Spirit AeroSystems Holdings, Inc.
Form 10-Q
August 07, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2009

Or

o **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 001-33160

Spirit AeroSystems Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**20-2436320**
(State of Incorporation)	*(I.R.S. Employer Identification Number)*

3801 South Oliver
Wichita, Kansas 67210
(Address of principal executive offices and zip code)
Registrant s telephone number, including area code:
(316) 526-9000

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted to 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 o No o

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 smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 3, 2009, the registrant had outstanding 104,665,952 shares of class A common stock, $0.01 par value per share and 34,281,016 shares of class B common stock, $0.01 par value per share.

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PART I- FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements (unaudited)***

Spirit AeroSystems Holdings, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2009	June 26, 2008	July 2, 2009	June 26, 2008
	($ in millions, except per share data)			
Net revenues	$ 1,059.6	$ 1,062.1	$ 1,947.0	$ 2,098.5
Operating costs and expenses				
Cost of sales	1,021.6	874.5	1,758.9	1,731.8
Selling, general and administrative	34.7	40.9	73.1	80.0
Research and development	13.7	10.6	27.6	20.4
Total operating costs and expenses	1,070.0	926.0	1,859.6	1,832.2
Operating income (loss)	(10.4)	136.1	87.4	266.3
Interest expense and financing fee amortization	(9.8)	(10.5)	(18.9)	(19.6)
Interest income	2.0	5.0	4.6	10.7
Other income, net	4.2	0.2	5.7	1.6
Income (loss) before income taxes	(14.0)	130.8	78.8	259.0
Income tax benefit (provision)	5.8	(44.4)	(24.4)	(87.4)
Income (loss) before equity in net loss of affiliates	(8.2)	86.4	54.4	171.6
Equity in net loss of affiliate	(0.1)			
Net income (loss)	$ (8.3)	$ 86.4	$ 54.4	$ 171.6
Earnings (loss) per share				
Basic	$ (0.06)	$ 0.63	$ 0.39	$ 1.25
Diluted	$ (0.06)	$ 0.62	$ 0.39	$ 1.23

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

	July 2, 2009	December 31, 2008
	($ in millions)	
Current assets		
Cash and cash equivalents	$ 88.9	$ 216.5
Accounts receivable, net	263.8	149.3
Current portion of long-term receivable	55.7	108.9
Inventory, net	2,093.1	1,882.0
Income tax receivable-current	38.0	3.8
Deferred tax asset-current	65.4	62.1
Other current assets	13.2	10.7
Total current assets	2,618.1	2,433.3
Property, plant and equipment, net	1,167.6	1,068.3
Pension assets	59.7	60.1
Deferred tax asset-non-current	149.5	146.0
Other assets	66.1	52.6
Total assets	$ 4,061.0	$ 3,760.3
Current liabilities		
Accounts payable	$ 434.3	$ 316.9
Accrued expenses	159.1	161.8
Current portion of long-term debt	6.3	7.1
Advance payments, short-term	206.2	138.9
Deferred revenue, short-term	64.3	110.5
Other current liabilities	18.7	8.1
Total current liabilities	888.9	743.3
Long-term debt	729.7	580.9
Advance payments, long-term	812.5	923.5
Deferred revenue and other deferred credits	60.1	58.6
Pension/OPEB obligation	48.3	47.3
Deferred grant income liability	86.5	38.8
Other liabilities	60.6	70.4
Shareholders equity		
Preferred stock, par value $0.01, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, Class A par value $0.01, 200,000,000 shares authorized, 104,686,385 and 103,209,466 issued and outstanding, respectively	1.0	1.0
Common stock, Class B par value $0.01, 150,000,000 shares authorized, 36,368,243 and 36,679,760 shares issued and outstanding, respectively	0.4	0.4
Additional paid-in capital	945.6	939.7
Noncontrolling interest	0.5	0.5

Accumulated other comprehensive loss	(117.6)		(134.2)
Retained earnings	544.5		490.1
Total shareholders equity	1,374.4		1,297.5
Total liabilities and shareholders equity	$ 4,061.0	$	3,760.3

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the Six Months Ended July 2, 2009	For the Six Months Ended June 26, 2008
	($ in millions)	
Operating activities		
Net income	$ 54.4	$ 171.6
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation expense	62.2	57.8
Amortization expense	4.7	4.6
Accretion of long-term receivable	(4.5)	(9.3)
Employee stock compensation expense	6.0	7.5
Loss from the ineffectiveness of hedge contracts		0.6
Gain from foreign currency transactions	(4.7)	
Loss on disposition of assets		(0.4)
Deferred taxes	(4.6)	0.5
Pension and other post retirement benefits, net	1.0	(14.3)
Grant income	(0.5)	
Changes in assets and liabilities		
Accounts receivable	(109.4)	(52.9)
Inventory, net	(203.0)	(310.2)
Accounts payable and accrued liabilities	109.2	36.2
Advance payments	(43.7)	183.9
Deferred revenue and other deferred credits	(45.7)	0.3
Income taxes receivable/payable	(37.6)	10.3
Other	0.2	(7.8)
Net cash provided by (used in) operating activities	(216.0)	78.4
Investing Activities		
Purchase of property, plant and equipment	(106.7)	(119.4)
Long-term receivable	57.7	56.5
Other	0.7	1.5
Net cash (used in) investing activities	(48.3)	(61.4)
Financing Activities		
Proceeds from revolving credit facility	250.0	75.0
Payments on revolving credit facility	(100.0)	(75.0)
Proceeds from issuance of debt		9.4
Principal payments of debt	(3.9)	(7.9)
Proceeds from governmental grants	0.6	1.4

Debt issuance and financing costs		(10.2)		(6.8)
Net cash provided by (used in) financing activities		136.5		(3.9)
Effect of exchange rate changes on cash and cash equivalents		0.2		0.9
Net increase (decrease) in cash and cash equivalents for the period		(127.6)		14.0
Cash and cash equivalents, beginning of period		216.5		133.4
Cash and cash equivalents, end of period	$	88.9	$	147.4
Supplemental Information				
Change in value of financial instruments	$	0.2	$	3.8
Property acquired through capital leases	$	1.9	$	3.3

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
($ in millions other than per share)

1. Organization and Basis of Interim Presentation

Spirit AeroSystems Holdings, Inc. (Holdings or the Company) was incorporated in the state of Delaware on February 7, 2005, and commenced operations on June 17, 2005 through the acquisition of The Boeing Company s (Boeing) operations in Wichita, Kansas, Tulsa, Oklahoma and McAlester, Oklahoma (the Boeing Acquisition). Holdings provides manufacturing and design expertise in a wide range of products and services for aircraft original equipment manufacturers and operators through its subsidiary, Spirit AeroSystems, Inc. (Spirit). Onex Corporation (Onex) of Toronto, Canada maintains majority voting power of Holdings. In April 2006, Holdings acquired the aerostructures division of BAE Systems (Operations) Limited (BAE Aerostructures), which builds structural components for Airbus, Boeing and Hawker Beechcraft Corporation. Prior to this acquisition, Holdings sold essentially all of its production to Boeing. Since Spirit s incorporation, the Company has expanded its customer base to include Sikorsky, Rolls-Royce, Gulfstream, Cessna, Bombardier, Mitsubishi Aircraft Corporation, Southwest Airlines, and Continental Airlines. The Company has its headquarters in Wichita, Kansas, with manufacturing facilities in Tulsa and McAlester, Oklahoma, Prestwick, Scotland, and in Wichita. Spirit opened a new manufacturing facility in Subang, Malaysia in early 2009 for the production of composite panels for wing components and expects to open another manufacturing facility in Kinston, North Carolina in 2010 that will initially produce components for the Airbus A350 XWB aircraft.

Spirit is the majority participant in the Kansas Industrial Energy Supply Company (KIESC), a tenancy-in-common with other Wichita companies established to purchase natural gas.

Spirit participates in two joint ventures, Spirit-Progresstech LLC (Spirit-Progresstech) and Taikoo Spirit AeroSystems Composite Co. Ltd. (TSACCL), of which Spirit s ownership interest is 50% and 25.5%, respectively. Spirit-Progresstech provides aerospace engineering support services and TSACCL was formed to develop and implement a state of the art composite and metal bond component repair station in the Asia-Pacific region.

The accompanying unaudited interim condensed consolidated financial statements include the Company s financial statements and the financial statements of its majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and Article 10 of Regulation S-X. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership), including Spirit-Progresstech and TSACCL, are accounted for under the equity method. KIESC is fully consolidated as Spirit owns 77.8% of the entity s equity. All intercompany balances and transactions have been eliminated in consolidation. Spirit s U.K. subsidiary uses local currency, the British pound, as its functional currency. All other foreign subsidiaries use local currency as their functional currency with the exception of our Malaysian subsidiary, which uses the British pound.

As part of the monthly consolidation process, the functional currencies of our international subsidiaries are translated to U.S. dollars using the end-of-month translation rate for balance sheet accounts and average period currency translation rates for revenue and income accounts as defined by SFAS No. 52, *Foreign Currency Translation (as amended*).

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the six months ended July 2, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2009 presentation. The Company adjusted its balance sheet to reflect retrospective presentation of noncontrolling interests from Other liabilities to the Shareholders equity section at July 2, 2009 and December 31, 2008 in accordance with reporting requirements under SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). The adoption of SFAS 160 did not have a material impact on the Company s results of operations or statement of cash flows. In connection with the preparation of the condensed consolidated financial statements and in accordance with the recently issued SFAS No. 165, *Subsequent Events* (SFAS 165), the Company evaluated subsequent events after the balance sheet date of July 2, 2009 through August 7, 2009, which is the date these financial statements were issued. Staff Position FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1), was effective for the Company beginning January 1, 2009. The adoption of FSP EITF 03-6-1 did not have a material impact on our consolidated financial statements.

Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
($ in millions other than per share)

The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 20, 2009.

2. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of SFAS 168 to have a material impact on our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which changes the consolidation guidance applicable to a variable interest entity (VIE). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, through qualitative analysis rather than quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impacts the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46(R) required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. Other special purpose entities, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. SFAS 167 also requires enhanced disclosures about an enterprise s involvement with a VIE. SFAS 167 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact of adoption of SFAS 167.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166). SFAS 166 requires additional disclosures about the transfer and derecognition of financial assets and eliminates the concept of qualifying special-purpose entities under SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of SFAS 166 to have a material impact on our financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 prescribes the period after the balance sheet date during which management should evaluate transactions for potential recognition, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date and the required disclosures an entity should make about transactions or events occurring after the balance sheet date. This statement is effective for interim or annual periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the financial statements of the Company.

In April 2009, the FASB issued Staff Position FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP No. 157-4). This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and activity for the asset and liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of FSP No. 157-4 did not have a material impact on our financial position or results of operations. The Company adopted the provisions of FSP No. 157-4 effective for the period ended July 2, 2009. See Note 10 for the Company s disclosures about its derivative and hedging activities.

In April 2009, the FASB issued Staff Position FSP No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies* (FSP No. 141(R)-1). This FSP amends and clarifies FASB Statement No. 141 (revised 2007), *Business Combinations*, to address application issues on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP No. 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of FSP No. 141(R)-1 to have a material impact on our financial position or results of operations.

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Spirit AeroSystems Holdings, Inc.
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($ in millions other than per share)

In April 2009, the FASB issued Staff Position FSP No. 107-1 and ABP 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP No. 107-1 and APB 28-1). This FSP requires disclosures about fair value of financial instruments for interim periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information for interim reporting periods. The Company adopted the provisions of FSP No. 107-1 and APB 28-1 effective for the period ended July 2, 2009. See Note 11 for the Company s disclosures about its estimated fair value on long-term debt.

In December 2008, the FASB issued Staff Position FSP No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP No. 132(R)-1). This FSP amends SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on employers disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009. The Company does not expect the adoption of FSP No. 132(R)-1 to have a material impact on our financial position or results of operations.

In November 2008, the FASB ratified EITF Issue No. 08-06 (EITF 08-06), *Equity Method Investment Accounting Considerations*. EITF 08-06 addresses the accounting for equity method investments as a result of the accounting changes prescribed by SFAS No. 141(R) and SFAS No. 160. EITF 08-06 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-06 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The adoption of EITF 08-06 did not have a material impact on the Company s financial position or results of operations.

In June 2008, the FASB issued Staff Position (FSP) Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that treats a participating security as having rights to undistributed earnings that would otherwise have been available to common shareholders. FSP EITF 03-6-1 was effective for the Company beginning January 1, 2009. The adoption of FSP EITF 03-6-1 did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161), which requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company adopted the provisions of SFAS 161 effective January 1, 2009. See Note 10 for the Company s disclosures about its derivative and hedging activities.

In February 2008, the FASB issued Staff Position FSP No. 157-2, *Partial Deferral of the Effective Date of Statement 157* (FSP No. 157-2), which delayed the adoption date until January 1, 2009 for non-financial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets. The adoption of FSP No. 157-2 did not have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. As a result of adopting SFAS 160 in first quarter of 2009, the Company adjusted its balance sheet to reflect retrospective presentation prescribed by SFAS 160 of noncontrolling interests in the amount of $0.5 from Other liabilities to the Shareholders equity section at April 2, 2009 and December 31, 2008. The Company considered SFAS 154, *Accounting Changes and Errors Corrections (as amended)*, to ensure this change in accounting principle is properly accounted for. The adoption of SFAS 160 did not have a material impact on the Company s results of operations or statement of cash flows.

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
($ in millions other than per share)

3. Accounts Receivable

Accounts receivable, net consists of the following:

	July 2, 2009	December 31, 2008
Trade receivables	$ 250.0	$ 101.2
Volume-based pricing accrual	8.8	29.7
Employee receivables	0.2	1.9
Other	4.9	16.6
Total	263.9	149.4
Less: allowance for doubtful accounts	(0.1)	(0.1)
Accounts receivable, net	$ 263.8	$ 149.3

4. Inventory

Inventories are summarized as follows:

	July 2, 2009	December 31, 2008
Raw materials	$ 199.1	$ 176.3
Work-in-process	1,454.0	1,260.3
Finished goods	27.5	27.5
Product inventory	1,680.6	1,464.1
Capitalized pre-production	412.5	417.9
Total inventory, net	$ 2,093.1	$ 1,882.0

Inventories are summarized by platform as follows:

	July 2, 2009	December 31, 2008
B737	$ 340.3	$ 309.6
B747(1)	189.6	154.2
B767	23.5	16.6
B777	154.3	166.4
B787(2)	853.6	768.3
Airbus All platforms	127.3	70.7
Gulfstream(3)	277.2	224.7
Rolls-Royce	48.8	43.7
Cessna Citation Columbus	22.5	20.0
Aftermarket	26.9	25.7

Other in-process inventory related to long-term contracts and other programs(4)	29.1	82.1
Total inventory	$ 2,093.1	$ 1,882.0

(1) B747 inventory includes $90.2 and $63.6 in non-recurring production costs at July 2, 2009 and December 31, 2008, respectively, related to the B747-8 program. Also included is $26.0 of progress payments for B747-8 tooling received in 2009, which is netted against the B747 inventory.

(2) B787 inventory includes $233.7 and $235.4 in capitalized pre-production costs at July 2, 2009 and December 31, 2008, respectively.

(3) Gulfstream inventory includes $172.0 and $182.5 in capitalized pre-production costs at July 2, 2009 and December 31, 2008, respectively.

(4) Includes non-program

specific inventoriable cost accruals and miscellaneous other work-in-process.

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
($ in millions other than per share)

Capitalized pre-production costs include certain costs, including applicable overhead, incurred before a product is manufactured on a recurring basis. These costs are typically recovered over a certain number of ship set deliveries and the Company believes these amounts will be fully recovered.

At July 2, 2009, work-in-process inventory included $307.4 of deferred production costs, which is comprised of $271.3 related to B787, $64.1 on certain other contracts for the excess of production costs over the estimated average cost per ship set, and ($28.0) of credit balances for favorable variances on other contracts between actual costs incurred and the estimated average cost per ship set for units delivered under the current production blocks. These balances were $162.0, including $169.4 related to the B787 and $30.6 for certain other contracts, and ($38.0) of credit balances for favorable variances on other contracts between actual costs incurred and the estimated cost per ship set for units delivered under the current production blocks, respectively, at December 31, 2008. Recovery of excess over average deferred production costs is dependent on the number of ship sets ultimately sold and the ultimate selling prices and lower production costs associated with future production under these contract blocks. The Company believes these amounts will be fully recovered.

Sales significantly under estimates or costs significantly over estimates could result in the realization of losses on these contracts in future periods.

The following is a roll forward of the inventory obsolescence and surplus reserve included in the inventory balances at July 2, 2009:

Balance-December 31, 2008	$ 31.2
Charges to costs and expenses	2.0
Write-offs, net of recoveries	(10.9)
Exchange rate	0.2
Balance-July 2, 2009	$ 22.5

5. Property, Plant and Equipment

Property, plant and equipment, net consists of the following:

	July 2, 2009	December 31, 2008
Land	$ 17.0	$ 15.5
Buildings (including improvements)	266.5	206.5
Machinery and equipment	547.7	512.8
Tooling	464.6	428.9
Construction in progress	235.6	204.3
Total	1,531.4	1,368.0
Less: accumulated depreciation	(363.8)	(299.7)
Property, plant and equipment, net	$ 1,167.6	$ 1,068.3

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was $0.7 and $1.6 for the three months ended July 2, 2009 and June 26, 2008, respectively, and $2.5 and $3.1 for the six months ended July 2, 2009 and June 26, 2008, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized $23.9 and $27.0 of repair and maintenance expense for the three months ended July 2, 2009 and June 26, 2008, respectively, and $44.2 and $49.6 for the six months ended July 2, 2009 and June 26, 2008, respectively.

We capitalize certain costs, such as software coding, installation and testing, that are incurred to purchase or to create and implement internal use computer software in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Depreciation expense related to capitalized software was $3.5 and $5.5 for the three months ended July 2, 2009 and June 26, 2008, respectively, and $7.3 and $11.3 for the six months ended July 2, 2009 and June 26, 2008, respectively.

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
($ in millions other than per share)

6. Current Portion of Long-Term Receivable

In connection with the Boeing Acquisition, Boeing is required to make future non-interest bearing payments to Spirit attributable to the acquisition of title of various tooling and other capital assets to be determined by Spirit. Spirit will retain usage rights and custody of the assets for their remaining useful lives without compensation to Boeing. Since Spirit retains the risks and rewards of ownership to such assets, Spirit recorded such amounts as consideration to be returned from Boeing. The discounted receivable is accreted as interest income until payments occur and are recorded as a component of other current assets. The accretion of interest income was $2.0 and $4.4 for the three months ended July 2, 2009 and June 26, 2008, respectively, and $4.5 and $9.3 for the six months ended July 2, 2009 and June 26, 2008, respectively.

The following is a schedule of future payments from this receivable:

2009	$ 57.7

A discount rate of 9.75% was used to record these payments at their estimated present value of $55.7 and $108.9 at July 2, 2009 and December 31, 2008, respectively. At July 2, 2009, the remaining discounted balance of this receivable was all current.

7. Other Assets

Other assets are summarized as follows:

	July 2, 2009	December 31, 2008
Intangible assets		
Patents	$ 2.0	$ 2.0
Favorable leasehold interests	9.7	9.7
Customer relationships	28.3	25.3
Total intangible assets	40.0	37.0
Less: Accumulated amortization-patents	(0.6)	(0.6)
Accumulated amortization-favorable leasehold interest	(2.8)	(2.5)
Accumulated amortization-customer relationships	(11.5)	(8.7)
Intangible assets, net	25.1	25.2
Deferred financing costs, net	21.8	14.3
Fair value of derivative instruments	1.0	3.8
Goodwill	3.0	2.7
Equity in net assets of affiliates	4.0	3.9
Other	11.2	2.7
Total	$ 66.1	$ 52.6

Deferred financing costs are recorded net of $17.5 and $14.7 of accumulated amortization at July 2, 2009 and December 31, 2008, respectively. During the second quarter of 2009, the Company incurred $10.2 of additional deferred financing costs in connection with the amendment to its revolving credit facility on June 8, 2009.

The Company recognized $1.1 and $1.2 of amortization expense of intangibles for the three months ended July 2, 2009 and June 26, 2008, respectively, and $2.0 and $2.6 for the six months ended July 2, 2009 and June 26, 2008, respectively.

8. Advance Payments and Deferred Revenue/Credits

Advance payments. Advance payments are those payments made to Spirit by third parties in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or for other assets to be provided by Spirit on a contract and are repayable if such obligation is not satisfied. The amount of advance payments to be recovered against units expected to be delivered within a year is classified as a short-term liability, with the balance of the unliquidated advance payments classified as a long-term liability. Progress payments differ from advance payments in that progress payments are made for work completed prior to receipt of payment.

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Spirit AeroSystems Holdings, Inc.
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($ in millions other than per share)

Deferred revenue. Deferred revenue consists of nonrefundable amounts received in advance of revenue being earned for specific contractual deliverables. These payments are classified as deferred revenue when received, and recognized as revenue as the production units are delivered.

Advance payments and deferred revenue/credits are summarized by platform as follows: