

Spirit AeroSystems Holdings, Inc.  
Form 10-Q  
April 29, 2016  
Table of Contents

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

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

For the quarterly period ended March 31, 2016

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33160

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

Delaware 20-2436320  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: Spirit AeroSystems Holdings, Inc. - Form 10-Q

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

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

As of April 22, 2016, the registrant had outstanding 132,378,113 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.

1

---

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements (unaudited)</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>

PART II — OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>Signatures</u>	<u>47</u>

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	
	March 31, 2016	April 2, 2015
	(\$ in millions, except per share data)	
Net revenues	\$ 1,681.6	\$ 1,742.2
Operating costs and expenses		
Cost of sales	1,359.0	1,448.3
Selling, general and administrative	50.0	51.6
Research and development	6.1	7.0
Total operating costs and expenses	1,415.1	1,506.9
Operating income	266.5	235.3
Interest expense and financing fee amortization	(11.4	) (17.9
Other expense, net	(2.2	) (6.4
Income before income taxes and equity in net income of affiliate	252.9	211.0
Income tax provision	(81.9	) (29.4
Income before equity in net income of affiliate	171.0	181.6
Equity in net income of affiliate	0.6	0.3
Net income	\$ 171.6	\$ 181.9
Earnings per share		
Basic	\$ 1.30	\$ 1.31
Diluted	\$ 1.29	\$ 1.30

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	
	March 31, 2016	April 2, 2015
	(\$ in millions)	
Net income	\$171.6	\$181.9
Changes in other comprehensive loss, net of tax:		
Settlement of swap, net of tax effect of zero for each of the three months ended, respectively	—	1.1
Pension, SERP, and Retiree medical adjustments, net of tax effect of (\$0.2) and zero for the three months ended, respectively	0.8	—
Unrealized foreign exchange loss on intercompany loan, net of tax effect of \$0.3 and \$0.6 for the three months ended, respectively	(1.2 )	(2.4 )
Foreign currency translation adjustments	(7.6 )	(12.7 )
Total other comprehensive loss	(8.0 )	(14.0 )
Total comprehensive income	\$163.6	\$167.9

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Balance Sheets  
(unaudited)

	March 31, December 31, 2016      2015 (\$ in millions)	
Current assets		
Cash and cash equivalents	\$822.9	\$ 957.3
Accounts receivable, net	683.2	537.0
Inventory, net	1,808.0	1,774.4
Other current assets	27.5	30.4
Total current assets	3,341.6	3,299.1
Property, plant and equipment, net	1,947.2	1,950.7
Pension assets	242.7	246.9
Other assets	255.4	280.8
Total assets	\$5,786.9	\$ 5,777.5
Current liabilities		
Accounts payable	\$645.8	\$ 618.2
Accrued expenses	225.5	230.2
Profit sharing	18.4	61.6
Current portion of long-term debt	42.9	35.6
Advance payments, short-term	192.5	178.3
Deferred revenue, short-term	312.1	285.5
Deferred grant income liability - current	12.6	11.9
Other current liabilities	88.7	37.7
Total current liabilities	1,538.5	1,459.0
Long-term debt	1,083.4	1,097.6
Advance payments, long-term	452.9	507.4
Pension/OPEB obligation	70.2	67.7
Deferred revenue and other deferred credits	172.4	170.0
Deferred grant income liability - non-current	78.2	82.3
Other liabilities	270.6	273.5
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, 132,474,893 and 135,617,589 shares issued and outstanding, respectively	1.3	1.4
Common stock, Class B par value \$0.01, 150,000,000 shares authorized, 121 shares issued and outstanding each period, respectively	—	—
Additional paid-in capital	1,054.0	1,051.6
Accumulated other comprehensive loss	(168.5 )	(160.5 )
Retained earnings	1,827.8	1,656.2
Treasury stock, at cost (13,306,381 and 9,691,865 shares, respectively)	(594.4 )	(429.2 )
Total shareholders' equity	2,120.2	2,119.5
Noncontrolling interest	0.5	0.5
Total equity	2,120.7	2,120.0
Total liabilities and equity	\$5,786.9	\$ 5,777.5
See notes to condensed consolidated financial statements (unaudited)		



Table of Contents

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

	For the Three Months Ended	
	March 31	April 2,
	2016	2015
	(\$ in millions)	
Operating activities		
Net income	\$ 171.6	\$ 181.9
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	49.4	43.6
Amortization expense	—	0.5
Amortization of deferred financing fees	1.1	4.2
Accretion of customer supply agreement	1.0	0.4
Employee stock compensation expense	5.3	6.9
Excess tax benefit of share-based payment arrangements	(0.3 )	—
Loss from hedge contracts	—	1.6
Loss from foreign currency transactions	4.6	6.4
Loss on disposition of assets	2.5	—
Deferred taxes	24.1	1.2
Pension and other post retirement benefits, net	7.0	(6.1 )
Grant liability amortization	(2.7 )	(2.6 )
Equity in net income of affiliate	(0.6 )	(0.3 )
Changes in assets and liabilities		
Accounts receivable	(148.6 )	0.3
Inventory, net	(50.6 )	33.8
Accounts payable and accrued liabilities	19.9	(10.2 )
Profit sharing/deferred compensation	(43.1 )	(91.1 )
Advance payments	(40.3 )	(10.2 )
Income taxes receivable/payable	58.2	198.0
Deferred revenue and other deferred credits	29.9	56.7
Other	5.4	8.7
Net cash provided by operating activities	93.8	423.7
Investing activities		
Purchase of property, plant and equipment	(50.4 )	(40.3 )
Net cash used in investing activities	(50.4 )	(40.3 )
Financing activities		
Proceeds from issuance of debt	—	535.0
Principal payments of debt	(7.5 )	(7.5 )
Payments on term loan	—	(534.9 )
Taxes paid related to net share settlement awards	(2.9 )	—
Excess tax benefit of share-based payment arrangements	0.2	—
Debt issuance and financing costs	—	(4.7 )
Purchase of treasury stock	(165.2 )	—
Net cash used in financing activities	(175.4 )	(12.1 )
Effect of exchange rate changes on cash and cash equivalents	(2.4 )	0.3
Net (decrease) increase in cash and cash equivalents for the period	(134.4 )	371.6
Cash and cash equivalents, beginning of period	957.3	377.9



Edgar Filing: Spirit AeroSystems Holdings, Inc. - Form 10-Q

Cash and cash equivalents, end of period	\$822.9	\$749.5
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"). In August 2014, Onex sold its remaining investment in the Company in a secondary offering of the Company's class A common stock. 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.

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 three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 12, 2016 (the "2015 Form 10-K").

## 2. New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU ") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 will be effective for annual periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have to the Company's consolidated financial statements.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). This update requires recognition of lease assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2018. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating the new guidance to determine the impact it may have to 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 (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. ASU 2014-09 was supposed to be effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. However, in July 2015, the FASB affirmed its proposal to defer the effective date of ASU 2014-09 for all entities by one year. As a result, 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. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and in April 2016, ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, both of which provide supplemental adoption guidance and clarification to ASC 2014-09. ASU 2016-08 and ASU 2016-10 must be adopted concurrently with the adoption of ASU 2014-09. The Company is currently evaluating the new guidance to determine the impact it may have to the Company's 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 March April	
	31, 2,	2016 2015
Changes in Estimates		
Favorable Cumulative Catch-up Adjustment by Segment		
Fuselage	\$16.2	\$2.7
Propulsion	5.9	9.3
Wing	10.1	—
Total Favorable Cumulative Catch-up Adjustment	\$32.2	\$12.0
Changes in Estimates on Loss Programs		
Fuselage		
Boeing - All other platforms	\$3.1	\$2.9
Total Fuselage Change in Estimate on Loss Programs	\$3.1	\$2.9
Propulsion		
Boeing - All other platforms	\$5.5	\$—
Rolls-Royce BR725	3.4	—
Total Propulsion Change in Estimate on Loss Programs	\$8.9	\$—
Wing		
Boeing - All other platforms	\$3.0	\$—
Total Wing Change in Estimate on Loss Programs	\$3.0	\$—
Total Change in Estimate on Loss Programs	\$15.0	\$2.9
Total Change in Estimate	\$47.2	\$14.9
EPS Impact (diluted per share based upon statutory rates)	\$0.22	\$0.07

The Company is currently working on several maturing programs which are in various stages of production, including the B787, A350 XWB and BR725 programs. These programs carry risks associated with design responsibility, development of production tooling, production inefficiencies during the early 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:

	March 31, 2016	December 31, 2015
Trade receivables <sup>(1)</sup>	\$ 661.3	\$ 524.3
Other	28.0	18.8
Less: allowance for doubtful accounts (6.1 )	(6.1 )	(6.1 )

Accounts receivable, net	\$ 683.2	\$ 537.0
--------------------------	----------	----------

(1)Includes unbilled receivables of \$32.3 and \$30.5 at March 31, 2016 and December 31, 2015, respectively.

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.

9

---

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## 5. Inventory

Inventories are summarized as follows:

	March 31, 2016	December 31, 2015
Raw materials	\$259.7	\$253.8
Work-in-process	821.4	854.4
Finished goods	64.6	65.7
Product inventory	1,145.7	1,173.9
Capitalized pre-production	147.9	167.8
Deferred production	1,389.6	1,315.4
Forward loss provision	(875.2 )	(882.7 )
Total inventory, net	\$1,808.0	\$1,774.4

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. Capitalized pre-production may be amortized over multiple blocks. See contract block and orders table noted below.

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, net of forward loss provisions, will be fully recovered over the contract block quantities noted in the contract block and orders table below. 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. Sales significantly under estimates or costs significantly over estimates could result in losses on these contracts in future periods.

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.

Forward loss provisions on contract blocks are recorded in the period in which they become evident 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.





Table of Contents

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 and costs below:

	March 31, 2016						Total Inventory,
	Product Inventory						net March 31,
	Inventory	Non-Recurring	Capitalized Pre-	Deferred	Forward Loss		2016
			Production	Production	Provision		
B787	213.8	9.9	26.6	591.8	(606.0)	)	236.1
Boeing - All other platforms	484.8	17.0	5.4	(1.9)	(17.3)	)	488.0
A350 XWB	153.3	37.3	92.2	685.2	(113.7)	)	854.3
Airbus - All other platforms	89.6	—	—	9.0	—		98.6
Rolls-Royce BR725 <sup>(1)</sup>	15.4	—	23.7	99.1	(138.2)	)	—
GCS&S	56.1	—	—	—	—		56.1
Other platforms	67.3	1.2	—	6.4	—		74.9
Total	\$1,080.3	\$ 65.4	\$ 147.9	\$ 1,389.6	\$ (875.2)	)	\$ 1,808.0
	December 31, 2015						Total Inventory,
	Product Inventory						net December 31,
	Inventory	Non-Recurring	Capitalized Pre-	Deferred	Forward Loss		2015
			Production	Production	Provision		
B787	222.7	9.8	42.1	558.5	(606.0)	)	227.1
Boeing - All other platforms	491.9	23.0	5.6	(32.8)	(28.8)	)	458.9
A350 XWB	148.7	35.3	94.2	679.4	(113.8)	)	843.8
Airbus - All other platforms	90.8	—	—	9.2	—		100.0
Rolls-Royce BR725 <sup>(1)</sup>	12.5	—	25.9	95.7	(134.1)	)	—
GCS&S	54.3	—	—	—	—		54.3
Other platforms	80.0	4.9	—	5.4	—		90.3
Total	\$1,100.9	\$ 73.0	\$ 167.8	\$ 1,315.4	\$ (882.7)	)	\$ 1,774.4

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 \$4.6 and \$12.2 as of March 31, 2016 and December 31, 2015, respectively.

Significant amortization of capitalized pre-production and deferred production inventory has occurred over the following contract block deliveries and will continue to occur over the following contract blocks:

Model	Current Block Deliveries	Contract Block Quantity	Orders <sup>(1)</sup>
B787	441	500	746
A350 XWB <sup>(2)</sup>	78	400	758
Rolls-Royce BR725	206	350	257

Order amounts are obtained from the published firm-order backlogs of Airbus and Boeing. For Rolls-Royce (1)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.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

(2) Capitalized pre-production amortization over 800 shipsets.

## 6. Property, Plant and Equipment, net

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

	March 31, December 31,	
	2016	2015
Land	\$ 16.1	\$ 16.5
Buildings (including improvements)	595.2	585.4
Machinery and equipment	1,248.9	1,210.6
Tooling	943.3	927.2
Capitalized software	230.9	219.7
Construction-in-progress	244.2	278.6
Total	3,278.6	3,238.0
Less: accumulated depreciation	(1,331.4 )	(1,287.3 )
Property, plant and equipment, net	\$ 1,947.2	\$ 1,950.7

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was \$2.1 and \$1.3 for the three months ended March 31, 2016 and April 2, 2015, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs of \$26.6 and \$30.3 for the three months ended March 31, 2016 and April 2, 2015, 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 \$4.5 and \$4.2 for the three months ended March 31, 2016 and April 2, 2015, 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 for the periods ended March 31, 2016 and April 2, 2015.

Table of Contents

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:

	March 31, 2016	December 31, 2015
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 )	(1.6 )
Accumulated amortization - favorable leasehold interest	(3.9 )	(3.8 )
Intangible assets, net	2.7	2.8
Deferred financing		
Deferred financing costs	105.8	105.8
Less: Accumulated amortization - deferred financing costs <sup>(1)</sup>	(87.4 )	(86.3 )
Deferred financing costs, net	18.4	19.5
Other		
Goodwill - Europe	2.6	2.7
Equity in net assets of affiliates	3.7	3.2
Customer supply agreement <sup>(2)</sup>	25.6	29.3
Restricted Cash	19.9	19.9
Deferred Tax Asset - non-current <sup>(3)</sup>	141.8	162.8
Other	40.7	40.6
Total	\$ 255.4	\$ 280.8

(1) Includes charges related to debt extinguishment of zero and \$3.1 for the periods ended March 31, 2016 and December 31, 2015, respectively.

(2) Under agreements with customers and a supplier, certain payments accounted for as consideration paid by the Company to a customer and supplier are being amortized as a reduction to net revenues.

(3) For further detail, see Note 16, "Income Taxes."

## 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 shipsets 1,001 through 1,120.

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.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

In November 2014, Spirit and Boeing entered into a Memorandum of Agreement (the “November 2014 MOA”). As part of the November 2014 MOA, Boeing and Spirit established interim prices for certain B787 shipsets, and the parties agreed to negotiate future rate increases, recurring prices and other issues across multiple programs during 2015. Since the Company was unable to reach agreement with Boeing on these issues by the end of 2015, once the parties agree upon appropriate pricing for the B787-9, Boeing will be entitled to a retroactive adjustment on certain B787 payments which were based on the interim pricing. The amount Spirit received that is subject to a retroactive adjustment was recorded as deferred revenue, and has not been recognized by the Company as revenue. The Company is engaged in discussions with Boeing concerning how to determine the subsequent B787-9 and initial B787-10 prices, and the parties have not yet reached agreement.

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

	March 31, December 31,	
	2016	2015
B787	\$ 923.5	\$ 909.3
Boeing - All other platforms	13.2	13.8
A350 XWB	162.4	183.5
Airbus — All other platforms	4.1	4.0
Other	26.7	30.6
Total advance payments and deferred revenue/credits	\$ 1,129.9	\$ 1,141.2

## 9. Government Grants

The Company received grants in the form of government funding for a portion of the site construction and other specific capital asset costs at the Company's Kinston, North Carolina and Subang, Malaysia sites. Deferred grant income is being 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, is being amortized over the lives of the assets purchased to satisfy the capital investment performance criteria. The other half of the deferred grant income is being amortized over a ten-year period, which began in 2010, in a manner consistent with the job performance criteria. Under the agreement, failure by Spirit to meet job performance criteria, including creation of a targeted number of jobs, could result in Spirit being obligated to make incremental rent payments to the North Carolina Global TransPark Authority over the initial term of the lease. The amount of the incremental rent payments would vary depending on Spirit's level of attainment of the specified requirements not to exceed a certain dollar threshold. In Malaysia, the deferred grant income is being amortized based on the estimated lives of the eligible assets constructed with the grant funds as there are no performance criteria. The assets related to deferred grant income are consolidated within property, plant and equipment.

Deferred grant income liability, net consists of the following:

Balance, December 31, 2015	\$94.2
Grant liability amortized	(2.7 )
Exchange rate	(0.7 )
Total asset value related to deferred grant income, March 31, 2016	\$90.8

The assets related to the deferred grant income consist of the following:

Balance, December 31, 2015	\$106.6
Amortization	(1.3 )
Exchange rate	(0.7 )
Total asset value related to deferred grant income, March 31, 2016	\$104.6



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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 the 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.

Description	Fair Value Measurements March 31, 2016			At March 31, 2016 using		
	Total Assets Measured at Fair Value	Liabilities Measured at Fair Value		Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	\$22.2	\$ 22.2	\$ —	\$ 22.2	\$ —	\$ —

Description	Fair Value Measurements December 31, 2015			At December 31, 2015 using		
	Total Assets Measured at Fair Value	Liabilities Measured at Fair Value		Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	\$90.2	\$ 90.2	\$ —	\$ 90.2	\$ —	\$ —



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

The Company's long-term debt includes a senior secured term loan, senior unsecured notes and the Malaysian term loan. The estimated fair value of the Company's debt obligations is based on the quoted market prices for such obligations or the historical default rate for debt with similar credit ratings. The following table presents the carrying amount and estimated fair value of long-term debt:

	March 31, 2016		December 31, 2015		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Senior secured term loan A (including current portion)	\$501.6	\$497.5	(2)\$508.3	\$501.6	(2)
Senior unsecured notes due 2020	300.0	311.2	(1)300.0	310.5	(1)
Senior unsecured notes due 2022	299.5	310.8	(1)299.5	304.8	(1)
Malaysian loan	3.0	2.6	(2)3.2	2.8	(2)
Total	\$1,104.1	\$1,122.1	\$1,111.0	\$1,119.7	

(1)Level 1 Fair Value hierarchy

(2)Level 2 Fair Value hierarchy

## 11. Derivative and Hedging Activities

The Company has historically entered into interest rate swap agreements to reduce its exposure to the variable rate portion of its long-term debt. On the inception date, the Company designates a derivative contract as either a fair value or cash flow hedge and links the contract to either a specific asset or liability on the balance sheet, or to forecasted commitments or transactions. The Company assesses, both at the hedges' inception and on a quarterly basis, whether the derivative item is effective in offsetting changes in fair value or cash flows. Any gains or losses on hedges are included in earnings when the underlying transaction that was hedged occurs. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values.

The Company has historically entered into 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. See Note 12, Debt for discussion of the Company's senior secured credit facilities.

## Interest Rate Swaps

During the first quarter of 2015, as a result of Amendment No. 5 to its Credit Agreement, the Company unwound its interest rate swap agreements which had a notional amount of \$250.0. The company recognized a loss of \$0.4 as a result of unwinding these interest rate swaps. This loss on derivatives not designated as hedging instruments is included in Other Expense on the Consolidated Statement of Operations for the three months ended April 2, 2015. In total, the Company paid \$2.0 as a result of the settlement of the interest rate swap agreements.

As of March 31, 2016 and December 31, 2015, the Company had no outstanding interest rate swap agreements.



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## 12. Debt

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

	March 31, 2016		December 31, 2015	
	Current	Noncurrent	Current	Noncurrent
Senior secured term loan A	\$26.8	\$ 474.8	\$26.8	\$ 481.5
Senior notes due 2020	—	300.0	—	300.0
Senior notes due 2022	—	299.5	—	299.5
Malaysian term loan	2.4	0.6	2.1	1.1
Present value of capital lease obligations	0.6	8.5	0.6	8.5
Other	13.1	—	6.1	7.0
Total	\$42.9	\$ 1,083.4	\$35.6	\$ 1,097.6

## Senior Secured Credit Facilities

On March 18, 2015, Spirit AeroSystems, Inc., as borrower, Spirit AeroSystems Holdings, Inc., as parent guarantor, and certain of its subsidiaries entered into Amendment No. 5 (the "Amendment") to the Company's senior secured Credit Agreement, dated as of April 18, 2012, as amended by Amendment No. 1, dated as of October 26, 2012, Amendment No. 2, dated as of August 2, 2013, Amendment No. 3, dated as of March 18, 2014 and Amendment No. 4, dated as of June 3, 2014 (the "Credit Agreement"). The Amendment provided for a new \$535.0 senior secured term loan A (the "Term Loan") with a maturity date of March 18, 2020, which replaced the term loan B which had an amount outstanding of approximately \$534.9 (the "Term Loan B") that was scheduled to mature on September 15, 2020. The Term Loan bears interest, at Spirit's option, at either LIBOR plus 1.75% or a defined "base rate" plus 0.75%, subject to adjustment to amounts between and including LIBOR plus 1.75% and LIBOR plus 2.50% (or amounts between and including base rate plus 0.75% and base rate plus 1.50%, as applicable) based on changes to Spirit's debt-to-EBITDA ratio. The principal obligations under the Term Loan are to be repaid in equal quarterly installments of \$6.7, with the remaining balance due at maturity of the Term Loan. The Amendment maintained substantially the same prepayment requirements and covenant structure under the Credit Agreement, and provided the Company with some additional flexibility with respect to certain activities. Spirit used the proceeds of the Term Loan to pay off the Term Loan B and to pay a portion of the fees and expenses payable in connection with the Amendment.

As of March 31, 2016, the outstanding balance of the Term Loan was \$501.6. As a result of extinguishment of the Term Loan B during the first quarter of 2015, the Company recognized a loss on extinguishment of debt of \$3.6. Of this total charge, \$3.1 is reflected within amortization of deferred financing fees and \$0.5 is reflected within amortization expense on the Condensed Consolidated Statement of Cash Flows for the three months ended April 2, 2015.

Substantially all of Spirit's assets, including inventory and property, plant and equipment, had been pledged as collateral for both the Term Loan and the revolving credit facility. However, under the terms of the Credit Agreement, following the credit rating upgrades by Moody's and S&P during 2016, the collateral was released effective April 27, 2016.

## Senior Notes

In November 2010, the Company issued \$300.0 in aggregate principal amount of 6.75% Senior Notes due December 15, 2020 (the "2020 Notes"), with interest payable, in cash in arrears, on June 15 and December 15 of each year, beginning June 15, 2011. The 2020 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company and Spirit's existing and future domestic subsidiaries that guarantee Spirit's obligations under Spirit's senior secured credit facility. The carrying value of the 2020 Notes was \$300.0 as of March 31, 2016.

In March 2014, the Company issued \$300.0 in aggregate principal amount of 5.25% Senior Notes due March 15, 2022 (the "2022 Notes") with interest payable, in cash in arrears, on March 15 and September 15 of each year, beginning September 15, 2014. The 2022 Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by the Company and its

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

existing and future domestic subsidiaries that guarantee Spirit's obligations under its amended senior secured credit facility. The carrying value of the 2022 Notes was \$299.5 as of March 31, 2016.

## 13. Pension and Other Post-Retirement Benefits

Components of Net Periodic Pension Expense/(Income)	Defined Benefit Plans	
	For the Three	
	Months Ended	
	March 31, 2016	April 2, 2015
Service cost	\$ 0.3	\$ 0.3
Interest cost	11.7	12.0
Expected return on plan assets	(19.5 )	(20.7 )
Amortization of net loss	0.7	1.0
Special termination benefits <sup>(1)</sup>	11.0	—
Net periodic pension expense (income)	\$ 4.2	\$ (7.4 )

(1) Special termination benefits related to early retirement incentives offered as part of a voluntary retirement plan.

Components of Other Benefit Expense	Other Benefits	
	For the Three	
	Months Ended	
	March 31, 2016	April 2, 2015
Service cost	\$ 0.6	\$ 0.7
Interest cost	0.6	0.6
Amortization of net gain	(0.1 )	—
Special termination benefits <sup>(1)</sup>	3.1	—
Net periodic other benefit expense	\$ 4.2	\$ 1.3

(1) Special termination benefits related to early retirement incentives offered as part of a voluntary retirement plan.

## Employer Contributions

The Company expects to contribute zero dollars to the U.S. qualified pension plan and a combined total of approximately \$6.8 for the Supplemental Executive Retirement Plan (SERP) and post-retirement medical plans in 2016. The Company's projected contributions to the U.K. pension plan for 2016 are zero. The entire amount contributed can vary based on exchange rate fluctuations.

## 14. Stock Compensation

Holdings has established various stock compensation plans which include restricted share grants and stock purchase plans. Compensation values are based on the value of Holdings' common stock at the grant date. The common stock value is added to equity and charged to period expense or included in inventory and cost of sales.

The Executive Incentive Plan, Short-Term Incentive Plan ("STIP"), Long-Term Incentive Plan ("LTIP") and Director Stock Plan (collectively referred to as "Prior Plans") were replaced by the Omnibus Incentive Plan (the "Omnibus Plan") in 2014. No new awards will be granted under such Prior Plans. Outstanding awards under the Prior Plans will continue to be governed by the terms of such plans until exercised, expired, or otherwise terminated or canceled.

The Omnibus Plan provides for a Long-Term Incentive Award ("LTIA") for the 2014 plan year and forward. The LTIA provides



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

both time and performance based incentives.

75% of the LTIA is service-based restricted stock that will vest in equal installments over a three-year period.

25% of the LTIA is market-based restricted stock that will vest on the third year anniversary of the grant date contingent upon total shareholder return ("TSR") compared to the Company's peers.

For the three months ended March 31, 2016 the Company recognized a net total of \$5.3 of stock compensation expense, which is net of stock forfeitures and includes expense for the Prior Plans and the LTIA under the Omnibus Plan. For the three months ended April 2, 2015, the Company recognized \$6.9 of stock compensation expense, net of forfeitures. The entire stock compensation expense of \$5.3 and \$6.9, for the three months ended March 31, 2016 and April 2, 2015, respectively, was recorded as selling, general and administrative.

During the first quarter ended March 31, 2016, 492,624 shares of class A common stock with an aggregate grant date fair value of \$21.4 were granted under the service-based portion of the Company's LTIA. In addition, 125,894 shares of class A common stock with an aggregate grant date fair value of \$6.8 were granted under the market-based portion of the Company's LTIA under the Omnibus Plan and such shares are eligible to vest on the three-year anniversary of the grant date depending on total shareholder return compared to the Company's peers. Additionally, 102,943 shares of class A common stock with an aggregate grant date fair value of \$5.0 awarded under the Company's LTIP vested during the quarter ended March 31, 2016.

#### 15. Income Taxes

The process for calculating the Company's income tax expense involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes that are recorded as deferred tax assets and liabilities. Deferred tax assets are periodically evaluated to determine their recoverability. The total net deferred tax asset at March 31, 2016 and December 31, 2015 was \$126.5 and \$149.7, respectively. The difference is primarily due to the utilization of deductible temporary differences within the calculation of U.S. taxable income.

The Company files income tax returns in all jurisdictions in which it operates. The Company establishes reserves to provide for additional income taxes that may be due upon audit. These reserves are established based on management's assessment as to the potential exposure attributable to permanent tax adjustments and associated interest. All tax reserves are analyzed quarterly and adjustments made as events occur that warrant modification.

In general, the Company records income tax expense each quarter based on its best estimate as to the full year's effective tax rate. Certain items, however, are given discrete period treatment and the tax effects for such items are therefore reported in the quarter that an event arises. Events or items that give rise to discrete recognition may include finalizing amounts in income tax returns filed, finalizing audit examinations for open tax years, expiration of statutes of limitations and changes in tax law.

The 32.4% effective tax rate for the three months ended March 31, 2016 differs from the 13.9% effective tax rate for the same period of 2015 primarily due to U.S. net deferred tax asset valuation allowance decrease in 2015 netted against an increase in U.S. domestic production activities deduction in 2016.

The Company will continue to participate in the Internal Revenue Service's Compliance Assurance Process ("CAP") program for its 2015 and 2016 tax years. The CAP program's objective is to resolve issues in a timely, contemporaneous manner and eliminate the need for a lengthy post-filing examination. The HM Revenue & Customs completed its examination of the Company's 2009-2011 U.K. income tax returns and the statute of limitations has lapsed on the 2013 tax return. The Directorate General of Public Finance is currently examining the Company's 2011-2013 France income tax returns. While a change could result from the ongoing examinations, the Company expects no material change in its recorded unrecognized tax benefit liability in the next 12 months.

The Company had \$54.4 and \$3.0 of income tax payable as of March 31, 2016 and December 31, 2015, respectively, which is reflected within other current liabilities on the Consolidated Balance Sheet.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## 16. Equity

## Earnings per Share Calculation

Basic net income per share is computed using the weighted-average number of outstanding shares of common stock during the measurement period. Diluted net income per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential outstanding shares of common stock during the measurement period.

Subject to preferences that may apply to shares of preferred stock outstanding at the time, holders of the Company's outstanding common stock are entitled to any dividend declared by the Board of Directors out of funds legally available for this purpose. The Company did not pay any cash dividends in the three months ended March 31, 2016. The Company's future dividend policy will depend on the requirements of financing agreements to which the Company may be a party. Any future determination to pay dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other factors, the Company's results of operations, financial condition, capital requirements and contractual restrictions. The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity. As of March 31, 2016, no treasury shares have been reissued or retired.

The following table sets forth the computation of basic and diluted earnings per share:

	For the Three Months Ended			
	March 31, 2016		April 2, 2015	
	Income	Per Share	Income	Per Share
	Shares	Amount	Shares	Amount
Basic EPS				
Income available to common shareholders	\$171.5	131.6	\$181.7	138.9
Income allocated to participating securities	0.1	0.1	0.2	0.1
Net income	\$171.6		\$181.9	
Diluted potential common shares	1.0		1.4	
Diluted EPS				
Net income	\$171.6	132.7	\$181.9	140.4
		\$ 1.29		\$ 1.30

The balance of outstanding common shares presented in the Condensed Consolidated Balance Sheets was 132.5 million and 141.7 million at March 31, 2016 and April 2, 2015, respectively. Included in the outstanding common shares were 2.2 million and 2.8 million of issued but unvested shares at March 31, 2016 and April 2, 2015, respectively, which are excluded from the basic EPS calculation.

## Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is summarized by component as follows:

As of      As of

	March 31, December	
	2016	31, 2015
Pension	\$(121.0 )	\$(121.5 )
Interest rate swaps	—	(0.4 )
SERP/Retiree medical	6.0	6.1
Foreign currency impact on long term intercompany loan	(10.3 )	(9.2 )
Currency translation adjustment	(43.2 )	(35.5 )
Total accumulated other comprehensive loss	\$(168.5 )	\$(160.5 )

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

17. Related Party Transactions

In December 2014, Onex acquired approximately a 40% interest in Advanced Integration Technologies (“AIT”), a provider of automation and tooling, maintenance services and aircraft components to the aerospace industry and a supplier to the Company. For the three months ended March 31, 2016 and April 2, 2015, sales from AIT to the Company and its subsidiaries were \$4.7 and \$5.9, respectively. The amounts owed to AIT and recorded as accrued liabilities were \$1.4 and \$4.0 as of March 31, 2016 and December 31, 2015, respectively. Tawfiq Popatia, a former director of Spirit Holdings, is a Managing Director of Onex Corporation.

18. Commitments, Contingencies and Guarantees

Litigation

From time to time the Company is subject to, and is presently involved in, litigation or other legal proceedings arising in the ordinary course of business. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the meritorious legal defenses available, it is the opinion of the Company that none of these items, when finally resolved, will have a material adverse effect on the Company’s long-term financial position or liquidity. The Company had outstanding obligations in respect of litigation or other legal proceedings of \$25.0 as of both March 31, 2016 and December 31, 2015. However, an unexpected adverse resolution of one or more of these items could have a material adverse effect on the results of operations and cash flows in a particular quarter or fiscal year.

From time to time, in the ordinary course of business and similar to others in the industry, we receive requests for information from government agencies in connection with their regulatory or investigational authority. Such requests can include subpoenas or demand letters for documents to assist the government in audits or investigations. We review such requests and notices and take appropriate action. We have been subject to certain requests for information and investigations in the past and could be subject to such requests for information and investigations in the future. Additionally, we are subject to federal and state requirements for protection of the environment, including those for disposal of hazardous waste and remediation of contaminated sites. As a result, we are required to participate in certain government investigations regarding environmental remediation actions.

On December 5, 2014, Boeing filed a complaint in Delaware Superior Court, Complex Commercial Litigation Division, entitled *The Boeing Co. v. Spirit AeroSystems, Inc.*, No. N14C-12-055 (EMD). Boeing seeks indemnification from Spirit for (a) damages assessed against Boeing in *International Union, United Automobile, Aerospace and Agricultural Workers of America v. Boeing Co.*, AAA Case No. 54 300 00795 07 (the “UAW Arbitration”), which was brought on behalf of certain former Boeing employees in Tulsa and McAlester, Oklahoma, and (b) claims that Boeing allegedly settled in *Society of Professional Engineering Employees in Aerospace v. Boeing Co.*, Nos. 05-1251-MLB, 07-1043-MLB (D. Kan.) (the “Harkness Class Action”). Spirit Holdings, Spirit and certain Spirit retirement plan entities were parties to the Harkness Class Action, but all claims against the Spirit entities were subsequently dismissed. Boeing’s Complaint asserts that the damages assessed against Boeing in the UAW Arbitration and the claims settled by Boeing in the Harkness Class Action are liabilities that Spirit assumed under an Asset Purchase Agreement between Boeing and Spirit, dated February 22, 2005 (the “APA”). Boeing asserts claims for breach of contract and declaratory judgment regarding its indemnification rights under the APA. Boeing alleges that, under the UAW Arbitration decision, Boeing has paid more than \$13.0 of a liability Boeing estimates to have a net present value of \$39.0. In regard to the Harkness Class Action, Boeing has announced that the district court has approved a

settlement in an amount of \$90.0. In addition to the amounts related to the UAW Arbitration and Harkness Class Action, Boeing seeks indemnification for more than \$10.0 in attorneys' fees it alleges it expended to defend the UAW Arbitration and Harkness Class Action. On December 24, 2014, the parties filed a joint stipulation extending Spirit's deadline to move, answer or otherwise respond to Boeing's complaint until February 12, 2015. Spirit timely answered the complaint. Spirit intends to defend vigorously against the allegations in this lawsuit. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

On June 3, 2013, a putative class action lawsuit was commenced against the Company, Jeffrey L. Turner, and Philip D. Anderson in the U.S. District Court for the District of Kansas. The court-appointed lead plaintiffs - two pension funds that claim to represent a class of investors in the Company's stock - filed an amended complaint on April 7, 2014, naming as additional defendants Spirit's Vice President of the B787 Program Terry J. George and former Senior Vice President of Oklahoma Operations Alexander K. Kummant. The amended complaint alleges that defendants engaged in a scheme to artificially inflate the market price of the Company's stock by making false statements and omissions about certain programs' performance and costs. It contends that the alleged scheme was revealed by the Company's accrual of \$590.0 in forward loss charges on October 25, 2012. The lead plaintiffs seek certification of a class of all persons other than defendants who purchased Holdings securities between May 5, 2011 and October 24, 2012, and seek an unspecified amount of damages on behalf of the putative class. In June 2014, the defendants

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

filed a motion to dismiss the claims set forth in the amended complaint. On May 14, 2015, the District Court granted Spirit's motion to dismiss and dismissed the matter with prejudice. The plaintiffs filed a notice of appeal on June 11, 2015. The appeal has been fully briefed and argued, but the Court of Appeals has not yet issued a decision. The Company intends to vigorously defend against these allegations, and management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

Guarantees

Outstanding guarantees were \$22.2 and \$20.1 at March 31, 2016 and December 31, 2015, respectively.

Restricted Cash

The Company was required to maintain \$19.9 of restricted cash as of both March 31, 2016 and December 31, 2015 related to certain collateral requirements for obligations under its workers' compensation programs. Restricted cash is included in "Other assets" in the Company's Condensed Consolidated Balance Sheets.

Indemnification

The Company has entered into customary indemnification agreements with each of its Directors, and some of its executive employment agreements include indemnification provisions. Under those agreements, the Company agrees to indemnify each of these individuals against claims arising out of events or occurrences related to that individual's service as the Company's agent or the agent of any of its subsidiaries to the fullest extent legally permitted.

Service and Product Warranties and Extraordinary Rework

Provisions for estimated expenses related to service and product warranties and certain extraordinary rework are evaluated on a quarterly basis. These costs are accrued and are recorded to unallocated cost of goods sold. These estimates are established using historical information on the nature, frequency and average cost of warranty claims, including the experience of industry peers. In the case of new development products or new customers, Spirit considers other factors including the experience of other entities in the same business and management judgment, among others. Service warranty and extraordinary work is reported in current liabilities and other liabilities in the Condensed Consolidated Balance Sheet.

The following is a roll forward of the service warranty and extraordinary rework balance at March 31, 2016:

Balance, December 31, 2015	\$ 158.7
Charges to costs and expenses	1.8
Payouts	(2.8 )
Exchange rate	(0.1 )
Balance, March 31, 2016	\$ 157.6

19. Other Expense, Net

Other expense, net is summarized as follows:

	For the Three Months Ended	
	March 31,	April 2,
	2016	2015
KDFA bond	\$ 1.1	\$ 1.2
Rental and miscellaneous income (expense) <sup>(1)</sup>	0.1	(1.9 )
Interest income	0.8	0.2
Foreign currency losses	(4.2 )	(5.9 )
Total	\$ (2.2 )	\$ (6.4 )

22

---



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) Includes \$2.0 of losses related to the settlement of interest rate swap agreements for the period ended April 2, 2015, as further detailed in Note 11, Derivative and Hedging Activities.

Foreign currency losses are due to the impact of movement in foreign currency exchange rates on an intercompany revolver and long-term contractual rights/obligations, as well as trade and intercompany receivables/payables which are denominated in a currency other than the entity's functional currency.

20. Segment Information

The Company operates in three principal segments: Fuselage Systems, Propulsion Systems and Wing Systems. Substantially all revenues in the three principal segments are from Boeing, with the exception of Wing Systems, which includes revenues from Airbus and other customers. Approximately 96% of the Company's net revenues for the three months ended March 31, 2016 came from the Company's two largest customers, Boeing and Airbus. All other activities fall within the All Other segment, principally made up of sundry sales of miscellaneous services, tooling contracts and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita, Kansas. The Company's primary profitability measure to review a segment's operating performance is segment operating income before corporate selling, general and administrative expenses, research and development and unallocated cost of sales.

Corporate selling, general and administrative expenses include centralized functions such as accounting, treasury and human resources that are not specifically related to the Company's operating segments and are not allocated in measuring the operating segments' profitability and performance and net profit margins. Research and development includes research and development efforts that benefit the Company as a whole and are not unique to a specific segment. Unallocated cost of sales includes general costs not directly attributable to segment operations, such as warranty, early retirement and other incentives. All of these items are not specifically related to the Company's operating segments and are not utilized in measuring the operating segments' profitability and performance.

The Company's Fuselage Systems segment includes development, production and marketing of forward, mid and rear fuselage sections and systems, primarily to aircraft OEMs (OEM refers to aircraft original equipment manufacturer), as well as related spares and maintenance, repairs and overhaul (MRO) services. The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas and Kinston, North Carolina. The Fuselage Systems segment also includes an assembly plant for the A350 XWB aircraft in Saint-Nazaire, France.

The Company's Propulsion Systems segment includes development, production and marketing of struts/pylons, nacelles (including thrust reversers) and related engine structural components primarily to aircraft or engine OEMs, as well as related spares and MRO services. The Propulsion Systems segment manufactures products at our facilities in Wichita and Chanute, Kansas.

The Company's Wing Systems segment includes development, production and marketing of wings and wing components (including flight control surfaces) as well as other miscellaneous structural parts primarily to aircraft OEMs, as well as related spares and MRO services. These activities take place at the Company's facilities in Tulsa and McAlester, Oklahoma; Kinston, North Carolina; Prestwick, Scotland; and Subang, Malaysia.

The Company's segments are consistent with the organization and responsibilities of management reporting to the chief operating decision-maker for the purpose of assessing performance. The Company's definition of segment operating income differs from net profit margin as presented in its primary financial statements and a reconciliation of the segment and consolidated results is provided in the table set forth below.

While some working capital accounts are maintained on a segment basis, much of the Company's assets are not managed or maintained on a segment basis. Property, plant and equipment, including tooling, is used in the design and production of products for each of the segments and, therefore, is not allocated to any individual segment. In addition, cash, prepaid expenses, other assets and deferred taxes are managed and maintained on a consolidated basis and generally do not pertain to any particular segment. Raw materials and certain component parts are used in the production of aerostructures across all segments. Work-in-process inventory is identifiable by segment, but is managed and evaluated at the program level. As there is no segmentation of the Company's productive assets, depreciation expense (included in fixed manufacturing costs and selling, general and administrative

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

expenses) and capital expenditures, no allocation of these amounts has been made solely for purposes of segment disclosure requirements.

The following table shows segment revenues and operating income for the three months ended March 31, 2016 and April 2, 2015:

	Three Months Ended	
	March 31,	April 2,
	2016	2015
Segment Revenues		
Fuselage Systems	\$873.8	\$916.8
Propulsion Systems	438.6	446.0
Wing Systems	360.5	376.7
All Other	8.7	2.7
	\$1,681.6	\$1,742.2
Segment Operating Income (Loss)		
Fuselage Systems	\$177.3	\$164.5
Propulsion Systems	99.1	95.7
Wing Systems	58.8	45.2
All Other	1.9	(0.3 )
	337.1	305.1
Corporate SG&A	(50.0 )	(51.6 )
Research and development	(6.1 )	(7.0 )
Unallocated cost of sales <sup>(1)</sup>	(14.5 )	(11.2 )
Total operating income	\$266.5	\$235.3

(1) Includes \$2.3 and \$10.4 of warranty reserve for the three months ended March 31, 2016 and April 2, 2015, respectively. Also includes \$11.8 related to early retirement incentives for the three months ended March 31, 2016.

## 21. Condensed Consolidating Financial Information

The 2020 Notes and the 2022 Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and its 100% owned domestic subsidiaries, other than Spirit (the “Subsidiary Guarantors”).

The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

- (i) Holdings, as the parent company and parent guarantor to the Credit Agreement, as further detailed in Note 12, Debt;
- (ii) Spirit, as the subsidiary issuer of the 2020 Notes and the 2022 Notes;
- (iii) The Subsidiary Guarantors, on a combined basis, as guarantors of the 2020 Notes and the 2022 Notes;
- (iv) The Company’s subsidiaries, other than the Subsidiary Guarantors, which are not guarantors of the 2020 Notes and the 2022 Notes (the “Subsidiary Non-Guarantors”), on a combined basis;
- (v) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among Holdings, the Subsidiary Guarantors and the Subsidiary Non-Guarantors, (b) eliminate the

investments in the Company's subsidiaries and (c) record consolidating entries; and  
(vi) Holdings and its subsidiaries on a consolidated basis.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Statements of Operations

For the Three Months Ended March 31, 2016

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$—	\$1,510.5	\$ 95.0	\$ 215.9	\$ (139.8 )	\$1,681.6
Operating costs and expenses						
Cost of sales	—	1,214.4	91.7	192.7	(139.8 )	1,359.0
Selling, general and administrative	1.5	44.2	0.7	3.6	—	50.0
Research and development	—	5.0	0.5	0.6	—	6.1
Total operating costs and expenses	1.5	1,263.6	92.9	196.9	(139.8 )	1,415.1
Operating (loss) income	(1.5 )	246.9	2.1	19.0	—	266.5
Interest expense and financing fee amortization	—	(11.3 )	—	(2.1 )	2.0	(11.4 )
Other income (expense), net	—	3.9	—	(4.1 )	(2.0 )	(2.2 )
(Loss) income before income taxes and equity in net income of affiliate and subsidiaries	(1.5 )	239.5	2.1	12.8	—	252.9
Income tax benefit (provision)	0.5	(78.7 )	(0.8 )	(2.9 )	—	(81.9 )
(Loss) income before equity in net income of affiliate and subsidiaries	(1.0 )	160.8	1.3	9.9	—	171.0
Equity in net income of affiliate	0.6	—	—	0.6	(0.6 )	0.6
Equity in net income of subsidiaries	172.0	11.2	—	—	(183.2 )	—
Net income	171.6	172.0	1.3	10.5	(183.8 )	171.6
Other comprehensive (loss) income	(8.0 )	(8.0 )	—	(8.8 )	16.8	(8.0 )
Comprehensive income (loss)	\$ 163.6	\$ 164.0	\$ 1.3	\$ 1.7	\$ (167.0 )	\$ 163.6

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Statements of Operations

For the Three Months Ended April 2, 2015

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$—	\$1,619.0	\$ 58.1	\$ 186.2	\$ (121.1 )	\$1,742.2
Operating costs and expenses						
Cost of sales	—	1,352.0	54.8	162.6	(121.1 )	1,448.3
Selling, general and administrative	2.6	45.2	1.3	2.5	—	51.6
Research and development	—	6.3	—	0.7	—	7.0
Total operating costs and expenses	2.6	1,403.5	56.1	165.8	(121.1 )	1,506.9
Operating (loss) income	(2.6 )	215.5	2.0	20.4	—	235.3
Interest expense and financing fee amortization	—	(17.8 )	—	(2.0 )	1.9	(17.9 )
Other income (expense), net	—	1.4	0.1	(6.0 )	(1.9 )	(6.4 )
(Loss) income before income taxes and equity in net income of affiliate and subsidiaries	(2.6 )	199.1	2.1	12.4	—	211.0
Income tax benefit (provision)	0.3	(27.1 )	(0.8 )	(1.8 )	—	(29.4 )
(Loss) income before equity in net income of affiliate and subsidiaries	(2.3 )	172.0	1.3	10.6	—	181.6
Equity in net income of affiliate	0.3	—	—	0.3	(0.3 )	0.3
Equity in net income of subsidiaries	183.9	11.9	—	—	(195.8 )	—
Net income	181.9	183.9	1.3	10.9	(196.1 )	181.9
Other comprehensive (loss) income	(14.0 )	1.1	—	(15.1 )	14.0	(14.0 )
Comprehensive income (loss)	\$ 167.9	\$ 185.0	\$ 1.3	\$ (4.2 )	\$ (182.1 )	\$ 167.9



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Balance Sheet

March 31, 2016

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Current assets						
Cash and cash equivalents	\$—	\$796.3	\$ —	\$ 26.6	\$ —	\$822.9
Accounts receivable, net	—	798.0	35.9	211.8	(362.5 )	683.2
Inventory, net	—	1,281.2	175.2	351.6	—	1,808.0
Other current assets	—	21.4	2.3	3.8	—	27.5
Total current assets	—	2,896.9	213.4	593.8	(362.5 )	3,341.6
Property, plant and equipment, net	—	1,393.0	366.2	188.0	—	1,947.2
Pension assets, net	—	229.5	—	13.2	—	242.7
Investment in subsidiary	460.8	283.7	—	—	(744.5 )	—
Equity in net assets of subsidiaries	1,659.9	257.1	—	—	(1,917.0 )	—
Other assets	—	480.5	82.1	21.3	(328.5 )	255.4
Total assets	\$2,120.7	\$5,540.7	\$ 661.7	\$ 816.3	\$ (3,352.5 )	\$5,786.9
Current liabilities						
Accounts payable	\$—	\$573.8	\$ 283.4	\$ 151.1	\$ (362.5 )	\$645.8
Accrued expenses	—	190.4	1.0	34.1	—	225.5
Profit sharing	—	17.7	—	0.7	—	18.4
Current portion of long-term debt	—	39.9	—	3.0	—	42.9
Advance payments, short-term	—	192.5	—	—	—	192.5
Deferred revenue, short-term	—	309.2	—	2.9	—	312.1
Deferred grant income liability - current	—	—	11.4	1.2	—	12.6
Other current liabilities	—	85.9	—	2.8	—	88.7
Total current liabilities	—	1,409.4	295.8	195.8	(362.5 )	1,538.5
Long-term debt	—	1,074.3	—	257.6	(248.5 )	1,083.4
Advance payments, long-term	—	452.9	—	—	—	452.9
Pension/OPEB obligation	—	70.2	—	—	—	70.2
Deferred grant income liability - non-current	—	—	52.5	25.7	—	78.2
Deferred revenue and other deferred credits	—	167.7	—	4.7	—	172.4
Other liabilities	—	325.5	—	25.1	(80.0 )	270.6
Total equity	2,120.7	2,040.7	313.4	307.4	(2,661.5 )	2,120.7
Total liabilities and shareholders' equity	\$2,120.7	\$5,540.7	\$ 661.7	\$ 816.3	\$ (3,352.5 )	\$5,786.9



Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Balance Sheet

December 31, 2015

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Current assets						
Cash and cash equivalents	\$—	\$894.2	\$ —	\$ 63.1	\$ —	\$957.3
Accounts receivable, net	—	686.3	27.1	189.4	(365.8 )	537.0
Inventory, net	—	1,229.0	179.4	365.9	0.1	1,774.4
Other current assets	—	24.4	1.9	4.1	—	30.4
Total current assets	—	2,833.9	208.4	622.5	(365.7 )	3,299.1
Property, plant and equipment, net	—	1,393.1	364.2	193.4	—	1,950.7
Pension assets, net	—	233.3	—	13.6	—	246.9
Investment in subsidiary	623.6	283.7	—	0.1	(907.4 )	—
Equity in net assets of subsidiaries	1,496.4	254.1	—	—	(1,750.5 )	—
Other assets	—	517.7	82.7	21.3	(340.9 )	280.8
Total assets	\$2,120.0	\$5,515.8	\$ 655.3	\$ 850.9	\$ (3,364.5 )	\$5,777.5
Current liabilities						
Accounts payable	\$—	\$538.2	\$ 276.4	\$ 169.4	\$ (365.8 )	\$618.2
Accrued expenses	—	195.0	0.5	34.7	—	230.2
Profit sharing	—	58.3	—	3.3	—	61.6
Current portion of long-term debt	—	32.9	—	2.7	—	35.6
Advance payments, short-term	—	178.3	—	—	—	178.3
Deferred revenue, short-term	—	281.7	—	3.8	—	285.5
Deferred grant income liability - current	—	—	10.8	1.1	—	11.9
Other current liabilities	—	34.7	—	3.0	—	37.7
Total current liabilities	—	1,319.1	287.7	218.0	(365.8 )	1,459.0
Long-term debt	—	1,088.0	—	270.6	(261.0 )	1,097.6
Advance payments, long-term	—	507.4	—	—	—	507.4
Pension/OPEB obligation	—	67.7	—	—	—	67.7
Deferred grant income liability - non-current	—	—	55.6	26.7	—	82.3
Deferred revenue and other deferred credits	—	165.6	—	4.4	—	170.0
Other liabilities	—	328.2	—	25.3	(80.0 )	273.5
Total equity	2,120.0	2,039.8	312.0	305.9	(2,657.7 )	2,120.0
Total liabilities and shareholders' equity	\$2,120.0	\$5,515.8	\$ 655.3	\$ 850.9	\$ (3,364.5 )	\$5,777.5

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Statements of Cash Flows

For the Three Months Ended March 31, 2016

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
<b>Operating activities</b>						
Net cash provided by (used in) operating activities	\$ —	\$ 101.5	\$ 7.1	\$ (14.8 )	\$ —	—\$93.8
<b>Investing activities</b>						
Purchase of property, plant and equipment	—	(37.3 )	(7.1 )	(6.0 )	—	(50.4 )
Net cash used in investing activities	—	(37.3 )	(7.1 )	(6.0 )	—	(50.4 )
<b>Financing activities</b>						
Principal payments of debt	—	(6.7 )	—	(0.8 )	—	(7.5 )
Collection on (repayment of) intercompany debt	—	12.5	—	(12.5 )	—	—
Taxes paid related to net share settlement of awards	—	(2.9 )	—	—	—	(2.9 )
Excess tax benefits from share-based payment arrangements	—	0.2	—	—	—	0.2
Proceeds (payments) from subsidiary for purchase of treasury stock	165.2	(165.2 )	—	—	—	—
Purchase of treasury stock	(165.2)	—	—	—	—	(165.2 )
Net cash used in financing activities	—	(162.1 )	—	(13.3 )	—	(175.4 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(2.4 )	—	(2.4 )
Net decrease in cash and cash equivalents for the period	—	(97.9 )	—	(36.5 )	—	(134.4 )
Cash and cash equivalents, beginning of period	—	894.2	—	63.1	—	957.3
Cash and cash equivalents, end of period	\$ —	\$ 796.3	\$ —	\$ 26.6	\$ —	—\$822.9

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Statements of Cash Flows

For the Three Months Ended April 2, 2015

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Operating activities						
Net cash provided by operating activities	\$	—\$408.4	\$ 9.7	\$ 5.6	\$	—\$423.7
Investing activities						
Purchase of property, plant and equipment	—	(26.1 )	(9.7 )	(4.5 )	—	(40.3 )
Net cash used in investing activities	—	(26.1 )	(9.7 )	(4.5 )	—	(40.3 )
Financing activities						
Proceeds from issuance of debt	—	535.0	—	—	—	535.0
Principal payments of debt	—	(6.7 )	—	(0.8 )	—	(7.5 )
Payments on term loan	—	(534.9 )	—	—	—	(534.9 )
Collection on (repayment of) intercompany debt	—	(2.0 )	—	2.0	—	—
Debt issuance and financing costs	—	(4.7 )	—	—	—	(4.7 )
Net cash (used in) provided by financing activities	—	(13.3 )	—	1.2	—	(12.1 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.3	—	0.3
Net increase in cash and cash equivalents for the period	—	369.0	—	2.6	—	371.6
Cash and cash equivalents, beginning of period	—	354.6	—	23.3	—	377.9
Cash and cash equivalents, end of period	\$	—\$723.6	\$ —	\$ 25.9	\$	—\$749.5

## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and the notes to the unaudited condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report"). The following section may include "forward-looking statements." Forward-looking statements generally can be identified by the use of forward-looking terminology such as "anticipate," "believe," "continue," "estimate," "expect," "forecast," "intend," "plan," "project," "should," "will," and other similar words or phrases, or the negative thereof, unless the context requires otherwise. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties, both known and unknown, including, but not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on February 12, 2016 (our "2015 Form 10-K"). See also "Cautionary Statement Regarding Forward-Looking Statements." Our actual results may vary materially from those anticipated in forward-looking statements. We caution investors not to place undue reliance on any forward-looking statements.

#### Recent Events

On April 1, 2016, Tom Gentile joined the Company as Executive Vice President and Chief Operating Officer.

On March 17, 2016, Standard & Poor's Rating Services raised its corporate credit rating of Spirit AeroSystems, Inc. to BBB- from BB.

On March 7, 2016, the United States Secretary of the Air Force announced Spirit as one of seven subcontractors for the long range strike bomber, called the B-21 program.

On March 4, 2016, Moody's Investors Services upgraded its senior unsecured rating of Spirit AeroSystems, Inc. to Baa3 from Ba2.

In February 2016, Spirit's contract with Boeing, which allowed Spirit to manufacture and sell spare parts to parties other than Boeing using Boeing intellectual property, was not renewed.

#### Overview

We are one of the largest independent non-OEM (original equipment manufacturer) aircraft parts designers and manufacturers of commercial aerostructures in the world, based on annual revenues, as well as the largest independent supplier of aerostructures to Boeing. In addition, we are one of the largest independent suppliers of aerostructures to Airbus. Boeing and Airbus are the two largest aircraft OEMs in the world. Aerostructures are structural components, such as fuselage systems, propulsion systems and wing systems for commercial and military aircraft. For the three months ended March 31, 2016, we generated net revenues of \$1,681.6 million and net income of \$171.6 million.

We are organized into three principal reporting segments: (1) Fuselage Systems, which includes forward, mid and rear fuselage sections, (2) Propulsion Systems, which includes nacelles, struts/pylons and engine structural components, and (3) Wing Systems, which includes wings, wing components, flight control surfaces and other miscellaneous structural parts. All other activities fall within the All Other segment, principally made up of sundry sales of miscellaneous services, tooling contracts and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita, Kansas. The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas and Kinston, North Carolina, with an assembly plant in Saint-Nazaire, France for the A350 XWB program. The Propulsion Systems segment manufactures products at our facilities in Wichita and Chanute, Kansas. The Wing Systems segment manufactures products at our facilities in Tulsa and McAlester, Oklahoma;

Prestwick, Scotland; Subang, Malaysia; and Kinston, North Carolina. Fuselage Systems, Propulsion Systems, Wing Systems and All Other represented approximately 52%, 26%, 22% and less than 1%, respectively, of our net revenues for the three months ended March 31, 2016.

## Table of Contents

### Management's Focus

The Company's focus is on ensuring that our quality and operational and cost performance are world class. As part of our efforts to position the Company for future success, we completed several key initiatives by concentrating on productivity, preparation for sustained growth, cost reductions and business alignment, implementation of a capital deployment strategy and a greater emphasis on long-term growth.

As we continue to position the Company for future success, our focus for 2016 includes restructuring and reducing our internal costs, continuing to execute on the A350 program, and concentrating on cash generation and disciplined cash deployment. We will strive to become more competitive by investing in technology and automation. These investments will reduce costs and allow us to meet increasing production rates on many of our programs.

Additionally, we will position ourselves for growth within both the commercial and defense markets. Considering the strong demand for commercial aircraft and the expected continued need for defense aircraft for the foreseeable future, both markets offer possibilities for growth.

### New and Maturing Programs

We are currently performing work on several new and maturing programs, which are in various stages of development. 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 contractual requirements. Our success depends on our ability to achieve performance obligations on new and maturing programs to our customers' satisfaction and manufacture products at our estimated cost.

In order to continue to reduce risk on our new and maturing programs, it will be critical that we successfully perform under revised design and manufacturing plans, achieve planned cost reductions as we enter increasing levels of production, meet customer delivery schedules, successfully resolve claims and assertions and negotiate pricing with our customers and suppliers.

### A350 XWB

We continue to support the development of the A350 XWB program through two contracts we have with Airbus, a fuselage contract and a wing contract, both of which are segmented into a non-recurring design engineering phase and a recurring production phase. We continue to record sales at zero margins to reflect the identified risk profile on these programs.

We also continue to support the development of the work scope for the design and tooling related to the -1000 derivative of the A350 XWB fuselage and wing contracts. Estimates for the non-recurring design engineering phase of the -1000 fuselage derivative have resulted in previously recorded forward losses on this program. There is a risk of additional forward loss if we do not successfully execute the design and engineering change process as projected.

Our A350 XWB fuselage recurring program experienced various production inefficiencies in its earlier stages of production which resulted in previously recorded forward losses, mostly driven by early development discovery and engineering change to the aircraft design, as well as higher test and transportation costs.

Estimated revenue for the A350 XWB program includes estimates of probable recoveries asserted against our customer for changes in specifications. Although we continue to project margins on the A350 XWB fuselage and wing contracts to be near or at break-even, there is still a substantial amount of risk similar to what we have experienced on other development programs. Specifically, our ability to successfully negotiate favorable pricing and

other terms with Airbus and our suppliers, to manage supplier performance, execute cost reduction strategies, hire and retain skilled production and management personnel, execute quality and manufacturing processes, manage program schedule delays and adjust to higher rate schedules, among other risks, will determine the ultimate performance of this program and these contracts. There continues to be risk of additional forward loss associated with the fuselage recurring contract as we work through production, supply chain and customer issues.

#### B787 Program

As we move into a higher production rate on this program, our performance at the current contracted price depends on our continued ability to achieve cost reductions in manufacturing and support labor as well as supply chain.

Improvement efforts to reduce our cost structure have been ongoing since the beginning of the program and continued as design engineering for the B787-8, B787-9 and B787-10 derivatives were finalized and manufacturing plans were solidified. Near-term cost improvement efforts will focus on efficiency gains within our manufacturing process and execution of sourcing strategies.

## Table of Contents

Our supply agreement for the B787 program (the "B787 Supply Agreement") provides that initial prices for the B787-9 and B787-10 are to be determined by a procedure set out in the B787 Supply Agreement, and to be documented by amendment once that amendment has been agreed to by the parties. As part of the November 2014 MOA, Boeing and Spirit established interim prices for certain B787 shipsets, and the parties agreed to negotiate future rate increases, recurring prices, and other issues across multiple programs during 2015. Since we were unable to reach agreement with Boeing on these issues by the end of 2015, once the parties agree upon appropriate pricing for the B787-9, Boeing will be entitled to a retroactive adjustment on certain B787 payments which were based on the interim pricing. The amount we received that is subject to a retroactive adjustment was recorded as deferred revenue, and has not been recognized by us as revenue. We are engaged in discussions with Boeing concerning how to determine the subsequent B787-9 and initial B787-10 prices, and have not yet reached agreement. Our ability to successfully negotiate fair and equitable prices for these models as well as overall B787 delivery volumes and rate investments, and our ability to achieve forecasted cost improvements on all B787 models are key factors in achieving the projected financial performance for this program.

For B787-9 deliveries in our first B787 contract block, we have applied the appropriate accounting guidance for unpriced change orders in estimating revenues which will be updated in the quarter in which final pricing is negotiated. Pending final price negotiations, we have estimated revenue for B787-9 deliveries to include assumptions around design changes from the contract configuration baseline for each B787 model.

### Boeing Legacy Programs

On April 8, 2014, we entered into a Memorandum of Agreement with Boeing that established pricing terms for the B737, B747, B767 and B777 programs for the period commencing on April 1, 2014 and ending on December 31, 2015, under the Company's long-term supply contract with Boeing covering products for such programs. The new pricing terms were not applied to the period prior to April 1, 2014. The new prices do not apply to the 737 MAX, for which recurring pricing has not yet been agreed. Since the parties have been unable to agree upon pricing on the B737, B747, B767 and B777 platforms for the periods beyond 2015, an interim payment mechanism has been triggered for deliveries under the supply contract commencing January 1, 2016. This interim payment mechanism is based upon existing prices, adjusted using a quantity-based price adjustment formula and specified annual escalation. The interim payment mechanism is subject to adjustment when follow-on pricing is agreed upon. Prices for commercial derivative models are to be negotiated in good faith by the parties based on then-prevailing market conditions. If the parties cannot agree on price, then they must engage in dispute resolution pursuant to agreed-upon procedures.

In February 2016, Spirit's contract with Boeing, which allowed Spirit to manufacture and sell spare parts to parties other than Boeing using Boeing intellectual property, was not renewed. This contract was not considered a material component of our business.





Table of Contents

## Results of Operations

The following table sets forth, for the periods indicated, certain of our operating data:

	Three Months Ended		Percentage Change to Prior Year
	March 31, 2016	April 2, 2015	
	(\$ in millions)		
Net revenues	\$1,681.6	\$1,742.2	(3 )%
Cost of sales	1,359.0	1,448.3	(6 )%
Gross profit	322.6	293.9	
Selling, general and administrative	50.0	51.6	(3 )%
Research and development	6.1	7.0	(13 )%
Operating income	266.5	235.3	
Interest expense and financing fee amortization	(11.4 )	(17.9 )	(36 )%
Other expense, net	(2.2 )	(6.4 )	(66 )%
Income before income taxes and equity in net income of affiliate	252.9	211.0	
Income tax provision	(81.9 )	(29.4 )	179 %
Income before equity in net income of affiliate	171.0	181.6	
Equity in net income of affiliate	0.6	0.3	100 %
Net income	\$171.6	\$181.9	

Comparative shipset deliveries by model are as follows:

Model	Three Months Ended	
	March 2016	April 2, 2015
B737	130	134
B747	3	4
B767	6	5
B777	26	26
B787	33	32
Total Boeing	198	201
A320 Family	147	135
A330/340 <sup>(1)</sup>	16	27
A350 XWB	14	6
A380	7	6
Total Airbus	184	174
Business/Regional Jets	15	17
Total	397	392

(1) Airbus publicly announced reduction in A330 production rate.

For purposes of measuring production or shipset deliveries for Boeing aircraft in a given period, the term “shipset” refers to sets of structural fuselage components produced or delivered for one aircraft in such period. For purposes of measuring production or shipset deliveries for Airbus and Business/Regional Jet aircraft in a given period, the term

“shipset” refers to all structural aircraft components produced or delivered for one aircraft in such period. For the purposes of measuring wing shipset deliveries, the term "shipset" refers to all wing components produced or delivered for one aircraft in such period. Other components which

Table of Contents

are part of the same aircraft shipsets could be produced or shipped in earlier or later accounting periods than the components used to measure production or shipset deliveries, which may result in slight variations in production or delivery quantities of the various shipset components in any given period.

Net revenues by prime customer are as follows:

	Three Months Ended	
Prime Customer	March 31, 2016	April 2, 2015
	(\$ in millions)	
Boeing	\$1,387.3	\$1,497.4
Airbus	231.1	162.2
Other	63.2	82.6
Total net revenues	\$1,681.6	\$1,742.2

## Changes in Estimates

During the first quarter of 2016, we recognized total changes in estimates of \$47.2 million, which includes favorable cumulative catch-up adjustments related to periods prior to 2016 of \$32.2 million and favorable changes in estimates on loss programs of \$15.0 million.

During the first quarter of 2015, we recognized total changes in estimates of \$14.9 million, which includes favorable cumulative catch-up adjustments related to periods prior to 2015 of \$12.0 million and favorable changes in estimates on loss programs of \$2.9 million.

## Three Months Ended March 31, 2016 as Compared to Three Months Ended April 2, 2015

**Net Revenues.** Net revenues for the three months ended March 31, 2016 were \$1,681.6 million, a decrease of \$60.6 million, or 3%, compared to net revenues of \$1,742.2 million for the same period in the prior year. Lower revenues were recorded for the Fuselage, Propulsion, and Wing Systems segments during the first quarter of 2016. The decreases were primarily due to the impact of the pricing terms under the B787 Supply Agreement, slightly lower production deliveries on the B747 and B737 programs and lower B777 FLE and Global Customer Support and Services activity, partially offset by higher net revenues on the A350 XWB and B777X programs due to higher production deliveries, all of which net to a \$63.2 million decrease. Approximately 96% of Spirit's net revenues for the first quarter of 2016 came from our two largest customers, Boeing and Airbus.

Production deliveries to Boeing decreased slightly by 1% to 198 shipsets during the first quarter of 2016, compared to 201 shipsets delivered in the same period of the prior year. Production deliveries to Airbus increased by 6% to 184 shipsets during the first quarter of 2016, compared to 174 shipsets delivered in the same period of the prior year, primarily driven by higher production of the A320 and A350 XWB programs, partially offset by lower A330 deliveries due to Airbus' reduction of the A330 production rate. Production deliveries of business/regional jet wing and wing components decreased to 15 shipsets during the first quarter of 2016, compared to 17 shipsets delivered in the same period of the prior year. In total, production deliveries increased by 1% to 397 shipsets during the first quarter of 2016, compared to 392 shipsets delivered in the same period of the prior year.

**Gross Profit.** Gross profit was \$322.6 million, or 19%, for the three months ended March 31, 2016, as compared to \$293.9 million, or 17%, for the same period in the prior year. The increase in gross profit was primarily driven by favorable labor, non-labor and material cost performance in 2016, partially offset by charges related to early

retirement incentives. In the first quarter of 2016, we recorded \$32.2 million of favorable cumulative catch-up adjustments related to periods prior to the first quarter of 2016, primarily driven by productivity and efficiency improvements, as well as \$15.0 million of favorable change in estimates on our loss programs. In the same period of 2015, we recorded \$12.0 million of favorable cumulative catch-up adjustments related to periods prior to the first quarter of 2015, as well as \$2.9 million of favorable change in estimates on our loss programs.

SG&A and Research and Development. SG&A expense was \$1.6 million lower for the three months ended March 31, 2016, compared to the same period in the prior year. Research and development expense was \$0.9 million lower for the three months ended March 31, 2016, compared to the same period in the prior year.

Table of Contents

**Operating Income.** Operating income for the three months ended March 31, 2016 was \$266.5 million, an increase of \$31.2 million, compared to operating income of \$235.3 million for the same period in the prior year, primarily due to higher sales on profitable programs and favorable cost performance, including a favorable impact of fixed overhead absorption as a result of higher production rates.

**Interest Expense and Financing Fee Amortization.** Interest expense and financing fee amortization for the three months ended March 31, 2016 includes \$10.3 million of interest and fees paid or accrued in connection with long-term debt and \$1.1 million in amortization of deferred financing costs and original issue discount compared to \$13.7 million of interest and fees paid or accrued in connection with long-term debt and \$4.2 million in amortization of deferred financing costs and original issue discount for the same period in the prior year. In March 2015, we entered into Amendment No. 5 to our senior secured credit facility which resulted in a loss on extinguishment of debt charge of \$3.6 million. Interest expense for the quarter ended March 31, 2016 reflects the full quarter of lower interest rate charges as a result of Amendment No. 5 to our senior secured credit facility.

**Other Expense, net.** Other expense, net for the three months ended March 31, 2016 was \$2.2 million, compared to \$6.4 million for the same period in the prior year. Other expense during 2016 was primarily driven by foreign exchange rate gains and losses as the British Pound value fluctuated against the U.S. Dollar. We recognized foreign currency losses on an intercompany revolver and long-term contractual rights/obligations, as well as trade and intercompany receivables/payables which are denominated in a currency other than the entity's functional currency. During the three months ended April 2, 2015, we recognized \$2.0 million of losses related to the settlement of our interest rate swap agreements.

**Provision for Income Taxes.** Our reported tax rate includes two principal components: an expected annual tax rate and discrete items resulting in additional provisions or benefits that are recorded in the quarter that an event arises. Events or items that give rise to discrete recognition could include finalizing audit examinations for open tax years, statute of limitations expiration, or a change in tax law.

The income tax provision for the three months ended March 31, 2016 includes \$74.3 million for federal taxes, \$4.6 million for state taxes and \$3.0 million for foreign taxes. The income tax provision for the three months ended April 2, 2015 includes \$27.2 million for federal taxes, \$0.4 million for state taxes and \$1.8 million for foreign taxes. The effective tax rate for the three months ended March 31, 2016 was 32.4% as compared to 13.9% for 2015. The difference in the effective tax rate recorded for 2016 as compared to 2015 is related primarily to the U.S. net deferred tax asset valuation allowance decrease in 2015 netted against an increase in U.S domestic production activities deduction in 2016. The decrease from the U.S. statutory tax rate is attributable primarily to the U.S. qualified domestic production activities deduction, foreign tax rates less than the U.S. rate and the generation of state income tax credits.



Table of Contents

Segments. The following table shows segment revenues and operating income for the three months ended March 31, 2016 and April 2, 2015:

	Three Months Ended	
	March 31, 2016	April 2, 2015
	(\$ in millions)	
Segment Revenues		
Fuselage Systems	\$873.8	\$916.8
Propulsion Systems	438.6	446.0
Wing Systems	360.5	376.7
All Other	8.7	2.7
	\$1,681.6	\$1,742.2
Segment Operating Income		
Fuselage Systems	\$177.3	\$164.5
Propulsion Systems	99.1	95.7
Wing Systems	58.8	45.2
All Other	1.9	(0.3)
	337.1	305.1
Corporate SG&A	(50.0)	(51.6)
Research and development	(6.1)	(7.0)
Unallocated cost of sales <sup>(1)</sup>	(14.5)	(11.2)
Total operating income	\$266.5	\$235.3

Includes \$2.3 million and \$10.4 million of warranty reserve for the three months ended March 31, 2016 and April (1)2, 2015, respectively. Also includes \$11.8 million related to early retirement incentives for the three months ended March 31, 2016.

Fuselage Systems, Propulsion Systems, Wing Systems and All Other represented approximately 52%, 26%, 22% and less than 1%, respectively, of our net revenues for the three months ended March 31, 2016.

**Fuselage Systems.** Fuselage Systems segment net revenues for the three months ended March 31, 2016 were \$873.8 million, a decrease of \$43.0 million, or 5%, compared to the same period in the prior year. The decrease was primarily due to lower net revenues recognized on the B787 program in accordance with pricing terms under the B787 Supply Agreement and slightly lower production deliveries on the B737 and B747 programs, partially offset by higher net revenues on the A350 XWB due to higher production deliveries. Fuselage Systems segment operating margins were 20% for the three months ended March 31, 2016, compared to 18% for the same period in the prior year, with the increase primarily driven by favorable labor and material cost performance, including a favorable impact of fixed overhead absorption as a result of higher production rates. In the first quarter of 2016, the segment recorded favorable cumulative catch-up adjustments of \$16.2 million driven by productivity and efficiency improvements, as well as \$3.1 million of favorable change in estimates on our loss programs. In comparison, during the first quarter of 2015, the segment recorded favorable cumulative catch-up adjustments of \$2.7 million driven by productivity and efficiency improvements on mature programs, as well as \$2.9 million of favorable change in estimates on our loss programs.

**Propulsion Systems.** Propulsion Systems segment net revenues for the three months ended March 31, 2016 were \$438.6 million, a decrease of \$7.4 million, or 2%, compared to the same period in the prior year. Propulsion Systems segment operating margins were 23% for the three months ended March 31, 2016, compared to 21% for the same period in the prior year, primarily driven by favorable labor and material cost performance, including a favorable impact of fixed overhead absorption as a result of higher production rates. In the first quarter of 2016, the segment



recorded favorable cumulative catch-up adjustments of \$5.9 million driven by productivity and efficiency improvements, as well as \$8.9 million of favorable change in estimates on our loss programs. In comparison, during the first quarter of 2015, the segment recorded favorable cumulative catch-up adjustments of \$9.3 million driven by productivity and efficiency improvements on mature programs.

Wing Systems. Wing Systems segment net revenues for the three months ended March 31, 2016 were \$360.5 million, a decrease of \$16.2 million, or 4%, compared to the same period in the prior year. The decrease was primarily due to lower net

## Table of Contents

revenues recognized on the B787 program in accordance with pricing terms under the B787 Supply Agreement, slightly lower production deliveries on the B747 program and lower wing-related activity on the B777 program. These decreases were partially offset by higher net revenues on the A350 XWB primarily to higher production deliveries. Wing Systems segment operating margins were 16% for the three months ended March 31, 2016, compared to 12% for the same period in the prior year, primarily driven by favorable labor and material cost performance, including a favorable impact of fixed overhead absorption as a result of higher production rates. In the first quarter of 2016, the segment recorded favorable cumulative catch-up adjustments of \$10.1 million driven by productivity and efficiency improvements, as well as \$3.0 million of favorable change in estimates on our loss programs.

All Other. All Other segment net revenues consist of sundry sales of miscellaneous services, tooling contracts and natural gas revenues from KIESC. In the three months ended March 31, 2016, All Other segment net revenues were \$8.7 million, an increase of \$6.0 million compared to the same period in the prior year primarily due to higher tooling contract revenues. The All Other segment recorded 22% operating margins for the three months ended March 31, 2016.

## Liquidity and Capital Resources

The primary sources of our liquidity include cash on hand, cash flow from operations, which includes receivables from customers and borrowings available under our revolving credit facility. Additionally, we may receive advance payments from customers and proceeds from asset sales. Our liquidity requirements are driven by our long-cycle business model. Our business model is comprised of four to six year non-recurring investment periods, which include design and development efforts, followed by recurring production, in most cases, through the life of the contract, which could extend beyond twenty years. The non-recurring investment periods require significant outflows of cash as we design the product, build tooling, purchase equipment and build initial production inventories. These activities could be funded partially through customer advances and milestone payments, which are offset against revenue as production units are delivered in the case of customer advances, or recognized as revenue as milestones are achieved in the case of milestone payments. The remaining funds needed to support non-recurring programs come from predictable cash inflows from our mature programs that are in the recurring phase of the production cycle. The non-recurring investment period typically ends concurrently with initial deliveries of completed aircraft by our customers, which indicates that a program has entered into the recurring production phase. When a program reaches steady recurring production, it typically results in long-term generation of cash from operations. As part of our business model, we have continuously added new non-recurring programs, which are supported by mature programs that are in the steady recurring phase of the production cycle to promote growth.

On January 27, 2016, our Board of Directors authorized a new share repurchase program for the purchase of up to \$600.0 million of the Company's common stock. Repurchases may be made under the program intermittently through December 31, 2017. During the three months ended March 31, 2016, we repurchased 3,614,516 shares of our class A common stock for \$165.2 million, which included the purchase of 1,000,000 shares of our class A common stock for \$50.0 million under a prior share repurchase program.

As of March 31, 2016, we had \$822.9 million of cash and cash equivalents on the balance sheet and \$650.0 million of available borrowing capacity under our revolving credit facility. There were no borrowings or outstanding balances under our revolving credit facility as of March 31, 2016. Based on our planned levels of operations and our strong liquidity position, we currently expect that our cash on hand, cash flow from operations and borrowings available under our revolving credit facility will be sufficient to fund our operations, inventory growth, planned capital investments, research and development expenditures and scheduled debt service payments for at least the next twelve months.



Table of Contents

## Cash Flows

The following table provides a summary of our cash flows for the three months ended March 31, 2016 and April 2, 2015:

	For the three months ended	
	March 31, 2016	April 2, 2015
	(\$ in millions)	
Net income	\$171.6	\$181.9
Adjustments to reconcile net income	91.4	55.8
Changes in working capital	(169.2 )	186.0
Net cash provided by operating activities	93.8	423.7
Net cash used in investing activities	(50.4 )	(40.3 )
Net cash used in financing activities	(175.4 )	(12.1 )
Effect of exchange rate change on cash and cash equivalents	(2.4 )	0.3
Net increase (decrease) in cash and cash equivalents for the period	(134.4 )	371.6
Cash and cash equivalents, beginning of period	957.3	377.9
Cash and cash equivalents, end of period	\$822.9	\$749.5

## Three Months Ended March 31, 2016 as Compared to Three Months Ended April 2, 2015

**Operating Activities.** For the three months ended March 31, 2016, we had a net cash inflow of \$93.8 million from operating activities, a decrease of \$329.9 million compared to a net cash inflow of \$423.7 million for the same period in the prior year. The decrease in net cash provided by operating activities was primarily due to higher cash receipts in the first quarter of 2015 as well as higher tax refunds received during the same period in the prior year. Higher cash receipts in the first quarter of 2015 compared to 2016 was primarily due to settlement of retainage receivable and timing in customer receipts, totaling approximately \$131.1 million. Net tax refunds received during the first quarter of 2016 were \$0.4 million, a decrease of \$169.8 million compared to net tax refunds of \$170.2 million received during the same period in the prior year.

**Investing Activities.** For the three months ended March 31, 2016, we had a net cash outflow of \$50.4 million for investing activities, an increase in outflow of \$10.1 million compared to a net cash outflow of \$40.3 million for the same period in the prior year. The increase in cash outflow was primarily driven by higher investment in capital to support increasing production rates.

**Financing Activities.** For the three months ended March 31, 2016, we had a net cash outflow of \$175.4 million for financing activities, an increase in outflow of \$163.3 million, compared to a net cash outflow of \$12.1 million for the same period in the prior year. During the three months ended March 31, 2016, the Company repurchased 3,614,516 shares of its class A common stock for \$165.2 million. During the three months ended April 2, 2015, we entered into Amendment No. 5 to our senior secured Credit Agreement which resulted in debt issuance costs of \$4.7 million.

**Future Cash Needs and Capital Spending**

Our primary future cash needs will consist of working capital, debt service, research and development, capital expenditures, potential share repurchases, dividend payments and merger and acquisition or disposition activities. We expend significant capital as we undertake new programs, which begin in the non-recurring investment phase of our business model. In addition, we expend significant capital to meet increased production rates on certain mature and maturing programs, including the B737, B787, A320 and A350 XWB programs. In response to announced customer

production rate increases, we are evaluating various plans to relieve capacity constraints. We also require capital to develop new technologies for the next generation of aircraft, which may not be funded by our customers. Capital expenditures for the three months ended March 31, 2016 totaled \$50.4 million, as compared to \$40.3 million for the same period in 2015. We plan to fund future capital expenditures and cash requirements from cash on hand, cash generated by operations, customer cash advances, borrowings available under our revolving credit facility and proceeds from asset sales, if any.

On January 27, 2016, our Board of Directors authorized a new share repurchase program for the purchase of up to \$600.0 million of the Company's common stock. Repurchases may be made intermittently through December 31, 2017. During the first quarter ended March 31, 2016, we repurchased 3,614,516 shares of our class A common stock for \$165.2 million, which included the purchase of 1,000,000 shares of our class A common stock for \$50.0 million under a prior share repurchase program.

Table of Contents

Pension and Other Post Retirement Benefit Obligations

Our U.S. pension plan remained fully funded at March 31, 2016 and we anticipate non-cash pension income for 2016 to remain at or near the same level as 2015. Our plan investments are broadly diversified and we do not anticipate a near-term requirement to make cash contributions to our U.S. pension plan. See Note 13, Pension and Other Post-Retirement Benefits, for more information on the Company's pension plans.

Debt and Other Financing Arrangements

On March 18, 2015, Spirit AeroSystems, Inc., as borrower, Spirit AeroSystems Holdings, Inc., as parent guarantor, and certain of its subsidiaries entered into Amendment No. 5 (the "Amendment") to the Company's senior secured Credit Agreement, dated as of April 18, 2012, as amended by Amendment No. 1, dated as of October 26, 2012, Amendment No. 2, dated as of August 2, 2013, Amendment No. 3, dated as of March 18, 2014 and Amendment No. 4, dated as of June 3, 2014 (the "Credit Agreement"). The Amendment provided for a new \$535.0 million senior secured term loan A (the "Term Loan") with a maturity date of March 18, 2020, which replaced the term loan B which had an amount outstanding of approximately \$534.9 million (the "Term Loan B") that was scheduled to mature on September 15, 2020. The Term Loan bears interest, at Spirit's option, at either LIBOR plus 1.75% or a defined "base rate" plus 0.75%, subject to adjustment to amounts between and including LIBOR plus 1.75% and LIBOR plus 2.50% (or amounts between and including base rate plus 0.75% and base rate plus 1.50%, as applicable) based on changes to Spirit's debt-to-EBITDA ratio. The principal obligations under the Term Loan are to be repaid in equal quarterly installments of \$6.7 million, with the remaining balance due at maturity of the Term Loan. The Amendment maintained substantially the same prepayment requirements and covenant structure under the Credit Agreement, and provided the Company with some additional flexibility with respect to certain activities. Spirit used the proceeds of the Term Loan to pay off the Term Loan B and to pay a portion of the fees and expenses payable in connection with the Amendment.

As of March 31, 2016, the outstanding balance of the Term Loan was \$501.6 million. As a result of extinguishment of the Term Loan B during the first quarter of 2015, the Company recognized a loss on extinguishment of debt of \$3.6 million. Of this total charge, \$3.1 million is reflected within amortization of deferred financing fees and \$0.5 million is reflected within amortization expense on the Condensed Consolidated Statement of Cash Flows for the three months ended April 2, 2015.

Substantially all of Spirit's assets, including inventory and property, plant and equipment had been pledged as collateral for both the Term Loan and the revolving credit facility. However, under the terms of the Credit Agreement, following the credit rating upgrades by Moody's and S&P during 2016, the collateral was released effective April 27, 2016.

Senior Notes. In November 2010, the Company issued \$300.0 million in aggregate principal amount of 6.75% Senior Notes due December 15, 2020 (the "2020 Notes"), with interest payable, in cash in arrears, on June 15 and December 15 of each year, beginning June 15, 2011. The 2020 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company and Spirit's existing and future domestic subsidiaries that guarantee Spirit's obligations under Spirit's senior secured credit facility. The carrying value of the 2020 Notes was \$300.0 million as of March 31, 2016.

In March 2014, the Company issued \$300.0 million in aggregate principal amount of 5.25% Senior Notes due March 15, 2022 (the "2022 Notes") with interest payable, in cash in arrears, on March 15 and September 15 of each year, beginning September 15, 2014. The 2022 Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by the Company and its existing and future domestic subsidiaries that guarantee Spirit's

obligations under its amended senior secured credit facility. The carrying value of the 2022 Notes was \$299.5 million as of March 31, 2016.

Advances on the B787 Program. Boeing has made advance payments to Spirit under the B787 Supply Agreement, which advance payments are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries. Advance repayments were scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing. 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 offset the purchase price for shipsets 1,001 through 1,120. In the event Boeing does not take delivery of a sufficient number of shipsets to repay the full amount of advances prior to the termination of the B787 program or the B787 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of \$42.0 million due on December 15th of each year until the advance payments have been fully recovered by Boeing. As of March 31, 2016, the amount of advance payments received by us from Boeing under the B787 Supply Agreement and not yet repaid was approximately \$492.9 million.

Table of Contents

Advances on the A350 Fuselage Program. In March 2012, we signed a Memorandum of Agreement with Airbus providing for Airbus to make advance payments to us in 2012. The advance payments are offset against the recurring price of A350 XWB shipsets invoiced by Spirit, at a rate of \$1.25 million per shipset. As of March 31, 2016, the amount of advance payments received under this Memorandum of Agreement and not yet repaid was approximately \$152.5 million.

Credit Ratings

On March 17, 2016, Standard & Poor's Rating Services raised its corporate credit rating of Spirit AeroSystems, Inc. to BBB- from BB.

On March 4, 2016, Moody's Investors Services upgraded its senior unsecured rating of Spirit AeroSystems, Inc. to Baa3 from Ba2.

Our credit ratings are reviewed periodically by the rating agencies listed above.

The credit rating agencies consider many factors when assigning their ratings, such as the global economic environment and its possible impact on our financial performance, as well as certain financial metrics. Accordingly, it is possible the rating agencies could downgrade our credit ratings from their current levels. This could significantly influence the interest rate of any future debt financings.

A debt security credit rating is not a recommendation to buy, sell or hold a security. Each rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating agency has its own methodology for assigning ratings. Accordingly, each rating should be considered independent of other ratings.



Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains certain “forward-looking statements” that may involve many risks and uncertainties. Forward-looking statements reflect our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “project,” “should,” “will,” and other similar words or phrases, or the negative thereof, unless the context requires otherwise. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. Our actual results may vary materially from those anticipated in forward-looking statements. We caution investors not to place undue reliance on any forward-looking statements.

Important factors that could cause actual results to differ materially from those reflected in such forward-looking statements and that should be considered in evaluating our outlook include, but are not limited to, the following:

- our ability to continue to grow our business and execute our growth strategy, including the timing, execution and profitability of new and maturing programs;
- our ability to perform our obligations and manage costs related to our new and maturing commercial, business aircraft and military development programs and the related recurring production;
- margin pressures and the potential for additional forward losses on new and maturing programs;
- our ability to accommodate, and the cost of accommodating, announced increases in the build rates of certain aircraft;
- the effect on aircraft demand and build rates of: changing customer preferences for business aircraft, including the effect of global economic conditions on the business aircraft market and expanding conflicts or political unrest in the Middle East or Asia;
- customer cancellations or deferrals as a result of global economic uncertainty;
- the effect of economic conditions in the industries and markets in which we operate in the U.S. and globally and any changes therein, including fluctuations in foreign currency exchange rates;
- the success and timely execution of key milestones such as receipt of necessary regulatory approvals and customer adherence to their announced schedules;
- our ability to successfully negotiate future pricing under our supply agreements with Boeing, Airbus and our other customers;
- our ability to enter into profitable supply arrangements with additional customers;
- the ability of all parties to satisfy their performance requirements under existing supply contracts with our two major customers, Boeing and Airbus, and other customers, and the risk of nonpayment by such customers;
- any adverse impact on Boeing’s and Airbus’ production of aircraft resulting from cancellations, deferrals or reduced orders by their customers or from labor disputes or acts of terrorism;
- any adverse impact on the demand for air travel or our operations from the outbreak of diseases or epidemic or pandemic outbreaks;
- our ability to avoid or recover from cyber-based or other security attacks, information technology failures or other disruptions;
- returns on pension plan assets and the impact of future discount rate changes on pension obligations;
- our ability to borrow additional funds or refinance debt;
- competition from commercial aerospace original equipment manufacturers and other aerostructures suppliers;
- the effect of governmental laws, such as U.S. export control laws and U.S. and foreign anti-bribery laws such as the Foreign Corrupt Practices Act and the United Kingdom Bribery Act, and environmental laws and agency regulations, both in the U.S. and abroad;
- any reduction in our credit ratings;
- our dependence on our suppliers, as well as the cost and availability of raw materials and purchased components;

Table of Contents

- our ability to recruit and retain highly-skilled employees and our relationships with the unions representing many of our employees;
- spending by the U.S. and other governments on defense;
- the possibility that our cash flows and borrowing facilities may not be adequate for our additional capital needs or for payment of interest on and principal of our indebtedness;
- our exposure under our existing senior secured revolving credit facility to higher interest payments should interest rates increase substantially;
- the effectiveness of any interest rate hedging programs;
- the effectiveness of our internal control over financial reporting;
- the outcome or impact of ongoing or future litigation, claims and regulatory actions; and
- our exposure to potential product liability and warranty claims.

These factors are not exhaustive and it is not possible for us to predict all factors that could cause actual results to differ materially from those reflected in our forward-looking statements. These factors speak only as of the date hereof, and new factors may emerge or changes to the foregoing factors may occur that could impact our business. As with any projection or forecast, these statements are inherently susceptible to uncertainty and changes in circumstances. Except to the extent required by law, we undertake no obligation to, and expressly disclaim any obligation to, publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should review carefully the sections captioned “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2015 Form 10-K for a more complete discussion of these and other factors that may affect our business.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a result of our operating and financing activities, we are exposed to various market risks that may affect our consolidated results of operations and financial position. These market risks include fluctuations in interest rates, which impact the amount of interest we must pay on our variable rate debt. In addition to other information set forth in this report, you should carefully consider the factors discussed in Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our 2015 Form 10-K which could materially affect our business, financial condition or results of operations. There have been no material changes in our market risk since the filing of our 2015 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our President and Chief Executive Officer and Senior Vice President and Chief Financial Officer have evaluated our disclosure controls as of March 31, 2016 and have concluded that these disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the Security and Exchange Commission rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management of the Company, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the first quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

Information regarding any recent material development relating to our legal proceedings since the filing of our 2015 Form 10-K is included in Note 18, Commitments, Contingencies and Guarantees to our condensed consolidated financial statements included in Part I of this Quarterly Report and incorporated herein by reference.

## Item 1A. Risk Factors

In addition to other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors,” in our 2015 Form 10-K, which could materially affect our business, financial condition or results of operations. Other than the modification to the risk factor set forth below, there have been no material changes to the Company’s risk factors previously disclosed in our 2015 Form 10-K.

Any reduction in our credit ratings could materially and adversely affect our business or financial condition.

As of March 31, 2016, our corporate credit ratings were BBB- by Standard & Poor's, and Baa3 by Moody's Investor Services.

The ratings reflect the agencies' assessment of our ability to pay interest and principal on our debt securities and credit agreements. A rating is not a recommendation to purchase, sell or hold securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating agency has its own methodology for assigning ratings and, accordingly, each rating should be considered independently of all other ratings. Lower ratings would typically result in higher interest costs of debt securities when they are sold, could make it more difficult to issue future debt securities, and would require us to pledge collateral under our senior secured credit facility including substantially all property, plant, and equipment. In addition, a downgrade in our fixed or revolving long-term debt rating could result in an increase in borrowing costs under our senior secured credit facility and could trigger a prepayment obligation based on the excess cash flow prepayment provision under our term loan depending on our total leverage ratio. Any downgrade in our credit ratings could thus have a material adverse effect on our business or financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the three months ended March 31, 2016.

The following table provides information about our repurchases during the three months ended March 31, 2016 of our common stock that is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period <sup>(1)</sup>	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs <sup>(2)(3)</sup>

Edgar Filing: Spirit AeroSystems Holdings, Inc. - Form 10-Q

(\$ in millions other than per share amounts)

2015 Share Repurchase Program (remaining)					
January 1, 2016 - February 4, 2016	1,000,000	\$49.3582	1,000,000	\$—	
2016 Share Repurchase Program					
February 5, 2016 - March 3, 2016	2,153,818	\$44.0165	2,153,818	\$505.5	
March 4, 2016 - March 31, 2016	460,698	\$45.7363	460,698	\$484.4	
Total <sup>(4)</sup>	3,614,516	\$46.3703	3,614,516	\$484.4	

(1) Our fiscal months often differ from the calendar months except for the month of December, as our fiscal year ends on December 31. For example, February 4, 2016 was the last day of our January 2016 fiscal month.

Table of Contents

On July 29, 2015, the Company announced that our Board of Directors authorized a share repurchase program for (2) the purchase of up to \$350.0 million of our common stock (the "2015 Share Repurchase Program"). The Company repurchased the remaining \$50.0 million balance from the 2015 Share Repurchase Program in January 2016.

On January 27, 2016, the Company announced that our Board of Directors authorized an additional new share (3) repurchase program for the purchase of up to \$600.0 million of our common stock (the "2016 Share Repurchase Program"). Repurchases may be made under the program intermittently through December 31, 2017.

(4) Subsequent to the period ended March 31, 2016 through April 22, 2016, the Company repurchased 50,549 shares under the 2016 Share Repurchase Program.

Item 6. Exhibits

Article I.

Exhibit Number      Section 1.01 Exhibit

- 10.1\*      Separation Agreement and General Release dated February 24, 2016, by and between Spirit Aerosystems, Inc., Spirit Aerosystems Holdings, Inc. and Philip D. Anderson.
- 10.2<sup>(1)</sup>      Employment Agreement, dated February 13, 2016, between Spirit Aerosystems, Inc. and Thomas C. Gentile III.
- 31.1\*      Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2\*      Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32.1\*\*      Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 32.2\*\*      Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 101.INS@\*      XBRL Instance Document.
- 101.SCH@\*      XBRL Taxonomy Extension Schema Document.
- 101.CAL@\*      XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF@\*      XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB@\*      XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE@\*      XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Incorporated by reference to the Current Report on Form 8-K (File No. 001-33160), filed February 16, 2016.

\* Filed herewith

\*\* Furnished herewith



Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPIRIT AEROSYSTEMS HOLDINGS, INC.

Signature	Title	Date
/s/ Sanjay Kapoor Sanjay Kapoor	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	April 29, 2016

Signature	Title	Date
/s/ Mark J. Suchinski Mark J. Suchinski	Vice President and Corporate Controller (Principal Accounting Officer)	April 29, 2016