Spirit AeroSystems Holdings, Inc.
Form 10-Q
July 31, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended July 2, 2015

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 x No o

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 x 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.

Large accelerated filer x	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 x

As of July 24, 2015, the registrant had outstanding 141,291,919 shares of class A common stock, $0.01 par value per share, and 121 shares of class B common stock, $0.01 par value per share.

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

		Page
Item 1.	Financial Statements (unaudited)	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 4.	Controls and Procedures	50

PART II — OTHER INFORMATION

Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 6.	Exhibits	52
Signatures		53

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. 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, 2015	July 3, 2014	July 2, 2015	July 3, 2014
	($ in millions, except per share data)			
Net revenues	$1,698.7	$1,803.3	$3,440.9	$3,531.8
Operating costs and expenses				
Cost of sales	1,407.9	1,525.9	2,856.2	2,993.2
Selling, general and administrative	53.8	54.4	105.4	114.9
Research and development	6.7	6.8	13.7	13.1
Total operating costs and expenses	1,468.4	1,587.1	2,975.3	3,121.2
Operating income	230.3	216.2	465.6	410.6
Interest expense and financing fee amortization	(12.1)	(20.8)	(30.0)	(56.2)
Other income, net	8.1	5.9	1.7	7.2
Income before income taxes and equity in net income of affiliate	226.3	201.3	437.3	361.6
Income tax provision	(71.7)	(58.1)	(101.1)	(65.0)
Income before equity in net income of affiliate	154.6	143.2	336.2	296.6
Equity in net income of affiliate	0.3	0.2	0.6	0.4
Net income	$154.9	$143.4	$336.8	$297.0
Earnings per share				
Basic	$1.11	$1.01	$2.42	$2.09
Diluted	$1.11	$1.01	$2.41	$2.07

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2015	July 3, 2014	July 2, 2015	July 3, 2014
	($ in millions)			
Net income	$154.9	$143.4	$336.8	$297.0
Changes in other comprehensive income, net of tax:				
Settlement of swap, net of tax effect of zero for each of the three and six months ended, respectively	—	—	1.1	—
Pension, SERP, and Retiree medical adjustments, net of tax effect of zero for each of the three and six months ended, respectively	(1.9)	—	(1.9)	—
Unrealized foreign exchange gain on intercompany loan, net of tax effect of ($0.6) and $0.5 for the three months ended and zero and $0.4 for the six months ended, respectively	2.5	1.7	0.1	1.5
Foreign currency translation adjustments	13.8	8.3	1.1	8.7
Total other comprehensive income	14.4	10.0	0.4	10.2
Total comprehensive income	$169.3	$153.4	$337.2	$307.2

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Balance Sheets
(unaudited)

	July 2, 2015	December 31, 2014
	($ in millions)	
Current assets		
Cash and cash equivalents	$958.7	$377.9
Accounts receivable, net	563.2	605.6
Inventory, net	1,757.8	1,753.0
Deferred tax asset - current	33.7	53.2
Other current assets	94.9	262.4
Total current assets	3,408.3	3,052.1
Property, plant and equipment, net	1,827.1	1,783.6
Pension assets	216.9	203.4
Other assets	124.8	123.6
Total assets	$5,577.1	$5,162.7
Current liabilities		
Accounts payable	$677.0	$611.2
Accrued expenses	256.8	329.1
Profit sharing	41.7	111.8
Current portion of long-term debt	40.5	9.4
Advance payments, short-term	155.0	118.6
Deferred revenue, short-term	115.6	23.4
Deferred grant income liability - current	10.9	10.2
Other current liabilities	48.3	45.1
Total current liabilities	1,345.8	1,258.8
Long-term debt	1,112.6	1,144.1
Advance payments, long-term	600.8	680.4
Pension/OPEB obligation	75.3	73.0
Deferred grant income liability - non-current	90.5	96.1
Deferred revenue and other deferred credits	119.8	27.5
Other liabilities	271.3	260.8
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, 141,242,569 and 141,084,378 shares issued, respectively	1.4	1.4
Common stock, Class B par value $0.01, 150,000,000 shares authorized, 121 and 4,745 shares issued, respectively	—	—
Additional paid-in capital	1,037.4	1,035.6
Accumulated other comprehensive loss	(153.4)	(153.8)
Retained earnings	1,204.3	867.5
Treasury stock, at cost (4,000,000 shares each period, respectively)	(129.2)	(129.2)
Total shareholders' equity	1,960.5	1,621.5
Noncontrolling interest	0.5	0.5
Total equity	1,961.0	1,622.0
Total liabilities and equity	$5,577.1	$5,162.7

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

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

	For the Six Months Ended July 2, 2015	July 3, 2014
	($ in millions)	
Operating activities		
Net income	$336.8	$297.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	88.8	83.5
Amortization expense	0.6	5.7
Amortization of deferred financing fees	5.1	18.7
Accretion of customer supply agreement	1.1	0.5
Employee stock compensation expense	11.9	8.0
Excess tax benefit of share-based payment arrangements	(10.1)	(2.3)
Loss (gain) from hedge contracts	1.6	(1.3)
Loss (gain) from foreign currency transactions	2.7	(5.7)
Loss on disposition of assets	2.2	—
Deferred taxes	4.4	1.9
Pension and other post retirement benefits, net	(13.1)	(12.8)
Grant income	(4.8)	(3.9)
Equity in net income of affiliate	(0.6)	(0.4)
Changes in assets and liabilities		
Accounts receivable	40.1	(172.4)
Inventory, net	(1.3)	(73.6)
Accounts payable and accrued liabilities	(12.0)	(53.7)
Profit sharing/deferred compensation	(70.0)	11.9
Advance payments	(43.2)	(40.4)
Income taxes receivable/payable	181.5	121.8
Deferred revenue and other deferred credits	185.7	6.3
Other	21.6	20.7
Net cash provided by operating activities	729.0	209.5
Investing activities		
Purchase of property, plant and equipment	(115.4)	(89.6)
Proceeds from sale of assets	—	0.4
Net cash used in investing activities	(115.4)	(89.2)
Financing activities		
Proceeds from issuance of debt	535.0	—
Proceeds from issuance of bonds	—	300.0
Principal payments of debt	(17.4)	(11.9)
Payments on term loan	(534.9)	—
Payments on bonds	—	(300.0)
Taxes paid related to net share settlement awards	(20.2)	—
Excess tax benefit of share-based payment arrangements	10.1	2.3
Debt issuance and financing costs	(4.7)	(20.8)
Change in restricted cash	—	(129.2)
Net cash used in financing activities	(32.1)	(159.6)

Effect of exchange rate changes on cash and cash equivalents	(0.7)	0.2
Net increase (decrease) in cash and cash equivalents for the period	580.8	(39.1)
Cash and cash equivalents, beginning of period	377.9	420.7
Cash and cash equivalents, end of period	$958.7	$381.6

See notes to condensed consolidated financial statements (unaudited)

Table of Contents
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 Boeing's operations in Wichita, Kansas; Tulsa, Oklahoma; and McAlester, Oklahoma (the "Boeing Acquisition") by an investor group led by Onex Partners LP and Onex Corporation (together with its affiliates, "Onex"). Holdings provides manufacturing and design expertise in a wide range of fuselage, propulsion and wing products and services for aircraft original equipment manufacturers ("OEM") and operators through its subsidiary, Spirit AeroSystems, Inc. ("Spirit"). The Company has its headquarters in Wichita, Kansas, with manufacturing facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Wichita, Kansas; Kinston, North Carolina and Subang, Malaysia. The Company has assembly facilities in Saint-Nazaire, France, and Chanute, Kansas.

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 a joint venture, Taikoo Spirit AeroSystems Composite Co. Ltd. ("TSACCL"), of which Spirit's ownership interest is 31.5%. TSACCL was formed to develop and implement a state of the art composite and metal bond component repair station in the Asia-Pacific region.

In August 2014, Onex sold its remaining investment in the Company in a secondary offering of the Company's class A common stock.

In December 2014, Spirit divested its G280 and G650 programs, consisting of the design, manufacture and support of structural components for the Gulfstream G280 and G650 aircraft in Spirit's facilities in Tulsa, Oklahoma, to Triumph Aerostructures - Tulsa, LLC, a wholly-owned subsidiary of Triumph Group Inc. ("Triumph").

The accompanying unaudited interim condensed consolidated financial statements include the Company's financial statements and the financial statements of its majority-owned or controlled subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the instructions to Form 10-Q and Article 10 of Regulation S-X. The Company's fiscal quarters are 13 weeks in length. Because the Company's fiscal year ends on December 31, the number of days in the Company's first and fourth quarters varies slightly from year to year. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. The Company's investment in TSACCL, in which the Company does not have a controlling interest, is 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; the Malaysian subsidiary uses the British pound and the Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

As part of the monthly consolidation process, the Company's international entities that have functional currencies other than the U.S. dollar 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 2, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2015 presentation.

In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events through the date the financial statements were issued. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company's 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 13, 2015 and subsequently amended on Form 10-K/A filed with the SEC on March 6, 2015 (the "2014 Form 10-K").

2. New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU ") No. 2015-03, Interest-Imputation of Interest, (FASB ASU 2015-03) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in this update. FASB ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and requires the Company to apply the new guidance on a retrospective basis upon adoption. The adoption of FASB ASU 2015-03 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis (FASB ASU 2015-02). FASB ASU 2015-02 amended the process that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. FASB ASU 2015-02 is effective for the annual period ending after December 15, 2015, and for annual periods and interim periods thereafter. The Company has elected, as permitted by the standard, to adopt FASB ASU 2015-02 early, to be effective for the second quarter ended July 2, 2015. The adoption of FASB ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (FASB ASU 2014-09). This update is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB ASU 2014-09 is effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. Early application is not permitted for public entities. In July 2015, the FASB affirmed its proposal to defer the effective date of the ASU 2014-09 for all entities by one year. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

3. Changes in Estimates

The Company has a Company-wide quarterly Estimate at Completion (EAC) process in which management assesses the progress and performance of the Company's contracts. This process requires management to review each program’s progress towards completion by evaluating the program schedule, changes to identified risks and opportunities, changes to estimated contract revenues and estimated contract costs over the current contract block, and any outstanding contract matters. Risks and opportunities include management's judgment about the cost associated with a program’s ability to achieve the schedule, technical requirements (e.g., a newly-developed product versus a mature product), and any other contract requirements. The majority of the Company's fixed priced contracts are life of aircraft program contracts. Due to the span of years it may take to complete a contract block and the scope and nature of the work required to be performed on those contracts, the estimation of total revenue and costs at completion is complicated and subject to many variables and, accordingly, is subject to change. When adjustments in estimated total contract block revenue or estimated total cost are required, any changes from prior estimates for delivered units are recognized in the current period as a cumulative catch-up adjustment for the inception-to-date effect of such changes.

Cumulative catch-up adjustments are driven by several factors including improved production efficiencies, assumed rate of production, the rate of overhead absorption, changes to scope of work and contract modifications. When estimates of total costs to be incurred on a contract block exceed estimates of total revenue to be earned, a provision for the entire loss on the contract block is recorded in the period in which the loss is determined. Changes in estimates are summarized below:

Table of Contents
Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

	For the Three Months Ended		For the Six Months Ended	
Changes in Estimates	July 2, 2015	July 3, 2014	July 2, 2015	July 3, 2014
Favorable (Unfavorable) Cumulative Catch-up Adjustment by Segment				
Fuselage	$10.8	$2.7	$10.3	$8.6
Propulsion	6.6	5.0	14.4	8.3
Wing	(0.8)	11.7	(0.6)	13.3
Total Favorable Cumulative Catch-up Adjustment	$16.6	$19.4	$24.1	$30.2
Changes in Estimates on Loss Programs and (Forward Loss)				
Fuselage				
Boeing - All other platforms	$3.5	$—	$6.4	$—
Other Platforms	—	—	—	(0.9)
Total Fuselage Change in Estimate on Loss Programs and (Forward Loss)	$3.5	$—	$6.4	$(0.9)
Propulsion				
Boeing - All other platforms	$(1.3)	$—	$(1.3)	$—
Total Propulsion Forward Loss	$(1.3)	$—	$(1.3)	$—
Wing				
Other Platforms	$—	$—	$—	$(0.3)
Total Wing Forward Loss	$—	$—	$—	$(0.3)
Total Change in Estimate on Loss Programs and (Forward Loss), net	$2.2	$—	$5.1	$(1.2)
Total Change in Estimate	$18.8	$19.4	$29.2	$29.0
EPS Impact (diluted per share based upon statutory rates)	$0.08	$0.09	$0.13	$0.13

The Company is currently working on several new and maturing programs which are in various stages of development, including the B787, A350 XWB and Rolls-Royce BR725 programs. These programs carry risks associated with design responsibility, development of production tooling, production inefficiencies during the initial phases of production, hiring and training of qualified personnel, increased capital and funding commitments, supplier performance, delivery schedules and unique customer requirements. The Company has previously recorded forward loss charges on these programs. If the risks related to these programs are not mitigated, then the Company could record additional forward loss charges.

4. Accounts Receivable, net

Accounts receivable, net consists of the following:

	July 2, 2015	December 31, 2014
Trade receivables[(1)(2)]	$549.9	$598.4
Other	13.7	7.7
Less: allowance for doubtful accounts	(0.4)	(0.5)

Accounts receivable, net	$563.2	$605.6

(1) Includes unbilled receivables of $25.9 and $26.0 as of July 2, 2015 and December 31, 2014, respectively.
(2) Includes $135.1 held in retainage by a customer at December 31, 2014.

($, €, and RM in millions other than per share amounts)

Accounts receivable, net includes unbilled receivables on long-term aerospace contracts, comprised principally of revenue recognized on contracts for which amounts were earned but not contractually billable as of the balance sheet date, or amounts earned for which the recovery will occur over the term of the contract, which could exceed one year.

5. Inventory

Inventories are summarized as follows:

	July 2, 2015	December 31, 2014
Raw materials	$256.7	$254.5
Work-in-process	845.1	885.7
Finished goods	64.1	46.7
Product inventory	1,165.9	1,186.9
Capitalized pre-production	205.4	223.4
Deferred production	1,270.6	1,244.3
Forward loss provision	(884.1)	(901.6)
Total inventory, net	$1,757.8	$1,753.0

Capitalized pre-production costs include certain contract costs, including applicable overhead, incurred before a product is manufactured on a recurring basis. Significant statement of work changes considered not reimbursable by the customer can also cause pre-production costs to be incurred. These costs are typically amortized over a certain number of shipset deliveries.

Deferred production includes costs for the excess of production costs over the estimated average cost per shipset, and credit balances for favorable variances on contracts between actual costs incurred and the estimated average cost per shipset for units delivered under the current production blocks. Recovery of excess-over-average deferred production costs is dependent on the number of shipsets 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 losses on these contracts in future periods.

Provisions for anticipated losses on contract blocks are recorded in the period in which they become evident (“forward losses”) and included in inventory with any remaining amount reflected in accrued contract liabilities.

Non-recurring production costs include design and engineering costs and test articles.

Inventories are summarized by platform and costs below:

	July 2, 2015					
	Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision	Total Inventory, net July 2, 2015
B787	217.0	—	71.3	541.6	(606.0)	223.9
Boeing - All other platforms[(1)]	475.0	18.4	5.9	(19.2)	(23.6)	456.5

A350 XWB	154.1	56.2	97.5	646.3	(120.1)	834.0
Airbus - All other platforms	86.0	—	—	8.8	—	94.8
Rolls-Royce BR725[(2)]	14.9	—	30.7	88.8	(134.4)	—
Aftermarket	53.7	—	—	—	—	53.7
Other platforms	82.4	8.2	—	4.3	—	94.9
Total	$ 1,083.1	$ 82.8	$ 205.4	$ 1,270.6	$ (884.1)	$ 1,757.8

10

Table of Contents

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

	December 31, 2014 Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision	Total Inventory, net December 31, 2014
B787	227.9	—	102.7	551.6	(606.0)	276.2
Boeing - All other platforms[1]	497.4	7.7	7.4	(8.9)	(38.8)	464.8
A350 XWB	148.7	35.6	76.4	607.6	(120.1)	748.2
Airbus - All other platforms	82.1	—	—	5.6	—	87.7
Rolls-Royce BR725[2]	17.5	—	35.4	83.8	(136.7)	—
Aftermarket	45.2	0.2	—	—	—	45.4
Other platforms	113.5	11.1	1.5	4.6	—	130.7
Total	$1,132.3	$ 54.6	$223.4	$1,244.3	$(901.6)	$ 1,753.0

(1) Forward loss charges recorded in prior periods on a program within Boeing - All other platforms exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability and reported in other current liabilities on the Condensed Consolidated Balance Sheet. The total contract liability was $1.8 and $2.1 as of July 2, 2015 and December 31, 2014, respectively.

(2) Forward loss charges recorded in prior periods on the Rolls-Royce BR725 program exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability and reported in other current liabilities on the Condensed Consolidated Balance Sheet. The total contract liability was $14.6 and $12.2 as of July 2, 2015 and December 31, 2014, respectively.

The following is a roll forward of the capitalized pre-production costs included in the inventory balance at July 2, 2015:

Balance, December 31, 2014	$223.4
Charges to costs and expenses	(41.7)
Capitalized costs	23.7
Balance, July 2, 2015	$205.4

The following is a roll forward of the deferred production costs included in the inventory balance at July 2, 2015:

Balance, December 31, 2014	$1,244.3
Charges to costs and expenses	(428.6)
Capitalized costs	454.4
Exchange rate	0.5
Balance, July 2, 2015	$1,270.6

Significant amortization of capitalized pre-production and deferred production inventory will occur over the following contract blocks:

Model	Contract Block Quantity	Orders[1]

B787	500	803
A350 XWB	400	781
Rolls-Royce BR725	350	196

($, €, and RM in millions other than per share amounts)

(1) Orders are from the published firm-order backlogs of Airbus and Boeing. For Rolls-Royce BR725, orders represent purchase orders received from OEMs and are not reflective of OEM sales backlog. Orders reported are total block orders, including delivered units.

Current block deliveries are as follows:

Model	Current Block Deliveries
B787	348
A350 XWB	42
Rolls-Royce BR725	164

Contract block quantities are projected to fully absorb the balance of deferred production inventory. Capitalized pre-production and deferred production inventories are at risk to the extent that the Company does not achieve the orders in the forecasted blocks or if future actual costs exceed current projected estimates, as those categories of inventory are recoverable over future deliveries. In the case of capitalized pre-production this may be over multiple blocks. Should orders not materialize in future periods to fulfill the block, potential forward loss charges may be necessary to the extent the final delivered quantity does not absorb deferred inventory costs.

6. Property, Plant and Equipment, net

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

	July 2, 2015	December 31, 2014
Land	$17.1	$17.1
Buildings (including improvements)	573.7	572.9
Machinery and equipment	1,149.8	1,125.5
Tooling	881.8	841.2
Capitalized software	216.1	208.3
Construction-in-progress	196.9	138.3
Total	3,035.4	2,903.3
Less: accumulated depreciation	(1,208.3)	(1,119.7)
Property, plant and equipment, net	$1,827.1	$1,783.6

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was $1.1 and $0.8 for the three months ended July 2, 2015 and July 3, 2014, respectively, and $2.4 and $1.8 for the six months ended July 2, 2015 and July 3, 2014, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs of $32.7 and $27.2 for the three months ended July 2, 2015 and July 3, 2014, respectively, and $63.0 and $51.1 for the six months ended July 2, 2015 and July 3, 2014, respectively.

The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or to create and implement internal-use computer software. Depreciation expense related to capitalized software was

$4.3 and $4.5 for the three months ended July 2, 2015 and July 3, 2014, respectively, and $8.5 and $8.5 for the six months ended July 2, 2015 and July 3, 2014, respectively.

The Company reviews capital and amortizing intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluated its long-lived assets at its locations and determined no impairment was necessary as of July 2, 2015.

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

7. Other Assets

Other assets are summarized as follows:

	July 2, 2015	December 31, 2014
Intangible assets		
Patents	$1.9	$1.9
Favorable leasehold interests	6.3	6.3
Total intangible assets	8.2	8.2
Less: Accumulated amortization - patents	(1.6)	(1.5)
Accumulated amortization - favorable leasehold interest	(3.6)	(3.5)
Intangible assets, net	3.0	3.2
Deferred financing		
Deferred financing costs	105.8	101.2
Less: Accumulated amortization - deferred financing costs[1]	(84.6)	(79.5)
Deferred financing costs, net	21.2	21.7
Other		
Goodwill - Europe	2.9	2.9
Equity in net assets of affiliates	2.6	1.9
Customer supply agreement[2]	31.4	34.3
Restricted Cash	19.9	19.9
Other	43.8	39.7
Total	$124.8	$123.6

(1) Includes charges related to debt extinguishment of $3.1 and $15.1 for the periods ended July 2, 2015 and December 31, 2014, respectively.

(2) Under an agreement with the Company's customer Airbus, certain payments accounted for as consideration given by the Company to Airbus are being amortized as a reduction to net revenues.

8. Advance Payments and Deferred Revenue/Credits

Advance payments. Advance payments are those payments made to Spirit by customers in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or for other assets to be provided by Spirit under a contract and are repayable if such obligation is not satisfied. The amount of advance payments to be recovered against production units expected to be delivered within a year is classified as a short-term liability on the Company's consolidated balance sheet, with the balance of the unliquidated advance payments classified as a long-term liability.

On April 8, 2014, the Company signed a memorandum of agreement with Boeing which suspended advance repayments related to the B787 program for a period of twelve months beginning April 1, 2014. Repayment recommenced on April 1, 2015 and any repayments which otherwise would have become due during such twelve-month period will be offset against the purchase price for shipset 1,001 and beyond.

Deferred revenue/credits. Deferred revenue/credits generally consist of nonrefundable amounts received in advance of revenue being earned for specific contractual deliverables or amounts that could be required to be refunded if certain performance obligations or conditions are not met. These payments are classified as deferred revenue/credits on the Company's Condensed Consolidated Balance Sheet when received and recognized as revenue as the production units are delivered or performance obligations or conditions are met.

($, €, and RM in millions other than per share amounts)

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

	July 2, 2015	December 31, 2014
B787	$748.5	$581.1
Boeing — All other platforms	15.1	16.4
A350 XWB	211.0	224.3
Airbus — All other platforms	3.6	4.1
Other	13.0	24.0
Total advance payments and deferred revenue/credits	$991.2	