



OBJECTIVE ANALYSIS

Semiconductor Market Research

OBJECTIVE ANALYSIS ALERT!

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SPANSION FILES FOR CHAPTER 11 PROTECTION

On March 1st Spansion announced that it has filed for Chapter 11 bankruptcy protection with a plan that is: “designed to restructure its burdensome debt obligations and intensify its focus on market segments with greater profit potential.”

Those who read our Alert dated February 2 understood that this step was likely to come. The company announced in mid-January that certain debts were not to be paid on time, triggering a 30-day “Cure Period” that should have ended mid-February. We are told that one possible outcome of this would be the company’s filing for bankruptcy protection

How Did They Get Here?

Spansion’s woes can be blamed more upon the current memory market overcapacity than upon the global economic meltdown. Oddly enough, the leading NOR makers are suffering because of an oversupply of a completely different technology: NAND flash.

How does NAND compete with NOR? Camera phones are the key market for high-density NOR flash. Camera phones can be designed either to use a large NOR to store both the phone’s firmware and the camera’s pictures, or to use a small NOR for firmware teamed up with a NAND for pictures. Some designs are even converting to NAND alone. Unless the high-density NOR is sold at a very low price, today’s cheap NAND is likely to capture the bulk of the design’s flash revenues.

Starting in 2007, a very significant NAND oversupply developed and NAND prices began a steep slide. One gigabyte of NAND today sells for only about 10% of the price it commanded in the middle of 2007. NAND’s price slide is dragging down high-density NOR prices, vacuuming all the profit out of the market for the two leaders.

Then, something worse happened. In the fourth quarter a decline in end-user demand caused NOR unit shipments to plunge. In all prior years NOR unit shipments have followed a cycle, with quarterly increases from Q1-Q4 before a seasonal drop-off in the first quarter. Last year NOR unit shipments collapsed in the fourth quarter to a level not seen since early 2005.

The combination of oversupply-driven price pressure with a demand fall-off caused a “Perfect Storm” for a NOR manufacturer, driving Spansion into an untenable position.

What is Likely to Happen from Here?

Spansion tells us that the company is examining three basic alternatives.

1. A merger with another company. Likely candidates could be a memory chip maker, some other kind of semiconductor company (like, perhaps, a cell phone chip maker), or even an OEM.
2. Re-working the company into a new Spansion with: “a sustainable and financially viable business model”
3. Getting additional financing options. This would be a stepping stone to render Spansion more appealing for either of the two above alternatives.

Spansion is very careful to reassure that there are no plans for the company to be liquidated. Spansion is the market share leader in NOR, and the loss of the company would be devastating both to the NOR business and to Spansion’s customers. The company is simply using the protection offered by US bankruptcy laws to find a better business model that will see it through the current downturn.

The company believes that it has passed the most difficult part of this process with the restructuring that resulted in a reduction in force (or lay-off) of 3,000 of Spansion’s employees. Spansion tells us that this step allows the company to continue to satisfy their customers’ needs while conserving cash.

Spansion has eliminated or postponed projects that have no near-term return, directing their focus on the “here and now” rather than the long term. The company tells us that it is now groomed to survive the current downturn even if it lasts into 2010.

“Wait and See”

Spansion has not given any time table indicating when the company hopes to emerge from the protection of its Chapter 11 filing. We will have to wait and see how this will turn out. Objective Analysis believes that the timing and the outcome will be determined by the world’s current economic malaise, and we are unable to predict the end of that situation.

As we stated in our last Alert, we understand that this is a very difficult time for all NOR companies, and especially for Spansion and we extend our wishes for success to all current and former Spansion employees during this time of great uncertainty.

Jim Handy
+1 (408) 356-2549
Objective Analysis
PO Box 440
Los Gatos, CA 95031-0440
USA
www.Objective-Analysis.com