Spirit AeroSystems Holdings, Inc.
Form 10-Q
May 08, 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 April 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 May 1, 2009, the registrant had outstanding 103,544,214 shares of class A common stock, $0.01 par value per share and 36,623,759 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 April 2, 2009	For the Three Months Ended March 27, 2008
	($ in millions, except per share data)	
Net revenues	$ 887.4	$ 1,036.4
Operating costs and expenses		
Cost of sales	737.3	857.3
Selling, general and administrative	38.4	39.1
Research and development	13.9	9.8
Total costs and expenses	789.6	906.2
Operating income	97.8	130.2
Interest expense and financing fee amortization	(9.1)	(9.1)
Interest income	2.6	5.7
Other income, net	1.5	1.4
Income before income taxes	92.8	128.2
Income tax expense	(30.2)	(43.0)
Income before equity in net income of affiliates	62.6	85.2
Equity in net income of affiliates	0.1	
Net income	$ 62.7	$ 85.2
Earnings per share		
Basic	$ 0.46	$ 0.62
Diluted	$ 0.45	$ 0.61

See notes to condensed consolidated financial statements (unaudited)

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

	April 2, 2009	December 31, 2008
	($ in millions)	
Current assets		
Cash and cash equivalents	$ 115.6	$ 216.5
Accounts receivable, net	268.6	149.3
Current portion of long-term receivable	82.6	108.9
Inventory, net	2,118.4	1,882.0
Deferred tax asset-current	65.0	62.1
Other current assets	11.1	14.5
Total current assets	2,661.3	2,433.3
Property, plant and equipment, net	1,107.0	1,068.3
Pension assets	59.9	60.1
Deferred tax asset-non-current	145.7	146.0
Other assets	48.7	52.6
Total assets	$ 4,022.6	$ 3,760.3
Current liabilities		
Accounts payable	$ 435.9	$ 316.9
Accrued expenses	175.3	161.8
Current portion of long-term debt	6.7	7.1
Advance payments, short-term	174.7	138.9
Deferred revenue, short-term	75.8	110.5
Other current liabilities	37.9	8.1
Total current liabilities	906.3	743.3
Long-term debt	655.9	580.9
Advance payments, long-term	863.6	923.5
Deferred revenue and other deferred credits	64.6	58.6
Pension/OPEB obligation	47.8	47.3
Deferred grant income liability	52.6	38.8
Other liabilities	68.7	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, 103,546,281 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, 36,624,147 and 36,679,760 shares issued and outstanding, respectively	0.4	0.4
Additional paid-in capital	941.5	939.7
Noncontrolling interest	0.5	0.5
Accumulated other comprehensive income	(133.1)	(134.2)

Retained earnings	552.8	490.1
Total shareholders equity	1,363.1	1,297.5
Total liabilities and shareholders equity	$ 4,022.6	$ 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 Three Months Ended April 2, 2009	For the Three Months Ended March 27, 2008
	($ in millions)	
Operating activities		
Net income	$ 62.7	$ 85.2
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	30.7	28.0
Amortization expense	2.2	2.1
Accretion of long-term receivable	(2.5)	(4.9)
Employee stock compensation expense	2.8	3.7
Loss from the ineffectiveness of hedge contracts		0.3
Gain from foreign currency transactions	(0.7)	
Loss on disposition of assets	0.2	0.7
Deferred taxes	(2.2)	(2.1)
Pension and other post retirement benefits, net	0.4	(7.2)
Grant income	(0.2)	
Equity in net income of affiliates	(0.1)	
Changes in assets and liabilities		
Accounts receivable	(121.6)	(66.4)
Inventory, net	(235.4)	(155.8)
Accounts payable and accrued liabilities	134.2	60.8
Advance payments	(24.1)	89.1
Deferred revenue and other deferred credits	(27.6)	(8.5)
Income tax payable	32.1	47.8
Other		(1.5)
Net cash provided by (used in) operating activities	(149.1)	71.3
Investing Activities		
Purchase of property, plant and equipment	(54.4)	(65.7)
Long-term receivable	28.8	
Other	0.3	(0.1)
Net cash (used in) investing activities	(25.3)	(65.8)
Financing Activities		
Proceeds from revolving credit facility	100.0	75.0
Payments on revolving credit facility	(25.0)	
Principal payments of debt	(1.9)	(3.2)
Proceeds from governmental grants	0.5	
Debt issuance costs		(6.8)

Net cash provided by financing activities	73.6		65.0
Effect of exchange rate changes on cash and cash equivalents	(0.1)		(0.5)
Net increase (decrease) in cash and cash equivalents for the period	(100.9)		70.0
Cash and cash equivalents, beginning of period	216.5		133.4
Cash and cash equivalents, end of period	$ 115.6	$	203.4
Supplemental Information			
Change in value of financial instruments	$ 1.2	$	8.9
Property acquired through capital leases	$ 1.8	$	

See notes to condensed consolidated financial statements (unaudited)

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, 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 three months ended April 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. In addition, the Company adjusted its balance sheet to reflect retrospective presentation of noncontrolling interests from Other liabilities to the Shareholders equity section at April 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. 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.

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

2. New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and any goodwill acquired to be measured at their fair value on the acquisition date. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This statement is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period that begins on or after December 15, 2008, and is effective for the Company at the beginning of fiscal 2009. Early adoption is prohibited. The adoption of SFAS 141(R) 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.

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 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 May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). This Statement was effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The adoption of SFAS 162 did not have a material impact on the Company s 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 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.

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

3. Accounts Receivable

Accounts receivable, net consists of the following:

	April 2, 2009	December 31, 2008
Trade receivables	$ 199.0	$ 101.2
Volume-based pricing accrual	47.9	29.7
Employee receivables	1.4	1.9
Other	20.4	16.6
Total	268.7	149.4
Less: allowance for doubtful accounts	(0.1)	(0.1)
Accounts receivable, net	$ 268.6	$ 149.3

4. Inventory

Inventories are summarized as follows:

	April 2, 2009	December 31, 2008
Raw materials	$ 195.6	$ 176.3
Work-in-process	1,427.4	1,260.3
Finished goods	30.7	27.5
Product inventory	1,653.7	1,464.1
Capitalized pre-production	464.7	417.9
Total inventory, net	$ 2,118.4	$ 1,882.0

Inventories are summarized by platform as follows:

	April 2, 2009	December 31, 2008
B737	$ 363.3	$ 309.6
B747(1)	196.0	154.2
B767	17.0	16.6
B777	157.1	166.4
B787(2)	801.9	768.3
Airbus All platforms	86.6	70.7
Gulfstream(3)	302.9	224.7
Rolls-Royce	46.0	43.7
Cessna	29.7	20.0
Aftermarket	30.2	25.7

Other in-process inventory related to long-term contracts and other programs(4)	87.7	82.1
Total inventory	$ 2,118.4	$ 1,882.0

(1) B747 inventory includes $95.6 and $63.6 in non-recurring production costs at April 2, 2009 and December 31, 2008, respectively, related to the B747-8 program.

(2) B787 inventory includes $234.4 and $235.4 in capitalized pre-production costs at April 2, 2009 and December 31, 2008, respectively.

(3) Gulfstream inventory includes $230.3 and $182.5 in capitalized pre-production costs at April 2, 2009 and December 31, 2008, respectively.

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

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.

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

At April 2, 2009, work-in-process inventory included $253.5 of deferred production costs, which is comprised of $230.9 related to B787, $53.8 on certain other contracts for the excess of production costs over the estimated average cost per ship set and ($31.2) 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 April 2, 2009:

Balance-December 31, 2008	$ 31.2
Charges to costs and expenses	5.2
Write-offs, net of recoveries	(5.2)
Exchange rate	0.1
Balance-April 2, 2009	$ 31.3

5. Property, Plant and Equipment

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

	April 2, 2009	December 31, 2008
Land	$ 15.6	$ 15.5
Buildings (including improvements)	249.2	206.5
Machinery and equipment	538.4	512.8
Tooling	449.7	428.9
Construction in progress	184.9	204.3
Total	1,437.8	1,368.0
Less: accumulated depreciation	(330.8)	(299.7)
Property, plant and equipment, net	$ 1,107.0	$ 1,068.3

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was $1.8 and $1.5 for the three months ended April 2, 2009 and March 27, 2008, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized $20.3 and $18.9 of repair and maintenance expense for the three months ended April 2, 2009 and March 27, 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 $3.8 and $5.8 for the three months ended April 2, 2009 and March 27, 2008, respectively.

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 assets. The accretion of interest income was $2.5 and $4.9 for the three months ended April 2, 2009 and March 27, 2008, respectively.

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

2009	$ 86.6

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

A discount rate of 9.75% was used to record these payments at their estimated present value of $82.6 and $108.9 at April 2, 2009 and December 31, 2008, respectively. At April 2, 2009, the remaining discounted balance of this receivable was $82.6, all of which is current.

7. Other Assets

Other assets are summarized as follows:

	April 2, 2009	December 31, 2008
Intangible assets		
Patents	$ 2.0	$ 2.0
Favorable leasehold interests	9.7	9.7
Customer relationships	25.3	25.3
Total intangible assets	37.0	37.0
Less: Accumulated amortization-patents	(0.6)	(0.6)
Accumulated amortization-favorable leasehold interest	(2.6)	(2.5)
Accumulated amortization-customer relationships	(9.5)	(8.7)
Intangible assets, net	24.3	25.2
Deferred financing costs, net	13.0	14.3
Fair value of derivative instruments	2.4	3.8
Goodwill Europe	2.7	2.7
Equity in net assets of affiliates	3.7	3.9
Other	2.6	2.7
Total	$ 48.7	$ 52.6

Deferred financing costs, net are recorded net of $16.0 and $14.7 of accumulated amortization at April 2, 2009 and December 31, 2008, respectively.

The Company recognized $0.9 and $1.4 of amortization expense of intangibles for the three months ended April 2, 2009 and March 27, 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.

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:

	April 2,	December 31,

	2009	2008
B737	$ 81.6	$ 87.3
B747	7.8	8.0
B787	995.7	1,019.9
Airbus All platforms	35.4	52.6
Gulfstream	42.5	42.5
Other	15.7	21.2
Total advance payments and deferred revenue/credits	$ 1,178.7	$ 1,231.5

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

9. Government Grants

As part of our site construction projects in Kinston, North Carolina and Subang, Malaysia, we have the potential 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 component of 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 April 2, 2009, we recorded $52.6 within Property, Plant and Equipment and Deferred Grant Income Liability related to the use of grant funds in Malaysia and North Carolina. Of this amount, $50.4 in capital 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 Statement of Cash Flows.

Deferred grant income liability, net consists of the following:

	April 2, 2009	December 31, 2008
Beginning Balance	$ 38.8	$
Grant liability recorded	13.9	38.8
Grant income recognized	(0.2)	
Exchange rate	0.1	
Total deferred grant income liability	$ 52.6	$ 38.8

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

	April 2, 2009	December 31, 2008
Beginning Balance	$ 38.8	$
Amount paid by Spirit (reimbursed by third parties)	0.5	2.3
Amount paid by escrow agent	13.4	37.0
Depreciation offset to amortization of grant income	(0.2)	
Exchange rate	0.1	(0.5)
Total asset value related to deferred grant income	$ 52.6	$ 38.8

10. Derivative and Hedging Activities

Effective for the first quarter of 2009, we adopted SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133, which expands the quarterly and annual disclosure requirements about our derivative instruments 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