

Spansion Inc.
Form 10-Q/A
July 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 30, 2014

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

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Non-accelerated filer

Smaller reporting company

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

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

As of May 1, 2014, the registrant had 60,371,219 shares of Class A Common Stock outstanding at \$0.001 par value per share.

Explanatory Note

This Amendment No. 1 to the Spansion Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014, which was originally filed with the Securities and Exchange Commission on May 6, 2014 (the “Original Filing”), is being filed to correct an inadvertent clerical error in Exhibit 32.1. No other change to the previously filed certifications is intended to be made by the filing of this Form 10-Q/A, and this Form 10-Q/A does not amend, update or change any other items or disclosures contained in the Original Filing. This Amendment No. 1 to the Form 10-Q continues to speak as of the date of the Original Filing and does not reflect any events that occurred at any subsequent date.

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

	Three Months Ended	
	March 30, 2014	March 31, 2013
Net sales	\$311,750	\$189,572
Cost of sales	221,918	143,717
Gross profit	89,832	45,855
Research and development	43,562	22,777
Sales, general and administrative	55,631	28,483
Operating loss	(9,361)	(5,405)
Interest and other income (expense), net	(4,600)	962
Interest expense	(6,087)	(7,604)
Loss before income taxes	(20,048)	(12,047)
Provision for income taxes	(2,447)	(2,388)
Net loss	\$(22,495)	\$(14,435)
Net loss per share:		
Basic	\$(0.38)	\$(0.25)
Diluted	\$(0.38)	\$(0.25)
Shares used in per share calculation:		
Basic	59,771	58,086
Diluted	59,771	58,086

See accompanying notes.

Condensed Consolidated Statement of Comprehensive Income (Loss)**(in thousands)****(Unaudited)**

	Three Months Ended	
	March 30, 2014	March 31, 2013
Net loss	\$ (22,495)	\$ (14,435)
Other comprehensive income (loss), net of tax:		
Net foreign currency translation adjustment	296	(1,055)
Unrealized gain on recovery from impaired investments reclassified into earnings	-	(1,200)
Net unrealized gain (loss) on cash flow hedges:		
Net unrealized hedge gain (loss) arising during the period	(4,714)	7,743
Net loss (gain) reclassified into earnings for cash flow hedges	1,382	(1,753)
Net unrealized gain (loss) on cash flow hedges	(3,332)	5,990
Other comprehensive income (loss), net of tax	(3,036)	3,735
Total comprehensive loss	\$ (25,531)	\$ (10,700)

See accompanying notes.

Spansion, Inc.**Condensed Consolidated Balance Sheets****(in thousands, except par value and share amounts)****(Unaudited)**

Assets	March 30, 2014	December 29, 2013
Current assets:		
Cash and cash equivalents	\$262,473	\$286,069
Short-term investments	26,922	25,428
Accounts receivable, net	176,714	177,838
Inventories	256,891	254,154
Deferred income taxes	4,638	4,592
Prepaid expenses and other current assets	49,347	52,756
Total current assets	776,985	800,837
Property, plant and equipment, net	184,648	185,505
Intangible assets, net	158,950	167,949
Goodwill	166,473	166,422
Other long-term assets	50,980	60,208
Total assets	\$1,338,036	\$1,380,921
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$128,524	\$126,680
Accrued compensation and benefits	62,735	57,876
Accrued liabilities and other	146,059	86,352
Income taxes payable	3,846	4,651
Deferred income	27,035	30,247
Current portion of long-term debt	2,394	97,320
Total current liabilities	370,593	403,126
Deferred income taxes	3,704	3,675
Long-term debt, less current portion	406,013	404,612
Other long-term liabilities	31,976	32,048
Total liabilities	812,286	843,461
Commitments and contingencies (Note 15)	-	-
Stockholders' equity:		
Capital stock:		
Class A common stock, \$0.001 par value, 150,000,000 shares authorized, 60,358,585 shares issued and outstanding as of March 30, 2014 (58,882,949 shares as of December 29, 2013)	61	59

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Class B common stock, \$0.001 par value, 1 share authorized, 0 shares issued and outstanding as of March 30, 2014 and 1 share issued and outstanding as of December 29, 2013	-	-
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	-	-
Additional paid-in capital	761,212	747,393
Accumulated deficit	(228,454)	(205,959)
Accumulated other comprehensive loss (Note 4)	(7,069)	(4,033)
Total stockholders' equity	525,750	537,460
Total liabilities and stockholders' equity	\$1,338,036	\$1,380,921

See accompanying notes.

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

	Three Months Ended	
	March 30,	March 31,
	2014	2013
Cash Flows from Operating Activities:		
Net loss	\$(22,495)	\$(14,435)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	26,306	20,379
Gain on recovery from impaired investments	(449)	(1,200)
Benefit from deferred income taxes	(47)	(25)
Net gain on sale and disposal of property, plant and equipment	(34)	(592)
Loss on repurchase of 7.875% Senior Notes	1,137	-
Compensation recognized under employee stock plans	8,481	8,624
Changes in assets and liabilities	6,480	(5,237)
Net cash provided by operating activities	19,379	7,514
Cash Flows from Investing Activities:		
Proceeds from recovery of impaired investments	449	1,530
Proceeds from sale of property, plant and equipment	96	612
Proceeds from sales and maturities of marketable securities	8,382	28,346
Purchases of property, plant and equipment	(10,316)	(12,883)
Purchases of marketable securities	(9,876)	(24,024)
Net cash used for investing activities	(11,265)	(6,419)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock due to options exercised	5,341	620
Refinancing cost on Term Loan and Revolver	-	(114)
Payments on financing arrangements	-	(2,064)
Repurchase of 7.875% Senior Notes including costs	(96,319)	-
Cash settlement of hedging activities	-	(268)
Net proceeds from sale of Sunnyvale property	58,908	-
Net cash used for financing activities	(32,070)	(1,826)
Effect of exchange rate changes on cash and cash equivalents	360	286
Net decrease in cash and cash equivalents	(23,596)	(445)
Cash and cash equivalents, beginning of period	286,069	262,177
Cash and cash equivalents, end of period	\$262,473	\$261,732

Non-cash investing and financing activities:

Liabilities recorded for purchases of property, plant and equipment	\$11,788	\$7,168
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See accompanying notes.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued) (Unaudited)

1. Basis of Presentation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, the unaudited interim financial statements reflect all normal and recurring adjustments considered necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The December 29, 2013 condensed consolidated balance sheet data were derived from audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2013, but does not include all disclosures required by U.S. GAAP for annual periods.

These condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited financial statements and related notes included in its Annual Report on Form 10-K for the fiscal year ended December 29, 2013 as filed with the SEC on February 25, 2014. The results of operations for the three months ended March 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

The Company operates on a 52- to 53-week fiscal year ending on the last Sunday in December. The additional week in a 53-week fiscal year is added to the second quarter to realign the Company's fiscal quarters more closely to calendar quarters. Fiscal 2014 and fiscal 2013 are comprised of 52-weeks periods.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the results of operations of the Company and all of the Company's wholly-owned subsidiaries. All intercompany accounts have been eliminated.

Use of Estimates

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

2. Acquisition

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

There were no changes in the first quarter of fiscal 2014 to the provisional allocation of purchase price to the net assets acquired under the MCA business. The Company has not finalized the purchase price allocation for this acquisition as of March 30, 2014. As additional information becomes available such as finalization of working capital adjustment and tax related matters, the Company may revise the purchase price allocation.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued) (Unaudited)

3. Balance Sheet Components

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Spansion Inc.**Notes to Condensed Consolidated Financial Statements - (Continued) (Unaudited)**

	March 30, 2014	December 29, 2013
	(in thousands)	
Cash and cash equivalents		
Cash	\$ 260,060	\$ 282,163
Cash equivalents:		
Money market funds	1,588	3,906
Certificates of deposit	825	-
Cash and cash equivalents	\$ 262,473	\$ 286,069
Short-term investments		
Time deposits	\$ 14,054	\$ 14,045
Certificates of deposit	12,868	11,383
Short-term investments	\$ 26,922	\$ 25,428
Account receivable, net		
Accounts receivable, gross	\$ 177,123	\$ 178,252
Allowance for doubtful accounts	(409)	(414)
Account receivable, net	\$ 176,714	\$ 177,838
Inventories		
Raw materials	\$ 8,992	\$ 11,056
Work-in-process	191,920	176,601
Finished goods	55,979	66,497
Inventories	\$ 256,891	\$ 254,154
Property, plant and equipment, net		
Land	\$ 45,168	\$ 45,168
Buildings and leasehold improvements	62,966	61,923
Equipment	398,416	385,679
Construction in progress	18,131	19,734
Accumulated depreciation and amortization	(340,033)	(326,999)
Property, plant and equipment, net	\$ 184,648	\$ 185,505
Other long term assets		
Long term license	\$ 24,954	\$ 30,273
Others	26,026	29,935
Other long term assets	\$ 50,980	\$ 60,208
Accrued compensation and benefits		
Accrued vacation	\$ 11,486	\$ 11,077

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MCA business employees related pension obligation	25,046	22,406
Others	26,203	24,393
Accrued compensation and benefits	\$ 62,735	\$ 57,876

Accrued liabilities and other

Short term license liability	\$ 11,435	\$ 13,003
Obligation recorded from sale of Sunnyvale property	58,908	-
Litigation reserve	17,888	20,419
Others	57,828	52,930
Accrued liabilities and other	\$ 146,059	\$ 86,352

Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued) (Unaudited)

The Company's cash balances are held in numerous locations throughout the world, with the majority in the United States. As of March 30, 2014, the Company had cash, cash equivalents, and short-term investments of \$272.4 million held within the United States and \$17.0 million held outside of the United States. As of December 29, 2013, the Company had cash, cash equivalents, and short term investments of \$298.3 million held within the United States and \$13.2 million held outside of the United States.

All securities other than the certificates of deposit were designated as available-for-sale. Certificates of deposit are held to maturity. Gross unrealized gains and losses on cash equivalents and short term investments were not material as of March 30, 2014 and December 29, 2013. Gross realized gains and losses on cash equivalents and short term investments were not material for the three months ended March 30, 2014 and March 31, 2013.

Sale of Sunnyvale property

On January 23, 2014, the Company sold property in Sunnyvale, California, consisting of 24.5 acres of land with approximately 471,000 square feet of buildings that include its headquarters building and submicron development center, a Pacific Gas & Electric transmission facility and a warehouse building, for net consideration of \$58.9 million. The Company concurrently leased back approximately 170,000 square feet of the headquarters building on a month to month basis with the Company having the option to continue the lease for up to 24 months; thereafter either party can terminate the lease. The first six months of the lease-back are rent free. For accounting purpose, the rents relating to the rent-free period have been netted off against the sale proceeds and represent prepaid rent. The Company's rent-free use of this building constitutes continuing involvement by the Company-lessee, and recognition of the sale of the property and the related gain is deferred until such time the leaseback is at a market rate.

Due to the Company's continuing involvement under the lease, the cash proceeds net of costs were recorded under the financing method as a short term financing obligation, in accordance with the authoritative guidance on leases and sale of real estate. Interest will be imputed on the financing obligation until such time that the sale can be recognized. The property continues to remain on the Company's books and the buildings will be depreciated over their remaining useful life. As of March 30, 2014, \$58.9 million was recorded in Accrued liabilities and other as a financing obligation. After the rent-free period, a portion of the lease payments will be recorded as a decrease to the financing obligation and a portion will be recognized as interest expense.

4. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the activity related to accumulated other comprehensive income (loss), net of tax:

	Net Gains	
	Foreign and Currency	Total
	Losses	
	Translation	
	Adjustment	
	Cash	
	Flow	
	Hedges	

(in thousands)

Beginning Balance, December 29, 2013	\$(4,035)	\$2	\$(4,033)
Other comprehensive income before reclassification, net of tax	296	(4,714)	(4,418)
Amounts reclassified to earnings	-	1,382	(1) 1,382
Net other comprehensive income	\$296	\$(3,332)	\$(3,036)
Ending Balance, March 30, 2014	\$(3,739)	\$(3,330)	\$(7,069)

(1) Reclassified into Net Sales line item of the Condensed Consolidated Statement of Operations. Please see Note 10 for further details.

5. Equity Incentive Plan and Stock-Based Compensation

Equity Incentive Plan

The Company's 2010 Equity Incentive Award Plan (2010 Plan) provides for the grant of stock options, stock appreciation rights, restricted stock units, restricted stock, performance awards, and deferred stock to its employees, consultants and non-employee members of its Board of Directors.

In the first quarter of fiscal 2014, the Company granted performance awards to certain senior executives where vesting is subject to achievement of performance goals established by the Compensation Committee of the Company's Board

of Directors. Performance is measured based on a combination of the Company achieving certain financial targets and a relative total shareholder return (TSR) goal. The TSR goal is based on the Company's TSR measured against a benchmark TSR of a peer group over a three-year period. These awards vest at the end of the performance period of 3 years from the grant date. The number of stock awards to vest will range from 0% to 150% of the original awards granted. In evaluating the fair value of these awards, the Company used a combination of the stock price at the close of market on grant date, for the performance condition, and a Monte Carlo simulation on grant date, taking the market-based goal into consideration, for the market condition.

Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued) (Unaudited)

The numbers of shares of common stock available for grant under the 2010 Plan are shown in the following table:

	Shares Available
	For Grant
Balance as of December 29, 2013	2,350,404
Additional shares issuable under 2010 Plan (annual increase for 2014)	2,069,902
Stock options forfeited/cancelled through March 30, 2014	177,791
RSU awards granted, net of forfeitures/cancellations	(843,040)
Key executive RSU awards forfeited/cancelled through March 30, 2014	357,870
PSU awards granted, net of forfeitures/cancellations ⁽¹⁾	(256,000)
Balance as of March 30, 2014	