

Spansion Inc.
Form 10-Q
May 01, 2012
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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 March 25, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)
915 DeGuigne Drive Sunnyvale,
California
(Address of principal executive offices)
(408) 962-2500

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on April 26, 2012:

Class	Number of Shares
Class A Common Stock, \$0.001 par value	59,834,923
Class B Common Stock, \$0.001 par value	1

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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	
	March	March
	25,	27,
	2012	2011
Net sales	\$ 218,758	\$ 292,937
Cost of sales	159,560	224,165
Research and development	26,041	29,829
Sales, general and administrative	32,640	39,683
Restructuring charges	4,518	
Operating loss	(4,001)	(740)
Interest and other income, net	1,505	747
Interest expense	(7,681)	(9,058)
Loss before income taxes	(10,177)	(9,051)
Provision for income taxes	(3,445)	(5,097)
Net loss	(13,622)	(14,148)
Less: Net loss attributable to the noncontrolling interest	(503)	
Net loss attributable to Spansion Inc. common stockholders	\$ (13,119)	\$ (14,148)
Net loss per share		
Basic	\$ (0.22)	\$ (0.23)
Diluted	\$ (0.22)	\$ (0.23)
Shares used in per share calculation		
Basic	59,676	62,140
Diluted	59,676	62,140

See accompanying notes.

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Spansion Inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended	
	March 25, 2012	March 27, 2011
Net loss	\$ (13,622)	\$ (14,148)
Other comprehensive loss, net of tax:		
Foreign currency translation loss	(179)	(824)
Total comprehensive loss	\$ (13,801)	\$ (14,972)
Less: Comprehensive loss attributable to noncontrolling interest	(503)	
Comprehensive loss attributable to Spansion Inc.	\$ (13,298)	\$ (14,972)

See accompanying notes.

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

	March 25, 2012	December 25, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 197,025	\$ 194,850
Short-term investments	63,842	67,855
Accounts receivable, net	112,988	110,343
Inventories	159,689	174,089
Deferred income taxes	5,176	6,275
Prepaid expenses and other current assets	35,110	29,494
Total current assets	573,830	582,906
Property, plant and equipment, net	182,900	209,227
Intangible assets, net	170,507	177,721
Goodwill	167,053	167,219
Other assets	61,021	54,072
Total assets	\$ 1,155,311	\$ 1,191,145
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 62,387	\$ 79,560
Accrued compensation and benefits	30,448	30,676
Other accrued liabilities	55,253	52,598
Income taxes payable	2,779	1,702
Deferred income taxes, short-term	370	360
Deferred income	17,532	18,223
Current portion of long-term debt	12,951	4,222
Total current liabilities	181,720	187,341
Deferred income taxes	5,032	6,135
Long-term debt, less current portion	423,056	445,177
Other long-term liabilities	29,047	29,951
Total liabilities	638,855	668,604
Commitments and contingencies (Note 12)		
Spansion Inc. Stockholders' equity:		
Capital stock:		
Class A common stock, \$0.001 par value, 150,000,000 shares authorized, 59,846,834 shares issued and outstanding	60	60
Class B common stock, \$0.001 par value, 1 share authorized, 1 share issued and outstanding		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding		
Additional paid-in capital	683,025	675,309
Accumulated deficit	(165,696)	(152,578)
Accumulated other comprehensive loss	(1,807)	(1,628)

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Total Spansion Inc. stockholders' equity	515,582	521,163
Noncontrolling interest	874	1,378
Total equity	516,456	522,541
Total liabilities and equity	\$ 1,155,311	\$ 1,191,145

See accompanying notes.

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

	Three Months Ended	
	March	March
	25,	27,
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (13,622)	\$ (14,148)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	25,642	52,083
Gain on liquidation of auction rate securities	(1,059)	
Provision (benefit) for deferred income taxes	126	(1,457)
Net gain on sale and disposal of property, plant and equipment	(163)	(648)
Asset impairment charges	2,070	2,683
Compensation recognized under employee stock plans	6,447	4,548
Amortization of inventory fresh start markup		6,787
Changes in assets and liabilities	(4,508)	(78,758)
Net cash provided by (used for) operating activities	14,933	(28,910)
Cash Flows from Investing Activities:		
Proceeds from liquidation of auction rate securities	1,059	
Proceeds from sale of property, plant and equipment	4,227	2,139
Purchases of property, plant and equipment	(9,229)	(6,053)
Proceeds from maturities of marketable securities	38,396	
Purchases of marketable securities	(34,383)	
Net cash provided by (used for) investing activities	70	(3,914)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock due to options exercised	1,269	
Payments on debt and capital lease obligations	(13,632)	(1,463)
Cash settlement on hedging activities	(268)	(268)
Purchase of bankruptcy claims		(12,000)
Net cash used for financing activities	(12,631)	(13,731)
Effect of exchange rate changes on cash and cash equivalents	(197)	696
Net increase (decrease) in cash and cash equivalents	2,175	(45,859)
Cash and cash equivalents at the beginning of period	194,850	329,294
Cash and cash equivalents at end of period	\$ 197,025	\$ 283,435
Non-cash investing and financing activities:		
Liabilities recorded for purchases of property, plant and equipment	\$ 2,684	\$ 9,394

See accompanying notes.

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements

(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 adjustments consisting of normal and recurring entries considered necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The December 25, 2011 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011 but does not include all disclosures required by U.S. GAAP for annual periods. The Company also adopted fresh start accounting (FSA) for financial reporting purposes upon emergence from bankruptcy proceedings on May 10, 2010.

These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company's audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011 as filed on February 23, 2012 with the SEC. The results of operations for the three months ended March 25, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

The Company's fiscal year is the 52- or 53-week period ending on the Sunday closest to December 31. The additional week in a 53-week year is added to the second quarter to realign the Company's fiscal quarters more closely to calendar quarters. Fiscal 2012 and fiscal 2011 are comprised of 53-week and 52-week periods, respectively.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries and a variable interest entity (VIE) of which the Company was the primary beneficiary. The VIE's financial statements are not significant to the Company's condensed consolidated financial statements for the periods presented. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

There have been no significant changes in the Company's critical accounting estimates or significant accounting policies during the three months ended March 25, 2012 as compared to the discussion in Part II, Item 7 and in Note 3 to the Company's financial statements in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 25, 2011.

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Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

2. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an amendment to its guidance regarding the presentation of comprehensive income. The amended guidance gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB further modified the guidance by deferring until further notice the requirement of presenting the effects of reclassification adjustments on accumulated other comprehensive income as both components of net income and of other comprehensive income. This guidance is effective on a retrospective basis for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance in the first quarter of fiscal 2012 did not have a material impact on the Company's financial position, results of operations or cash flows as it only impacted the presentation of the financial statements. The Company has opted to present this information in two separate but consecutive statements.

In September 2011, the FASB issued an amendment to the guidance regarding the testing of goodwill for impairment. The amended guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance in the first quarter of fiscal 2012 did not have a material impact on the Company's financial position, results of operations or cash flows.

3. Balance Sheet Components

The Company's cash balances are held in numerous locations throughout the world but primarily held in the United States. As of March 25, 2012, the Company had cash, cash equivalents, and short-term investments of \$246.7 million held within the United States and \$14.2 million held outside of the United States. As of December 25, 2011, the Company had cash, cash equivalents, and short term investments of \$252.2 million held within the United States and \$10.5 million held outside of the United States.

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Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

All securities other than the Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit were designated as available-for-sale. FDIC insured certificates of deposits are held to maturity. Gross unrealized gains and losses on cash equivalents and short term investments were not material for the three months ended March 25, 2012 and December 25, 2011. Gross realized gains and losses on cash equivalents and short term investments were not material for the three months ended March 25, 2012 and March 27, 2011.

	March 25, 2012	December 25, 2011
	(in thousands)	
Cash and cash equivalents		
Cash	\$ 186,848	\$ 192,802
Cash equivalents:		
Time deposit	4,065	
Money market funds	3,603	1,172
FDIC insured certificates of deposits	2,509	876
Cash and cash equivalents	\$ 197,025	\$ 194,850
Short-term investments		
Commercial Papers	\$ 24,964	\$ 24,963
FDIC insured certificates of deposits	38,878	42,892
Short-term investments	\$ 63,842	\$ 67,855
Account receivable, net		
Accounts receivable, gross	\$ 113,218	\$ 110,567
Allowance for doubtful accounts	(230)	(224)
Account receivable, net	\$ 112,988	\$ 110,343
Inventories		
Raw materials	\$ 10,518	\$ 12,442
Work-in-process	132,685	130,671
Finished goods	16,486	30,976
Inventories	\$ 159,689	\$ 174,089
Property, plant and equipment, net		
Land	\$ 51,778	\$ 51,778
Buildings and leasehold improvements	52,586	68,177
Equipment	307,976	309,288
Construction in progress	7,215	10,806
Accumulated depreciation and amortization	(236,655)	(230,822)
Property, plant and equipment, net	\$ 182,900	\$ 209,227

4. 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.

Generally, annual restricted stock unit (RSU) awards for employees vest in four substantially equal annual installments on the anniversary date of the grant. In the first quarter of fiscal 2012, the Company issued three-year RSU awards which vest in three substantially equal annual installments on the anniversary date of the grant.

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Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

The key executive RSU awards generally have a four-year performance period, with 50 percent of each target award (base shares) subject to performance goals in each of the four fiscal years following the date of grant. In the first quarter of fiscal 2012, the Company issued three-year key executive RSU awards with a three year performance period with one-third of each target award (base shares) subject to performance goals in each of the three fiscal years following the date of grant. A minimum of 50 percent and a maximum of 150 percent of base shares may vest over a three-year period, subject to performance. If the performance goals are not met in a particular year, the unvested shares will be carried forward and will be forfeited if not earned by the last performance year. If performance is above target in a particular year, base shares earned will be accelerated after shares carried forward from prior years are used.

In the first quarter of fiscal 2012, the Company issued additional two-year key executive RSU awards to certain executives in lieu of participation in the Company's annual cash bonus plan, with 100 percent of each award (base shares) subject to performance goals in each of the two fiscal years following the date of grant. 25 percent of these awards are eligible for accelerated vesting on July 31, 2012 based on achievement of the first six months performance targets in fiscal 2012. The annual performance goals for these awards are the same as those for the three and four-year key executive RSU awards. A minimum of 0% and maximum of 100% of base shares vest each year, subject to performance. Unvested shares will not be carried forward and will be forfeited if not earned in any particular year.

The numbers of shares of common stock available for grant at March 25, 2012 under the 2010 Plan are shown in the following table:

	Shares Available For Grant
Balance as of December 25, 2011	2,150,354
Additional shares issuable under 2010 Plan (annual increase for 2012)	3,560,245
Stock options granted, net of forfeitures/cancellations	(2,138,377)
RSU awards granted, net of forfeitures/cancellations	(940,978)
Key Executive RSU awards granted, net of forfeitures/cancellations	(902,771)
Balance as of March 25, 2012	1,728,473

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Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

Stock-Based Compensation

The following table sets forth the total recorded stock-based compensation expense by financial statement caption resulting from the Company's stock options and RSU awards:

	Three Months Ended	
	March 25, 2012	March 27, 2011
	(in thousands)	
Cost of sales	\$ 1,296	\$ 616
Research and development	1,586	814
Sales, general and administrative	3,565	3,118
Stock-based compensation expense before income taxes	6,447	4,548
Stock-based compensation expense after income taxes ⁽¹⁾	\$ 6,447	\$ 4,548

(1) There was no income tax benefit related to stock-based compensation because all of the Company's U.S. deferred tax assets, net of U.S. deferred tax liabilities, continue to be subject to a full valuation allowance.

The weighted average fair value of the Company's stock options granted in the three months ended March 25, 2012 and March 27, 2011 was \$4.04 and \$9.23 per share, respectively. 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	
	Three Months Ended	Three Months Ended
	March 25, 2012	March 27, 2011
Expected volatility	51.36%	55.81%
Risk-free interest rate	0.92%	1.89%
Expected term (in years)	4.35	4.35
Dividend yield	0.00%	0.00%

As of March 25, 2012, the total unrecognized compensation cost related to unvested stock options and RSU awards was approximately \$58.2 million after reduction for estimated forfeitures, and such stock options and RSU awards will generally vest ratably through 2015.

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

Stock Option and Restricted Stock Unit Activity

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding stock options as of December 25, 2011	4,295,794	\$ 14.97	5.65	
Granted	2,246,900	\$ 9.63		
Canceled/Forfeited	(108,523)	\$ 4.77		
Exercised	(101,556)	\$ 10.51		
Outstanding stock options as of March 25, 2012	6,332,615	\$ 13.32	6.03	\$ 8,267
Total vested and exercisable as of March 25, 2012	1,517,149	\$ 13.38	5.34	\$ 1,586

No income tax benefit was realized from stock option exercises for the three months ended March 25, 2012.

The following table summarizes RSU and key executive RSU award activities and related information for the three months ended March 25, 2012:

	RSU Number of Shares	Weighted Average Grant-date Fair Value	Key Executive RSU Number of Shares	Weighted Average Grant-date Fair Value
Outstanding as of December 25, 2011	2,143,035	\$ 14.94	969,956	\$ 13.71
Granted	1,040,158	\$ 14.17	1,050,222	\$ 10.03
Canceled/Forfeited	(99,180)	\$ 10.04	(147,451)	\$ 15.24
Vested	(337,900)		(147,451)	\$ 10.03
Outstanding as of March 25, 2012	2,746,113	\$ 9.91	1,725,276	\$ 11.65

As described above, key executive RSUs granted during the quarter ended March 25, 2012 have both service and performance conditions for vesting.

5. Net Income Per Share

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

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Spansion Inc.

Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

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

For the three months ended March 25, 2012 and March 27, 2011, the Company excluded from its diluted per share computation approximately 2.3 million and 4.6 million, respectively, of potential shares of common stock issuable upon exercise of outstanding stock options and vesting of outstanding RSUs because they had an anti-dilutive effect.

6. Intangible Assets and Goodwill**Intangible Assets**

The following tables present intangible assets balances as of the dates indicated below:

	March 25, 2012			December 25, 2011		
	Gross Amount	Accumulated Amortization	Net Amount	(in thousands)		
				Gross Amount	Accumulated Amortization	Net Amount
Developed Technology	\$ 107,215	\$ (22,776)	\$ 84,439	\$ 100,167	\$ (18,828)	\$ 81,339
Customer relationships	93,675	(17,826)	75,849	94,227	(15,427)	78,800
Trade Name	8,374	(2,315)	6,059	8,374	(2,001)	6,373
IP R&D	4,160		4,160	11,209		11,209
Total	\$ 213,424	\$ (42,917)	\$ 170,507	\$ 213,977	\$ (36,256)	\$ 177,721

Amortization expense for intangible assets was \$6.7 million and \$5.2 million for the three months ended March 25, 2012 and March 27, 2011, respectively. The estimated future amortization expenses for intangible assets arising from FSA are summarized below:

	Estimated Future Amortization (in thousands)
Fiscal 2012 (remaining 9 months)	\$ 21,608
Fiscal 2013	27,242
Fiscal 2014	27,242
Fiscal 2015	27,242
Fiscal 2016	27,526
Fiscal 2017 and beyond	39,647
Total	\$ 170,507

In-Process Research and Development (IP R&D)

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As of March 25, 2012, approximately \$38.8 million of the total capitalized IP R&D of \$43.0 million relating to Spansion GL NOR Flash memory projects reached technological feasibility and were transferred to developed technology. Of the \$38.8 million, \$ 7.0 million was capitalized during the three month ended March 25, 2012. The Company estimated the useful life for developed technology at 7 years and

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Notes to Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

amortization of \$1.4 million was recorded for the three months ended March 25, 2012 for this developed technology. The Company expects the remaining projects (relating to the development of process technologies to manufacture flash memory products associated with Spansion GL and FL product families) to attain technological feasibility and commence commercial production during the second quarter of fiscal 2012.

Goodwill

The changes in the carrying amount of goodwill as of March 25, 2012, are as follows:

	Total (in thousands)
Goodwill as of December 26, 2010	\$ 153,338
Goodwill from consolidation of variable interest entity	5,155
Adjustment to fresh start accounting	8,598
Translation (loss)/gain	128
Goodwill as of December 25, 2011	\$ 167,219
Translation (loss)/gain	(166)
Goodwill as of March 25, 2012	