal and state NOL carry forwards of approximately \$981.4 million and \$219.5 million, respectively, as of December 28, 2014. Approximately \$468.8 million of the federal net operating loss carry forwards and \$165.0 million of the state net operating loss carryforwards are subject to an annual limitation. These net operating losses, if not utilized, expire from 2016 to 2033. The company also has U.S. federal credit carryovers of \$4.7 million, which expire from 2020 to 2034 and state tax credits of \$18.9 million which include California state tax credits of \$18.1 million, which can be carried forward indefinitely. In addition, our ability to utilize unlimited federal NOL carry forwards could be subject to a significant limitation if we were to undergo an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended.

***We may in the future incur impairments to goodwill or long-lived assets.***

Our assets include significant amounts of goodwill and other intangible assets. We review our long-lived assets, including these assets, for impairment annually in the fourth fiscal quarter or whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Factors that may be considered in assessing whether goodwill or intangible assets may not be recoverable include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Because we operate in highly competitive environments, actual operating results and cash flows may vary significantly from projections thereof. Any such changes could result in our recording impairment charges that adversely affect our results of operations.

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

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

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

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

Certain environmental laws, including the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or the Superfund Act, impose joint and several liabilities on current and previous owners or operators of

real property for the cost of removal or remediation of hazardous substances and costs related to damages to natural resources. One of our former properties is listed on the U.S. Environmental Protection Agency's Superfund National Priorities List. However, other parties currently are responsible for all investigation, cleanup and remediation activities. We have not been named a responsible party at any Superfund or other contaminated site. If we were ever so named, costs associated with the cleanup of the site could be material. Additionally, contamination that has not yet been identified could exist at one or more of our facilities, and identification of such contamination could have a material adverse effect on us.

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

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

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors if we are not able to consummate the merger with Cypress. 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.

*Regulations related to disclosure requirements regarding conflict minerals may force us to incur additional compliance expenses, may make our supply chain more complex.*

On August 22, 2012, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new disclosure regulations for public companies that manufacture products that contain certain minerals and their derivatives, namely tin, tantalum, tungsten or gold, known as conflict minerals, if these minerals are necessary to the functionality or production of the Company's products. These regulations require such issuers to report annually whether or not such minerals originate from the DRC and adjoining countries and in some cases to perform extensive due diligence on their supply chains for such minerals. The implementation of these new requirements could adversely affect the sourcing, availability and pricing of conflict minerals used in the manufacture of semiconductor devices, including our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. Since our supply chain is complex, the due diligence procedures that we implement may not enable us to ascertain the origins for these minerals or determine that these minerals are DRC conflict free, which may harm our reputation. We may also face difficulties in satisfying customers who may require that our products be certified as DRC conflict free, which could harm our relationships with these customers and lead to a loss of revenue. These new requirements also could have the effect of limiting the pool of suppliers from which we source these minerals, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability. We filed our first Form SD with the SEC on May 30, 2014.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

We are headquartered in Silicon Valley, California, with research and development, manufacturing, assembly and sales operations in the United States, Asia, Europe and the Middle East. We own and operate a wafer fabrication facility in Austin, Texas and a final manufacturing facility in Bangkok, Thailand. Final manufacturing consists of assembly, test, mark and pack operations. We also own a manufacturing facility in Penang, Malaysia, which does small volumes of sort and pack operations. For geographical information with respect to our assets refer to Note 19 of Consolidated Financial Statements.

On January 23, 2014, we sold our property in Sunnyvale, California, consisting of 24.5 acres of land with approximately 471,000 square feet of buildings that included our headquarters building and submicron development center, a Pacific Gas & Electric transmission facility and a warehouse building, for net consideration of \$59.0 million.

We concurrently leased back approximately 170,000 square feet of the headquarters building on a month-to-month basis with the option to continue the lease for up to 24 months; thereafter either party can terminate the lease. On account of the proposed merger with Cypress, the Company will continue to lease the Sunnyvale property until at least the second half of fiscal 2015.

As of December 28, 2014, we owned approximately 2.0 million square feet of the principal engineering, manufacturing and administrative facilities located in the United States, Europe, Middle East and Asia. Most of our other engineering and administrative facilities are leased. We lease approximately 0.7 million square feet of office and warehouse space in the United States, Europe and Asia. Our Fab 25 facility in Austin, Texas is encumbered by liens securing our Senior Secured Term Loan facility and revolving credit facilities. See Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations.”

### **ITEM 3. LEGAL PROCEEDINGS**

For a description of our material legal proceedings, see Note 21 “Commitments, Contingencies and Legal Matters” in the notes to the consolidated financial statements, which is incorporated herein by reference.

### **ITEM 4. MINE SAFETY DISCLOSURES**

None.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Price of Common Stock**

The following table sets forth the high and low per share sales prices for our Class A common stock traded in NYSE under the symbol "CODE".

Fiscal Year Ended December 28, 2014	High	Low
Fourth Quarter	\$35.31	\$15.14
Third Quarter	\$23.94	\$18.09
Second Quarter	\$22.16	\$16.71
First Quarter	\$17.91	\$13.38

Fiscal Year Ended December 29, 2013	High	Low
Fourth Quarter	\$13.56	\$9.90
Third Quarter	\$13.23	\$9.70
Second Quarter	\$13.88	\$10.66
First Quarter	\$14.54	\$11.05

As of February 5, 2015, there were 600 holders of record of our Class A common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The closing sale price of our Class A Common Stock on February 5, 2015 was \$34.35 per share.

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

**Stock Performance Graph**



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

The following graph shows a comparison from May 10, 2010, the date we emerged from Chapter 11 bankruptcy proceedings, including from May 18, 2010, (the date our Class A common stock commenced trading), through December 28, 2014 of the cumulative total return for our Class A common stock (CODE), the NYSE Composite Index and the S&P Semiconductors Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NYSE Composite Index and the S&P Semiconductors Index assume reinvestment of dividends

**ITEM 6. SELECTED FINANCIAL DATA**

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

The following table sets forth our selected financial data. Fiscal 2012 is a 53-week year. All other fiscal years presented include 52-weeks each.

	Successor (1)	Successor (1) (4)	Successor (1)	Successor (1)	Year Ended December 26, 2010 Successor (1)	Predecessor (1)
	Year Ended	Year Ended	Year Ended	Year Ended	Period from	Period from
	December 28, 2014	December 29, 2013	December 30, 2012	December 25, 2011	May 11, 2010 to	December 28, 2009 to
					December 26, 2010	May 10, 2010
<b>(in thousands, except per share amounts)</b>						
<b>Statement of Operations Data:</b>						
Net sales	\$ 1,251,855	\$ 971,690	\$ 915,932	\$ 1,069,883	\$ 759,886	\$ 324,914
Net sales to related party	-	-	-	-	4,801	78,705
Total net sales	1,251,855	971,690	915,932	1,069,883	764,687	403,619
Cost of sales	869,575	719,062	632,417	847,797	647,381	274,817
Gross profit	382,280	252,628	283,515	222,086	117,306	128,802
Research and development	171,203	126,768	107,850	106,644	65,414	35,068
Sales, general and administrative	249,346	178,265	135,607	108,461	122,478	68,105
Net gain on sale of KL land and building <sup>(2)</sup>	-	-	(28,434 )	-	-	-
Restructuring charges (credits) <sup>(3)</sup>	-	6,017	5,650	12,295	-	(2,772 )
Operating income (loss) before reorganization items	(38,269 )	(58,422 )	62,842	(5,314 )	(70,586 )	28,401
Interest income and other, net	2,154	4,406	4,688	3,954	175	(2,904 )
Interest expense	(24,196 )	(29,792 )	(30,147 )	(33,151 )	(24,180 )	(30,573 )
Gain on acquisition of microcontroller and analog business	-	7,950	-	-	-	-
Income (loss) before reorganization items and income taxes	(60,311 )	(75,858 )	37,383	(34,511 )	(94,591 )	(5,076 )
Reorganization items	-	-	-	-	-	370,340
Income (loss) before income taxes	(60,311 )	(75,858 )	37,383	(34,511 )	(94,591 )	365,264
Provision for income taxes	(9,723 )	(2,410 )	(12,999 )	(21,037 )	(2,101 )	(1,640 )
Net income (loss)	(70,034 )	(78,268 )	24,384	(55,548 )	(96,692 )	363,624
Less: Net income (loss) attributable to noncontrolling interest	-	-	(503 )	338	-	-
Net income (loss) attributable to Spansion Inc. common shareholders	\$(70,034 )	\$(78,268 )	\$ 24,887	\$(55,886 )	\$(96,692 )	\$ 363,624

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Basic	\$(1.15	) \$(1.34	) \$0.41	\$(0.91	) \$(1.60	) \$ 2.24
Diluted	\$(1.15	) \$(1.34	) \$0.41	\$(0.91	) \$(1.60	) \$ 2.24
Shares used in per share calculation:						
Basic	61,088	58,599	59,984	61,338	60,479	162,439
Diluted	61,088	58,599	61,021	61,338	60,479	162,610

	<b>December 28, 2014</b>	<b>December 29, 2013</b>	<b>December 30, 2012</b>	<b>December 25, 2011</b>	<b>December 26, 2010</b>
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and marketable securities	\$300,653	\$311,497	\$313,897	\$262,705	\$354,273
Working capital	391,064	397,711	481,512	395,565	439,972
Total assets	1,375,172	1,380,921	1,172,166	1,191,145	1,399,305
Long-term debt and capital lease obligations, including current portion	410,177	501,932	416,295	449,399	454,909
Total stockholders' deficit	\$528,684	\$537,460	\$561,774	\$522,541	\$624,285

- (1) References to the "Predecessor" refer to Spansion and its consolidated subsidiaries up to May 10, 2010. References to "Successor" refer to Spansion and its consolidated subsidiaries.
- (2) The gain of \$28.4 million in fiscal 2012 was recognized on the sale of our Kuala Lumpur, Malaysia facility. The 2011 Restructuring Plan was initiated in the fourth quarter of fiscal 2011 to align the business with market conditions. The 2013 Restructuring Plan, beginning in the third quarter of 2013, was implemented to rationalize our global workforce. Please refer to Note 18 for explanation of restructuring charges.
- (4) The increase in revenues and expenses beginning fiscal 2013 compared to prior years is due to the acquisition of the MCA business of FSL on August 1, 2013.

## **ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 7. OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes as of December 28, 2014 and December 29, 2013 and for the fiscal years ended December 28, 2014, December 29, 2013 and December 30, 2012, which are elsewhere in this Annual Report on Form 10-K.*

### **Executive Summary**

#### **Overview**

We are a leading designer, manufacturer and developer of embedded systems solutions. Our flash memory, microcontrollers, analog and mixed-signal products drive the development of high performance, intelligent and energy-efficient electronics.

The embedded markets we focus on are transportation, industrial, consumer, communications and gaming. These markets are generally characterized by longer design and product life cycles, relatively stable pricing, more predictable supply-demand outlook and lower capital investments.

Within this embedded industry, we serve a well-diversified customer base through a predominantly differentiated, non-commodity, service oriented model that strives to meet our customers' needs. Our embedded solutions are incorporated in products manufactured by leading original equipment manufacturers (OEMs). We have many years of experience refining our product and service strategy to address market requirements and deliver high-quality products.

#### **Corporate Strategy**

We are at the forefront of a fast-paced interconnected world, delivering a broad portfolio of flash memory, microcontrollers, analog, mixed-signal, and integrated system-on-chip solutions. Our strategy is to efficiently grow our business, improve our profitability and our cash generation, by expanding our addressable market, leveraging our leading-edge intellectual property to provide high quality, reliable and economical devices that are high performing,

intelligent, efficient and secure. Our focus areas are the following:

Growing our microcontroller business worldwide. Our product portfolio includes general-purpose and application-specific 8-, 16- and 32-bit MCUs for a wide range of consumer, automotive, industrial, medical and other applications.

(ii) Expanding our analog business across all markets and regions. Our analog products range from PMICs and intelligent, single-chip LED driver ICs to energy harvesting solutions.

(iii) Extending our flash memory leadership position. Our portfolio includes non-volatile memory NOR and NAND products targeted specifically to the embedded market.

Developing integrated solutions that combine our technologies, such as our embedded flash technology, MCUs, software, application-specific middleware, security, and new interfaces, as a means to offer differentiated solutions to our customers across a number of markets worldwide.

Successfully commercializing and protecting our intellectual property. We license our intellectual property to third parties and assist our customers in developing and prototyping their designs by providing software and hardware development tools and support, drivers and simulation models for system-level integration.

### **Proposed Merger with Cypress Semiconductor Corporation**

On December 1, 2014, we entered into the Merger Agreement. In accordance with the Merger Agreement, each share of common stock of Spansion, par value \$0.001 per share will be converted into the right to receive 2.457 shares of common stock, par value \$0.01 per share, of Cypress subject to the calculation adjustments specified in the agreement. Cypress will assume all outstanding options to purchase shares of the Spansion common stock, Spansion restricted stock units, and Spansion performance stock units. Upon completion of the proposed merger, shares of the Spansion common stock will cease trading on the New York Stock Exchange or any other stock exchange or quotation system. Shares of Cypress Common Stock are listed on the Nasdaq Global Select Market. The merger is expected to close in the first half of fiscal 2015, subject to customary closing conditions, including approval by Spansion and Cypress stockholders.

During the fiscal year ended December 28, 2014, we incurred \$4.1 million of merger costs which has been recorded in the sales, general and administrative expense line of the Consolidated Statements of Operations.

### **Other Highlights**

On January 23, 2014, we sold our property in Sunnyvale, California, consisting of 24.5 acres of land with approximately 471,000 square feet of buildings that included our headquarters building and submicron development center, a Pacific Gas & Electric transmission facility and a warehouse building, for net consideration of \$59.0 million. We concurrently leased back approximately 170,000 square feet of the headquarters building on a month-to-month basis with the option to continue the lease for up to 24 months; thereafter either party can terminate the lease. The first six months of the lease were rent free; thereafter the rents were lower than the market rates. For accounting purposes, these rents are deemed to have been netted against the sale proceeds and represent prepaid rent. As such, our use of the property after its sale constitutes continuing involvement, and recognition of the sale of the property and the related gain is deferred until the lease period ends. On account of the proposed merger with Cypress, the Company will continue to lease the Sunnyvale property until at least the first half of fiscal 2015.

On May 22, 2014, subsequent to the sale of our property in Sunnyvale, we also entered into a new headquarters lease for renting office space in San Jose, California. The lease is for a period of 12 years, with two options to extend for periods of five years each after the initial lease term. The initial term of the lease commenced on January 1, 2015 and will expire on December 31, 2026. In light of the pending merger with Cypress, we are evaluating alternatives with respect to the new headquarters lease and will decide whether to terminate the lease after paying the requisite penalties or sublease the property or occupy part of the property, if needed.

On July 16, 2014, a final order was entered by the Bankruptcy Court closing all Chapter 11 cases. We recognized a gain of \$3.2 million for the fiscal year ended December 28, 2014, relating to reversal of the reserve for bankruptcy claims. This has been recorded within interest income and other, net in the Consolidated Statement of Operations. As of December 28, 2014, we had resolved all outstanding disputed claims and had distributed the 46,264,760 shares of stock that were reserved for holders of allowed general unsecured claims.

### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our net sales, inventories, pension, asset impairments, stock-based compensation expense, legal reserve and income taxes. We base our

estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

### ***Business Acquisition***

Accounting for acquisitions requires us to estimate the fair value of consideration paid and the individual assets and liabilities acquired, which involves a number of judgments, assumptions and estimates that could materially affect the amount and timing of costs recognized. Accounting for acquisitions can also involve significant judgment to determine when control of the acquired entity is transferred. We obtain independent third party valuation studies to assist in determining fair values, including assistance in determining future cash flows, appropriate discount rates and comparable market values. The items involving the most significant assumptions, estimates and judgments included determining the fair value of the following:

Intangible assets including estimated economic lives and straight-line amortization method;

Deferred tax liability, including projections of future taxable income and tax rates;

Inventory, including estimated future selling prices, timing of product sales and completion costs for work in process;

Estimated liability of employees' pension related obligations; and

Property, plant and equipment.



### ***Revenue Recognition***

We recognize revenue from product sales to OEMs when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, fixed or determinable pricing and when collectability is reasonably assured. We record reserves for estimated customer returns based on historical experience.

We sell directly to distributors under terms that provide for rights of return, stock rotation and price protection guarantees. Since the price is not fixed and determinable, we are unable to estimate the resale price to our end customer and returns under the stock rotation rights to our distributors and therefore defer the recognition of revenue and related product costs on these sales as deferred income until distributors submit Point of Sales reports to us. We also sell some of our products to certain distributors under sales arrangements that do not allow for rights of return or price protection on unsold products. We recognize revenue on these sales when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, fixed or determinable pricing and when collectability is reasonably assured.

Rights of return are granted whereby we are obligated to repurchase inventory from a distributor upon termination of the distributor's sales agreement with us. However, we are not required to repurchase the distributor's inventory under certain circumstances such as the failure to return the inventory in saleable condition, or, we may only be required to repurchase a portion of distributor's inventory, for example when the distributor has terminated the agreement for its convenience.

Stock rotation rights are provided to distributors when we have given written notice to the distributor that a product is being removed from our published price list. The distributor has a limited period of time to return the product. All returns are for credit only; the distributor must order a quantity of products, the dollar value of which equals or exceeds the dollar value of the products being returned. Some distributors are also offered quarterly stock rotation. Such stock rotation is limited to a certain percentage of the previous three months' net shipments.

A general price protection is granted to a distributor if we publicly announce a price reduction relating specifically to certain products, whereby the distributor is entitled to a credit equal to the difference between the price paid by the distributor and the newly announced price.

Price protection adjustments are provided to distributors solely for those products that: (i) are shipped to the distributor during the period preceding the price reduction announcement; (ii) are part of the distributor's inventory at the time of the announcement; and (iii) are located at geographic territories previously authorized by us.

In addition, if we judge that a distributor demonstrates that it needs a price lower than the current published price list in order to secure an order from the distributor's customers, we may, but we have no obligation to, grant the distributor a credit to offset the amount owed under our current published price. The distributor must submit the request for a reduction in price prior to the sale of products to its customer. If the request is approved and the sale occurs, the distributor must make a claim with the proof of resale to the end customers for a credit within a specified time period.

Gross deferred revenue and gross deferred cost of sales on shipments to distributors as of December 28, 2014 and December 29, 2013 are as follows:

	<b>December 28, 2014</b>	<b>December 29, 2013</b>
	<b>(in thousands)</b>	
Deferred revenue	\$83,245	\$ 65,649
Less: deferred costs of sales	(48,415)	(35,854 )
Deferred income on shipments <sup>(1)</sup>	\$34,830	\$ 29,795

The deferred income of \$35.3 and \$30.2 million on the consolidated balance sheets as of December 28, 2014 and (1)December 29, 2013 included \$0.5 million of deferred revenue for both years relating to our licensing revenue. This has been excluded in the table above to separately illustrate the deferred income on product shipments.

Our distributors provide us with periodic data regarding the product, price, quantity, and end customer for products that are resold as well as the quantities of our products that they still have in stock. We reconcile distributors' reported inventories to their activities.

We have licensed our patents to other companies and will continue to do so in the future. The terms and conditions of license agreements are highly negotiated and can vary significantly. Generally, however, when a license agreement requires the payment of royalties to Spansion, we recognize fixed payment amounts on the date they become due. For other royalty agreements, we recognize revenue based on notification of the related sales from the licensees.

### ***Estimates of Sales Returns and Allowances***

We occasionally accept sales returns or provide pricing adjustments to customers who do not have contractual return or pricing adjustment rights. We record a provision for estimated sales returns and allowances on product sales in the same period that the related revenues are recorded, which impacts gross margin. We base these estimates on historical sales returns, allowances, and price reductions, market activity and other known or anticipated trends and factors. These estimates are subject to management's judgment, and actual returns and adjustments could be different from our estimates and current provisions, resulting in an impact to our future revenues and operating results.

### ***Inventory Valuation***

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

### ***Stock-Based Compensation***

Stock-based compensation is determined on the grant date based on the fair value of the award and is recognized as expense over the requisite service period.

The fair value of stock option and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The Black Scholes options valuation, requires the use of inputs like expected volatility, expected term, expected dividend yield, and expected risk-free rate of return. Expected volatility is based on the historical volatility of its traded stock. For stock options granted in fiscal 2013 and fiscal 2012, since we do not have sufficient history, we also use the volatilities of competitors with similar characteristics, who are in the same industry sector (guideline companies). Similarly, we have used the simplified calculation of expected term as we do not have sufficient historical exercise data. If we determine that other methods to estimate expected volatility or expected life were more

reasonable, or if other methods for calculating these input assumptions were prescribed by authoritative guidance, the fair value calculated for stock-based awards could change significantly.

The fair value of restricted stock units, key executive RSUs and PSUs issued in the fourth quarter of fiscal 2014 is based on the market value of our common stock on the date of grant. For key executive RSUs, the recognition of expense is determined based upon management's estimate of the probability and timing for achieving the associated performance criteria. Stock-based compensation for performance-related awards is recognized over the estimated performance period, which may vary from period to period based upon management's estimates of achievement and the timing to achieve the related performance goals. These awards vest once the performance criteria are met.

The fair value of the performance-based restricted stock awards (PSUs) other than those issued in the fourth quarter of fiscal 2014 is estimated using a Monte Carlo simulation to simulate a range of our possible future stock prices and the future stock prices of other companies in our peer group. The simulation requires assumptions for expected volatilities and correlation coefficients of each entity, risk-free rate of return, and dividend yield. Expected volatilities are based on our historical volatilities over a period equal to the length of the measurement period and the other companies in the peer group. Correlation coefficients are based on the same data used to calculate historical volatilities and are used to model how each entity's stock price moves in relation each of the other companies included in the peer group. Dividends are assumed to be reinvested in the issuing entity over the measurement period, equating to a zero percent dividend yield for us and the other companies in the peer group.

We estimate forfeitures based on historical experience related to our own stock-based awards granted. We anticipate that these estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

### ***Employee Benefit Plans***

We have a number of defined contribution plans worldwide and a defined benefit pension plan in Japan. On April 1, 2014, we established the Spansion Innovates Group Cash Balance Plan (a defined benefit plan), for the employees transferred as part of the acquisition of the MCA business from FSL. Defined benefit pension plans are accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the Japanese corporate bonds yield curve as of April 1, 2014. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statement of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO. If the amount of a net gain or loss does not exceed the corridor amount, they will be recorded in other comprehensive income. See Note 14 for further details on the pension plans.

### ***Income Taxes***

In determining taxable income for financial statement reporting purposes, we make estimates and judgments. These estimates and judgments are applied in the calculation of specific tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

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

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

In determining the financial statement effects of an unrecognized tax positions, we determine when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. In this determination, we

assume that the position will be examined by a taxing authority that has full knowledge of all relevant information, and will be resolved in the court of last resort. The more likely than not recognition threshold means that no amount of tax benefits may be recognized for a tax position without a greater than 50% likelihood that it will be sustained upon examination.

### ***Goodwill***

We review goodwill for impairment at least annually in the fourth quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the asset might be impaired. We adopted November 30th as the date of the annual impairment test.

In fiscal 2014 and fiscal 2013, we performed a quantitative assessment of goodwill using the market valuation approach and concluded that there was no impairment to goodwill. In fiscal 2012, we performed the qualitative assessment of goodwill and concluded that there was no impairment.

### ***Impairment of Long-Lived Assets including Acquisition-Related Intangible Assets***

We consider quarterly whether indicators of impairment relating to the long-lived assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset, significant changes in the extent or manner in which an asset is used or an adverse change in our overall business climate. If these or other indicators are present, we test for recoverability of the intangible asset by determining whether the estimated undiscounted cash flows attributable to the asset in question is less than its carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the asset over its fair value.

### ***Estimates Relating to Litigation Reserve / Settlements***

Our litigation reserve policy requires that we record an estimate for litigation expenses that will be incurred to defend ourselves over the course of a reasonable period of time. Currently, this is estimated at twelve months. Judgment is necessary to estimate these costs and an accrual is made when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

***New Accounting Pronouncements***

In May 2014, the FASB issued an accounting standard update that provides for a new single revenue accounting model that will replace existing revenue recognition guidance. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The guidance becomes effective in the first quarter of our fiscal year ending December 31, 2017. We will have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard update. We are evaluating the impact that the standard update will have on our consolidated financial statements.

In August 2014, the FASB issued an accounting standard update relating to management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and on the related disclosures. The update requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. The guidance is effective in the interim and annual periods beginning after December 15, 2016 with early application permitted. The adoption of this update is not expected to have a material effect on our consolidated financial statements or disclosures.

**Results of Operations**

The following is a summary and analysis of our net sales, gross margin, operating income (loss), interest and other income (expense), net, interest expense and income tax provision for fiscal 2014, fiscal 2013 and fiscal 2012.

	<b>Year Ended</b>					
	<b>December</b>		<b>December</b>		<b>December</b>	
	<b>28, 2014</b>		<b>29, 2013</b>		<b>30, 2012</b>	
	<b>(in thousands, except for percentages)</b>					
Total net sales	\$1,251,855		\$971,690		\$915,932	
Cost of sales	\$869,575		\$719,062		\$632,417	
Gross profit	\$382,280		\$252,628		\$283,515	
Gross margin	31	%	26	%	31	%
Research and development	\$171,203		\$126,768		\$107,850	
Sales, general and administrative	\$249,346		\$178,265		\$135,607	
Net gain on sale of KL land and building	\$-		\$-		\$(28,434)	)
Restructuring charges	\$-		\$6,017		\$5,650	
Operating income (loss)	\$(38,269)	)	\$(58,422)	)	\$62,842	
Interest income and other, net	\$2,154		\$4,406		\$4,688	

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Interest expense	\$(24,196 )	\$(29,792 )	\$(30,147 )
Gain on acquisition of Microcontroller and Analog business	\$-	\$7,950	\$-
Provision for income taxes	\$(9,723 )	\$(2,410 )	\$(12,999 )

*Net Sales*

Total net sales increased by \$280.2 million from \$971.7 million in fiscal 2013 to \$1,251.9 million in fiscal 2014. The increase was due to an additional \$328.1 million of revenues from the MCA products. We acquired the MCA business on August 1, 2013 and had seven additional months of MCA business revenues in fiscal 2014 compared to fiscal 2013. The increase in MCA revenue was partially offset by a \$64.6 million decrease in sales of embedded memory, specifically NOR flash. The decline in embedded NOR flash sales was mainly due to lower revenues from gaming and industrial markets. The decline in NOR flash was offset by a strong growth in the NAND flash memory business in fiscal 2014.



Total net sales increased by \$55.8 million from \$915.9 million in fiscal 2012 to \$971.7 million in fiscal 2013. The increase was primarily due to revenues of \$222.8 million during the third and fourth quarters of fiscal 2013 from our newly acquired MCA business. The increase was partially offset by a \$159.6 million decline in flash embedded sales mainly due to lower gaming revenues in Japan as the majority of our gaming customers were in product transition, moving to newer product platforms during fiscal 2013. In addition, we also had downward pressure on selling prices due to continued imbalance in supply and demand in the flash market.

Geographically, revenue was derived from the following regions:

	<b>Year Ended</b>			<b>December 29, 2013</b>		<b>December 30, 2012</b>		
	<b>December 28, 2014</b>							
	<b>Revenue</b>		<b>Revenue</b>		<b>Revenue</b>			
	<b>(\$ in</b>	<b>% of</b>	<b>(\$ in</b>	<b>% of</b>	<b>(\$ in</b>	<b>% of</b>		
	<b>thousands)</b>	<b>Revenue</b>	<b>thousands)</b>	<b>Revenue</b>	<b>thousands)</b>	<b>Revenue</b>		
Japan	395,271	31.6	% 264,168	27.2	% 273,303	29.9	%	
Asia Pacific	440,193	35.2	% 344,822	35.5	% 317,078	34.6	%	
Europe	192,617	15.4	% 162,835	16.8	% 158,572	17.3	%	
Americas	95,556	7.6	% 103,147	10.6	% 89,905	9.8	%	
Korea	83,129	6.6	% 54,259	5.6	% 44,918	4.9	%	
Licensing and other	45,089	3.6	% 42,459	4.3	% 32,156	3.5	%	
Total	1,251,855	100.0	% 971,690	100.0	% 915,932	100.0	%	

### ***Gross Profit***

Our gross profit increased by \$129.7 million from \$252.6 million in fiscal 2013 to \$382.3 million in fiscal 2014. The gross margin increased from 26% in fiscal 2013 to 31% in fiscal 2014. The increase in gross profit and gross margin percentage was mainly due to increased revenues from MCA products and lower amortization of purchase accounting markup on the inventory purchased from FSL.

Our gross profit decreased by \$30.9 million from \$283.5 million in fiscal 2012 to \$252.6 million in fiscal 2013. The gross margin decreased from 31% in fiscal 2012 to 26% in fiscal 2013. The decrease in gross margin was mainly due to lower margins on revenues in the flash embedded markets, primarily driven by lower gaming revenues in Japan and a downward pressure on selling prices due to continued imbalance in supply and demand. This was partially offset by the addition of gross profit from the MCA products revenues, net of \$30.2 million amortization of a purchase accounting markup on the inventory purchased from FSL as a part of the acquisition, and efficiencies from factory operations.

***Research and development***

Our R&D expenses increased by \$44.4 million from \$126.8 million in fiscal 2013 to \$171.2 million in fiscal 2014. The increase was due to \$25.1 million higher employee compensation and benefits and \$12.5 million higher material cost for R&D projects, mainly related to the MCA business, which was acquired on August 1, 2013. We had seven additional months of MCA business expenses in fiscal 2014 compared to fiscal 2013.

Our R&D expenses increased by \$18.9 million from \$107.9 million in fiscal 2012 to \$126.8 million in fiscal 2013. The increase was mainly due to incremental R&D expense relating to the MCA business incurred during the third and fourth quarters of fiscal 2013. The increase was partially offset by \$9.7 million of lower employee compensation and benefits due to the reduction in headcount as part of the restructuring activity in fiscal 2013, \$3.5 million lower development charges primarily relating to NAND development and \$2.3 million lower material costs on probe cards and other materials used in R&D projects in fiscal 2013.

***Sales, general and administrative***

Our SG&A expenses increased by \$71.0 million from \$178.3 million in fiscal 2013 to \$249.3 million in fiscal 2014. The increase was due to \$29.5 million higher patent infringement litigation fees and settlement costs incurred after the end of fiscal 2014, related to the Macronix litigation, as described in Subsequent Events in Note 23 of Consolidated Financial Statements, \$27.3 million higher employee compensation and benefits mainly related to the MCA business, which was acquired on August 1, 2013, \$4.5 million higher travel costs and \$4.1 million Cypress merger related costs. These were partially offset by \$5.8 million lower integration costs related to the MCA business incurred in fiscal 2014 compared to fiscal 2013.

Our SG&A expenses increased by \$42.7 million from \$135.6 million in fiscal 2012 to \$178.3 million in fiscal 2013. The increase was mainly due to \$23.9 million of higher legal expenses relating to patent infringement litigation, additional SG&A expenses relating to the MCA business incurred during the third and fourth quarters of fiscal 2013, and \$12.7 million MCA business integration costs. The increase was partially offset by \$10.6 million of lower employee compensation and benefits due to the reduction in headcount in fiscal 2013, \$5.0 million of lower travel, marketing activities and other outside services in fiscal 2013 and \$1.7 million of lower employee stock-based compensation expense in fiscal 2013.

***Net gain on sale of land and building***

In fiscal 2012, we recognized a gain of \$28.4 million, net of selling expenses, on the sale of the KL facility.

***Restructuring Charges***

There were no restructuring charges for fiscal 2014.

Restructuring charges increased by \$0.3 million from \$5.7 million in fiscal 2012 to \$6.0 million in fiscal 2013. Restructuring charges in fiscal 2013 were mainly comprised of \$5.8 million of severance expense and \$0.4 million of intangible assets written off due to closure of a design service facility. Restructuring charges for fiscal 2012 were comprised of \$7.9 million asset relocation and impairment charges relating to closure of the KL Facility and \$1.9 million of severance and employee related costs, offset by a \$1.9 million gain on the sale of equipment in the KL facility, a \$1.9 million gain on sales of equipment in Thailand, and a \$0.9 million credit as a result of our prevailing in a labor-related lawsuit.

***Gain on acquisition of the MCA business***

A gain on the MCA business acquisition of \$7.9 million was recognized in fiscal 2013. There was no such gain recorded in fiscal 2014 or fiscal 2012.

***Interest income and other, net***

Interest income and other income, net decreased by \$2.2 million from \$4.4 million in fiscal 2013 to \$2.2 million in fiscal 2014. The decrease was mainly due to our recognizing a \$10.0 million gain on recovery from a previously impaired investment and a \$2.4 million gain on ineffective cash flow hedges recognized in fiscal 2013 and no corresponding gains in fiscal 2014. These decreases were partially offset by \$3.3 million of lower costs incurred to repurchase the 7.875% Senior Notes, \$3.2 million from the reversal of bankruptcy related reserves on final closure of the Chapter 11 cases and \$2.5 million gain recognized relating to better than expected performance of the total fund assets in the pension plan.

In fiscal 2007, we entered into an agreement with a private company to develop and commercialize EcoRAM based memory solutions. We held investments in the private company in the form of a loan and shares of preferred stock. However based on subsequent evaluations of our investments in fiscal 2009 and fiscal 2010, we concluded that the private company was not likely to survive as a going concern and impaired our investments in the Company. Beginning fiscal 2012, we observed certain positive developments with respect to the financial status of the private company and began seeking repayments from them, and in fiscal 2013 we recovered \$10.0 million on our loan. We applied the accounting guidance relating to investments-debt and equity securities, which provides that realized gains and losses for held-to-maturity or available-for-sale securities are included in income and recognized \$10.0 million of gain on recovery of impaired investments in fiscal 2013.

Interest and other income (expense) decreased by \$0.3 million from \$4.7 million in fiscal 2012 to \$4.4 million in fiscal 2013. The decrease was due to \$6.2 million of costs relating to partial repurchase of 7.875% Senior Notes, benefit of \$5.0 million in fiscal 2012 relating to release of the claims reserve as a result of the settlement of a bankruptcy claim and preferential claims receipts compared to none in fiscal 2013, and \$0.9 million higher realized and unrealized loss on foreign currency transactions in fiscal 2013. The decrease was offset by \$10.0 million of gain on recovery of a previously impaired investment and \$2.4 million of gain on ineffective cash flow hedges in fiscal 2013.

### *Interest Expense*

Our interest expense decreased by \$5.6 million from \$29.8 million in fiscal 2013 to \$24.2 million in fiscal 2014 primarily due to lower interest rate on our debt. The decrease was partially offset by \$2.1 million of imputed interest on the financing obligation relating to the sale of the Sunnyvale property in fiscal 2014.

Our interest expense decreased by \$0.3 million from \$30.1 million in fiscal 2012 to \$29.8 million in fiscal 2013 due to various refinancing activities targeted at lowering the cost of our debt.

The average interest rate on our debt portfolio was 3.18%, 5.84% and 6.21% for fiscal 2014, 2013 and 2012 respectively.

***Provision for Income Taxes***

We recorded income tax expense of \$9.7 million in fiscal 2014 and \$2.4 million in fiscal 2013. We recorded income tax expense of \$13.0 million in fiscal 2012.

Income tax expense recorded for fiscal 2014 differs from the income tax expense that would be derived by applying a U.S. statutory tax rate of 35% to the income before income taxes due to our inability to recognize the impact from U.S. operating losses, and income that was earned and tax effected in foreign jurisdictions with different tax rates. The income tax expense includes foreign taxes as well as \$5.1 million related to withholding tax on licensing revenue. Income tax expense recorded for fiscal 2013 differs from the income tax expense that would be derived by applying a U.S. statutory tax rate of 35% to the income before income taxes due to our inability to benefit from U.S. operating losses, and income that was earned and tax effected in foreign jurisdictions with different tax rates. The income tax expense includes foreign taxes as well as \$4.1 million related to withholding tax on licensing revenue. These were offset by the release of reserves for uncertain tax positions of \$4.6 in foreign locations and the impact from the acquisition of the MCA business of \$3.7 million.

Income tax expense recorded for fiscal 2012 differs from the income tax expense that would be derived by applying a U.S. statutory tax rate of 35% to the income before income taxes due to our inability to benefit from U.S. operating losses, and income that was earned and tax effected in foreign jurisdictions with different tax rates. The income tax expense includes foreign taxes as well as \$4.1 million related to withholding tax on licensing revenue.

As of December 28, 2014, we recorded a valuation allowance of approximately \$368.4 million against our U.S. deferred tax assets, net of deferred tax liabilities. This valuation allowance offsets all of our net U.S. deferred tax assets. As of December 28, 2014, we also recorded valuation allowances of approximately \$2.6 million against various foreign deferred tax assets for which we do not believe it is more likely than not that they will be realized.

**Contractual Obligations**

The following table summarizes our contractual obligations at December 28, 2014. The table is supplemented by the discussion following the table.

<b>Payments due by period</b>							<b>2020 and Beyond</b>
<b>Total</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>		

**(in thousands)**

Senior Secured Term Loan	\$297,000	\$38,500	\$3,000	\$3,750	\$3,000	\$248,750	\$-
Exchangeable Senior Notes	150,000	-	-	-	-	-	150,000
Interest on Debt	75,486	14,249	14,166	16,721	13,938	13,412	3,000
Other long term liabilities <sup>(1)</sup>	13,596	264	7,284	4,990	-	1,058	-
Operating leases <sup>(2)</sup>	52,821	6,687	8,278	5,921	4,637	3,406	23,892
Unconditional purchase commitments <sup>(3)</sup>	114,647	108,841	4,627	1,179	-	-	-
<b>Total contractual obligations <sup>(4)</sup></b>	<b>\$703,550</b>	<b>\$168,541</b>	<b>\$37,355</b>	<b>\$32,561</b>	<b>\$21,575</b>	<b>\$266,626</b>	<b>\$176,892</b>

(1) Other long term liabilities consist of payment commitments under long term software license agreements with vendors and asset retirement obligations.

(2) Operating leases includes payments relating to the new headquarters lease. The initial term of the lease will commence on January 1, 2015 and expire on December 31, 2026.

(3) UPC include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. These agreements are principally related to inventory. UPCs exclude agreements that are cancelable without penalty.

(4) As of December 28, 2014, the liability for uncertain tax positions was \$18.9 million, including interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows associated with these liabilities, we are unable to make a reasonably reliable estimate of the amount and period in which these liabilities might be paid.

### *Senior Secured Term Loan*

In the first quarter fiscal 2010, Spansion LLC, our wholly owned operating subsidiary, borrowed \$450 million under a Senior Secured Term Loan facility. During the fourth quarter of fiscal 2010, we issued \$200.0 million of our 7.875% Senior Notes due 2017 and concurrently repaid \$196.0 million of our Senior Secured Term Loan.

On December 19, 2013, Spansion LLC amended the Term Loan to reduce the interest rate on the approximately \$214 million principal amount outstanding from LIBOR plus 4.00% (with a LIBOR floor of 1.25%) to LIBOR plus 3.00% (with a LIBOR floor of 0.75%). In conjunction with the amendment, Spansion LLC borrowed an additional amount of \$82.0 million under the Term Loan, net of issuance costs. The amendment also provided for modifications to certain covenants and other provisions of the Term Loan Facility, including an extension of the maturity date to December 19, 2019 from the original December 13, 2018 and an increase of the general investment and restricted payments basket from \$50 million to \$75 million. The other covenants and provisions of the Term Loan Facility remain unchanged. The amendment was accounted for as a modification of debt under the accounting guidelines as the difference between the present value of the cash flows under the Term Loan, before and after the change was less than 10%. We incurred \$2.1 million in fees and costs in connection with the amendment, of which \$1.8 million was treated as a debt discount to be amortized using the interest method over the term of the debt.

The Term Loan Facility is secured by a first priority security interest in, among other items, (i) all equity interests of Spansion Technology LLC, Spansion LLC and each of its direct and indirect domestic subsidiaries, and certain intercompany debt, (ii) all present and future tangible and intangible assets of Spansion LLC and its direct and indirect domestic subsidiaries, and (iii) all proceeds and products of the property and assets described in (i) and (ii). The collateral described in the foregoing sentence also secures the 2012 Revolving Credit Facility described below and certain hedging arrangements on an equal priority basis.

Spansion LLC may elect that the loans under the Term Loan Facility bear interest at a rate per annum equal to (i) 2.00% per annum plus the highest of (a) the prime lending rate, and (b) the Federal Funds rate plus 0.50%; or (ii) 3.00% per annum plus a 1-month, 3-month, or 6-month LIBOR rate (or 9-month and 12-month LIBOR rate with the consent of all the lenders), subject to a 0.75% floor. The default rate is 2.00% above the rate otherwise applicable.

The Term Loan Facility may be optionally prepaid at any time without premium, provided that, prior to the first six months from December 19, 2013, the closing date of the most recent amendment on the Term Loan Facility, a prepayment premium of 1% will be applied to any prepayment or refinancing of any portion of the Term Loan Facility in connection with Spansion LLC's incurrence of debt with a lower interest rate or any amendment to the Term Loan Facility that has the effect of reducing the effective yield. The Term Loan Facility is subject to mandatory prepayments in an amount equal to: (a) 100% of the net cash proceeds from the sale or other disposition of all or any part of our assets or extraordinary receipts or those of any of our subsidiaries, in excess of \$10 million per fiscal year, subject to certain reinvestment rights, (b) all casualty and condemnation proceeds received by us or any of our

subsidiaries in excess of \$10 million individually or in an aggregate amount, subject to certain reinvestment rights, (c) 50% of the net cash proceeds received by us or any of our subsidiaries from the issuance of debt after the closing date of the Term Loan Facility (other than certain permitted indebtedness) and (d) 50% of our and our subsidiaries' excess cash flow, or 25%, if Spansion LLC has a leverage ratio of 2.5 to 1.0 or less. Voluntary prepayments will be applied to the remaining scheduled principal repayment installments of the Term Loan Facility on a pro-rata basis while mandatory prepayments will be applied to remaining scheduled amortization as directed by Spansion LLC.

Under the Term Loan Facility, we are subject to a number of covenants, including limitations on (i) liens and further negative pledges, (ii) indebtedness, (iii) loans and other investments, (iv) mergers, consolidations and acquisitions, (v) sales, transfers and other dispositions of assets, (vi) and dividends and other distributions subject to a \$75 million general restricted payment basket and an additional builder basket resulting from excess cash flow and certain proceeds. The Term Loan Facility includes customary events of default that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default due to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the terms of the facility. Change in control occurs when a person or group becomes a beneficial owner directly or indirectly of more than 35% of our common stock.

As of December 28, 2014 we were in compliance with all of the Term Loan Facility's covenants.

### ***2012 Revolving Credit Facility***

On December 13, 2012, we entered into the Revolving Credit Agreement (the 2012 Revolving Credit Facility) with Morgan Stanley Bank, N.A. and other financial institutions.

The 2012 Revolving Credit Facility consists of an aggregate principal amount of \$50 million, with up to \$25 million available for issuance of letters of credit and up to \$15 million available as a swing line sub-facility. The size of the commitments under the 2012 Revolving Credit Facility may be increased in an aggregate amount for all such increases not to exceed (a) \$230 million less the aggregate amount of incremental facilities under the Term Loan Facility plus (b) an additional \$50 million if, after giving effect to the incurrence of such additional amount, Spansion LLC is in compliance with a senior secured leverage ratio of 2.75:1.00. The 2012 Revolving Credit Facility has a five year maturity (December 13, 2017).





Spansion LLC may elect that the loans under the 2012 Revolving Credit Facility bear interest at a rate per annum, equal to (i) a rate per annum as set forth under “Revolver Base Rate Loans” in the grid below plus the highest of (a) the prime lending rate, (b) the Federal Funds rate plus 0.50%, and (c) the LIBOR rate for an interest period of one-month plus 1.00%; or (ii) a rate per annum as set forth under “Revolver LIBOR Loans” in the grid below plus a 1-month, 3-month, or 6-month LIBOR rate (or 9-month and 12-month LIBOR rate with the consent of all the lenders). The default rate is 2.00% above the rate otherwise applicable.

<u>Leverage Ratio</u>	<u>Revolver LIBOR Loans</u>	<u>Revolver Base Rate Loans</u>
> 2.00:1.00	2.50%	1.50%
≤ 2.00:1.00	2.25%	1.25%

On the closing date of the 2012 Revolving Credit Facility, Spansion LLC paid each lender an upfront fee in an amount equal to 0.375% of the commitment amount of such lender. Spansion LLC is also liable for a per annum unused commitment fee according to the leverage ratio below payable (i) quarterly in arrears and (ii) on the date of termination or expiration of the commitments.

<u>Leverage Ratio</u>	<u>Unused Commitment Fees</u>
> 2.00:1.00	0.50%
≤ 2.00:1.00	0.375%

The 2012 Revolving Credit Facility is secured by a first priority security interest in, among other items, (i) all equity interests of Spansion Technology, Spansion LLC and each of its direct and indirect domestic subsidiaries, and certain intercompany debt, (ii) all present and future tangible and intangible assets of Spansion LLC and its direct and indirect domestic subsidiaries, and (iii) all proceeds and products of the property and assets described in (i) and (ii). The collateral described in the foregoing sentence also secures the Term Loan Facility and certain hedging arrangements on an equal priority basis.

The 2012 Revolving Credit Facility may be optionally prepaid and unutilized commitments reduced at any time without premium or penalty. The 2012 Revolving Credit Facility is subject to mandatory prepayments, after payment in full of the outstanding loans under the Term Loan Facility, in an amount equal to 100% of the net cash proceeds from the sale or other disposition (including by way of casualty or condemnation) of all or any part of the assets and extraordinary receipts of Spansion Inc. or any of its subsidiaries in excess of \$10 million per fiscal year after the closing date of the Revolving Credit Facility (with certain exceptions and reinvestment rights).

We are subject to (i) a minimum fixed coverage ratio of 1.25:1 and (ii) a maximum leverage ratio of 3.5:1, only if loans are drawn under the Revolving Credit Facility, or letters of credit in excess of \$5 million in aggregate are outstanding under the 2012 Revolving Credit Facility.

Under the terms of the 2012 Revolving Credit Facility, we are subject to a number of covenants, including limitations on (i) liens and further negative pledges, (ii) indebtedness, (iii) loans and other investments, (iv) mergers, consolidations and acquisitions, (v) sales, transfers and other dispositions of assets, (vi) and dividends and other distributions subject to a \$50 million general restricted payment basket and an additional builder basket resulting from excess cash flow and certain proceeds.

On September 27, 2013, we amended our revolving credit facility to increase the revolving loan commitment from \$50 million to \$70 million. The amendment to the Revolving Credit Facility contains additional covenants requiring: (a) the consolidated quick ratio as determined on the last day of any fiscal quarter to not be less than 1.25 to 1.0, and (b) the amount of consolidated cash, cash equivalent and other short-term marketable investments to not be less than \$150 million.

As of December 28, 2014, we were in compliance with all of the 2012 Revolving Credit Facility's covenants. However, drawdown under the 2012 Revolving Credit Facility requires that we meet or obtain a waiver to certain conditions including the senior secured leverage ratio not to exceed 2.75:1.00 and compliance with coverage and leverage ratios, as of the last day of the most recently ended fiscal quarter. Based on our operating results for the quarter ended December 28, 2014, we do not meet the maximum leverage ratio limit. We have not obtained a waiver for those conditions; accordingly, we are not able to draw down on the 2012 Revolving Credit Facility. We did not need to draw on the revolving credit facility for fiscal 2014, and believe that our sources of cash and liquidity are sufficient to meet the business requirements for the next 12 months.

### **2.00% Senior Exchangeable Notes**

On August 26, 2013, Spansion LLC, our wholly-owned subsidiary, issued \$150.0 million of the Notes in a private placement. The Notes are governed by an Indenture, dated August 26, 2013, between us and Wells Fargo Bank, National Association, as Trustee. They are fully and unconditionally guaranteed on a senior unsecured basis by us and Spansion Technology LLC. The Notes will mature on September 1, 2020, unless earlier repurchased or converted, and bear interest of 2.00% per year payable semi-annually in arrears on March 1 and September 1, commencing on March 1, 2014. The Notes may be due and payable immediately in certain events of default.

The Notes are exchangeable for an initial exchange rate of 72.0929 shares of common stock per \$1,000 principal amount of the Notes (equivalent to an initial exchange price of approximately \$13.87 per share) subject to adjustments for anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company's stock and liquidation, consolidation or merger of the Company. According to the Indenture, a change in control occurs when a person or group becomes the beneficial owner directly or indirectly, of more than 50% of our common stock. In the case of a consolidation or merger, if the surviving entity continues to be listed, no change of control will be triggered. Prior to June 1, 2020, the Notes will be exchangeable under certain specified circumstances as described in the Indenture.

The Notes were issued at face value, resulting in net proceeds of approximately \$145.5 million after related offering expenses. In accounting for the Notes at issuance, we separated the Notes into debt and equity components according to the accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion. The carrying amount of the debt component, which approximates its fair value, was estimated by using an interest rate for nonconvertible debt, with terms similar to the Notes. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to the carrying value of the Notes over their term as interest expense using the interest method. The amount recorded to additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification. Upon issuance of the Notes, we recorded \$110.2 million as debt and \$39.8 million as additional paid-in capital in stockholders' equity.

We incurred transaction costs of approximately \$4.5 million relating to the issuance of the Notes. In accounting for these costs, we allocated the costs of the offering between debt and equity in proportion to the fair value of the debt and equity recognized in accordance with the applicable accounting guidance. The transaction costs allocated to the debt component of approximately \$3.3 million were recorded as deferred offering costs in other non-current assets and amortized as interest expense over the term of the Notes. The transaction costs allocated to the equity component of approximately \$1.2 million were recorded as a decrease of additional paid-in capital.

The net carrying amount of the liability component of the Notes consists of the following:

	<b>Year Ended</b>	
	<b>December</b>	<b>December</b>
	<b>28, 2014</b>	<b>29, 2013</b>
	<b>(in thousands)</b>	
Principal amount	\$ 150,000	\$ 150,000
Unamortized debt discount	(33,561 )	(38,267 )
Net carrying value	\$ 116,439	\$ 111,733

The following table presents the interest expense recognized on the Notes:

	<b>Year Ended</b>	
	<b>December</b>	<b>December</b>
	<b>28,</b>	<b>29, 2013</b>
	<b>2014</b>	
	<b>(in thousands)</b>	
Contractual interest expense at 2% per annum	\$2,983	\$ 1,044
Amortization of debt issuance costs	522	130
Accretion of debt discount	4,706	1,557
Total	\$8,211	\$ 2,731

### **Capped Calls**

In connection with the issuance of the Notes in fiscal 2013, we entered into capped call transactions with certain bank counterparties to reduce the potential dilution to our common stock upon exchange of the Notes. The capped call transactions have a strike price of approximately \$13.87 and a cap price of approximately \$18.14, and are exercisable when and if the Notes are converted. If upon conversion of the Notes, the price of our common stock is above the strike price of the capped calls, the counterparties will deliver shares of our common stock and/or cash with an aggregate value approximately equal to the difference between the price of our common stock at the conversion date (as defined, with a maximum price for purposes of this calculation equal to the cap price) and the strike price, multiplied by the number of shares of our common stock related to the capped call transactions being exercised. The capped call transactions expire on September 1, 2020. We paid \$15.4 million for these capped calls and recorded the payment as a decrease of additional paid-in capital.

***7.875% Senior Notes due 2017***

On November 9, 2010, Spansion LLC completed an offering of \$200 million aggregate principal amount of 7.875% Senior Notes due 2017. On August 26, 2013, we used proceeds from the issuance and sale of the Notes to repurchase \$105.9 million of the Senior Notes. On January 21, 2014, we redeemed the remaining approximately \$94.0 million aggregate principal amount outstanding of Senior Notes at a redemption price that was 103.938% , which, with accrued and unpaid interest, and repurchase premium, was an aggregate price of \$99.1 million.

**Liquidity and Capital Resources**

***Cash Requirements***

As of December 28, 2014 and December 29, 2013, we had the following cash and cash equivalents and short term investments:

	<b>December 28, 2014</b>	<b>December 29, 2013</b>
	<b>(in thousands)</b>	
Cash	\$247,271	\$282,163
Money market funds	435	3,906
Certificates of deposit	24,859	11,383
Time deposits	28,088	14,045
Total cash and cash equivalents and short-term investments	\$300,653	\$311,497

We believe our sources of cash and liquidity are sufficient to meet business requirements for the next 12 months, including capital expenditures and working capital requirements.

***Financial Condition (Sources and Uses of Cash)***

Our cash flows for fiscal 2014, fiscal 2013 and fiscal 2012 are summarized as follows:

	<b>Year Ended</b>		
	<b>December</b>	<b>December</b>	<b>December</b>
	<b>28,</b>	<b>29,</b>	<b>30,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>		
Net cash provided by operating activities	\$78,395	\$91,403	\$109,400
Net cash provided by (used in) investing activities	(82,920)	(164,891)	20,541
Net cash provided by (used in) financing activities	(29,750)	98,080	(60,946 )
Effect of exchange rate changes on cash	(1,729 )	(700 )	(1,668 )
Net increase (decrease) in cash and cash equivalents	\$(36,004)	\$23,892	\$67,327

***Net Cash Provided by Operating Activities***

Net cash provided by operations was \$78.4 million in fiscal 2014, and was primarily due to net loss of \$70.0 million, adjustments for non-cash items of \$139.4 million and an increase in operating assets and liabilities of \$9.0 million. The net increase in operating assets and liabilities was primarily due to \$41.5 million of decrease in accounts receivable and \$32.8 million of increase in accounts payable, accrued liabilities, accrued compensation, which was partially offset by \$56.6 million of increase in inventories and \$8.3 million increase in other assets.

Net cash provided by operations was \$91.4 million in fiscal 2013, and was primarily due to net loss of \$78.3 million, adjustments for non-cash items of \$96.9 million and an increase in operating assets and liabilities of \$72.7 million. The net increase in operating assets and liabilities was primarily due to an increase of \$106.7 million in accounts payable, accrued liabilities, accrued compensation and benefits and other liabilities and a decrease of \$30.5 million in inventory, which was partially offset by an increase of \$69.0 million in accounts receivable.

Net cash provided by operations was \$109.4 million in fiscal 2012, and was primarily due to net income of \$24.4 million, adjustments for non-cash items of \$102.2 million and a decrease in operating assets and liabilities of \$17.2 million. The net decrease in operating assets and liabilities was primarily due to the decrease of \$15.4 million in accounts payable, accrued liabilities, accrued compensation and benefits and other liabilities.

#### ***Net Cash Provided by (Used in) Investing Activities***

Net cash used in investing activities was \$82.9 million during fiscal 2014, primarily due to \$52.5 million used to purchase marketable securities and \$59.8 million of capital expenditures used to purchase property, plant and equipment, which were partially offset by \$27.4 million in proceeds from maturities of marketable securities.

Net cash used in investing activities was \$164.9 million during fiscal 2013, primarily due to \$150.0 million used for the acquisition of the MCA business, \$120.5 million used to purchase marketable securities and \$56.0 million of capital expenditures used to purchase property, plant and equipment, which were partially offset by \$146.8 million in proceeds from maturities of marketable securities.

Net cash provided by investing activities was \$20.5 million during fiscal 2012, primarily due to \$45.6 million from the sale of property, plant and equipment, \$112.5 million in proceeds from the redemption of marketable securities and \$1.1 million from the sale of auction rate securities, which were offset by \$42.3 million of capital expenditures used to purchase property, plant and equipment and \$96.3 million used to purchase marketable securities.

#### ***Net Cash Provided by (Used in) Financing Activities***



Net cash used in financing activities was \$29.8 million during fiscal 2014, primarily due to \$108.0 million of payments on financing arrangements, \$59.0 million of net proceeds from sale of Sunnyvale property and \$19.3 million proceeds from issuance of stock due to options exercised.

Net cash provided by financing activities was \$98.1 million during fiscal 2013, primarily due to \$150.0 million proceeds from issuance of the Notes and \$82.1 million proceeds from additional borrowing on Term Loan, which were partially offset by \$106.8 million used for partial purchase of the 7.875% Senior Notes and \$15.4 million used for purchase of capped call for the Exchangeable Senior Notes.

Net cash used in financing activities was \$60.9 million during fiscal 2012, primarily due to \$24.5 million for the purchase of bankruptcy claims, \$30.4 million of payments on financing arrangements, \$4.0 million for acquisition of a non-controlling interest and \$2.6 million refinancing cost on the Term loan and 2012 Revolving Credit Facility, offset by \$1.6 million of proceeds from the issuance of common stock upon the exercise of stock options.

#### **Off-Balance-Sheet Arrangements**

#### ***Indemnification Obligations***

During the normal course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include non-infringement of patents and intellectual property, indemnities to our customers in connection with the delivery, design, manufacture and sale of our products, indemnities to our directors and officers in connection with legal proceedings, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to other parties to certain acquisition agreements. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. We believe that substantially all of our indemnities and commitments provide for limitations on the maximum potential future payments we could be obligated to make. However, we are unable to estimate the maximum amount of liability related to our indemnities and commitments because such liabilities are contingent upon the occurrence of events, which are not reasonably determinable. Management believes that any liability for these indemnities and commitments would not be material to our accompanying consolidated financial statements.

We do not have any other significant off-balance sheet arrangements, as defined in Item 303(a) (4) (ii) of SEC Regulation S-K, as of December 28, 2014 or December 29, 2013.



**ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK**

Our exposure to market risk for changes in interest rates relates primarily to our cash deposits, invested cash and debt. As of December 28, 2014, we had \$247.3 million held in demand deposit accounts, \$0.4 million held in overnight money market funds, \$24.9 million invested in certificates of deposit most of which were insured by the FDIC and \$28.1 million held in time deposits. Our cash and short-term investment position is highly liquid. Of our total cash and short-term investments, approximately \$247.8 million have maturity terms of 0 to 30 days, \$2.3 million have maturity terms of 31 to 90 days, \$5.2 million have maturity terms of 91 to 180 days, and the remaining \$45.4 million have maturity terms of 181 to 365 days at the time of purchase. While our interest income fluctuates with short-term market conditions, we believe our exposure to interest rate risk is minimal due to the short term nature of our cash and investment position.

Interest on the Notes is fixed and interest on our Term Loan is at a variable rate. The Term Loan has a LIBOR floor of 0.75 percent. When LIBOR is below 0.75 percent, our interest expense will not change with movements in interest rate environment. When LIBOR is above 0.75 percent, changes in interest rates associated with the Term Loan will then result in a change to our interest expense. For example, a one percent aggregate change in interest rates would change our contractual interest expense by approximately \$2.9 million annually.

***Default Risk***

We intend to actively monitor market conditions and developments specific to the securities and security classes in which we invest. We take a conservative approach to investing our funds in that our policy is to invest only in highly-rated securities with relatively short maturities, and we do not invest in securities we believe involve a higher degree of risk.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 28, 2014 and comparable fair values as of December 29, 2013:

	2015	2016	2017	2018	2019	Thereafter	Total	2014 Fair Value	2013 Fair Value
	(in thousands, except for percentages)								
<b>Investment Portfolio</b>									

**Cash equivalents:**

Fixed rate amounts	\$250,065	\$-	\$-	\$-	\$-	\$-	\$250,065	\$250,065	\$286,069
Weighted-average interest rate	0.17	%	-	-	-	-	0.17	%	

**Short Term Investment:**

Fixed rate amounts	\$50,588	\$-	\$-	\$-	\$-	\$-	\$50,588	\$50,588	\$25,428
Weighted-average interest rate	0.14	%	-	-	-	-	0.14	%	

<b>Total Investment Portfolio</b>	\$300,653	\$-	\$-	\$-	\$-	\$-	\$300,653	\$300,653	\$311,497
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**Debt Obligations**

Debt—fixed rate amounts	\$-	\$-	\$-	\$-	\$-	\$150,000	\$150,000	\$377,250	\$270,912
Weighted-average interest rate	-	-	-	-	-	2.00	%	2.00	%
Debt—variable rate amounts	\$38,500	\$3,000	\$3,750	\$3,000	\$248,750	\$-	\$297,000	\$293,288	\$299,022
Weighted-average interest rate	3.75	%	3.75	%	3.75	%	3.75	%	3.75

<b>Total Debt Obligations</b>	\$38,500	\$3,000	\$3,750	\$3,000	\$248,750	\$150,000	\$447,000	\$670,538	\$569,934
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**Foreign Exchange Risk**

Our sales, expenses, assets and liabilities denominated in Japanese yen and other foreign currencies are exposed to foreign currency exchange rate fluctuations. For example,

- sales of our products to Fujitsu are denominated in U.S. dollars, Japanese yen and Euro; and
- some of our manufacturing costs are denominated in Japanese yen, and other foreign currencies such as the Thai baht and Malaysian ringgit;
- some of our operating expenses are denominated in Japanese yen.
- some fixed asset purchases and sales are denominated in other foreign currencies.

Consequently, movements in exchange rates could cause our net sales and our expenses to fluctuate, affecting our profitability and cash flows. We use foreign currency forward contracts to reduce our foreign exchange exposure on our foreign currency denominated assets and liabilities. We also hedge a percentage of our forecasted revenue denominated in Japanese yen with foreign currency forward contracts. The objective of these contracts is to mitigate impact of foreign currency exchange rate movements to our operating results on a short term basis. We do not use

these contracts for speculative or trading purposes.

We recognize derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in the intrinsic value of these cash flow hedges in accumulated other comprehensive loss on the Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to the appropriate revenue or expense line of the Consolidated Statement of Operations. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive loss to interest and other income (expense), net in our Consolidated Statements of Operations at that time.

We evaluate hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and record any ineffective portion of the hedging instruments in interest and other income (expense), net on our Consolidated Statements of Operations.

We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. However, we cannot assure you that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. In particular, we generally cover only a portion of our foreign currency exchange exposure. We cannot assure you that these activities will eliminate foreign currency exchange rate exposure. Failure to eliminate this exposure could have an adverse effect on our business, financial condition and results of operations.

The following table provides information about our foreign currency forward contracts as of December 28, 2014 and December 29, 2013:

	December 28, 2014			December 29, 2013		
	Notional Amount	Average Contract Rate Per USD	Estimated Fair Value	Notional Amount	Average Contract Rate Per USD	Estimated Fair Value
	(in thousands, except contract rates)					
<b>Non-Designated hedges</b>						
Buy JPY / Sell USD	\$ 2,044	¥ 120.35	\$ 0.2	\$ 28,232	¥ 104.31	\$ (226.0 )
Sell JPY / Buy USD	\$ 43,518	¥ 120.11	\$ 82.8	\$ 41,994	¥ 96.36	\$ 3,493.0
Sell EUR / Buy USD	\$ 35,879	€ 0.82	\$ 154.1	\$ 23,446	€ 0.73	\$ (87.0 )

**Designated hedges**

Buy JPY / Sell USD	\$ 28,023	¥ 107.05	\$ (3,088.3 )	\$ -	¥ -	\$ -
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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Spansion Inc.****Consolidated Statements of Operations**

(in thousands, except per share amounts)

	<b>Year Ended</b>		
	<b>December</b>	<b>December</b>	<b>December</b>
	<b>28,</b>	<b>29,</b>	<b>30,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net sales	\$1,251,855	\$971,690	\$915,932
Cost of sales	869,575	719,062	632,417
Gross Profit	382,280	252,628	283,515
Research and development	171,203	126,768	107,850
Sales, general and administrative	249,346	178,265	135,607
Net gain on sale of Kuala Lumpur land and building	-	-	(28,434 )
Restructuring charges	-	6,017	5,650
Operating income (loss)	(38,269 )	(58,422 )	62,842
Interest income and other, net	2,154	4,406	4,688
Interest expense	(24,196 )	(29,792 )	(30,147 )
Gain on Acquisition of Microcontroller and Analog Business	-	7,950	-
Income (loss) before income taxes	(60,311 )	(75,858 )	37,383
Provision for income taxes	(9,723 )	(2,410 )	(12,999 )
Net income (loss)	\$(70,034 )	\$(78,268 )	\$24,384
Less: Net income attributable to the noncontrolling interest	-	-	(503 )
Net income (loss) attributable to Spansion Inc. common stockholders	\$(70,034 )	\$(78,268 )	\$24,887
Net income (loss) per share:			
Basic	\$(1.15 )	\$(1.34 )	\$0.41
Diluted	\$(1.15 )	\$(1.34 )	\$0.41
Shares used in per share calculation:			
Basic	61,088	58,599	59,984
Diluted	61,088	58,599	61,021

**See Accompanying Notes to Consolidated Financial Statements**





**Spansion Inc.****Consolidated Statements of Comprehensive Income (Loss)****(in thousands)**

	<b>Year Ended</b>		
	<b>December</b>	<b>December</b>	<b>December</b>
	<b>28,</b>	<b>29,</b>	<b>30,</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$(70,034)	\$(78,268 )	\$ 24,384
Other comprehensive income (loss), net of tax:			
Net foreign currency translation gain (loss)	354	(1,350 )	(1,057 )
Gain (loss) on recovery from impaired investments	-	(1,200 )	1,200
Net unrecognized loss on the Defined Benefit Plan	(51 )	-	-
Net unrealized gain (loss) on cash flow hedges:			
Net unrealized hedge gain (loss) arising during the period	(7,623 )	15,714	741
Net gain reclassified into earnings for revenue hedges (ineffective portion)	-	(2,415 )	-
Net gain reclassified into earnings for cash flow hedges (effective portion)	(978 )	(13,298 )	(740 )
Net loss reclassified into earnings for expense hedges	10,029	-	-
Net unrealized gain on cash flow hedges	1,428	1	1
Other comprehensive income (loss), net of tax	1,731	(2,549 )	144
Total comprehensive income (loss)	\$(68,303)	\$(80,817 )	\$ 24,528
Less: Comprehensive income attributable to noncontrolling interest	-	-	(503 )
Comprehensive income (loss) attributable to Spansion Inc. common stockholders	\$(68,303)	\$(80,817 )	\$ 25,031

**See Accompanying Notes to Consolidated Financial Statements**

**Spansion Inc.****Consolidated Balance Sheets**

(in thousands, except par value and share amounts)

	<b>December 28, 2014</b>	<b>December 29, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$250,065	\$286,069
Short-term investments	50,588	25,428
Accounts receivable, net	136,863	177,838
Inventories	310,724	254,154
Deferred income taxes	7,102	4,592
Prepaid expenses and other current assets	63,167	52,756
Total current assets	818,509	800,837
Property, plant and equipment, net	199,395	185,505
Intangible assets, net	131,529	167,949
Goodwill	166,133	166,422
Other assets	59,606	60,208
Total assets	\$1,375,172	\$1,380,921
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	173,698	126,680
Accrued compensation and benefits	34,079	57,876
Accrued liabilities and other	145,143	86,352
Income taxes payable	1,361	4,651
Deferred income	35,283	30,247
Current portion of long-term debt	37,881	97,320
Total current liabilities	427,445	403,126
Deferred income taxes	5,343	3,675
Long-term debt, less current portion	372,296	404,612
Other long-term liabilities	41,404	32,048
Total liabilities	846,488	843,461
Commitments and contingencies (Note 21)	-	-
Stockholders' equity:		

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Capital stock:

Class A common stock, \$0.001 par value, 150,000,000 shares authorized, 62,585,032 shares issued and outstanding as of December 28, 2014 (58,882,949 as of December 29, 2013)	63	59
Class B common stock, \$0.001 par value, 1 share authorized, 0 share issued and outstanding as of December 28, 2014 (1 share issued and outstanding as of December 29, 2013)	-	-
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	-	-
Additional paid-in capital	806,916	747,393
Accumulated deficit	(275,993 )	(205,959 )
Accumulated other comprehensive loss (Note 6)	(2,302 )	(4,033 )
Total stockholders' equity	528,684	537,460
Total liabilities and stockholders' equity	\$1,375,172	\$1,380,921

**See Accompanying Notes to Consolidated Financial Statements**

**Spansion Inc.****Consolidated Statements of Cash Flows****(in thousands)**

	<b>Year Ended</b>		
	<b>December 28 2014</b>	<b>December 29 2013</b>	<b>December 30, 2012</b>
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$(70,034 )	\$(78,268 )	\$ 24,384
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	108,164	91,216	95,431
Costs relating to partial repurchase of 7.875% Senior Notes	1,137	2,280	-
Asset impairment charges	-	-	2,070
Provision (benefit) for deferred income taxes	(2,723 )	(4,985 )	5,889
Gain on pension assets	(2,494 )	-	-
Gain on sale of Kuala Lumpur land and buildings	-	-	(28,434 )
Net gain on sale and disposal of property, plant, and equipment	77	(3,082 )	(6,086 )
Gain on acquisition of microcontroller and analog business	-	(7,950 )	-
Gain on recovery from impaired investments	(1,834 )	(11,236 )	(1,059 )
Reserve reversal on final settlement of bankruptcy change	(3,205 )	-	-
Stock-based compensation	40,266	30,687	34,363
Changes in assets and liabilities, net of effect of acquisition			
Accounts Receivable	41,485	(68,957 )	2,528
Inventories	(56,570 )	30,529	(8,667 )
Prepaid expenses and other current assets	(2,106 )	7,274	2,301
Other assets	(8,304 )	(25,929 )	10,128
Accounts payable, accrued liabilities, and accrued compensation	32,773	106,665	(15,382 )
Income taxes payable	(3,310 )	2,037	981
Deferred income	5,073	21,122	(9,047 )
Net cash provided by operating activities	\$ 78,395	\$ 91,403	\$ 109,400
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of property, plant and equipment	\$ 209	\$ 3,206	\$ 45,635
Purchases of property, plant and equipment	(59,820 )	(56,002 )	(42,286 )
Proceeds from recovery of impaired investments	1,852	11,566	1,059
Business acquisition, net of cash acquired	-	(149,952)	-
Proceeds from redemption of marketable securities	27,369	146,840	112,467
Purchases of marketable securities	(52,530 )	(120,549)	(96,334 )

Net cash provided by (used in) investing activities \$(82,920 ) \$(164,891 ) \$ 20,541

**Cash Flows from Financing Activities:**

Additional borrowings on term loan, net of discount	\$-	\$82,117	\$-
Refinancing cost on Term Loan and Revolver	-	(416 )	(2,597 )
Payments on financing arrangements	(107,987)	(9,386 )	(30,390 )
Proceeds from issuance of 2.0% Senior Exchangeable Notes	-	150,000	-
Costs relating to issuance of 2.0% Senior Exchangeable Notes	-	(4,506 )	-
Purchase of capped call for the 2.0% Senior Exchangeable Notes	-	(15,375 )	-
Partial repurchase of 7.875% Senior Notes including costs	-	(106,779)	-
Acquisition of noncontrolling interest	-	-	(4,024 )
Proceeds from issuance of common stock, net of offering costs	19,263	2,693	1,588
Net proceeds from sale of Sunnyvale property	58,974	-	-
Cash settlement on hedging activities	-	(268 )	(1,073 )
Purchase of bankruptcy claims	-	-	(24,450 )
Net cash provided by (used in) financing activities	\$(29,750 )	\$98,080	\$(60,946 )
Effect of exchange rate changes on cash and cash equivalents	(1,729 )	(700 )	(1,668 )
Net increase (decrease) in cash and cash equivalents	(36,004 )	23,892	67,327
Cash and cash equivalents at the beginning of period	286,069	262,177	194,850
Cash and cash equivalents at end of period	\$250,065	\$286,069	\$ 262,177

**See Accompanying Notes to Consolidated Financial Statements**

## Spansion Inc.

## Consolidated Statements of Cash Flows

(in thousands)

	Year Ended		
	December 28, 2014	December 29, 2013	December 30, 2012
<b>Supplemental Cash Flows Disclosures:</b>			
Interest paid	\$ 15,354	\$ 26,477	\$ 30,904
Income taxes paid, net of refunds	\$ 21,039	\$ 7,761	\$ 7,016
<b>Non-cash investing and financing activities:</b>			
Liabilities recorded for purchase of property, plant & equipment	\$ 21,737	\$ 9,495	\$ 11,359
Liabilities relating to software license and intellectual property obligations	\$ -	\$ 17,572	\$ 5,623
Term Loan amendment	\$ -	\$ -	\$ 218,789

## Consolidated Statements of Stockholders' Equity

(in thousands)

	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Spansion Inc's Stockholders' Equity	Noncontrolling Interest	Total Equity (Deficit)
<b>Balance at December 25, 2011</b>	59,337	\$ 60	\$ 675,309	\$ (152,578 )	\$ (1,628 )	\$ 521,163	\$ 1,378	\$ 522,541
Net loss from December 26, 2011 to December 30, 2012	-	-	-	24,887	-	24,887	(503 )	24,384
Other comprehensive income	-	-	-	-	144	144	-	144
Acquisition of a variable interest entity	-	-	4,079	-	-	4,079	(875 )	3,204

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Vesting of RSUs	931	1	0	-	-	1	-	1
Exercise of options	132	0	1,387	-	-	1,387	-	1,387
Retirement of common stock	(3,133 )	(3 )	3	-	-	(0 )	-	(0 )
Stock-based compensation	-	-	34,363	-	-	34,363	-	34,363
Purchase of bankruptcy claims	-	-	(24,450 )	-	-	(24,450 )	-	(24,450 )
Other	-	-	200	-	-	200	-	200
<b>Balance at December 30, 2012</b>	<b>57,267</b>	<b>\$ 58</b>	<b>\$ 690,891</b>	<b>\$(127,691 )</b>	<b>\$ (1,484 )</b>	<b>\$ 561,774</b>	<b>\$ -</b>	<b>\$ 561,774</b>
Net loss from December 30, 2012 to December 29, 2013	-	-	-	(78,268 )	-	(78,268 )	-	(78,268 )
Other comprehensive loss	-	-	-	-	(2,549 )	(2,549 )	-	(2,549 )
Vesting of RSUs	1,739	1	(1 )	-	-	-	-	-
Exercise of options	279	-	2,693	-	-	2,693	-	2,693
Retirement of common stock	(402 )	-	-	-	-	-	-	-
Stock-based compensation	-	-	30,686	-	-	30,686	-	30,686
Issurance of 2.0% Senior Exchangeable Notes including costs	-	-	38,499	-	-	38,499	-	38,499
Purchase of capped calls	-	-	(15,375 )	-	-	(15,375 )	-	(15,375 )
<b>Balance at December 29, 2013</b>	<b>58,883</b>	<b>\$ 59</b>	<b>\$ 747,393</b>	<b>\$(205,959 )</b>	<b>\$ (4,033 )</b>	<b>\$ 537,460</b>	<b>\$ -</b>	<b>\$ 537,460</b>
Net loss from December 29, 2013 to December 28, 2014	-	-	-	(70,034 )	-	(70,034 )	-	(70,034 )
Other comprehensive income	-	-	-	-	1,731	1,731	-	1,731
Vesting of RSUs	2,280	2	(2 )	-	-	-	-	-
Exercise of options	1,551	2	19,262	-	-	19,264	-	19,264
Costs related to the issuance of 2.0% Senior Exchangeable Notes	-	-	(3 )	-	-	(3 )	-	(3 )
Retirement of common stock	(129 )	-	-	-	-	-	-	-
Stock-based compensation	-	-	40,266	-	-	40,266	-	40,266
<b>Balance at December 28, 2014</b>	<b>62,585</b>	<b>\$ 63</b>	<b>\$ 806,916</b>	<b>\$(275,993 )</b>	<b>\$ (2,302 )</b>	<b>\$ 528,684</b>	<b>\$ -</b>	<b>\$ 528,684</b>

See Accompanying Notes to Consolidated Financial Statements





**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

**1. *Basis of Presentation***

The accompanying consolidated financial statements of Spansion Inc. (“the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the SEC. The Company operates on a 52- to 53-week fiscal year ending on the last Sunday in December. Fiscal 2014, fiscal 2013 and fiscal 2012 are comprised of 52-week, 52-week and 53-week periods, respectively. The additional week in a 53-week fiscal year is added to the second quarter to realign the Company’s fiscal quarters more closely to calendar quarters.

**2. *Significant Accounting Policies***

***Principles of Consolidation***

The consolidated financial statements include all the accounts of the Company and those of its wholly owned subsidiaries, and all intercompany accounts and transactions have been eliminated.

On August 8, 2011, the Company entered into a design services and purchase option agreement with a private semiconductor company, which was determined to be a variable interest entity of which the Company was the primary beneficiary because the Company had the power to direct the activities of the entity through the arrangements. On April 1, 2012, the Company acquired substantially all assets and assumed certain liabilities of the VIE under an asset purchase agreement and the entity ceased to be a VIE as of the acquisition date.

On August 1, 2013, the Company acquired the Microcontroller and Analog (MCA) business of Fujitsu Semiconductor Limited (FSL). The consolidated financial statements include the results of operations of the Company, the MCA business commencing as of the acquisition date and all of the Company’s other wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

***Use of Estimates***

The preparation of the Company's consolidated financial statements and disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of commitments and contingencies and the reported amounts of revenues and expenses during the reporting periods. Estimates are used to account for the fair value of assets acquired and liabilities assumed on acquisition, marketable securities, revenue adjustments, the allowance for doubtful accounts, inventory write-downs, valuation of acquired intangible assets, impairment of long-lived assets, legal contingencies, income taxes, stock-based compensation, the fair value of long-term debt, product warranties and pension related liabilities. Actual results may differ from those estimates, and such differences may be material to the Company's consolidated financial statements.

### ***Cash Equivalents***

Cash equivalents consist of financial instruments that are readily convertible into cash and have remaining maturities of three months or less at the time of purchase.

### ***Allowance for Doubtful Accounts***

The Company maintains an allowance for doubtful accounts based on a variety of factors, including the length of time the receivable is past due, historical experience and the financial condition of customers.

### ***Inventories***

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

**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

***Revenue Recognition***

The Company recognizes revenue from product sales to OEMs when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, fixed or determinable pricing and when collectability is reasonably assured. The Company records an allowance for estimated customer returns based on historical experience.

The Company sells directly to distributors under terms that provide for rights of return, stock rotation and price protection guarantees. Since the price is not fixed and determinable, we are unable to estimate the returns under the stock rotation rights and price protection to its distributors and the company therefore defers the recognition of revenue and related product costs on these sales as deferred income until distributors submit point of sales report. The Company also sells some of its products to certain distributors under sales arrangements that do not allow for rights of return or price protection on unsold products. The Company recognizes revenue on these sales when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, fixed or determinable pricing and when collectability is reasonably assured. The related costs of sales were recognized concurrent with revenue recognition.

The Company recognizes revenue net of sales taxes, value-added taxes, and transaction taxes directly imposed by governmental authorities on the Company's revenue producing transactions with its customers. The Company includes shipping costs related to products shipped to customers in cost of sales.

The Company has previously licensed its patents to other companies and intends to do so in the future. The terms and conditions of license agreements are highly negotiated and can vary significantly. Generally, however, when a license agreement requires the payment of royalties to the Company, fixed payment amounts are recognized on the date they become due. For other royalty agreements, revenue is recognized based on notification of the related sales from the licensees.

***Property, Plant and Equipment***

Depreciation and amortization are provided on a straight-line basis over the existing useful lives of the assets. Leasehold improvements are amortized over the shorter of the remaining terms of the lease or the estimated economic

useful life of the improvements. Estimated useful lives for property, plant and equipment are as follows:

Machinery and Equipment (including software)	2 to 7 years
Building and building improvements	5 to 26 years

### ***Goodwill***

Goodwill represents the allocated enterprise value in connection with fresh start accounting and the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired in a business combination. In accordance with the accounting guidance, goodwill amounts are not amortized, but rather are tested for impairment at the reporting unit level at least annually, or more frequently if there are indicators of impairment present. The Company concluded impairment should be evaluated at the single entity-wide level. Refer to Note 9 for more information.

### ***Intangible Assets***

Intangible assets other than In-Process Research and Development (IPR&D) include developed technology, customer relationships, trade names and trademarks, which are amortized on a straight-line basis over periods based on their estimated lives. See Note 9 for further details. If an IPR&D project is completed, the carrying value of the related intangible asset is amortized over the remaining estimated life of the asset beginning in the period in which the project is completed and sales of related product commenced.

### ***Impairment of Long-Lived Assets including Acquisition-Related Intangible Assets***

The Company considers quarterly whether indicators of impairment of long-lived assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset, significant changes in the extent or manner in which an asset is used or an adverse change in the Company's overall business climate. If these or other indicators are present, the Company tests for recoverability of the asset group. If the Company determines that the asset group is not recoverable, the Company will recognize an impairment loss based on the excess of the carrying amount of the assets over its fair value. Fair value is determined by discounted future cash flows, appraisals or other methods.

**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

***Foreign Currency Translation/Transactions***

The functional currency of the Company and its foreign subsidiaries except for Spansion International Trading Inc. and Nihon Spansion Limited is the U.S. dollar. Adjustments resulting from re-measuring foreign currency denominated transactions and balances of these subsidiaries, other than Spansion International Trading Inc. and Nihon Spansion Limited, into U.S. dollars are included in the Consolidated Statements of Operations. Adjustments resulting from translating the foreign currency financial statements of Nihon Spansion Limited, for which the functional currency is the Japanese yen, into the U.S. dollar reporting currency were included as a separate component of accumulated other comprehensive loss. Gains or losses resulting from transactions denominated in currencies other than the functional currencies of the Company and its subsidiaries are recorded in interest and other income (expense), net.

***Research and Development Expenses***

The Company expenses research and development costs in the period in which such costs are incurred.

***Advertising Expenses***

Advertising costs are expensed as incurred and were immaterial for fiscal 2014, 2013 and 2012.

***Net Income (Loss) per Share***

Basic net income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by using the weighted average number of common shares outstanding during the period, increased to include the number of additional shares of common stock that would have been outstanding if the shares of common stock underlying the Company's outstanding dilutive stock options, RSUs and other similar equity instruments had been issued. The dilutive effect of outstanding options and Restricted Stock Units (RSUs) is reflected in diluted net

income (loss) per share by application of the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

On August 26, 2013, Spansion LLC issued \$150.0 million of the 2.0% Senior Exchangeable Notes (the Notes) in a private placement. The Notes can be settled either by cash or shares of common stock of the Company, or a combination of both at the discretion of the Company. The potential dilutive impact of the Notes is computed using the if-converted method. The if-converted method is used for convertible securities that have a potential for sharing in earnings as common stock. Thus, the interest expense less income tax effects applicable to the Notes are not recognized in net income (loss) to determine basic and diluted net income (loss) per share and the weighted-average number of shares is adjusted to reflect the assumed conversion as of the beginning of the year or actual date of issuance if later.

**Spansion Inc.****Notes to Consolidated Financial Statements – (Continued)**

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

	<b>Year Ended</b>		
	<b>December 28, 2014</b>	<b>December 29, 2013</b>	<b>December 30, 2012</b>
	<b>(in thousands except for per-share amounts)</b>		
Numerator:			
Net income (loss)	\$(70,034)	\$(78,268)	\$ 24,887
Denominator:			
Denominator for basic net income per share, weighted average shares	61,088	58,599	59,984
Effect of dilutive securities:			
Weighted average diluted options	-	-	1
Weighted average unvested RSU's, key executive RSU's	-	-	1,036
Denominator for diluted net income per share, weighted average shares	61,088	58,599	61,021
Net income (loss) per share:			
Basic net income (loss) per share	\$(1.15)	\$(1.34)	\$ 0.41
Diluted net income (loss) per share	\$(1.15)	\$(1.34)	\$ 0.41
Potentially dilutive shares excluded from the diluted income per share computation because their effect would have been anti-dilutive			
- RSUs and Options	7,752	5,037	7,530
- Conversion of the Notes	10,814	3,714	-

***Income Taxes***

In determining taxable income for financial statement reporting purposes, the Company makes estimates and judgments. These estimates and judgments are applied in the calculation of specific tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.



The Company assesses the likelihood that it will be able to recover its deferred tax assets. Unless recovery of these deferred tax assets is considered more likely than not, the Company increases its provision for taxes by recording a charge to income tax expense, in the form of a valuation allowance against those deferred tax assets for which the Company does not believe it is more likely than not they will be realized. The Company considers past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

In addition, the calculation of the Company's tax liabilities involves the application of complex tax rules and the potential for future adjustments by the relevant tax jurisdiction. If the Company's estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result.

In determining the financial statement effects of an unrecognized tax position, the Company determines when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. In this determination, the Company assumes that the position will be examined by a taxing authority that has full knowledge of all relevant information, and will be resolved in the court of last resort. The more likely than not recognition threshold means that no amount of tax benefits may be recognized for a tax position without a greater than 50% likelihood that it will be sustained upon examination.

### ***Stock-Based Compensation***

Stock-based compensation is determined on the grant date based on the fair value of the award and is recognized as expense over the requisite service period.

The fair value of stock option and ESPP awards is estimated at the grant date using the Black-Scholes option valuation model. The Black Scholes options valuation, requires the use of inputs like expected volatility, expected term, expected dividend yield, and expected risk-free rate of return. The Company's expected volatility is based on the historical volatility of its traded stock. For stock options granted in fiscal 2013 and fiscal 2012, since the Company did not have sufficient history, the Company also used the volatilities of competitors with similar characteristics, who were in the same industry sector (guideline companies). Similarly, the Company used the simplified calculation of expected term as it does not have sufficient historical exercise data. If it determines that other methods to estimate expected volatility or expected life were more reasonable, or if other methods for calculating these input assumptions were prescribed by authoritative guidance, the fair value calculated for stock-based awards could change significantly.

**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

The fair value of RSUs, key executive RSUs and PSUs issued in the fourth quarter of fiscal 2014, is based on the market value of the Company's common stock on the date of grant. For key executive RSUs, the recognition as expense is determined based upon management's estimate of the probability and timing for achieving the associated performance criteria. Stock-based compensation for performance-related awards is recognized over the estimated performance period, which may vary from period to period based upon management's estimates of achievement and the timing to achieve the related performance goals. These awards vest once the performance criteria are met.

The fair value of the performance-based restricted stock awards (PSUs) other than those issued in the fourth quarter of fiscal 2014 is estimated using a Monte Carlo simulation to simulate a range of our possible future stock prices and the other companies in the Company's peer group. The simulation requires assumptions for expected volatilities and correlation coefficients of each entity, risk-free rate of return, and dividend yield. Expected volatilities are based on the Company's historical volatilities over a period equal to the length of the measurement period and the other companies in the peer group. Correlation coefficients are based on the same data used to calculate historical volatilities and are used to model how each entity's stock price moves in relation each of the other companies included in the peer group. Dividends are assumed to be reinvested in the issuing entity over the measurement period, equating to a zero percent dividend yield for us and the other companies in the Company's peer group.

The Company estimates forfeitures based on historical experience related to its own stock-based awards granted. The Company anticipates that these estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

***Employee Benefit Plans***

The Company sponsors a number of defined contribution plans worldwide and a defined benefit pension plan in Japan. On April 1, 2014, the Company set up the Spansion Innovates Group Cash Balance Plan (a defined benefit plan), for the employees transferred as part of the MCA business acquired in fiscal 2013. Defined benefit pension plans are accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the Japanese corporate bonds yield curve as of end of the fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if

actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO. If the amount of a net gain or loss does not exceed the corridor amount, they will be recorded. See Note 14 for further details on the pension plans.

### *Fair Value*

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

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

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

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

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. When observable prices are not available, the Company either uses implied pricing from comparable companies or valuation models based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those it believes market participants would use in pricing the asset or liability at the measurement date. Please see Note 16 for further details on fair value measurement.



**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

*Estimates relating to Litigation Reserve / Settlements*

The Company's litigation reserve policy requires it to record an estimate for litigation expenses that will be incurred to defend it over the course of a reasonable period of time. Currently, this is estimated at twelve months. Judgment is necessary to estimate these costs and an accrual is made when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard update that provides for a new single revenue accounting model that will replace existing revenue recognition guidance. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The guidance becomes effective in the first quarter of the Company's fiscal year ending December 31, 2017. The Company will have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard update. The Company is evaluating the impact that the standard update will have on its consolidated financial statements.

In August 2014, the FASB issued an accounting standard update relating to management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and on the related disclosures. The update requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. The guidance is effective in the interim and annual periods beginning after December 15, 2016, with early application permitted. The adoption of this update is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

**3. Proposed Merger with Cypress Semiconductor Corporation**

On December 1, 2014, the Company entered into an Agreement and Plan of Merger and Reorganization, dated as of December 1, 2014, by and among Cypress Semiconductor Corporation, Mustang Acquisition Corporation (Merger

Agreement). In accordance with the Merger Agreement, each share of common stock of Spansion, par value \$0.001 per share will be converted into the right to receive 2.457 shares of common stock, par value \$0.01 per share of Cypress subject to the calculation adjustments specified in the agreement. Cypress will assume all outstanding options to purchase shares of the Spansion common stock, Spansion restricted stock units, and Spansion performance stock units. Upon completion of the proposed merger, shares of Spansion common stock will cease trading on the New York Stock Exchange or any other stock exchange or quotation system. Shares of Cypress Common Stock are listed on the Nasdaq Global Select Market. The merger is expected to close in the first half of fiscal 2015, subject to customary closing conditions, including approval by Spansion and Cypress stockholders.

During the fiscal year ended December 28, 2014, the Company incurred \$4.1 million of merger costs which has been recorded in the sales, general and administrative expense line of the Consolidated Statements of Operations.

#### **4. Acquisition**

On August 1, 2013, the Company acquired the MCA business of FSL for purchase consideration of \$158.5 million, (\$150.0 million, net of cash acquired). Pursuant to the terms and conditions of a Stock Purchase Agreement with FSL, the Company acquired certain subsidiaries and assets and assumed certain liabilities of FSL for purposes of acquiring FSL's business of designing, developing, marketing and selling microcontroller and analog semiconductor products.

**Spansion Inc.****Notes to Consolidated Financial Statements – (Continued)**

The table below represents the final allocation of the purchase price to the net assets acquired based on their estimated fair values as of August 1, 2013:

	<b>Fair Values</b> (\$ in thousands)
Cash	8,595
Restricted cash	23,923
Accounts receivable	1,534
Inventory	104,300
Property and equipment, net	12,143
Intangible Assets	
Developed technology	
Automotive microcontrollers	10,500
Consumer microcontrollers	5,900
Analog	12,700
In-Process technology	500
Customer relationships	18,800
Trademarks	2,700
Tradenames	1,400
Deferred tax liability	(3,739 )
Japan Pension related underfunded liability	(23,923 )
Japan employees compensation and benefits liability	(8,840 )
Gain on acquisition of Microcontroller and Analog business	(7,950 )
Total Purchase Consideration	158,543

There were no changes in fiscal 2014 to the allocation of purchase price to the net assets acquired under the MCA business.

***Gain on acquisition***

The accounting guidance requires that an economic gain resulting from the fair value received being greater than the consideration paid to acquire the net assets be recorded as a one-time gain included in earnings on the acquisition date. The Company recorded a gain on acquisition of \$8.0 million in fiscal 2013, which is disclosed as a separate line in the accompanying Consolidated Statement of Operations.

The Company was able to acquire the MCA business for less than the sum of the fair value of its net assets largely as a result of its long-standing and on-going relationship with FSL, including the existing and future distribution and supply agreements and synergies between the Company's core flash memory business, the MCA business and Fujitsu's continuing business in the semiconductor space. Additionally, the Company believes there is a significant difference in the market participant approach it used to value the business compared to the way Fujitsu valued the business due to the differences in each company's method of running the business. Historically, Fujitsu operated the MCA business as a fully integrated manufacturer owning substantially all of the manufacturing facilities in the supply chain. In recent years while at Fujitsu, the high fixed cost nature of this business model contributed to its substantial losses. The Company, conversely, valued the business using the income approach based on an outsourced business model where the Company mainly incurs only the variable cost of manufacturing in sourcing products for the MCA business going forward.

### *Identifiable intangible assets*

Developed technology relates to FSL's automotive microcontroller, consumer microcontroller and analog technologies that have reached technological feasibility. Developed technology was valued at the individual product level under each of these categories. The income approach, specifically the multi-period excess earnings method, which calculates the value based on the risk-adjusted present value of the cash flows specific to the products, net of all contributory asset returns was used. The estimated economic lives of the underlying developed technologies were based on the estimated product lifecycles of the current automotive, consumer, and analog products. A discount rate of 24.0% was used to discount the cash flows to the present value.

In-process research and development (IPR&D) relates to research and development for products that have not yet reached technological feasibility. A discount rate of 26.0% was used to value the research and development projects, adjusted to reflect additional risks inherent in the acquired projects. Acquired IPR&D assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. Accordingly, during the development period after the acquisition date, these assets will be subject to periodic impairment testing. All IPR&D projects reached technological feasibility as of December 28, 2014 and was reclassified into developed technology.

Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers of the MCA business. As a result of the acquisition, the Company entered into an agreement with Fujitsu for the distribution of its microcontroller and analog products in Japan and acquired several non-Japan customer relationships. Customer relationships were valued using the with-and-without-method, a form of the income approach, which captures the opportunity cost associated with the theoretical loss of customers existing as of the valuation date. The method involves a comparison of the cash flows as if the customer relationships were in place versus as if the customer relationships were to be created "from scratch". This method also assumes that all other assets, know-how and technology were easily available in both scenarios.





Product trademarks and trade names are considered a type of guarantee of a certain level of quality or performance. A well-recognized mark or name is an intangible asset that may have considerable value to the Company. As a result of the acquisition of Fujitsu's MCA business, the Company was assigned the right to utilize certain product trademarks. In addition to the product trademarks assigned, the Company was also allowed to use the Fujitsu trademark for a transitional period of 6 months. The product trademarks and royalty-free right to use the Fujitsu name were valued using the Relief-from-Royalty Method of the Income approach. This method is based on the assumption that in lieu of ownership, a market participant would be willing to pay a royalty in order to exploit the related benefits of this asset.

Customer relationships, trademarks and trade names were fair valued using a discount rate of 24.0%. The estimated fair values of these intangibles will be amortized on a straight line basis.

#### ***Liability for employees related pension obligations***

The majority of the transferred employees were participants in the Fujitsu Corporate Pension Fund and Retirement Allowance Plan (together, the Pension Plan). The Pension Plan had underfunded liabilities as of August 1, 2013 which the Company assumed, pursuant to a cash transfer by FSL for the total amount of such obligation. The liabilities and related cash transfer amount were determined based on the estimated present value of the projected defined-benefit obligation less the estimated fair value of Pension Plan assets at August 1, 2013 that were allocated from the Fujitsu Pension Plan for the transferred employees in accordance with the terms of the Stock Purchase Agreement (SPA). This SPA provides that such cash transferred will not be used by the Company for any purposes other than to pay benefits to the transferred employees. As a result, this cash is treated as restricted cash and is recorded in Other Current Assets and the underfunded liabilities are recorded under Accrued Compensation and Benefits in the Consolidated Balance Sheet. The Company accounted for the Pension Plan under the multi-employer accounting rules until March 30, 2014. Please see Note 14 for further details on the pension obligations.

#### ***Other liabilities assumed as part of the acquisition***

The Company assumed certain other liabilities of \$8.8 million relating to employee compensation and benefits mainly relating to Japan for which FSL provided cash in the same amount.

#### ***Pro Forma consolidated results of operations for fiscal 2013***

The following unaudited pro forma consolidated results of operations for the years ended December 29, 2013 and December 30, 2012 assumes the acquisition had occurred as of December 26, 2011. The pro forma results of

operations are presented for informational purposes only and are not indicative of the results of operations that would have been achieved if the acquisition had taken place on December 26, 2011 or of results that may occur in future. For the purpose of this pro forma financial information, adjustments were made to include the depreciation of the acquired property and equipment, the amortization of the acquired intangible assets and the income tax effects relating to such adjustments. Adjustments were also made to exclude the gain on acquisition, acquisition related costs, amortization of the fair market value of inventory markup and the income tax effects relating to such adjustments for the fiscal year ended December 29, 2013 and to include these items for the fiscal year ended December 30, 2012:

	<b>Year Ended</b>	
	<b>December</b>	<b>December</b>
	<b>29, 2013</b>	<b>30, 2012</b>
	<b>(in thousands, except per share amounts)</b>	
Net sales	\$1,261,221	\$1,518,020
Net loss	\$(178,115 )	\$(227,079 )
Net loss		
Basic	(3.04 )	(3.79 )
Diluted	(3.04 )	(3.79 )

**Spansion Inc.**

**Notes to Consolidated Financial Statements – (Continued)**

The MCA business contributed net sales of \$222.8 million from acquisition date of August 1, 2013 through December 29, 2013. It is impracticable to determine the earnings for the MCA business as the Company does not allocate non-operating items to its various product groups.

**5. Balance Sheet Components**

	<b>December 28, 2014</b>	<b>December 29, 2013</b>
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**Cash and cash equivalents**