

Spansion Inc.
Form 10-Q
November 08, 2007
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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 30, 2007

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 000-51666

SPANSION INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

915 DeGuigne Drive

20-3898239
(I.R.S. Employer

Identification No.)

94088

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Sunnyvale, California
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (408) 962-2500

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). 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 November 1, 2007:

Class	Number of Shares
Class A Common Stock, \$0.001 par value	135,335,096
Class C Common Stock, \$0.001 par value	1

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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)**

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2007	Oct. 1, 2006	Sep. 30, 2007	Oct. 1, 2006
Net sales	\$ 408,605	\$ 458,740	\$ 1,197,270	\$ 855,475
Net sales to related parties (Note 6)	202,464	215,978	650,742	1,036,524
Total net sales	611,069	674,718	1,848,012	1,891,999
Operating expenses:				
Cost of sales (including \$64,590, \$50,911, \$169,063 and \$164,234 of expenses charged by related parties)	500,741	532,563	1,541,360	1,508,848
Research and development (including \$322, \$3,551, \$1,100 and \$12,227 of expenses charged by related parties)	111,231	89,174	323,892	262,954
Sales, general and administrative (including \$168, \$4,019, \$1,089 and \$21,476 of expenses charged by related parties)	58,226	62,951	177,027	195,253
Total operating expenses	670,198	684,688	2,042,279	1,967,055
Operating loss	(59,129)	(9,970)	(194,267)	(75,056)
Other income (expense), net:				
Gain on sale of marketable securities				6,884
Loss on early extinguishment of debt			(3,435)	(17,310)
Interest and other income, net	6,835	3,888	30,873	14,167
Interest expense (including \$0, \$146, \$0 and \$11,875 of expenses on related party debt)	(23,628)	(13,020)	(65,316)	(50,205)
Other income (expense), net	(16,793)	(9,132)	(37,878)	(46,464)
Loss before income taxes	(75,922)	(19,102)	(232,145)	(121,520)
(Benefit) provision for income taxes	(4,320)	3,013	(18,163)	1,231
Net loss	\$ (71,602)	\$ (22,115)	\$ (213,982)	\$ (122,751)
Net loss per common share:				
Basic and diluted	\$ (0.53)	\$ (0.17)	\$ (1.59)	\$ (0.96)
Shares used in per share calculation:				
Basic and diluted	135,049	128,800	134,805	128,470

See accompanying notes

Table of Contents**Spansion Inc.****Condensed Consolidated Balance Sheets**

(in thousands)

	Sep. 30, 2007 (Unaudited)	Dec. 31, 2006 (*)
Assets		
Current assets:		
Cash and cash equivalents	\$ 260,946	\$ 759,794
Marketable securities	268,150	125,975
Trade accounts receivable, net	171,109	199,850
Trade accounts receivable from related parties, net (Note 6)	166,279	193,728
Other receivables from related parties (Note 6)	8,502	2,325
Inventories:		
Raw materials	35,342	44,840
Work-in-progress	378,810	344,603
Finished goods	117,786	66,397
Total inventories	531,938	455,840
Deferred income taxes	32,424	1,395
Prepaid expenses and other current assets	62,866	36,163
Total current assets	1,502,214	1,775,070
Property, plant and equipment, net	2,234,153	1,735,694
Deferred income taxes	26,156	13,556
Other assets	45,292	25,397
Total assets	\$ 3,807,815	\$ 3,549,717
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable to banks under revolving loans	\$	\$ 33,608
Accounts payable	474,851	408,365
Accounts payable to related parties (Note 6)	53,585	14,559
Accrued compensation and benefits	61,692	51,598
Accrued liabilities to related parties (Note 6)	7,085	11,273
Other accrued liabilities	84,592	59,045
Income taxes payable	23,368	4,333
Deferred income on shipments to a related party	303	229
Deferred income on shipments	33,559	32,267
Current portion of long-term obligations to related parties (Note 8)	500	500
Current portion of long-term debt	41,551	12,560
Current portion of long-term obligations under capital leases	43,138	61,706
Total current liabilities	824,224	690,043
Deferred income taxes	67	188
Long-term debt, less current portion	1,236,950	934,138

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Long-term obligations under capital leases, less current portion	49,832	75,535
Other long-term liabilities	32,020	4,053
Commitments and contingencies		
Stockholders' equity	1,664,722	1,845,760
Total liabilities and stockholders' equity	\$ 3,807,815	\$ 3,549,717

* Derived from audited financial statements at December 31, 2006.

See accompanying notes

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

	Nine Months Ended	
	Sep. 30,	Oct. 1,
	2007	2006
Cash Flows from Operating Activities:		
Net loss	\$ (213,982)	\$ (122,751)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	387,709	406,980
Loss on pension curtailment	2,010	
Loss on early extinguishment of debt	3,435	17,310
Provision for doubtful accounts	1,693	471
(Benefit) Provision for deferred income taxes	(43,537)	2,902
Net gain on sale and disposal of property, plant and equipment	(21,946)	(1,362)
Gain on sale of marketable securities		(6,884)
Compensation recognized under employee stock plans	12,084	19,797
Amortization of premium on floating rate notes and discount on senior subordinated and senior notes, net	1,745	2,559
Changes in operating assets and liabilities:		
Decrease in trade accounts receivable from related parties	26,796	204,497
(Increase) decrease in other receivables from related parties	(6,177)	10,300
Decrease (increase) in trade accounts receivable	27,700	(210,053)
Increase in inventories	(76,558)	(6,740)
Increase in prepaid expenses and other current assets	(28,019)	(10,519)
(Increase) decrease in other assets	(21,563)	353
Increase (decrease) in accounts payable and accrued liabilities to related parties	34,938	(110,982)
Increase in accounts payable and accrued liabilities	75,981	104,753
Decrease in accrued compensation and benefits	(965)	(8,541)
Increase (decrease) in income taxes payable	18,984	(11,375)
Increase (decrease) in deferred income on shipments to a related party	74	(31,901)
Increase in deferred income on shipments	1,291	35,759
Net cash provided by operating activities	181,693	284,573
Cash Flows from Investing Activities:		
Proceeds from sale of property, plant and equipment	188,525	3,608
Purchases of property, plant and equipment	(964,666)	(470,830)
Proceeds from maturity and sale of marketable securities	679,900	282,583
Purchases of marketable securities	(822,075)	(63,612)
Net cash used in investing activities	(918,316)	(248,251)
Cash Flows from Financing Activities:		
Cash distribution to related parties for stock-based compensation		(7,238)
Proceeds from sale-leaseback transactions		29,769
Proceeds from borrowings, net of issuance costs	831,042	329,044
Proceeds from issuance of stock	60	
Payments on loans from related parties		(197,119)

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Payments on debt and capital lease obligations	(580,004)	(330,030)
Net cash provided by (used in) financing activities	251,098	(175,574)
Effect of exchange rate changes on cash and cash equivalents	(13,323)	11,000
Net decrease in cash and cash equivalents	(498,848)	(128,252)
Cash and cash equivalents at the beginning of period	759,794	