

Spansion Inc.
Form 10-Q
November 01, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2010

OR

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

For the transition period from to

Commission File Number 001-34747

SPANSION INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: Spansion Inc. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3898239
(I.R.S. Employer
Identification No.)

915 DeGuigne Drive
Sunnyvale, California
(Address of principal executive offices)

(408) 962-2500
94085
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Edgar Filing: Spansion Inc. - Form 10-Q

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on October 27, 2010:

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

Table of Contents

Table of Contents

INDEX

	Page No.
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three and Nine Months Ended September 26, 2010 and September 27, 2009</u>	3
<u>Condensed Consolidated Balance Sheets September 26, 2010 and December 27, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended September 26, 2010 and September 27, 2009</u>	5
<u>Condensed Consolidated Statements of Stockholder s Equity (Deficit) September 26, 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	55
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	56
Item 1A. <u>Risk Factors</u>	58
Item 6. <u>Exhibits</u>	72
<u>Signature</u>	73

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Spansion Inc.****Condensed Consolidated Statements of Operations****(in thousands, except per share amounts)****(Unaudited)**

	Successor⁽¹⁾		Predecessor⁽¹⁾		Predecessor⁽¹⁾
	Three Months ended		Three Months ended		Period from
	September 26, 2010		September 27, 2009		May 11, 2010 to September 26, 2010
	\$		\$		\$
Net sales	307,594		245,246		432,163
Net sales to related parties			82,332		4,801
Total net sales	307,594		327,578		436,964
Cost of sales (Note 8)	276,838		234,952		388,251
Research and development (Note 8)	26,246		28,281		39,666
Sales, general and administrative	59,948		36,820		78,207
Restructuring charges (credits)			7,492		(2,772)
Operating income (loss) before reorganization items	(55,438)		20,033		(69,160)
Interest and other income (expense), net	1,378		532		1,742
Interest expense ⁽²⁾	(9,124)		(9,199)		(14,001)
Gain on deconsolidation of subsidiary					
Gain (loss) before reorganization items and income taxes	(63,184)		11,366		(81,419)
Reorganization items			(9,348)		
Income (loss) before income taxes	(63,184)		2,018		(81,419)
Provision for (benefit from) income taxes	1,670		518		1,649
Net income (loss)	\$ (64,854)		\$ 1,500		\$ (83,068)
Net income (loss) per share					

Edgar Filing: Spansion Inc. - Form 10-Q

Basic	\$	(1.09)	\$	0.01	\$	(1.40)	\$	2.24	\$	(3.21)
Diluted	\$	(1.09)	\$	0.01	\$	(1.40)	\$	2.24	\$	(3.21)

Shares used in per share calculation

Basic	59,271	162,090	59,271	162,439	161,717
Diluted	59,271	173,925	59,271	162,610	161,717

- (1) Please refer to Notes 2 and 3 for explanation of basis of Successor and Predecessor presentation.
- (2) Contractual interest expense for the three and nine months ended September 27, 2009 was approximately \$21.1 million and \$69.1 million, respectively.

See accompanying notes

Table of Contents**Spansion Inc.****Condensed Consolidated Balance Sheet****(in thousands)****(Unaudited)**

	Successor September 26, 2010	Predecessor December 27, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 329,681	\$ 324,903
Auction rate securities		100,335
Accounts receivable	147,839	129,174
Accounts receivable from related parties		366,602
Allowance for doubtful accounts	(254)	(56,408)
Accounts receivables, net	147,585	439,368
Inventories	180,827	141,723
Deferred income taxes	3,298	13,332
Prepaid expenses and other current assets	45,096	49,533
Total current assets	706,487	1,069,194
Property, plant and equipment, net	288,643	322,710
Intangible assets, net	202,083	1,330
Goodwill	163,359	
Other assets	42,906	44,743
Total assets	\$ 1,403,478	\$ 1,437,977
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Short term note	\$	\$ 64,150
Accounts payable	104,029	16,979
Accounts payable to related parties (<i>Note 8</i>)		221,211
Accrued compensation and benefits	36,655	21,630
Other accrued liabilities	147,041	129,160
Deferred income	21,779	62,958
Current portion of long-term debt	13,419	
Income taxes payable	18,562	83
Total current liabilities	341,485	516,171
Deferred income taxes	13,488	13,405
Long-term debt, less current portion	444,870	
Other long-term liabilities	11,105	9,825
Total long-term liabilities	469,463	23,230
Liabilities subject to compromise		1,756,269

Edgar Filing: Spansion Inc. - Form 10-Q

Total liabilities	810,948	2,295,670
Stockholders' equity (deficit)		
Old Class A common stock, \$0.001 par value, 714,999,998 shares authorized, 162,291,633 shares issued and outstanding		162
New Class A common stock, \$0.001 par value, 150,000,000 shares authorized, 59,270,916 shares issued and outstanding	59	
New Class B common stock, \$0.001 par value, 1 share authorized, 1 share issued and outstanding		
New preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding		
Additional paid-in capital	678,750	2,484,320
Accumulated deficit	(83,068)	(3,342,370)
Accumulated other comprehensive income	(3,211)	195
Total stockholders' equity (deficit)	592,530	(857,693)
Total liabilities and stockholders' equity (deficit)	\$ 1,403,478	\$ 1,437,977

See accompanying notes

Table of Contents**Spansion Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

	Successor Period from May 11, 2010 to September 26, 2010	Nine Months Ended September 26, 2010 Predecessor Period from December 28, 2009 to May 10, 2010	Predecessor Nine Months Ended September 27, 2009
Cash Flows from Operating Activities:			
Net income (loss)	\$ (83,068)	\$ 363,624	\$ (518,388)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	82,591	43,788	140,288
Provision for doubtful accounts	260	7,229	18,477
Provision (benefit) for deferred income taxes	(4,637)	7,000	12
Gain on sale and disposal of property, plant and equipment, net	(1,542)	(2,107)	(1,372)
Compensation recognized under equity incentive plans	4,809	7,052	10,443
(Gain) loss from approved settlement of rejected capital leases and various licenses		(22,517)	3,090
Gain on sale of Suzhou plant	(3,701)	(5,224)	(784)
Gain on deconsolidation of subsidiary			(30,100)
Gain on discharge of pre-petition obligations		(434,046)	
Impairment of investments		3,011	
Write-off of financing costs for old debts		13,022	
Amortization of inventory fresh-start markup	67,666		
Changes in operating assets and liabilities, net of effects of deconsolidation of subsidiary and acquisition:			
Decrease (increase) in accounts receivable	(8,803)	10,156	(180,852)
(Increase) decrease in inventories	42,411	(7,242)	185,096
(Increase) in prepaid expenses and other current assets	(8,504)	(3,894)	(10,858)
Decrease (increase) in other assets	1,087	1,534	(7,998)
(Decrease) increase in accounts payable, accrued liabilities and accrued compensation and benefits	(38,551)	23,213	555,035
(Decrease) increase in deferred income	7,267	(3,240)	16,000
Net cash provided by operating activities	57,285	1,359	178,089
Cash Flows from Investing Activities:			
Proceeds from sale of property, plant and equipment	15,716	9,620	845
Purchases of property, plant and equipment	(22,083)	(14,046)	(15,647)
Proceeds from redemption of auction rate securities	44,700	62,425	10,375
Loan made to an investee			(5,263)
Cash decrease due to deconsolidation of subsidiary			(52,092)

Edgar Filing: Spansion Inc. - Form 10-Q

Purchase of Kawasaki business	(13,125)		
Cash decrease due to sale of Suzhou plant			(10,431)
Cash proceeds from sale of Suzhou plant		18,687	
Net cash provided (used) by investing activities	25,208	76,686	(72,213)
Cash Flows from Financing Activities:			
Proceeds from borrowings, net of issuance costs		438,082	117,758
Payments on debt and capital lease obligations	(5,956)	(691,176)	(73,372)
Proceeds from rights offering		104,875	
Net cash provided (used) by financing activities	(5,956)	(148,219)	44,386
Effect of exchange rate changes on cash and cash equivalents	(1,585)		(3,095)
Net increase (decrease) in cash and cash equivalents	74,952	(70,174)	147,167
Cash and cash equivalents at the beginning of period	254,729	324,903	116,387
Cash and cash equivalents at end of period	\$ 329,681	\$ 254,729	\$ 263,554
Supplementary disclosure of non-cash investing and financing activities:			
Settlement of liabilities subject to compromise through issuance of reorganized Spansion Inc. common stock	\$	\$ 486,064	\$
Netting of receivable/payable balances due from/to Spansion Japan	\$ 283,191	\$	\$
See accompanying notes			

Table of Contents**Spansion Inc.****Condensed Consolidated Statements of Stockholders' Equity (Deficit)****(in thousands)****(Unaudited)**

	Common Stock	Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity (Deficit)
Balance at December 27, 2009 (Predecessor)	\$ 162	\$ 2,484,320	\$ (3,342,370)	\$ 195	\$ (857,693)
Comprehensive income:					
Net income from December 27, 2009 to May 10, 2010			363,624		363,624
Other comprehensive income					
Net change in cumulative translation adjustment					
Total other comprehensive income					
Total comprehensive income					363,624
Equity settlement for liabilities subject to compromise	486	485,578			486,064
Compensation recognized under old employee stock plans		1,595			1,595
Cancellation of old employee stock plans		5,457			5,457
Balance at May 10, 2010 (Predecessor) (Unaudited)	648	2,976,950	(2,978,746)	195	(953)
Fresh start adjustments:					
Cancellation of Predecessor common stock	(648)	(2,976,950)			(2,977,598)
Elimination of Predecessor accumulated deficit and accumulated other comprehensive loss			2,978,746	(195)	2,978,551
Balance at May 11, 2010 (Successor) (Unaudited)					
Comprehensive income:					
Net loss from May 11 to June 27, 2010			(83,068)		(83,068)
Other comprehensive income:					
Net change in cumulative translation adjustment				(1,458)	(1,458)
Net unrealized gain (loss) on hedging				(1,753)	(1,753)
Total other comprehensive income					(3,211)
Total comprehensive income					(86,279)
	46	569,066			569,112

Edgar Filing: Spansion Inc. - Form 10-Q

Issuance of Successor common stock (\$0.001 per share)					
Rights offering settlement	13	104,875			104,888
Compensation recognized under new employee stock plan		4,809			4,809
Balance at September 26, 2010 (Successor) (Unaudited)					
	\$ 59	\$ 678,750	\$ (83,068)	\$ (3,211)	\$ 592,530

See accompanying notes

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Spansion Inc. (the Company) is a leading designer, manufacturer and developer of Flash memory semiconductors. The Company is focused on the embedded Flash market and its Flash memory products primarily store data and software code for microprocessors, controllers and other programmable semiconductors which run applications in a broad range of electronics systems. These electronic systems include computing and communications, automotive and industrial, consumer and gaming, wireless and machine-to-machine, or M2M, devices. In addition to Flash memory products, the Company assists its customers in developing and prototyping their designs by providing software and hardware development tools, drivers and simulation models for system-level integration.

The Company's Flash memory solutions are incorporated in products from leading original equipment manufacturers, or OEMs. The Company's products are designed to address various voltages, interfaces and memory densities for a wide range of specific applications and customer platforms. The majority of the Company's new product designs are based on its proprietary two-bit-per-cell MirrorBit technology which has a simpler cell architecture requiring fewer manufacturing steps, supporting higher yields and lower costs as compared to competing floating gate NOR Flash technology.

2. Emergence from Chapter 11

General Information

On March 1, 2009, Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International, Inc., and Cerium Laboratories LLC (collectively, the Debtors) each filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Chapter 11 Cases). On May 10, 2010, the Debtors emerged from the Chapter 11 Cases, following the confirmation of the Plan of Reorganization (the Plan) by the U.S. Bankruptcy Court on April 16, 2010.

Prior to the Debtors' filing of the Chapter 11 Cases, on February 10, 2009, Spansion Japan Limited, a wholly-owned subsidiary of Spansion LLC (Spansion Japan) filed a proceeding under the Corporate Reorganization Law of Japan to obtain protection from Spansion Japan's creditors (the Spansion Japan Proceeding). On March 3, 2009 the Tokyo District Court approved the filing of the Spansion Japan Proceeding and appointed the incumbent representative director of Spansion Japan as trustee. As a result, the Company no longer controlled Spansion Japan despite its 100 percent equity ownership interest and, effective March 3, 2009, the Company deconsolidated Spansion Japan and has accounted for its interest in Spansion Japan as a cost basis investment. Effective, September 28, 2010, the Company's 100 percent equity ownership interest in Spansion Japan was extinguished by the Tokyo District Court and Spansion Japan is no longer considered a subsidiary of the Company.

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

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

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

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

Reorganization value is the value attributed to the reorganized entity, in addition to the expected net realizable value of those assets that will be disposed of before reorganization occurs. This reorganization value is viewed as the fair value of the entity before considering liabilities and

Edgar Filing: Spansion Inc. - Form 10-Q

approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. Reorganization value is generally determined by discounting future cash flows. Immediately prior to the Emergence Date, the Debtors' reorganization value of \$1.2 billion was less than the sum of post-petition liabilities of \$617 million and allowed claims of \$939 million.

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

Fresh start accounting required resetting the historical net book values of assets and liabilities of the Company as of Emergence Date to the related fair values by allocating the Company's reorganization value to its assets and liabilities pursuant to ASC 805 Business Combinations and ASC 852-10 Reorganizations. The excess reorganization value over the fair value of tangible and identifiable intangible assets has been recorded as goodwill on the Company's Condensed Consolidated Balance Sheet. Deferred taxes have been determined in conformity with ASC 740

Income Taxes. For additional information regarding the impact of fresh start accounting on the Company's Condensed Consolidated Balance Sheet as of the Emergence Date, see Fresh Start Consolidated Balance Sheet below.

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

Effectiveness of the Plan and Exit Financing

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

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

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

On May 10, 2010, the Company entered into a senior revolving credit facility agreement (Revolving Credit Facility) with Bank of America and other financial institutions in an aggregate amount of up to \$65 million to fund bankruptcy related expenses and ongoing working capital. As of September 26, 2010, the Company has not drawn under this facility which was entered into as a pre-condition to obtaining the Term Loan facility. See Note 11 for further details.

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Plan contemplates the distribution of 65.8 million shares of New Common Stock, consisting of: (i) 46,247,760 shares to holders of allowed general, unsecured claims; (ii) 12,974,496 shares to subscribers of the Rights Offering; and (iii) 6,580,240 shares reserved for issuance to eligible employees in connection with grants of stock options and restricted stock units (RSUs) under the Company's new 2010 Equity Incentive Award Plan. As of September 26, 2010, the Company had granted options to purchase 3,033,931 shares of new Common Stock and 2,977,054 RSUs under the 2010 Plan to its employees, and 569,255 shares were eligible for future equity awards.

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

Business Relationship with Spansion Japan and Foundry Agreement

Spansion Japan manufactured and supplied silicon wafers to the Company, and provided sort services to the Company through August 31, 2010 when Spansion Japan sold its manufacturing facilities (known as JV3 and SP1) located at Aizu Wakamatsu, Japan to a subsidiary of Texas Instruments Incorporated (TI) which began to provide such services to us on September 1, 2010. Spansion Japan also functioned as the sole distributor of the Company's products in Japan whereby it purchased products from the Company and sold them to customers in Japan, primarily through a subsidiary of Fujitsu Limited. The wafers purchased from Spansion Japan were a material component of the Company's cost of goods sold, and historically the wafer prices were governed by a foundry agreement. Management believes that the prices under that foundry agreement greatly exceeded the amounts that the U.S. Bankruptcy Court would have required the Company to pay for wafers purchased during the period from February 9, 2009 through October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders).

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

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

On February 2, 2010, the Company and Spansion Japan entered into a foundry agreement whereby the Company agreed to purchase from Spansion Japan: (i) a minimum of 10 billion yen (equivalent to \$111.8 million at September 26, 2010) worth of wafers over six quarters, beginning with the first quarter of 2010 and ending with the second quarter of 2011; and (ii) minimum sort services of \$7.7 million for the first quarter of 2010 and \$8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011, with both sort services and wafer production to be subject to normal and customary foundry performance conditions. On March 29, 2010, the Company and Spansion Japan executed various agreements implementing the Settlement including the purchase of Spansion Japan's distribution business, which was consummated on May 24, 2010 for a total cash purchase price of \$13.1 million. With the acquisition of Spansion Japan's distribution business, all material conditions of the Settlement were fulfilled and the Company set off the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). All transactions with Spansion Japan are now being settled on a regular basis on mutually agreed upon terms.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The purchase price relating to the acquisition of Spansion Japan's distribution business was allocated to the acquired business based on its estimated fair values as of May 24, 2010, as set forth below:

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

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

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

Effective June 27, 2010, Spansion Japan's Plan of Reorganization (the POR) was confirmed by the Tokyo District Court. The POR provided for Spansion Japan to redeem shares held by its shareholders without consideration, cancel such shares and issue new shares to unsecured creditors. The redemption, cancellation and new issuance were completed effective September 28, 2010. As a result, the Company no longer had any equity ownership of Spansion Japan. Until this date, the Company had accounted for its interest in Spansion Japan as a cost basis investment since the Company has not controlled Spansion Japan since March 3, 2009.

On August 31, 2010, Spansion Japan sold its manufacturing facilities to a subsidiary of TI. At the same time, the Company terminated its foundry agreement with Spansion Japan and entered into a new foundry agreement with TI whereby the Company agreed to purchase from TI: (i) a minimum of \$235.5 million worth of wafers over eight quarters, beginning with the third quarter of 2010 and ending with the second quarter of 2012; and (ii) minimum sort services of \$8.9 million for each quarter from the fourth quarter of 2010 to the second quarter of 2011 and \$8.5 million each from the third quarter of 2011 through the second quarter of 2012, with both sort services and wafer production to be subject to normal and customary foundry performance conditions.

Ongoing Chapter 11 Matters***Resolution of Outstanding Claims***

Pursuant to the Plan, a claims agent has been appointed to analyze and, at the claims agent's discretion, contest outstanding disputed claims totaling \$1.5 billion, which includes the \$936 million general unsecured proof of claim filed by Spansion Japan as a result of the November 19, 2009 foundry agreement rejection order. The Company accrued its best estimate of the liability which is included in the \$939 million of liabilities subject to compromise as of Emergence Date. Since these claims are being handled by the claims agent and are under the jurisdiction of the U.S. Bankruptcy Court, their sole recourse is to receive shares reserved under the plan and, therefore, any outcome of the claims adjudication process will have no direct impact on the Successor.

On October 20, 2010, the claims agent appointed to resolve certain pre-bankruptcy claims entered into an agreement with Spansion Japan to settle all claims asserted by and between Spansion Japan and the chapter 11 estates of the Debtors. Spansion Japan had asserted a claim for

Edgar Filing: Spansion Inc. - Form 10-Q

approximately \$936 million related to damages allegedly incurred as a result of our rejection of our foundry agreement with Spansion Japan. The claims agent had been engaged in litigation with Spansion Japan over the amount of damages sustained by Spansion Japan.

As part of the agreement, Citigroup Global Markets Inc.(Citi), which was not a party to this litigation, will purchase the rejection damages claim from Spansion Japan for \$100 million in cash. In separate transactions, the claims agent will agree to allow the rejection damages claim held by Citi in the amount of \$200 million, and we will purchase 85 percent of the allowed claim from Citi for \$85 million in cash. These transactions will become effective upon final approval of the settlement agreement by the U.S. Bankruptcy Court and the Tokyo District Court.

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Liabilities Subject to Compromise

At September 26, 2010, the Company had a zero balance for liabilities subject to compromise (LSTC) due to its emergence from the Chapter 11 Cases on May 10, 2010. For information regarding the discharge of LSTC, see Fresh-Start Consolidated Balance Sheet below.

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

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

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

Reorganization Items

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

The following table summarizes the components of the Company's reorganization items for the periods from March 29, 2010 to May 10, 2010 and from December 28, 2009 to May 10, 2010 and for the three and nine months ended September 27, 2009, respectively:

	March 29, 2010 to May 10, 2010	Three Months Ended September 27, 2009	December 28, 2009 to May 10, 2010	Nine Months ended September 27, 2009
Professional and service fees directly related to reorganization ⁽¹⁾	\$ 41,184	\$ 8,736	\$ 58,336	\$ 25,851
Provision for allowed claims ⁽²⁾	28,172	837	5,655	356,170
Gain on discharge of pre-petition obligations	(434,046)		(434,046)	
Interest income	(186)	(225)	(285)	(373)

Edgar Filing: Spansion Inc. - Form 10-Q

Total reorganization items	\$ (364,876)	\$ 9,348	\$ (370,340)	\$ 381,648
----------------------------	--------------	----------	--------------	------------

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

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

No cash was paid for professional fees for the period from May 10, 2010 to September 26, 2010. Cash paid for professional fees from December 28, 2009 to May 10, 2010 and for the three and nine months ended September 27, 2009 was approximately \$10.6 million, \$8.4 million and \$23.7 million, respectively.

Fresh Start Condensed Consolidated Balance Sheet

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

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

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

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

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

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

Edgar Filing: Spansion Inc. - Form 10-Q

Long-term debt and obligations and capital lease obligations, less current portion		3,044(b)	496	3,540
Senior secured term loan		445,500(d)		445,500
Other long-term liabilities	8,861		259	9,120
Commitments and contingencies				
Total long-term liabilities	30,258	448,544	(8,569)	470,233
Liabilities subject to compromise	938,522	(938,522)		
Total liabilities	2,782,508	(1,556,053)	(101,745)	1,124,710
New Common Stock			674,000(p)	674,000
Stockholders' deficit	(910,647)	909,690(e)	957(e)	
Total liabilities and stockholders' deficit	\$ 1,871,861	\$ (646,363)	\$ 573,212	\$ 1,798,710(t)

Plan Adjustments.

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

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Other Plan adjustments include:

(a) Repayment of Predecessor debt. This relates to (b) below;

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

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

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

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

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

(d) *Reclassification of the Term Loan between short-term and long-term obligations.* During the first quarter of 2010, prior to emergence and as part of its exit financing strategy, the Company closed a \$450 million senior secured five-year term loan facility, the receipt of the proceeds which were contingent upon emergence from the Chapter 11 Cases. The Company had recorded the receipts as restricted cash and short term liability as of March 28, 2010 pending the remaining outcome of the Chapter 11 Cases during the second quarter of 2010. Upon emergence, the Company received the loan proceeds and reclassified the long term portion of the loan to long term liability;

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

- (e) *Elimination of old equity.* Upon the effective date of the Plan, all existing Spansion equity plans (2005 & 2007 Equity Incentive Plans and Saifun Option Plans) and all equity awards thereunder were cancelled. In accordance with ASC 718, Compensation-Stock Compensation, the Company recorded, as an adjustment to stockholders' deficit, the remaining unamortized stock compensation expense of approximately \$5.5 million as a reorganization expense in the Income Statement of the Predecessor during the second quarter of 2010. Total adjustments to stockholders' deficit, net of all adjustments in the Plan Adjustments column in the above table, amounted to approximately \$909.7 million;
- (f) *Chapter 11 emergence bonus payable to the Chief Executive Officer of the Company.* In accordance with our employment agreement with our Chief Executive Officer, Mr. Kispert was entitled to a \$1.7 million bonus upon the consummation of the Plan, which was consummated on May 10, 2010. Because this bonus was payable only upon the effectiveness of the Plan and was not contingent upon any other performance requirement in the post-emergence period, the Company accounted for the bonus as a Plan adjustment and a reorganization expense in accordance with ASC 805 Compensation payments for post-combination services;
- (g) *Set-off of accounts payable and accounts receivable balances and reorganization gains realized from accounts receivable reserve balances.* Of the \$7.1 million net plan adjustment noted in (g) in the above table, \$11.4 million of accounts receivable relating to a customer was set-off against amounts owed to the same customer as these balances were rendered ineffective upon the confirmation of the Plan, and which was offset by a net \$4.3 million reorganization gain, of which \$3.9 million related to a credit note issued to a customer which was rendered ineffective as no unsecured claim was received from the customer during the Bankruptcy Court claims process period which closed during the first quarter of fiscal year 2010. Similarly, an additional \$0.5 million gain was recorded for a accounts receivable reserve for a customer which was rendered ineffective upon plan confirmation; and
- (h) *Set-off of allowance for doubtful accounts balance against a gross accounts receivable balance.* A \$3.8 million allowance for doubtful debt balance relating to a customer was set-off against the gross accounts receivable of \$11.4 million ((as noted in (g) above)) as these balances were rendered ineffective upon the confirmation of the Plan.

Fresh Start Adjustments

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

- (i) *Inventories, net.* An adjustment of \$141.9 million was recorded to increase the net book value of inventories to their estimated fair value. The fair value of finished goods was estimated based on the average selling price less the sum of disposal costs and a reasonable profit allowance for the selling effort. The fair value of work-in-process was estimated based on the average selling price less the sum of cost to complete, disposal costs, and a reasonable profit allowance. Raw materials were carried on the Predecessor's and Successor's books at replacement costs and therefore no fair value adjustment was required;

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

- (j) *Deferred Income Tax.* Due to various adjustments and revaluations arising from fresh start accounting, both on foreign and domestic entities, deferred tax assets and liabilities associated with certain tangible and intangible assets were revaluated and/or recomputed. Similarly, certain tax attributes such as tax credits, tax allowances and net operating losses were revaluated and/or recomputed, resulting in a net deferred tax adjustment of \$3.2 million;
- (k) *Land, Property and Equipment, net.* A net adjustment of \$ 85.6 million was recorded to increase the net book value of tangible fixed assets to their estimated fair value. In valuing its long-lived tangible assets, the Company applied the fair value definition as set forth in ASC 820 Fair Value Measurement which states that fair value is the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The Company identified its long-lived assets as either in use or to be disposed off (either by sale or by scrap). Assets in use were valued under the continued use premise. This premise assumes that the assets will remain as-is, where is, and continue to be used at their present location for the continuation of business operations. This value includes all direct and indirect costs necessary to acquire, install, and make the asset operational. Assets to be disposed of were valued on an in-exchange value premise. This premise represents the highest and best use of the asset is an in-exchange if the asset would provide maximum value to market participants principally on a standalone basis;
- (l) *Intangible Assets.* An adjustment of \$198.3 million was recorded (for developed technology, customer relationships, trade name and in-process research and development (IPR&D) based on fair values determined by the Company. As part of its application of fresh start accounting, the Company allocated the reorganization value to its assets and liabilities, including intangible assets using: i) discounted cash flow methodology applied to its financial forecasts and also taking into consideration the enterprise value of the Successor based on the Bankruptcy Court approved enterprise value ranges and methodologies (see Fresh Start Consolidated Balance Sheet section of Note 2 for discussion of the enterprise value), and ii) Guideline Public Company (GPC) methodology, considering data from public companies deemed to be comparable to the Company to develop relevant market multiples which were then applied to the Company's forecasts provided by Management to calculate its fair value. See Note 9 for details;
- (m) *Goodwill.* An adjustment of \$162.3 million was recorded to reflect the allocation of the reorganized enterprise value of the Successor in excess of the fair value of tangible and identified intangible net assets. See Note 9 for details;
- (n) *Accounts Payable and Other Accrued Liabilities.* The increase of \$25.4 million in Accounts Payable primarily related to the recording of a \$25.2 million legal liability arising from the implementation of a new accounting policy upon the adoption of fresh start accounting. See Note 3 for details. The increase of \$19.8 million in other accrued liabilities was primarily due \$16.4 million of liabilities reclassified from deferred income, a \$1.3 million increase to an existing liability which was previously discounted to its net present value (when the liability was deemed to be long term in previous accounting periods and which was deemed to be short term as of the Emergence Date) and a \$1.4 million accrual for committed purchase orders to vendors;
- (o) *Deferred Income.* An adjustment of \$39.5 million was recorded to reduce deferred income to the fair value of the Company's related future performance obligations. Of the net fresh start adjustment of \$47.5 million noted in (o) in the above table, \$39.5 million related to deferred income as discussed above and \$8.0 million related to other deferred revenue balances set-off against accounts receivable balances (see (r) below for details);

Edgar Filing: Spansion Inc. - Form 10-Q

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

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

- (q) *Elimination of allowance for doubtful accounts (AFDA).* Upon the adoption of fresh start accounting, all of the Predecessor's reserves including AFDA are eliminated as the Successor commences operations as a new entity. Therefore, the remaining AFDA balance of \$58.7 million prior to the adoption of fresh start accounting was eliminated by setting off the reserves against their original accounts receivable balances;
- (r) *Deferred revenue set-off against accounts receivable.* In prior accounting periods, the Company had previously recorded deferred revenue from two customers amounting to approximately \$8.0 million for invoice collection uncertainties (i.e. collectability of sales proceeds was not reasonably assured). The accounts receivable balances relating to these customers were fully reserved for in prior accounting periods. Therefore, as part of fresh start accounting, the fair values of the deferred revenue and accounts receivable balances in the balance sheet amounted to zero as there were no additional performance obligations to be rendered by the Company. Hence, these two balances were set-off against each other. There was no impact to retained earnings as a result of the above;
- (s) *New debt financing costs write off.* During the first quarter of 2010, prior to emergence and as part of its exit financing strategy, the Company closed a \$450 million five-year senior secured term loan facility resulting in debt financing costs of approximately \$13.5 million which were capitalized in the predecessor's financial statements just prior to the Emergence Date. These were paid upon emergence. However, the Company concluded the fair value of the deferred financing costs to be zero as the fair value of the debt was deemed to be at par value. Similarly, the Company also recorded a fresh start adjustment of \$0.6 million of financing costs relating to its new unutilized revolving credit facility for which there was no future performance obligations. This resulted in a zero fair value; and
- (t) *Net adjustment to enterprise value.* Included in accounts receivable/payable to related parties is approximately \$283 million receivable/payable to Spansion Japan, representing balances related to transactions between the two companies prior to October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). These balances were deemed expunged, released and satisfied on consummation of definitive agreements laid out in the January 8, 2010 Settlement as described above in Note 2. In accordance with the provisions of ASC 450 *Contingencies*, the Company had previously reserved the accounts receivable in excess of the accounts payable balance to ensure the loss contingency was adequately reserved so that there will be no income statement impact upon the consummation of the distribution of business. With the acquisition of Spansion Japan's distribution business on May 24, 2010, all material conditions of the Settlement were fulfilled. As a result, the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 were set-off subsequent to May 24, 2010, and prior to the end of the second quarter ended June 27, 2010. Therefore, the enterprise value as of the Emergence Date is the total assets of the Company (approximately \$1.8 billion) less \$283 million (which was grossed up in accounts receivable and payable in the opening balance sheet as of the Emergence Date). Thus, the enterprise value was approximately \$1.5 billion.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The condensed consolidated financial statements and notes thereto are unaudited. In the opinion of the Company's management, these financial statements contain all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the Company's operating

Edgar Filing: Spansion Inc. - Form 10-Q

results, financial position and cash flows. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent interim period or for the full fiscal year ending December 26, 2010.

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

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

Fresh start accounting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's reorganization value to its assets and liabilities pursuant to ASC 805 Business Combinations and ASC 820 Fair Value Measurements and Disclosures. The excess reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill on the Condensed Consolidated Balance Sheet. Deferred taxes are determined in conformity with ASC 740 Income Taxes. For additional information regarding the impact of fresh start accounting on our Condensed Consolidated Balance Sheet as of September 26, 2010, see Fresh Start Consolidated Balance Sheet.

Furthermore, effective March 3, 2009, the Company deconsolidated Spansion Japan because, despite its 100 percent equity ownership interest, the Company no longer controlled Spansion Japan due to the appointment of a trustee in the Spansion Japan Proceeding. Since March 3, 2009, the Company has accounted for its interest in Spansion Japan as a cost basis investment. Transactions between the Company and Spansion Japan after March 3, 2009, have been reflected as transactions with a third party. Effective, September 28, 2010, the Company's 100 percent equity ownership interest in Spansion Japan was extinguished by the Tokyo District Court. See Business Relationship with Spansion Japan and Foundry Agreement in Note 2 above for further details.

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

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

Use of Estimates

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

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)*****Inventories***

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

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

	Successor September 26, 2010	Successor May 11, 2010 (in thousands)	Predecessor December 27, 2009
Raw materials	\$ 12,604	\$ 15,675	\$ 14,202
Work-in-process	152,198	236,510	112,469
Finished goods	16,025	41,625	15,052
Inventories	\$ 180,827	\$ 293,810	\$ 141,723

Property, Plant and Equipment

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

	Successor September 26, 2010	Successor May 11, 2010 (in thousands)	Predecessor December 27, 2009
Land	\$ 51,778	\$ 51,778	\$ 20,107
Buildings and leasehold improvements	69,076	70,210	117,553
Equipment	232,110	235,463	318,592
Construction in progress	10,165	15,242	14,345
Accumulated depreciation and amortization	(74,486)		(147,887)
Property, plant and equipment, net	\$ 288,643	\$ 372,693	\$ 322,710

Intangible Assets

Intangible assets other than intellectual property include developed technology, customer relationships, and trade name which are amortized on a straight-line basis over periods ranging from seven to ten years. See Note 9 for details. IP R&D is not amortized but tested for impairment at least annually or more frequently if there are indicators of impairment present.

Goodwill

Edgar Filing: Spansion Inc. - Form 10-Q

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

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Fair Value

The Company re-measured each major category of assets and liabilities at fair value in connection with fresh start accounting with guidance from ASC 820. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In measuring fair value, the Company uses a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's best estimate of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

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

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

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

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

Estimates relating to Litigation Reserve

Upon emergence and as part of fresh start accounting, the Company implemented its litigation reserve policy whereby it would record, on a rolling four quarter basis, the estimated litigation costs that it expects to incur in defending itself in connection with ongoing lawsuits in accordance with the provisions of ASC 450, Contingencies. Judgment is necessary to estimate these costs and an accrual is made when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. See Part II. Other Information, Item 1. Legal Proceedings for our update of outstanding legal proceedings.

New Accounting Pronouncements

In April 2010, the FASB issued revised guidance to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The revised guidance should be implemented by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The Company believes the adoption of this guidance on December 27, 2010 will not have a material impact on its consolidated financial statements.

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In January 2010, the FASB issued amended guidance on fair value measurements and disclosures. The new guidance requires additional disclosures regarding fair value measurements, amends disclosures about postretirement benefit plan assets, and provides clarification regarding the level of disaggregation of fair value disclosures by investment class. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain Level 3 activity disclosure requirements that will be effective for reporting periods beginning after December 15, 2010. Accordingly, we adopted this amendment on January 1, 2010, except for the additional Level 3 requirements which will be adopted in 2011. The adoption of this guidance has not had, and the Company believes the adoption on December 27, 2010 will not have a material impact on its consolidated financial statements.

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

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

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

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

The accounting changes summarized in this guidance are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company believes the adoption on December 27, 2010 of this guidance will not have a material impact on its consolidated financial statements.

Financial Statements Reclassifications

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

4. Capital Stock

Successor

Upon emergence, the total number of shares of capital stock that the Company is authorized to issue under its Amended and Restated Certificate of Incorporation is 200,000,001 shares, consisting of: (i) 150,000,000 shares of New Common Stock, par value \$0.001 per share; (ii) one share of Class B Common Stock, par value \$0.001 per share; and (iii) 50,000,000 shares of Preferred Stock, par value \$0.001 per share, issuable in one or more series. As of September 26, 2010, there are 59,270,916 shares of Class A Common Stock and one share of Class B Common Stock issued and outstanding.

Common Stock

Edgar Filing: Spansion Inc. - Form 10-Q

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

Table of Contents

Spansion Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Preferred Stock

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

restricting dividends on the common stock;

diluting the voting power of the common stock;

impairing the liquidation rights of the common stock; or

delaying or preventing a change of control of Spansion without further action by the stockholders.

5. Equity Incentive Plan and Stock-Based Compensation

Plan Description

2010 Equity Incentive Award Plan

On May 10, 2010, upon emergence from the Chapter 11 Cases, the Company's Board of Directors approved the Spansion Inc. 2010 Equity Incentive Award Plan (the 2010 Plan), under which 6,580,240 shares of New Common Stock have been reserved and made available for issuance in the form of equity awards, including incentive and nonqualified stock options and restricted stock unit (RSU) awards. The 2010 Plan is administered by the Compensation Committee of the Company's Board of Directors, and that committee has the authority to, among other things, grant awards, delegate certain of its powers, accelerate or extend the vesting or exercisability of awards and determine the date of grant of an award. The maximum term of any stock option granted under the 2010 Plan is seven years from the date of grant and the exercise price of each option is determined under the applicable terms and conditions as approved by the Compensation Committee.

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

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

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)***Valuation and Expense Information*

The following table sets forth the total recorded stock-based compensation expense by financial statement caption for the Successor (2010 Plan) and the Predecessor (2005 Plan, 2007 Plan, Saifun 2003 Plan, Saifun Semiconductor Ltd. 2001 Share Option Plan and Saifun Semiconductor Ltd. 1997 Share Option Plan), resulting from the Company's stock options and RSU awards for the three and nine months ended September 26, 2010, respectively.

	Successor	Predecessor	Successor	Predecessor	Predecessor
	Three Months	Three	Period from	Period from	
	Ended	Months	May 11, 2010	December 28, 2009	
	September 26, 2010	Ended	to	to	Nine Months
		September 27, 2009	September 26, 2010	May 10, 2010	ended
			(in thousands)	(1)	September 27, 2009
Cost of sales	\$ 1,072	\$ 578	\$ 1,794	\$ 346	\$ 2,380
Research and development	453	812	851	683	3,198
Sales, general and administrative	1,340	1,485	2,165	566	4,865
Expense on cancellation of old equity incentive plans				5,457	
Stock-based compensation expense	\$ 2,865	\$ 2,875	\$ 4,810	\$ 7,052	\$ 10,443

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

The weighted average fair value of the Company's stock options granted in the Successor under the 2010 Plan was \$5.05 per share. The fair value of each stock option was estimated at the date of grant using a Black-Scholes option pricing model, with the following assumptions for grants:

	Weighted Average for the
	period from
	May 10, 2010
	to
	September 26, 2010
Expected volatility	58.00%
Risk-free interest rate	1.16%
Expected term (in years)	4.3
Dividend yield	0.00%

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

term.

The Company estimated forfeitures based on its historical forfeiture rates. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates in order to derive the Company's best estimate of awards ultimately expected to vest. The forfeiture rate for stock options granted on September 15, 2010 is estimated to be 16.8 percent and the Company will update the forfeiture rate on a periodic basis thereafter.

As of September 26, 2010, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately \$30.1 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2014.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Successor***Authorized Shares; Limits on Awards*

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

Shares Available to Grant

The numbers of shares of New Common Stock available for grant at September 26, 2010 under the 2010 Plan are shown in the following table:

Number of shares available for grant:

Shares reserved for grant under the 2010 Plan ⁽¹⁾	6,580,240
Stock options granted through September 26, 2010, net of cancelled stock options	(3,033,931)
RSU awards granted through September 26, 2010, net of cancelled RSU awards	(2,977,054)

Shares available for grant under the 2010 Plan	569,255
--	---------

(1) The 6,580,240 shares reserved for grant are in accordance with the Company's 2010 Equity Incentive Plan.
Stock Option and Restricted Stock Unit Activity

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

	Number of Shares	Weighted- Average Exercise Price	Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options:				
Outstanding as of May 10, 2010		\$		\$
Granted	3,051,436	\$ 10.54		
Cancelled	(17,505)	\$ 10.51		
Exercised		\$		
Outstanding as of September 26, 2010	3,033,931	\$ 10.54	6.62	\$ 11,815

Edgar Filing: Spansion Inc. - Form 10-Q

Exercisable as of September 26, 2010

\$

\$

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the New Common Stock's closing sales price of \$14.43 as of September 24, 2010, which would have been received by the stock option holders had all stock option holders exercised their in-the-money stock options as of that date.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

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

	Number of Shares	Weighted-Average Grant-date Fair Value
Restricted Stock Units:		
Unvested as of May 10, 2010		\$
Granted	3,033,686	\$ 10.51
Cancelled	(56,632)	\$ 10.51
Vested	(48,660)	\$ 10.51
Unvested as of September 26, 2010	2,928,394	\$ 10.51

Predecessor

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

No stock options were granted in the three and nine months ended September 26, 2010 and September 27, 2009 respectively, under the Predecessor equity plans.

6. Net Income (Loss) Per Share

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

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended September 26, 2010	Three Months Ended September 27, 2009 (in thousands except for per-share amounts)	Period from May 11, 2010 to September 26, 2010	Period from December 28, 2009 to May 10, 2010 Nine Months ended September 27, 2009
Net income (loss)	\$ (64,854)	\$ 1,500	\$ (83,068)	\$ 363,624
Weighted-average shares - basic	59,271	162,090	59,271	162,439
Effect of dilutive potential common shares		11,835		171
Weighted-average shares - diluted	59,271	173,925	59,271	162,610
Net income (loss) per share - basic	\$ (1.09)	\$ 0.01	\$ (1.40)	\$ 2.24
				\$ (3.21)

Edgar Filing: Spansion Inc. - Form 10-Q

Net income (loss) per share diluted	\$	(1.09)	\$	0.01	\$	(1.40)	\$	2.24	\$	(3.21)
--	----	--------	----	------	----	--------	----	------	----	--------

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

For the three months ended September 26, 2010 and for the period from May 11, 2010 to September 26, 2010, the Company excluded from its diluted per share computation approximately 0.9 million and 0.8 million of potential shares of New Common Stock issuable upon exercise of outstanding stock options and vesting of outstanding RSUs because they had an anti-dilutive effect due to the net loss recorded in the period.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

For the nine months ended September 27, 2009, the Company excluded from its diluted per share computation approximately 19.6 million of potential shares of Old Common Stock issuable upon exercise of outstanding stock options, upon vesting of outstanding RSUs and upon exchange of Spansion LLC's Exchangeable Senior Subordinated Debentures because they had an anti-dilutive effect due to the net loss recorded in the period.

7. Comprehensive Income (Loss)

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

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended September 26, 2010	Three Months Ended September 27, 2009	Period from May 11, 2010 to September 26, 2010 (in thousands)	Period from December 28, 2009 to May 10, 2010 Nine Months ended September 27, 2009
Net income (loss)	\$ (64,854)	\$ 1,500	\$ (83,068)	\$ 363,624
Net change in pension plan, net of taxes				123
Net change in cumulative translation adjustment	(1,683)		(1,458)	(25,073)
Net change in unrealized losses on interest rate swap, net of \$0 taxes	(1,753)		(1,753)	(449)
Total comprehensive income (loss)	\$ (68,290)	\$ 1,500	\$ (86,279)	\$ 363,624
				\$ (543,787)

For the period from December 28, 2009 to May 10, 2010, the net income of \$363.6 million was primarily attributable to the recognition of reorganization gain of \$364.9 million as a result of discharge of prepetition obligations upon Emergence from Chapter 11 Cases in the second quarter of fiscal 2010, partially offset by various operating expenses.

8. Related Party Transactions***Spansion Japan***

As discussed in Note 3, in the section entitled, "Basis of Presentation," despite its 100 percent equity ownership interest in Spansion Japan, the Company has not included Spansion Japan in its consolidated financial statements since March 3, 2009 as it no longer controlled Spansion Japan due to the appointment of a trustee in the Spansion Japan Proceeding. Since that date, the Company has accounted for its interest in Spansion Japan as a cost basis investment and treats Spansion Japan as a related party for financial reporting purposes. Effective June 27, 2010, Spansion Japan's POR was confirmed by the Tokyo District Court. The POR provided for Spansion Japan to redeem shares held by its shareholders without consideration, cancel such shares and issue new shares to unsecured creditors. The redemption, cancellation and new issuance were completed effective September 28, 2010. Thereafter the Company had no equity ownership of Spansion Japan.

Edgar Filing: Spansion Inc. - Form 10-Q

On February 2, 2010, the Company and Spansion Japan entered into a foundry agreement whereby the Company agreed to purchase from Spansion Japan: (i) a minimum of 10 billion yen (equivalent to \$111.8 million at June 27, 2010) worth of wafers over six quarters beginning with the first quarter of 2010 and ending with the second quarter of 2011; and (ii) minimum sort services of \$7.7 million for the first quarter of 2010 and \$8.9 million for each quarter from the second quarter of 2010 to the second quarter of 2011, with both sort services and wafer production subject to normal and customary foundry performance conditions. This agreement replaced an earlier foundry agreement whereby Spansion Japan manufactured wafers for the Company based on a five-quarter rolling production forecast and in exchange, the Company reimbursed Spansion Japan for its manufacturing cost, plus a surcharge of 6 percent. The Company's motion to reject the earlier foundry agreement was approved by the U.S. Bankruptcy Court on November 19, 2009.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

On August 31, 2010 Spansion Japan sold its manufacturing facilities to a subsidiary of TI. At the same time the Company terminated its foundry agreement with Spansion Japan and entered into a new foundry agreement with TI whereby the Company agreed to purchase from TI: (i) a minimum of \$235.5 million worth of wafers over eight quarters, beginning with the third quarter of 2010 and ending with the second quarter of 2012; and (ii) minimum sort services of \$8.9 million for each quarter from the fourth quarter of 2010 to the second quarter of 2011 and \$8.5 million each from the third quarter of 2011 through the second quarter of 2012, with both sort services and wafer production to be subject to normal and customary foundry performance conditions.

Spansion Japan continued in its historical role as the sole distributor of the Company's products in Japan, whereby it purchased products from the Company and sold them to customers in Japan, primarily through a subsidiary of Fujitsu Limited, until May 24, 2010. On May 24, 2010, the Company acquired the distribution business from Spansion Japan and subsequently has been distributing its products in Japan through a wholly owned subsidiary, Nihon Spansion Limited. With the acquisition of Spansion Japan's distribution business, all material conditions of the January 8, 2010 Settlement were fulfilled and the Company set off the receivable and payable balances due from/to Spansion Japan as of October 27, 2009 (the date when the Company and Spansion Japan mutually agreed to pricing terms through executed purchase orders). All transactions with Spansion Japan were thereafter settled on a regular basis on mutually agreed upon terms.

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

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended September 26, 2010	Three Months Ended September 27, 2009	Period from May 11, 2010 to September 26, 2010	Period from December 28, 2009 to May 10, 2010
				Period from March 3, 2009 to September 27, 2009
Sales to Spansion Japan	\$ 439	\$ 82,332	\$ 5,240	\$ 78,705
Wafer purchases from Spansion Japan	\$ 25,682	\$ 83,787	\$ 30,039	\$ 80,160
Payment to Spansion Japan for R&D services	\$	\$ 5,331	\$ 143	\$ 2,686
				\$ 13,146

The following table presents the account balances between the two companies as of September 26, 2010 and December 27, 2009, respectively:

	Successor September 26, 2010	Predecessor December 27, 2009
Trade accounts receivable from Spansion Japan	\$ 11	\$ 366,602
Trade accounts payable to Spansion Japan	\$ (308)	\$ (331,151)
Deferred income on shipments to Spansion Japan	\$ (59)	\$ (12,029)

Fujitsu

Fujitsu Limited (Fujitsu) was a holder of greater than 10 percent of the Company's Old Common Stock voting securities prior to its emergence from the Chapter 11 Cases on May 10, 2010. On emergence from the Chapter 11 Cases, the Company's Old Common Stock issued prior to May 10, 2010 was cancelled and New Common Stock was issued in accordance with the Plan. As a result, Fujitsu no longer holds greater than

10 percent of the Company's voting securities and has ceased to be a related party since that date.

Table of Contents**Spansion Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

The Company did not have significant transactions and account balances directly with Fujitsu following the deconsolidation of Spansion Japan, which was effective March 3, 2009. The following table presents the significant related party transactions between the Company and Fujitsu for the nine months ended September 27, 2009.

	Predecessor Nine Months Ended September 27, 2009 (in thousands)
Net sales to Fujitsu	\$ 50,208
Inventory and cost of sales:	
Other purchases of goods and services from Fujitsu and rental expense to Fujitsu	11,617
Subcontract manufacturing and commercial die purchases from Fujitsu	569
Wafer purchases, processing and sort services from Fujitsu	6,096
Net gain recognized on sale of assets to Fujitsu on April 2, 2007	(3,075)
Reimbursement on costs of employees seconded to Fujitsu	(2,633)
Equipment rental income from Fujitsu	(186)
Administrative services income from Fujitsu	(68)
	\$ 12,320
Service fees to Fujitsu:	
Sales, general and administrative	\$ 110

9. Intangible Assets and Goodwill

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

During the third quarter of 2010, the Company adjusted the allocation of the reorganization value to its assets and liabilities, including Goodwill in order to reflect additional information obtained since the emergence date resulting in a decrease to Goodwill of \$2.2 million and a corresponding increase to fixed assets.

Intangible assets at September 26, 2010 and December 27, 2009 are as follows:

	Successor September 26, 2010	Predecessor December 27, 2009 (in thousands)
Developed technology	\$ 65,900	\$ 1,646