Spirit AeroSystems Holdings, Inc.
Form 10-Q
August 06, 2010

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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 1, 2010

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 þ 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 2, 2010, the registrant had outstanding 106,867,704 shares of class A common stock, $0.01 par value per share and 35,429,705 shares of class B common stock, $0.01 par value per share.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2010	July 2, 2009	July 1, 2010	July 2, 2009
	($ in millions, except per share data)			
Net revenues	$ 1,056.0	$ 1,059.6	$ 2,099.3	$ 1,947.0
Operating costs and expenses				
Cost of sales	919.6	1,021.6	1,820.7	1,758.9
Selling, general and administrative	38.1	34.7	77.4	73.1
Research and development	12.6	13.7	22.5	27.6
Total operating costs and expenses	970.3	1,070.0	1,920.6	1,859.6
Operating income (loss)	85.7	(10.4)	178.7	87.4
Interest expense and financing fee amortization	(13.8)	(9.8)	(27.8)	(18.9)
Interest income	0.1	2.0	0.2	4.6
Other income (expense), net	2.7	4.2	(2.8)	5.7
Income (loss) before income taxes and equity in net loss of affiliates	74.7	(14.0)	148.3	78.8
Income tax benefit (provision)	(19.6)	5.8	(37.4)	(24.4)
Income (loss) before equity in net loss of affiliates	55.1	(8.2)	110.9	54.4
Equity in net loss of affiliates		(0.1)	(0.3)	
Net income (loss)	$ 55.1	$ (8.3)	$ 110.6	$ 54.4
Earnings (loss) per share				
Basic	$ 0.40	$ (0.06)	$ 0.80	$ 0.39
Diluted	$ 0.39	$ (0.06)	$ 0.79	$ 0.39

See notes to condensed consolidated financial statements (unaudited)

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

	July 1, 2010	December 31, 2009
	($ in millions)	
Current assets		
Cash and cash equivalents	$ 117.6	$ 369.0
Accounts receivable, net	270.1	160.4
Inventory, net	2,375.3	2,206.9
Deferred tax asset-current	55.0	55.8
Other current assets	36.7	60.8
Total current assets	2,854.7	2,852.9
Property, plant and equipment, net	1,357.0	1,279.3
Pension assets	182.6	171.2
Deferred tax asset-non-current	86.4	95.8
Other assets	62.3	74.6
Total assets	$ 4,543.0	$ 4,473.8
Current liabilities		
Accounts payable	$ 473.5	$ 441.3
Accrued expenses	176.4	165.5
Current portion of long-term debt	6.7	9.1
Advance payments, short-term	219.4	237.4
Deferred revenue, short-term	95.6	107.1
Other current liabilities	20.7	21.8
Total current liabilities	992.3	982.2
Long-term debt	886.5	884.7
Advance payments, long-term	671.1	727.5
Deferred revenue and other deferred credits	40.3	46.0
Pension/OPEB obligation	66.1	62.6
Deferred grant income liability	134.7	129.3
Other liabilities	52.2	67.7
Shareholders equity		
Preferred stock, par value $0.01, 10,000,000 shares authorized, no shares issued		
Common stock, Class A par value $0.01, 200,000,000 shares authorized, 105,993,873 and 105,064,561 shares issued, respectively	1.1	1.0
Common stock, Class B par value $0.01, 150,000,000 shares authorized, 35,221,084 and 35,669,740 shares issued, respectively	0.4	0.4
Additional paid-in capital	974.4	949.8
Accumulated other comprehensive loss	(69.0)	(59.7)
Retained earnings	792.4	681.8
Total shareholders equity	1,699.3	1,573.3

Noncontrolling interest	0.5	0.5
Total equity	1,699.8	1,573.8
Total liabilities and equity	$ 4,543.0	$ 4,473.8

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 1, 2010	For the Six Months Ended July 2, 2009
	($ in millions)	
Operating activities		
Net income	$ 110.6	$ 54.4
Adjustments to reconcile net income to net cash (used in) operating activities		
Depreciation expense	55.2	62.2
Amortization expense	2.1	2.0
Amortization of deferred financing fees	4.3	2.7
Accretion of long-term receivable		(4.5)
Employee stock compensation expense	21.6	6.0
Excess tax benefit of share-based payment arrangements	(3.1)	
(Gain) loss from foreign currency transactions	6.7	(4.7)
(Gain) on disposition of assets	(0.1)	
Deferred tax	7.9	(4.6)
Long-term tax benefit	(17.5)	
Pension and other post retirement benefits, net	(5.7)	1.0
Grant income	(0.6)	(0.5)
Equity in net loss of affiliates	0.3	
Changes in assets and liabilities		
Accounts receivable	(119.5)	(109.4)
Inventory, net	(172.2)	(203.0)
Accounts payable and accrued liabilities	50.2	109.2
Advance payments	(74.4)	(43.7)
Deferred revenue and other deferred credits	(14.8)	(45.7)
Income taxes receivable/payable	26.4	(37.6)
Other	5.3	0.2
Net cash (used in) operating activities	(117.3)	(216.0)
Investing activities		
Purchase of property, plant and equipment	(130.6)	(106.7)
Long-term receivable		57.7
Other	(0.7)	0.7
Net cash (used in) investing activities	(131.3)	(48.3)
Financing activities		
Proceeds from revolving credit facility		250.0
Payments on revolving credit facility		(100.0)
Principal payments of debt	(5.9)	(3.9)

Proceeds from government grants		0.6
Debt issuance and financing costs		(10.2)
Excess tax benefit of share-based payment arrangements	3.1	
Net cash provided by (used in) financing activities	(2.8)	136.5
Effect of exchange rate changes on cash and cash equivalents		0.2
Net (decrease) in cash and cash equivalents for the period	(251.4)	(127.6)
Cash and cash equivalents, beginning of period	369.0	216.5
Cash and cash equivalents, end of period	$ 117.6	$ 88.9
Supplemental information		
Property acquired through capital leases	$ 5.4	$ 1.9

See notes to condensed consolidated financial statements (unaudited)

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

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, a division of the European Aeronautic Defense and Space NV (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, 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; Wichita, Kansas; and Subang, Malaysia, which produces composite panels for wing components. In July 2010, the Company opened its new 500,000 square-foot manufacturing facility in Kinston, North Carolina, which is designed to initially produce components for the Airbus A350 XWB aircraft. An assembly plant is being constructed for the A350 XWB (Xtra Wide-Body) aircraft in Saint-Nazaire, France, and is expected to be operational by the third quarter of 2010.

The Company 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.

The Company 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 50.0% and 31.5%, 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 the Company owns 77.8% of the entity s equity. All intercompany balances and transactions have been eliminated in consolidation. The Company 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, and our French subsidiary, which uses the U.S. dollar.

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.

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 1, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2010 presentation. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2010.

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

2. New Accounting Pronouncements

In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASC) No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements,* which stated, among other things, that filers with the SEC are not required to disclose the date through which an entity has evaluated subsequent events. The guidance was effective upon issuance and did not have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Instruments,* which, among other things, expands disclosures on recurring fair value measurements, including activity, transfers and reconciliation of asset and liability classes, using Levels 1, 2 and 3 as defined. The guidance also clarifies existing disclosures on levels of disaggregation between such classes and input and valuation techniques used to measure recurring and nonrecurring Level 2 or Level 3 fair value measurements. This guidance was effective for the Company s first quarter reporting of 2010, except for the requirement related to purchases, sales, issuances, and settlements in the roll forward activity of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of FASB ASU 2010-06 did not have a material effect on the Company s consolidated financial statements.

In January 2010, FASB issued Accounting Standards Update No. 2010-02, *Consolidation (Topic 810) Accounting and Reporting for Decreases in Ownership of a Subsidiary A Scope Clarification*, which expands the disclosure requirements about deconsolidation of a subsidiary or derecognition of a group of assets. The guidance in this update is effective for periods beginning in the first interim or annual reporting period ending on or after December 15, 2009 and thus was effective for the Company s first quarter reporting in 2010. Adoption of FASB ASU 2010-02 did not have a material impact on the Company s consolidated financial statements.

In December 2009, FASB issued Accounting Standards Update No. 2009-17, *Consolidation (Topic 810) Improvements to Financial Reporting by Enterprises with Variable Interest Entities* to incorporate the changes made by FASB Statement No. 167 into the FASB Codification. The guidance in this update is effective for periods beginning after November 15, 2009 and thus was effective for the Company s first quarter reporting in 2010. Adoption of FASB ASU 2009-17 did not have a material impact on the Company s consolidated financial statements.

3. Accounts Receivable

Accounts receivable, net consists of the following:

	July 1, 2010	December 31, 2009
Trade receivables	$ 261.5	$ 151.7
Other	8.6	8.8
Total	270.1	160.5
Less: allowance for doubtful accounts		(0.1)
Accounts receivable, net	$ 270.1	$ 160.4

4. Inventory

Inventories are summarized as follows:

	July 1,	December 31,

	2010	2009
Raw materials	$ 187.7	$ 209.1
Work-in-process	1,685.7	1,526.0
Finished goods	34.6	30.8
Product inventory	1,908.0	1,765.9
Capitalized pre-production	467.3	441.0
Total inventory, net	$ 2,375.3	$ 2,206.9

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

Inventories are summarized by platform as follows:

	July 1, 2010	December 31, 2009
B737	$ 286.1	$ 298.4
B747(1)	185.9	140.6
B767	19.0	18.5
B777	135.2	146.3
B787(2)	1,013.6	896.3
Airbus All platforms	124.9	129.9
Gulfstream(3)	449.2	365.8
Rolls-Royce	63.3	55.5
Cessna Citation Columbus(4)	22.7	23.0
Aftermarket	30.2	29.3
Other in-process inventory related to long-term contracts and other programs(5)	45.2	103.3
Total inventory	$ 2,375.3	$ 2,206.9

(1) B747 inventory includes $20.7 and $11.3 in non-recurring production costs at July 1, 2010 and December 31, 2009, respectively, related to the B747-8 program.

(2) B787 inventory includes $225.6 and $230.7 in capitalized pre-production costs at July 1, 2010 and December 31, 2009, respectively.

(3) Gulfstream inventory

includes $241.7 and $210.3 in capitalized pre-production costs at July 1, 2010 and December 31, 2009, respectively.

(4) Includes non-recurring costs incurred on the Cessna Citation Columbus program that was terminated in July 2009 and which are subject to our termination claim.

(5) Includes non-program specific inventoriable cost accruals and miscellaneous other work-in-process.

Capitalized pre-production costs include certain contract 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.

The following is a roll forward of the capitalized pre-production included in the inventory balance at July 1, 2010:

Balance, December 31, 2009	$ 441.0
Charges to costs and expenses	(6.1)
Capitalized costs	32.4
Exchange rate	
Total capitalized pre-production, July 1, 2010	$ 467.3

At July 1, 2010, work-in-process inventory included $615.8 of deferred production costs, which is comprised of $560.8 related to the B787, $75.7 on certain other contracts for the excess of production costs over the estimated average cost per ship set, and $(20.7) 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 $457.4, including $412.9 related to the B787 and $50.5 for certain other contracts, and $(6.0) 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, 2009. 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.

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The following is a roll forward of the deferred production included in the inventory balance at July 1, 2010:

Balance, December 31, 2009	$ 457.4
Charges to costs and expenses	(77.2)
Capitalized costs (1)	237.8
Exchange rate	(2.2)
Total deferred production, July 1, 2010	$ 615.8

(1) Approximately $148.0 of deferred production is related to deliveries of nine B787 ship sets during the first half of 2010.

The following is a roll forward of the inventory obsolescence and surplus reserve included in the inventory balance at July 1, 2010:

Balance, December 31, 2009	$ 15.1
Charges to costs and expenses	7.0
Write-offs, net of recoveries	(3.8)
Exchange rate	(0.1)
Total inventory obsolescence and surplus reserve, July 1, 2010	$ 18.2

5. Property, Plant and Equipment

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

	July 1, 2010	December 31, 2009
Land	$ 16.7	$ 17.7
Buildings (including improvements)	379.3	258.1
Machinery and equipment	550.2	503.4
Tooling	499.6	488.5
Capitalized software	122.0	121.4
Construction in progress	268.4	316.3
Total	1,836.2	1,705.4
Less: accumulated depreciation	(479.2)	(426.1)

Property, plant and equipment, net	$ 1,357.0	$ 1,279.3

In January 2010, we adopted a change in accounting estimate which extended the useful lives of certain assets. The effect of this change was a decrease in depreciation charges to inventory of $6.2 for the six month period ended July 1, 2010, which will eventually flow through cost of sales following the process for contract accounting**.**

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was $2.9 and $0.7 for the three months ended July 1, 2010 and July 2, 2009, respectively, and $5.5 and $2.5 for the six months ended July 1, 2010 and July 2, 2009, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized $24.5 and $23.9 of repair and maintenance expense for the three months ended July 1, 2010 and July 2, 2009, respectively, and $45.1 and $44.2 for the six months ended July 1, 2010 and July 2, 2009, 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 FASB authoritative guidance pertaining to capitalization of costs for internal use software. Depreciation expense related to capitalized software was $4.1 and $3.5 for the three months ended July 1, 2010 and July 2, 2009, respectively, and $7.9 and $7.3 for the six months ended July 1, 2010 and July 2, 2009, respectively.

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)
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6. Other Assets

Other assets are summarized as follows:

	July 1, 2010	December 31, 2009
Intangible assets		
Patents	$ 2.0	$ 2.0
Favorable leasehold interests	9.7	9.7
Customer relationships	25.9	28.1
Total intangible assets	37.6	39.8
Less: Accumulated amortization-patents	(0.8)	(0.7)
Accumulated amortization-favorable leasehold interest	(3.3)	(3.1)
Accumulated amortization-customer relationships	(13.8)	(13.2)
Intangible assets, net	19.7	22.8
Deferred financing costs, net	21.0	25.0
Fair value of derivative instruments	1.4	1.2
Goodwill Europe	2.8	3.0
Equity in net assets of affiliates	4.3	3.9
Other	13.1	18.7
Total	$ 62.3	$ 74.6

Deferred financing costs are recorded net of $25.5 and $21.4 of accumulated amortization at July 1, 2010 and December 31, 2009, respectively. In 2009, the Company incurred $10.2 of additional deferred financing costs in connection with the amendment to its revolving credit facility and $7.2 of additional deferred financing costs in connection with the issuance and registration of its long-term bonds.

The Company recognized $1.0 and $1.1 of amortization expense of intangibles for the three months ended July 1, 2010 and July 2, 2009, respectively, and $2.0 for each of the six month periods ended July 1, 2010 and July 2, 2009.

The following is a roll forward of the carrying amount of goodwill at July 1, 2010:

Balance, December 31, 2009	$ 3.0
Goodwill acquired	
Exchange rate	(0.2)
Total goodwill, July 1, 2010	$ 2.8

7. 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.

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.

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

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

	July 1, 2010	December 31, 2009
B737	$ 45.7	$ 59.8
B747	2.8	3.0
B787	845.0	924.3
Airbus All platforms	70.6	66.8
Gulfstream	45.6	42.5
Other	16.7	21.6
Total advance payments and deferred revenue/credits	$ 1,026.4	$ 1,118.0

8. Government Grants

As part of our site construction projects in Kinston, North Carolina and Subang, Malaysia, we have the benefit of grants related to government funding of a portion of these buildings and other specific capital assets. Due to the terms of the lease agreements, we are deemed to own the construction projects. During the construction phase of the facilities, as amounts eligible under the terms of the grants are expended, we will record that spending as property, plant and equipment (construction-in-progress) and deferred grant income liability (less the present value of any future minimum lease payments). Upon completion of the facilities, the deferred grant income will be amortized as a reduction to production cost. This amortization is based on specific terms associated with the different grants. In North Carolina, the deferred grant income related to the capital investment criteria, which represents half of the grant, will be amortized over the lives of the assets purchased to satisfy the capital investment performance criteria. The other half of the deferred grant income will be amortized over a ten-year period in a manner consistent with the job performance criteria. In Malaysia, the deferred grant income will be amortized based on the lives of the eligible assets constructed with the grant funds as there are no performance criteria. As of July 1, 2010, we recorded $134.7 within property, plant and equipment and deferred grant income liability related to the use of grant funds in North Carolina and Malaysia. Of this amount, $134.4 in property, plant and equipment represents transactions where funds have been paid directly to contractors by an agency of the Malaysian Government in the case of Malaysia, and by the escrow agent in North Carolina, so they are not reflected on the Condensed Consolidated Statements of Cash Flows.

Deferred grant income liability, net consists of the following:

	July 1, 2010	December 31, 2009
Beginning Balance	$ 129.3	$ 38.8
Grant liability recorded	8.9	89.2
Grant income recognized	(0.6)	(1.9)
Exchange rate	(2.9)	3.2
Total deferred grant income liability	$ 134.7	$ 129.3

The asset related to the deferred grant income, net consists of the following:

	July 1,

	2010	December 31, 2009
Beginning Balance	$ 129.3	$ 38.8
Amount paid by Spirit (reimbursed by third parties)		0.7
Amount paid by agency/escrow agent	8.9	88.5
Depreciation offset to amortization of grant income	(0.6)	(1.9)
Exchange rate	(2.9)	3.2
Total asset value related to deferred grant income	$ 134.7	$ 129.3

9. Derivative and Hedging Activities

The Company enters into interest rate swap agreements to reduce its exposure to the variable rate portion of its long-term debt. The Company also enters into foreign currency hedge contracts to reduce the risks associated with the changes in foreign exchange rates on sales and cost of sales denominated in currencies other than the entities functional currency. Any gains or losses on the hedges are included in earnings when the underlying transaction that was hedged occurs. The Company does not use these contracts for speculative or trading purposes. On the inception date, the Company designates a derivative contract as either a fair value or cash flow hedge in accordance with FASB guidance on accounting for derivatives and hedges and links the contract to either a specific asset or liability on the balance sheet, or to forecasted commitments or transactions. The Company formally documents the hedging relationship between the hedging instrument and the

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

hedged item as well as its risk-management objective and strategy for undertaking the hedge, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge s inception and on a quarterly basis, whether the derivative item is effective in offsetting changes in fair value or cash flows.

Changes in the fair value of derivative instruments considered to be effective hedges are reported in accumulated other comprehensive income, net of tax. In the case of interest rate swaps, amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payments in the same period in which the related interest affects earnings. If the actual interest rate on the fixed rate portion of debt is less than LIBOR, the monies received are recorded as an offset to interest expense. Conversely, if the actual interest rate on the fixed rate portion of debt is greater than LIBOR, then the Company pays the difference, which is recorded to interest expense. Reclassifications of the amounts related to the foreign currency hedge contracts are recorded to earnings in the same period in which the underlying transaction occurs. Any change in the fair value resulting from ineffectiveness is immediately recognized in earnings.

The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. The Company has applied these valuation techniques as of July 1, 2010 and believes it has obtained the most accurate information available for the types of derivative contracts it holds. The Company attempts to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions which are expected to be able to fully perform under the terms of the agreement.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; the derivative expires or is sold, terminated or exercised; the derivative is no longer designated as a hedging instrument because it is unlikely that a forecasted transaction will occur; or management determines that the designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued, the Company continues to carry the derivative instrument on the balance sheet at its fair value with subsequent changes in fair value included in earnings, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings.

To the extent that derivative instruments do not qualify for hedge accounting treatment, the changes in fair market value of the instruments are reported in the results of operations for the current period.

The Company enters into master netting arrangements for its derivatives to mitigate the credit risk of financial instruments.

The Company s hedge agreements do not include provisions requiring collateral. The Company has certain derivative instruments covered by master netting arrangements whereby, in the event of a default as defined by the senior secured credit facility or termination event, the non-defaulting party has the right to offset any amounts payable against any obligation of the defaulting party under the same counterparty agreement.

The entire asset classes of the Company, including hedges, are pledged as collateral for both the term loan and the revolving credit facility under the Company s senior secured credit facility (see Note 11).

Interest Rate Swaps

As required under our senior secured credit facility (see Note 11), we enter into floating-to-fixed interest rate swap agreements periodically. As of July 1, 2010, the interest swap agreements had notional amounts totaling $500.0.

Notional Amount	Expires	Variable Rate	Fixed Rate(1)	Term B Fixed Rate(2)	Fair Value, July 1, 2010
$100	July 2010	LIBOR	4.37%	6.12%	$ (1.0)
$100	July 2011	LIBOR	4.27%	6.02%	$ (4.5)
$300	July 2011	LIBOR	3.23%	4.98%	$ (9.5)

Total	$	(15.0)

(1) The fixed rate represents the rate at which interest is paid by the Company pursuant to the terms of its interest rate swap agreements.

(2) The effective Term B fixed interest rate represents the fixed rate of the derivative instrument plus the 175 basis point margin above the variable LIBOR borrowing rate we pay on the Term B loan.

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The purpose of entering into these swaps was to reduce the Company s exposure to variable interest rates. The interest rate swaps settle on a quarterly basis when interest payments are made. These settlements occur through the maturity date. The interest rate swaps are being accounted for as cash flow hedges in accordance with FASB authoritative guidance. The fair value of the interest rate swaps was a liability (unrealized loss) of $(15.0) and $(20.3) at July 1, 2010 and December 31, 2009, respectively.

Foreign Currency Forward Contracts

Spirit s wholly-owned subsidiary Spirit AeroSystems (Europe) Limited (Spirit Europe) has certain sales, expenses, assets and liabilities that are denominated in British pounds sterling. However, certain sales of Spirit Europe s products and some procurement costs are denominated in U.S. dollars and Euros. As a consequence, movements in exchange rates could cause net sales and our expenses to fluctuate, affecting our profitability and cash flows. In addition, even when revenues and expenses are matched, we must translate British pound sterling denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar as compared to the British pound sterling will affect our reported results of operations and the value of our assets and liabilities on our consolidated balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These transactions could significantly affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and shareholders equity.

We use foreign currency hedge contracts to reduce our exposure to currency exchange rate fluctuations. The objective of these contracts is to minimize the impact of currency exchange rate movements on our operating results. The hedges are being accounted for as cash flow hedges in accordance with FASB authoritative guidance. Gains and losses from these cash flow hedges are recorded to other comprehensive income until the underlying transaction for which the hedge was placed occurs and then the value in other comprehensive income is reclassified to earnings. In the second quarter of 2010, we entered into new hedging contracts to hedge the U.S. dollar revenue from certain customers. The fair value of the forward contracts was a net liability of $(3.7) and $(1.8) as of July 1, 2010 and December 31, 2009, respectively.

Notional Amount

	July 1, 2010		December 31, 2009	
Year	**USD Buy/(Sell)(1)**	**Foreign Currency Buy/(Sell)(1)**	**USD Buy/(Sell)(1)**	**Foreign Currency Buy/(Sell)(1)**
2010	$ (33.4)	£ 21.0	$ (37.8)	£ 22.8
2011	(23.3)	14.4	(16.7)	10.0
2012-2013	(9.0)	5.5	(2.8)	1.6
	$ (65.7)	£ 40.9	$ (57.3)	£ 34.4

(1) Includes foreign currency hedge contracts for 2010 through 2013 novated to Spirit Europe as a result of the acquisition of

BAE Aerostructures on April 1, 2006 (buy $0.3/sell £0.4), which had no underlying contractual transactions at the inception date of the contracts and, therefore, are classified as net debt securities which are not subject to hedge accounting. The mark-to-market values of these net debt securities are recorded through the Consolidated Statement of Operations on a monthly basis in accordance with FASB authoritative guidance on investments debt and equity securities disclosures.

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The following table summarizes the Company s fair value of outstanding derivatives at July 1, 2010 and December 31, 2009:

	Fair Values of Derivative Instruments			
	Other Asset Derivatives		Other Liability Derivatives	
	July 1, 2010	December 31, 2009	July 1, 2010	December 31, 2009
Derivatives designated as hedging instruments				
Interest rate swaps				
Current	$	$	$ 14.2	$ 16.9
Non-current			0.8	3.4
Foreign currency hedge contracts				
Current			2.3	0.9
Non-current			1.1	0.6
Total derivatives designated as hedging instruments			18.4	21.8
Derivatives not designated as hedging instruments				
Foreign currency hedge contracts				
Current	0.8	0.4	0.8	0.5
Non-current	1.3	1.2	1.6	1.4
Total derivatives not designated as hedging instruments	2.1	1.6	2.4	1.9
Total derivatives	$ 2.1	$ 1.6	$ 20.8	$ 23.7

The impact on other comprehensive income (OCI) and earnings from cash flow hedges for the three months ended July 1, 2010 and July 2, 2009 was as follows:

Amount of Loss Recognized in OCI, net of tax, on Derivative	Location of Loss Reclassified from Accumulated	Amount of Loss Reclassified from Accumulated OCI into Income	Location of Loss Recognized in Income on Derivative (Ineffective	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from

Derivatives in Cash Flow Hedging Relationships	(Effective Portion) For the Three Months Ended July 1, 2010		(Effective Portion) For the Three Months Ended July 2, 2009		OCI into Income (Effective Portion)	(Effective Portion) For the Three Months Ended July 1, 2010		(Effective Portion) For the Three Months Ended July 2, 2009		Portion and Amount Excluded from Effectiveness Testing)	Effectiveness Testing) For the Three Months Ended July 1, 2010		Effectiveness Testing) For the Three Months Ended July 2, 2009	
Interest rate swaps	$	(0.4)	$	(1.3)	Interest expense	$	4.2	$	4.0	Other (income)/ expense	$		$	
Foreign currency hedge contracts		(0.6)		(0.2)	Sales/Revenue		0.5		1.8	Other (income)/ expense				0.1
Total	$	(1.0)	$	(1.5)		$	4.7	$	5.8		$		$	0.1

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The impact on OCI and earnings from cash flow hedges for the six months ended July 1, 2010 and July 2, 2009 was as follows:

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI, net of tax, on Derivative (Effective Portion) For the Six Months Ended July 1, 2010	July 2, 2009	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) For the Six Months Ended July 1, 2010	July 2, 2009	Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) For the Six Months Ended July 1, 2010	July 2, 2009
Interest rate swaps	$ (2.1)	$ (2.7)	Interest expense	$ 8.5	$ 7.3	Other (income)/ expense	$	$
Foreign currency hedge contracts	(2.5)		Sales/Revenue	0.8	3.2	Other (income)/ expense		0.1
Total	$ (4.6)	$ (2.7)		$ 9.3	$ 10.5		$	$ 0.1

The impact on earnings from foreign currency hedge contracts that do not qualify as cash flow hedges was not material for the three and six months ended July 1, 2010 and July 2, 2009.

Gains and losses accumulated in OCI for interest rate swaps are reclassified into earnings as each interest rate period is reset. During the next twelve months, the Company estimates that a loss of $(9.1) will be reclassified from OCI, net of tax, as a charge to earnings from interest rate swaps. Interest rate swaps are placed for a period of time not to exceed the maturity of the Company s senior secured term loan. None of the gains or losses reclassified to earnings were attributable to the discontinuance of cash flow hedges.

Gains and losses accumulated in OCI for foreign currency hedge contracts are reclassified into earnings as the underlying transactions for which the contracts were entered into are realized. During the next twelve months, the Company estimates that a loss of $(1.6) will be reclassified from OCI, net of tax. None of the gains or losses reclassified to earnings are attributable to the discontinuance of cash flow hedges.

10. Fair Value Measurements

FASB s authoritative guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance discloses three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Observable inputs, such as current and forward interest rates and foreign exchange rates, are used in determining the fair value of our interest rate swaps and foreign currency hedge contracts.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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	July 1, 2010			Fair Value Measurements At July 1, 2010 Using		
Description	**Total Carrying Amount in Balance Sheet**	**Assets Measured at Fair Value**	**Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money Market Fund	$ 64.1	$ 64.1	$	$64.1	$	$
Interest Rate Swaps	$(15.0)	$	$ (15.0)	$	$(15.0)	$
Foreign Currency Hedge Contracts	$ (3.7)	$ 2.1	$ (5.8)	$	$ (3.7)	$

	December 31, 2009			Fair Value Measurements At December 31, 2009 Using		
Description	**Total Carrying Amount in Balance Sheet**	**Assets Measured at Fair Value**	**Liabilities Measured at Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money Market Fund	$240.0	$ 240.0	$	$240.0	$	$
Interest Rate Swaps	$ (20.3)	$	$ (20.3)	$	$(20.3)	$
Foreign Currency Hedge Contracts	$ (1.8)	$ 1.6	$ (3.4)	$	$ (1.8)	$

The fair value of the interest rate swaps and foreign currency hedge contracts are determined by using mark-to-market reports generated for each derivative and evaluated for counterparty risk. In the case of the interest rate swaps, the Company evaluated its counterparty risk using credit default swaps, historical default rates and credit spreads.

The Company s long-term debt consists of obligations with variable interest rates and senior unsecured notes. The estimated fair value of our debt obligations is based on the quoted market prices for such obligations. The following table presents the carrying amount and estimated fair value of long-term debt in accordance with FASB authoritative guidance on fair value measurements related to disclosures of financial instruments:

	July 1, 2010		December 31, 2009	
	Carrying	**Fair**	**Carrying**	**Fair**

	Amount	Value	Amount	Value
Senior secured term loan (including current portion)	$ 569.1	$ 549.5	$ 572.0	$ 549.9
Senior unsecured notes	293.9	296.3	293.6	289.5
Malaysian loan	17.2	16.9	16.3	16.1
	$ 880.2	$ 862.7	$ 881.9	$ 855.5

11. Long-Term Debt

Credit Agreement

In connection with the Boeing Acquisition, the Company executed an $875.0 credit agreement that consisted of a $700.0 senior secured term loan used to fund the acquisition and pay all related fees and expenses associated with the acquisition and the credit agreement, and a $175.0 senior secured revolving credit facility. In March 2008, the revolving credit facility was increased to $650.0. In June 2009, the Company entered into amendment No. 2 to its senior secured credit facility, whereby borrowing capacity under the revolving credit facility was increased from $650.0 to $729.0. The maturity date with respect to $408.8 of the revolver was extended to June 30, 2012. The remaining $320.2 of the revolver matured June 30, 2010. Commitment fees associated with the portion of the revolver that was extended to June 30, 2012 increased from a rate of 50 basis points on the undrawn amount to 75 basis points. Commitment fees associated with the undrawn portion of the revolver that terminated on June 30, 2010 were 50 basis points. The applicable margin payable on revolving loans with respect to which the underlying revolving credit commitment has been extended to June 30, 2012 (Extending Revolving Loans) has been increased. The applicable margin continues to be determined in accordance with a performance grid based on total leverage ratio and, for Extending Revolving Loans, ranges from 3.00% to 4.00% per annum in the case of LIBOR advances and from 2.00% to 3.00% per annum in the case of alternate

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base rate advances. At July 1, 2010, the Company s total leverage ratio was 1.66:1.00 resulting in margins of 3.0% per annum on LIBOR borrowings on Extending Revolving Loans and margins of 2.0% per annum on alternative base rate borrowings on Extending Revolving Loans. The entire asset classes of the Company, including inventory and property, plant and equipment, are pledged as collateral for both the term loan and the revolving credit facility. As of July 1, 2010 and December 31, 2009, the outstanding balance of the term loan was $569.1 and $572.0, respectively. No amounts were outstanding under the revolving credit facility at either July 1, 2010 or December 31, 2009. As of July 1, 2010, there were $19.0 of letters of credit outstanding.

The amended credit agreement contains customary affirmative and negative covenants, including restrictions on indebtedness, liens, type of business, acquisitions, investments, sales or transfers of assets, payments of dividends, transactions with affiliates, change in control and other matters customarily restricted in such agreements. The amended credit agreement contains a revised Covenant Leverage Ratio and a new Interest Coverage Ratio. The Covenant Leverage Ratio (as defined in the credit agreement) financial covenant was modified to provide that the maximum Covenant Leverage Ratio as of the last day of any fiscal quarter through the final maturity date of the credit agreement shall not exceed 2.5:1 through maturity. The new Interest Coverage Ratio (as defined in the credit agreement) financial covenant was added to provide that the Interest Coverage Ratio as of the last day of any fiscal quarter through the final maturity date of the credit agreement shall not be less than 4:1. The Financial Covenant ratios are calculated each quarter in accordance with the credit agreement. Failure to meet these financial covenants would be an event of default under the senior secured credit facility. As of July 1, 2010, we were and expect to continue to be in full compliance with all covenants contained within our credit agreement.

Long-Term Bond Debt

On September 30, 2009, Spirit issued $300.0 of $7^1/2$% Senior Notes due October 1, 2017 (the Notes), with interest payable semi-annually, in cash, in arrears on April 1 and October 1 of each year, beginning April 1, 2010. Prior to October 1, 2012, Spirit may redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings at a redemption price of 107.5% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the redemption date. At any time prior to October 1, 2013, Spirit may redeem the Notes, in whole or in part, at a redemption price ratio equal to 100% of the principal amount of the Notes redeemed, plus a make-whole premium, plus any accrued and unpaid interest and additional interest, if any, to the redemption date. Spirit may redeem the Notes at its option, in whole or in part, at any time on or after October 1 of the years set forth below, upon not less than 30 nor more than 60 days notice at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth below, plus any accrued and unpaid interest and additional interest, if any, to the redemption date.

Year	Price
2013	103.750%
2014	101.875%
2015 and thereafter	100.000%

If a change of control of Spirit occurs, each holder of the Notes shall have the right to require that Spirit repurchase all or a portion of such holder s Notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase.

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by Holdings and Spirit s existing and future domestic subsidiaries that guarantee Spirit s obligations under Spirit s senior secured credit facility. As of July 1, 2010 and December 31, 2009, the outstanding balance of the Notes was $293.9 and $293.6, respectively.

The Notes are Spirit s senior unsecured obligations and rank equal in right of payment with all of Spirit s and the guarantors other existing and future senior indebtedness. The Notes are senior in right of payment to all of Spirit s and the guarantors existing and future indebtedness that is by its terms expressly subordinated to the Notes and the guarantees. The Notes are effectively subordinated in right of payment to all of Spirit s and the guarantors secured indebtedness to the extent of the value of the assets securing such indebtedness, including obligations under Spirit s senior secured credit facility, which is secured by substantially all of the assets of Spirit and the guarantors.

The Indenture contains covenants that limit Spirit s, Holdings and certain of Spirit s subsidiaries ability, subject to certain exceptions and qualifications, to (i) incur additional debt; (ii) pay dividends, redeem stock or make other distributions, (iii) repurchase equity securities, prepay subordinated debt or make certain investments, (iv) make other restricted payments and investments, (v) issue certain disqualified stock and preferred stock, (vi) create liens without granting equal and ratable liens to the holders of the Notes, (vii) enter into sale and leaseback

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transactions, (viii) merge, consolidate or transfer or dispose of substantially all of their assets, (ix) enter into certain types of transactions with affiliates and (x) sell assets. These covenants are subject to a number of qualifications and limitations. In addition, the Indenture limits Spirit s, Holdings and the guarantor subsidiaries ability to engage in businesses other than businesses in which such companies are engaged on the date of issuance of the Notes and related businesses.

In addition, the Indenture provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among other things: failure to make payments on the Notes when due, failure to comply with covenants under the Indenture, failure to pay certain other indebtedness or acceleration of maturity of certain other indebtedness, failure to satisfy or discharge certain final judgments and occurrence of certain bankruptcy events. If an event of default occurs, the trustee or holders of at least 25% of the aggregate principal amount of the then outstanding Notes may, among other things, declare the entire outstanding balance of principal and interest on all outstanding Notes to be immediately due and payable. If an event of default involving certain bankruptcy events occurs, payment of principal and interest on the Notes will be accelerated without the necessity of notice or any other action on the part of any person.

On June 30, 2010, the capacity of the revolving credit facility was reduced to $408.8, and availability was further reduced by $19.0 of outstanding letters of credit as of July 1, 2010.

Malaysian Term Loan

On June 2, 2008, the Company s wholly-owned subsidiary, Spirit AeroSystems Malaysia SDN BHD (Spirit Malaysia) entered into a Facility Agreement (Malaysia Facility Agreement) for a term loan facility of Ringgit Malaysia (RM) 69.2 (approximately USD $20.0) (the Malaysia Facility), with EXIM Bank to be used towards partial financing of plant and equipment (including the acquisition of production equipment), materials, inventory and administrative costs associated with the establishment of an aerospace-related composite component assembly plant, plus potential additional work packages in Malaysia at the Malaysia International Aerospace Center in Subang, Selangor, Malaysia (the Project). Funds for the Project were available on a drawdown basis over a twenty-four month period from the date of the Malaysia Facility Agreement. As of July 1, 2010, the Company had drawn (RM) 55.7 of the term loan.

The indebtedness repayment requires quarterly principal installments of RM 3.3 (approximately $1.0) from September 2011 through May 2017, or until the entire loan principal has been repaid.

Outstanding amounts drawn under the Malaysia Facility are subject to a fixed interest rate of 3.5% per annum, payable quarterly.

France Factory

On July 17, 2009, the Company s indirect wholly-owned subsidiary, Spirit AeroSystems France SARL (Spirit France) entered into a capital lease agreement for 9.0 (approximately $13.1); with BNP Paribas Bank (BNP) to be used towards the construction of an aerospace-related component assembly plant in Saint-Nazaire, France (the Saint-Nazaire Project). The Company will act as BNP s construction agent during the construction phase of the Saint-Nazaire Project and lease payments will begin upon completion of construction, which is expected during the third quarter of 2010.

The capital lease repayment is variable based on the three-month Euribor rate plus 2.2% and is paid quarterly. Payments are expected to be approximately 0.2 (approximately $0.3) quarterly from July 2010 through April 2025 with a residual amount of 0.9 (approximately $1.3) to be paid at the conclusion of the capital lease agreement.

Outstanding amounts expended by BNP under the capital lease agreement are capitalized as construction-in-progress on the Company s books with a corresponding amount of construction debt. As of July 1, 2010, the Company has recorded $9.8 in construction debt.

Total debt shown on the balance sheet is comprised of the following:

	July 1,

	2010	December 31, 2009
Senior secured debt (short and long-term)	$ 569.1	$ 572.0
Long-term bond debt	293.9	293.6
Malaysian term loan	17.2	16.3
Present value of capital lease obligations	11.9	10.3
Other	1.1	1.6
Total	$ 893.2	$ 893.8

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12. Pension and Other Post-Retirement Benefits

	Defined Benefit Plans			
	For the Three Months Ended		For the Six Months Ended	
Components of Net Periodic Pension Income	July 1, 2010	July 2, 2009	July 1, 2010	July 2, 2009
Service cost	$ 1.5	$ 1.5	$ 3.1	$ 2.9
Interest cost	10.4	9.7	20.8	19.4
Expected return on plan assets	(16.0)	(13.9)	(31.9)	(27.8)