

Spirit AeroSystems Holdings, Inc.

Form 10-Q

May 03, 2013

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# 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 28, 2013

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.**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2436320**  
(I.R.S. Employer  
Identification No.)

**3801 South Oliver**

**Wichita, Kansas 67210**

(Address of principal executive offices and zip code)

**Registrant's telephone number, including area code:**

**(316) 526-9000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a 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 26, 2013, the registrant had outstanding 119,668,567 shares of class A common stock, \$0.01 par value per share, and 24,005,505 shares of class B common stock, \$0.01 par value per share.

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**Spirit AeroSystems Holdings, Inc.**

**Condensed Consolidated Statements of Operations**

(unaudited)

|                                                                 | <b>For the Three<br/>Months Ended</b>          |                       |
|-----------------------------------------------------------------|------------------------------------------------|-----------------------|
|                                                                 | <b>March 28, 2013</b>                          | <b>March 29, 2012</b> |
|                                                                 | <b>(\$ in millions, except per share data)</b> |                       |
| Net revenues                                                    | \$ 1,442.2                                     | \$ 1,265.8            |
| <b>Operating costs and expenses</b>                             |                                                |                       |
| Cost of sales                                                   | 1,237.1                                        | 1,091.1               |
| Selling, general and administrative                             | 44.3                                           | 45.0                  |
| Impact from severe weather event                                | 8.8                                            |                       |
| Research and development                                        | 7.5                                            | 7.4                   |
| Total operating costs and expenses                              | 1,297.7                                        | 1,143.5               |
| Operating income                                                | 144.5                                          | 122.3                 |
| Interest expense and financing fee amortization                 | (17.6)                                         | (18.3)                |
| Interest income                                                 | 0.1                                            |                       |
| Other income (expense), net                                     | (9.9)                                          | 3.5                   |
| Income before income taxes and equity in net loss of affiliates | 117.1                                          | 107.5                 |
| Income tax provision                                            | (35.7)                                         | (33.6)                |
| Income before equity in net loss of affiliates                  | 81.4                                           | 73.9                  |
| Equity in net loss of affiliates                                | (0.2)                                          | (0.3)                 |
| Net income                                                      | \$ 81.2                                        | \$ 73.6               |
| Earnings per share                                              |                                                |                       |
| Basic                                                           | \$ 0.57                                        | \$ 0.52               |
| Diluted                                                         | \$ 0.57                                        | \$ 0.52               |

See notes to condensed consolidated financial statements (unaudited)

Table of Contents**Spirit AeroSystems Holdings, Inc.****Condensed Consolidated Statements of Comprehensive Income****(unaudited)**

|                                                                                                                                                         | <b>For the Three<br/>Months Ended</b> |                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------|
|                                                                                                                                                         | <b>March 28, 2013</b>                 | <b>March 29, 2012</b> |
|                                                                                                                                                         | <b>(\$ in millions)</b>               |                       |
| Net income                                                                                                                                              | \$ 81.2                               | \$ 73.6               |
| Unrealized (loss) on interest rate swaps, net of tax effect of zero and \$0.5 for each of the three months ended, respectively                          |                                       | (0.7)                 |
| Less: reclassification adjustment for loss realized in net income, net of tax effect of zero and \$0.3 for each of the three months ended, respectively |                                       | 0.5                   |
| Net gain (loss) on interest rate swaps                                                                                                                  |                                       | (0.2)                 |
| Unrealized gain on foreign currency hedge contracts, net of tax effect of zero for each of the three months ended, respectively                         |                                       | 0.1                   |
| Less: reclassification adjustment for loss realized in net income, net of tax effect of zero and \$0.1 for each of the three months ended, respectively |                                       | 0.1                   |
| Net gain on foreign currency hedge contracts                                                                                                            |                                       | 0.2                   |
| Pension, SERP, and Retiree medical adjustments, net of tax effect of zero and \$0.1 for each of the three months ended, respectively                    | 0.3                                   | 0.2                   |
| Unrealized foreign exchange (loss) gain on intercompany loan, net of tax effect of \$1.0 and \$0.4 for each of the three months ended, respectively     | (3.3)                                 | 1.3                   |
| Foreign currency translation adjustments                                                                                                                | (10.5)                                | 3.6                   |
| Total other comprehensive (loss) income                                                                                                                 | (13.5)                                | 5.1                   |
| Total comprehensive income                                                                                                                              | \$ 67.7                               | \$ 78.7               |

See notes to condensed consolidated financial statements (unaudited)

Table of Contents**Spirit AeroSystems Holdings, Inc.****Condensed Consolidated Balance Sheets****(unaudited)**

|                                                                                                                                                 | <b>March 28,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                                                                                                 | (\$ in millions)          |                              |
| <b>Current assets</b>                                                                                                                           |                           |                              |
| Cash and cash equivalents                                                                                                                       | \$ 313.1                  | \$ 440.7                     |
| Accounts receivable, net                                                                                                                        | 587.3                     | 420.7                        |
| Inventory, net                                                                                                                                  | 2,492.9                   | 2,410.8                      |
| Deferred tax asset - current                                                                                                                    | 61.5                      | 57.1                         |
| Other current assets                                                                                                                            | 24.3                      | 26.1                         |
| Total current assets                                                                                                                            | 3,479.1                   | 3,355.4                      |
| Property, plant and equipment, net (variable interest entity restricted, \$0.1 and \$0.0 at March 28, 2013 and December 31, 2012, respectively) | 1,718.0                   | 1,698.5                      |
| Pension assets                                                                                                                                  | 84.5                      | 78.4                         |
| Deferred tax asset - non-current, net                                                                                                           | 168.7                     | 192.0                        |
| Other assets                                                                                                                                    | 83.4                      | 91.0                         |
| Total assets                                                                                                                                    | \$ 5,533.7                | \$ 5,415.3                   |
| <b>Current liabilities</b>                                                                                                                      |                           |                              |
| Accounts payable (variable interest entity nonrecourse, \$0.5 and \$0.0 at March 28, 2013 and December 31, 2012, respectively)                  | \$ 698.6                  | \$ 659.0                     |
| Accrued expenses (variable interest entity nonrecourse, \$0.7 and \$0.0 at March 28, 2013 and December 31, 2012, respectively)                  | 234.2                     | 216.3                        |
| Profit sharing                                                                                                                                  | 18.2                      | 28.3                         |
| Current portion of long-term debt                                                                                                               | 10.1                      | 10.3                         |
| Advance payments, short-term                                                                                                                    | 87.6                      | 70.7                         |
| Deferred revenue, short-term                                                                                                                    | 17.9                      | 18.4                         |
| Deferred grant income liability - current                                                                                                       | 7.5                       | 6.9                          |
| Other current liabilities                                                                                                                       | 62.3                      | 57.1                         |
| Total current liabilities                                                                                                                       | 1,136.4                   | 1,067.0                      |
| Long-term debt                                                                                                                                  | 1,163.3                   | 1,165.9                      |
| Advance payments, long-term                                                                                                                     | 804.7                     | 833.6                        |
| Pension/OPEB obligation                                                                                                                         | 76.6                      | 75.6                         |
| Deferred grant income liability - non-current                                                                                                   | 112.0                     | 116.6                        |
| Deferred revenue and other deferred credits                                                                                                     | 29.4                      | 30.8                         |
| Other liabilities                                                                                                                               | 139.0                     | 128.9                        |
| <b>Equity</b>                                                                                                                                   |                           |                              |
| 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, 119,668,567 and 119,671,298 shares issued, respectively                  | 1.2                       | 1.2                          |
| Common stock, Class B par value \$0.01, 150,000,000 shares authorized, 24,005,505 and 24,025,880 shares issued, respectively                    | 0.2                       | 0.2                          |
| Additional paid-in capital                                                                                                                      | 1,015.0                   | 1,012.3                      |
| Accumulated other comprehensive loss                                                                                                            | (158.7)                   | (145.2)                      |
| Retained earnings                                                                                                                               | 1,212.8                   | 1,127.9                      |
| Total shareholders' equity                                                                                                                      | 2,070.5                   | 1,996.4                      |
| Noncontrolling interest                                                                                                                         | 1.8                       | 0.5                          |

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|                              |    |         |    |         |
|------------------------------|----|---------|----|---------|
| Total equity                 |    | 2,072.3 |    | 1,996.9 |
| Total liabilities and equity | \$ | 5,533.7 | \$ | 5,415.3 |

See notes to condensed consolidated financial statements (unaudited)

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## Spirit AeroSystems Holdings, Inc.

## Condensed Consolidated Statements of Cash Flows

(unaudited)

|                                                                                            | For the Three<br>Months Ended<br>March 28, 2013 | For the Three<br>Months Ended<br>March 29, 2012 |
|--------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
|                                                                                            | (\$ in millions)                                |                                                 |
| <b>Operating activities</b>                                                                |                                                 |                                                 |
| Net income                                                                                 | \$ 81.2                                         | \$ 73.6                                         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |                                                 |                                                 |
| Depreciation expense                                                                       | 39.3                                            | 32.9                                            |
| Amortization expense                                                                       | 1.3                                             | 1.2                                             |
| Amortization of deferred financing fees                                                    | 1.5                                             | 1.6                                             |
| Accretion of customer supply agreement                                                     | 0.1                                             | 0.1                                             |
| Employee stock compensation expense                                                        | 3.7                                             | 4.0                                             |
| Excess tax benefit of share-based payment arrangements                                     |                                                 | (0.1)                                           |
| Loss from the ineffectiveness of hedge contracts                                           | (0.8)                                           | (0.3)                                           |
| (Gain) loss from foreign currency transactions                                             | 10.2                                            | (2.4)                                           |
| (Gain) on disposition of assets                                                            | (0.1)                                           |                                                 |
| Deferred taxes                                                                             | 18.6                                            | 5.8                                             |
| Long-term tax provision                                                                    | 0.7                                             | (0.2)                                           |
| Pension and other post retirement benefits, net                                            | (3.3)                                           | (2.1)                                           |
| Grant income                                                                               | (1.6)                                           | (1.4)                                           |
| Equity in net loss of affiliates                                                           | 0.2                                             | 0.3                                             |
| Changes in assets and liabilities                                                          |                                                 |                                                 |
| Accounts receivable                                                                        | (167.7)                                         | (144.4)                                         |
| Inventory, net                                                                             | (94.4)                                          | (103.1)                                         |
| Accounts payable and accrued liabilities                                                   | 71.4                                            | 14.7                                            |
| Profit sharing/deferred compensation                                                       | (10.0)                                          | (7.0)                                           |
| Advance payments                                                                           | (12.0)                                          | 149.6                                           |
| Income taxes receivable/payable                                                            | 2.1                                             | 0.5                                             |
| Deferred revenue and other deferred credits                                                | (0.7)                                           | (11.8)                                          |
| Other                                                                                      | 14.9                                            | 0.1                                             |
| Net cash (used in) provided by operating activities                                        | (45.4)                                          | 11.6                                            |
| <b>Investing activities</b>                                                                |                                                 |                                                 |
| Purchase of property, plant and equipment                                                  | (74.4)                                          | (54.2)                                          |
| Purchase of property, plant and equipment - severe weather event (see Note 3)              | (5.8)                                           |                                                 |
| Proceeds from sale of assets                                                               | 0.1                                             | 1.3                                             |
| Consolidation of variable interest entity                                                  | 2.1                                             |                                                 |
| Other                                                                                      |                                                 | (0.7)                                           |
| Net cash (used in) investing activities                                                    | (78.0)                                          | (53.6)                                          |
| <b>Financing activities</b>                                                                |                                                 |                                                 |
| Payments on revolving credit facility                                                      |                                                 | 120.0                                           |
| Proceeds from issuance of debt                                                             |                                                 | (120.0)                                         |
| Principal payments of debt                                                                 | (2.6)                                           | (2.5)                                           |
| Excess tax benefit of share-based payment arrangements                                     |                                                 | 0.1                                             |
| Net cash (used in) financing activities                                                    | (2.6)                                           | (2.4)                                           |
| Effect of exchange rate changes on cash and cash equivalents                               | (1.6)                                           | 0.7                                             |
| Net (decrease) in cash and cash equivalents for the period                                 | (127.6)                                         | (43.7)                                          |

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|                                                |    |       |    |       |
|------------------------------------------------|----|-------|----|-------|
| Cash and cash equivalents, beginning of period |    | 440.7 |    | 177.8 |
| Cash and cash equivalents, end of period       | \$ | 313.1 | \$ | 134.1 |

See notes to condensed consolidated financial statements (unaudited)

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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

**1. Organization and Basis of Interim Presentation**

Spirit AeroSystems Holdings, Inc. ( Holdings or the Company ) was incorporated in the state of Delaware on February 7, 2005, and commenced operations on June 17, 2005 through the acquisition of The Boeing Company's ( Boeing ) operations in Wichita, Kansas, Tulsa, Oklahoma and McAlester, Oklahoma (the Boeing Acquisition ). Holdings provides manufacturing and design expertise in a wide range of products and services for aircraft original equipment manufacturers and operators through its subsidiary, Spirit AeroSystems, Inc. ( Spirit ). Onex Corporation ( Onex ) of Toronto, Canada and certain of its affiliates maintain majority voting power of Holdings. In April 2006, Holdings acquired the aerostructures division of BAE Systems (Operations) Limited ( BAE Aerostructures ), which builds structural components for Airbus, a division of the European Aeronautic Defense and Space NV ( Airbus ) and Boeing. Prior to this acquisition, Holdings sold essentially all of its production to Boeing. Since Spirit's incorporation, the Company has expanded its customer base to include Sikorsky, Rolls-Royce, Gulfstream, Bombardier, Mitsubishi Aircraft Corporation, Southwest Airlines, Continental Airlines, and American Airlines. The Company has its headquarters in Wichita, Kansas, with manufacturing facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Wichita and Chanute, Kansas; Kinston, North Carolina and Subang, Malaysia. The Company also has an assembly plant for the A350 XWB aircraft in Saint-Nazaire, France.

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

The Company participates in two joint ventures, Spirit-Progresstech LLC ( Spirit-Progresstech ) and Taikoo Spirit AeroSystems Composite Co. Ltd. ( TSACCL ), of which Spirit's ownership interest is 50.0% and 31.5%, respectively. Spirit-Progresstech provides aerospace engineering support services and TSACCL was formed to develop and implement a state-of-the-art composite and metal bond component repair station in the Asia-Pacific region.

The accompanying unaudited interim condensed consolidated financial statements include the Company's financial statements and the financial statements of its majority-owned subsidiaries and effectively-controlled joint ventures, 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 year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Investments in business entities in which the Company does not have control, but has the ability to exercise influence over operating and financial policies, including TSACCL, are accounted for under the equity method. KIESC is fully consolidated as the Company owns 77.8% of the entity's equity. Spirit-Progresstech is fully consolidated as the Company effectively controls the entity. 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; the Russian joint venture uses the Russian ruble and the Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

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As part of the monthly consolidation process, our 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 28, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2013 presentation. In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events through the date the financial statements were issued. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 1, 2013 (the "2012 Form 10-K").

### 2. New Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (FASB ASU 2013-02). The amendment in this update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles to be

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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

reclassified in its entirety to net income. The provisions of FASB ASU 2013-02 are effective for annual and interim periods beginning after December 15, 2012. The adoption of the provisions of FASB ASU 2013-02 did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* (FASB ASU 2012-02). The amendment in this update permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other than Goodwill*. The provisions of FASB ASU 2012-02 are effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. The adoption of the provisions of FASB ASU 2012-02 did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (FASB ASU 2011-11). The amendments in this update will require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The intention is to enhance required disclosures by improving information about financial instruments and derivative instruments that are either offset in accordance with FASB guidance or are subject to an enforceable master netting arrangement; irrespective of whether they are offset in accordance with FASB guidance. The provisions of FASB ASU 2011-11 are effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of the provisions of FASB ASU 2011-11 did not have a material impact on the Company's consolidated financial statements.

**3. Impact from Severe Weather Event**

As of December 31, 2012, the Company had received a total of \$234.9 in insurance payments based on estimated losses incurred as a result of the April 14, 2012 tornado that hit the Company's Wichita, Kansas facility. The \$234.9 in insurance payments was the result of an agreement between the Company and its insurers on a final settlement for all claims relating to the April 14, 2012 severe weather event. In accordance with its credit agreement, the Company provided a certificate to its lenders indicating that all net proceeds received in connection with the destruction caused by the severe weather event would be used for repair, replacement or restoration at the Wichita facility.

For the three months ended March 28, 2013, the Company recorded \$8.8 under severe weather event, which represents continuing incremental freight, warehousing and other costs which are recorded as incurred. The Company's estimate of these future expenditures is likely to change as the Company evaluates different repair and build-back options.

#### 4. Accounts Receivable, net

Accounts receivable, net consists of the following:

|                                       | March 28,<br>2013 | December 31,<br>2012 |
|---------------------------------------|-------------------|----------------------|
| Trade receivables (1)(2)              | \$ 579.4          | \$ 415.9             |
| Other                                 | 8.4               | 9.1                  |
| Less: allowance for doubtful accounts | (0.5)             | (4.3)                |
| Accounts receivable, net              | \$ 587.3          | \$ 420.7             |

(1) Includes unbilled receivables of \$26.5 and \$25.6 at March 28, 2013 and December 31, 2012, respectively.

(2) Includes \$103.8 and \$102.0 held in retainage by customers at March 28, 2013 and December 31, 2012, 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 in which the recovery will occur over the term of the contract, which could exceed one year.

Also included in accounts receivable are amounts held in retainage which as of March 28, 2013 is all related to Gulfstream and represent amounts due on G650 deliveries from 2010 through the present. As production rates on this program increase, this amount is likely to grow significantly if not resolved with Gulfstream in a timely manner. While the Company is currently in contractual

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

negotiations with Gulfstream, we believe that these amounts are collectible and represent valid receivables. There can be no guarantee that these amounts will be collected or that they will not be addressed as part of an overall negotiation which could then impact recoverability.

On May 3, 2012, Hawker Beechcraft, Inc. ( Hawker ) filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code and emerged from bankruptcy on February 19, 2013 as Beechcraft Corporation. The Company's remaining balance of its reserved \$3.5 receivable from Hawker was written off as of March 28, 2013.

**5. Inventory**

Inventories are summarized as follows:

|                            | <b>March 28,<br/>2013</b> | <b>December 31,<br/>2012 (1)</b> |
|----------------------------|---------------------------|----------------------------------|
| Raw materials              | \$ 230.8                  | \$ 250.3                         |
| Work-in-process            | 1,039.3                   | 1,033.6                          |
| Finished goods             | 39.3                      | 35.9                             |
| Product inventory          | 1,309.4                   | 1,319.8                          |
| Capitalized pre-production | 510.0                     | 524.6                            |
| Deferred production        | 1,296.1                   | 1,173.8                          |
| Forward loss provision     | (622.6)                   | (607.4)                          |
| Total inventory, net       | \$ 2,492.9                | \$ 2,410.8                       |

(1) For December 31, 2012, deferred production of \$1,173.8 was reclassified from work-in-process to conform to current year presentation.

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

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Deferred production includes costs for the excess of production costs over the estimated average cost per ship set, and credit balances for favorable variances on contracts between actual costs incurred and the estimated average cost per ship set for units delivered under the current production blocks. Recovery of excess-over-average deferred production costs is dependent on the number of ship sets ultimately sold and the ultimate selling prices and lower production costs associated with future production under these contract blocks. The Company believes these amounts will be fully recovered. Sales significantly under estimates or costs significantly over estimates could result in the realization of losses on these contracts in future periods.

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

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

Inventories are summarized by platform and costs below:

| March 28, 2013                     |                                |               |                                |                        |                              |    | Total Inventory,<br>net March 28,<br>2013 |
|------------------------------------|--------------------------------|---------------|--------------------------------|------------------------|------------------------------|----|-------------------------------------------|
|                                    | Product Inventory<br>Inventory | Non-Recurring | Capitalized Pre-<br>Production | Deferred<br>Production | Forward Loss<br>Provision(1) |    |                                           |
| B747(2)                            | \$ 93.9                        | \$            | \$ 6.8                         | \$ 4.8                 | \$ (5.1)                     | \$ | 100.4                                     |
| B787                               | 227.0                          | 32.1          | 181.9                          | 606.2                  | (199.3)                      |    | 847.9                                     |
| Boeing - All other<br>platforms(3) | 434.3                          | 30.0          | 6.8                            | (77.2)                 | (6.9)                        |    | 387.0                                     |
| A350                               | 138.4                          | 40.2          | 56.8                           | 225.0                  | (8.6)                        |    | 451.8                                     |
| Airbus - All other<br>platforms    | 79.9                           |               |                                | 11.9                   |                              |    | 91.8                                      |
| G280                               | 57.5                           |               | 5.4                            | 154.1                  | (118.8)                      |    | 98.2                                      |
| G650                               | 49.8                           |               | 203.3                          | 316.3                  | (162.5)                      |    | 406.9                                     |
| Rolls-Royce(4)                     | 17.6                           |               | 49.0                           | 54.8                   | (121.4)                      |    |                                           |
| Sikorsky                           |                                | 3.8           |                                |                        |                              |    | 3.8                                       |
| Bombardier C-Series                | 4.7                            |               |                                | 0.2                    |                              |    | 4.9                                       |
| Aftermarket                        | 48.9                           |               |                                |                        |                              |    | 48.9                                      |
| Other platforms(5)                 | 47.6                           | 3.7           |                                |                        |                              |    | 51.3                                      |
| Total                              | \$ 1,199.6                     | \$ 109.8      | \$ 510.0                       | \$ 1,296.1             | \$ (622.6)                   | \$ | 2,492.9                                   |

| December 31, 2012                  |                                |               |                                |                        |                           |    | Total Inventory,<br>net December 31,<br>2012 |
|------------------------------------|--------------------------------|---------------|--------------------------------|------------------------|---------------------------|----|----------------------------------------------|
|                                    | Product Inventory<br>Inventory | Non-Recurring | Capitalized Pre-<br>Production | Deferred<br>Production | Forward Loss<br>Provision |    |                                              |
| B747                               | \$ 83.6                        | \$ (0.7)      | \$ 7.2                         | \$ 3.6                 | \$ (11.5)                 | \$ | 82.2                                         |
| B787                               | 225.2                          | 26.6          | 189.5                          | 595.1                  | (184.0)                   |    | 852.4                                        |
| Boeing - All other<br>platforms(3) | 392.3                          | 31.6          | 5.8                            | (67.6)                 | (6.5)                     |    | 355.6                                        |
| A350                               | 133.2                          | 51.3          | 56.8                           | 177.4                  | (8.9)                     |    | 409.8                                        |
| Airbus - All other<br>platforms    | 88.2                           |               |                                | 18.2                   |                           |    | 106.4                                        |
| G280                               | 83.3                           |               | 5.5                            | 98.3                   | (118.8)                   |    | 68.3                                         |
| G650                               | 36.7                           |               | 208.4                          | 297.3                  | (162.5)                   |    | 379.9                                        |
| Rolls-Royce(4)                     | 12.6                           |               | 51.4                           | 51.2                   | (115.2)                   |    |                                              |
| Sikorsky                           |                                | 4.7           |                                |                        |                           |    | 4.7                                          |
| Bombardier C-Series                | 3.9                            |               |                                | 0.3                    |                           |    | 4.2                                          |
| Aftermarket                        | 45.0                           |               |                                |                        |                           |    | 45.0                                         |
| Other platforms(5)                 | 98.3                           | 4.0           |                                |                        |                           |    | 102.3                                        |
| Total                              | \$ 1,202.3                     | \$ 117.5      | \$ 524.6                       | \$ 1,173.8             | \$ (607.4)                | \$ | 2,410.8                                      |



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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

- 
- (1) Forward loss charges taken from January 1, 2012 through March 28, 2013 on open blocks.
- (2) Due to contract block closure in the first quarter of 2013, \$6.4 of forward loss provision related to fuselage was closed out against deferred production.
- (3) Forward loss provision of \$8.0 recorded on the B767 program in the fourth quarter of 2012 exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability of \$1.5 which will be reduced as additional inventory is generated. This contract liability is reported in other current liabilities. This liability will amortize into the forward loss category of inventory as inventory on the program increases.
- (4) Forward loss provision of \$151.0 recorded in the third quarter of 2012 exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability of \$35.8 which will be reduced as additional inventory is generated. This contract liability is reported in other current liabilities. This liability will amortize into the forward loss category of inventory as inventory on the program increases.
- (5) Includes over-applied and under-applied overhead.

The following is a roll forward of the capitalized pre-production costs included in the inventory balance at March 28, 2013:

|                               |    |        |
|-------------------------------|----|--------|
| Balance, December 31, 2012    | \$ | 524.6  |
| Charges to costs and expenses |    | (15.2) |
| Capitalized costs             |    | 0.6    |
| Balance, March 28, 2013       | \$ | 510.0  |

The following is a roll forward of the deferred production costs included in the inventory balance at March 28, 2013:

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|                               |    |         |
|-------------------------------|----|---------|
| Balance, December 31, 2012    | \$ | 1,173.8 |
| Charges to costs and expenses |    | (77.3)  |
| Capitalized costs             |    | 207.1   |
| Exchange rate                 |    | (7.5)   |
| Balance, March 28, 2013       | \$ | 1,296.1 |

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

|             | <b>Contract Block<br/>Quantity</b> | <b>Orders(1)</b> |
|-------------|------------------------------------|------------------|
| B787        | 500                                | 840              |
| A350 XWB    | 400                                | 616              |
| G280        | 250                                | 49               |
| G650        | 350                                | 95               |
| Rolls-Royce | 350                                | 90               |

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

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Current block deliveries are as follows:

| <b>Model</b>           | <b>Current Block Deliveries</b> |
|------------------------|---------------------------------|
| B787                   | 116                             |
| A350 XWB               | 5                               |
| Business/Regional Jets | 142                             |

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

**6. Property, Plant and Equipment, net**

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

|                                                                    | <b>March 28,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--------------------------------------------------------------------|---------------------------|------------------------------|
| Land                                                               | \$ 16.8                   | \$ 17.7                      |
| Buildings (including improvements)                                 | 507.8                     | 504.7                        |
| Machinery and equipment                                            | 979.7                     | 960.0                        |
| Tooling                                                            | 731.0                     | 722.4                        |
| Capitalized software                                               | 173.6                     | 170.2                        |
| Construction-in-progress                                           | 163.9                     | 143.0                        |
| Property, Plant And Equipment related to Variable Interest Entity  | 0.4                       |                              |
| Total                                                              | 2,573.2                   | 2,518.0                      |
| Less: accumulated depreciation related to Variable Interest Entity | (0.3)                     |                              |
| Less: accumulated depreciation                                     | (854.9)                   | (819.5)                      |
| Property, plant and equipment, net                                 | \$ 1,718.0                | \$ 1,698.5                   |

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Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was \$1.0 and \$1.9 for the three months ended March 28, 2013 and March 29, 2012, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs, excluding the impact of the severe weather event, of \$22.2 and \$23.9 for the three months ended March 28, 2013 and March 29, 2012, respectively.

We capitalize certain costs, such as software coding, installation and testing, that are incurred to purchase or to create and implement internal use computer software in accordance with FASB authoritative guidance pertaining to capitalization of costs for internal-use software. Depreciation expense related to capitalized software was \$5.0 and \$4.5 for the three months ended March 28, 2013 and March 29, 2012, 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 in accordance with FASB authoritative guidance on accounting for the impairment or disposal of long-lived assets.

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**7. Other Assets**

Other assets are summarized as follows:

|                                                           | March 28,<br>2013 | December 31,<br>2012 |
|-----------------------------------------------------------|-------------------|----------------------|
| <b>Intangible assets</b>                                  |                   |                      |
| Patents                                                   | \$ 3.0            | \$ 2.0               |
| Favorable leasehold interests                             | 9.8               | 9.7                  |
| Customer relationships                                    | 26.3              | 28.1                 |
| Total intangible assets                                   | 39.1              | 39.8                 |
| Less: Accumulated amortization - patents                  | (2.0)             | (1.2)                |
| Accumulated amortization - favorable leasehold interest   | (4.9)             | (4.8)                |
| Accumulated amortization - customer relationships         | (23.0)            | (23.7)               |
| Intangible assets, net                                    | 9.2               | 10.1                 |
| <b>Deferred financing</b>                                 |                   |                      |
| Deferred financing costs                                  | 76.3              | 76.4                 |
| Less: Accumulated amortization - deferred financing costs | (51.1)            | (49.6)               |
| Deferred financing costs, net                             | 25.2              | 26.8                 |
| <b>Other</b>                                              |                   |                      |
| Goodwill - Europe                                         | 2.8               | 3.0                  |
| Equity in net assets of affiliates                        | 1.4               | 5.1                  |
| Customer supply agreement (1)                             | 39.4              | 39.9                 |
| Other                                                     | 5.4               | 6.1                  |
| Total                                                     | \$ 83.4           | \$ 91.0              |

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

The Company recognized \$1.1 and \$1.0 of amortization expense of intangibles for the three months ended March 28, 2013 and March 29, 2012, respectively.

**8. Research and Development Milestones**

*Milestone payments.* Milestone payments are recognized as revenue when milestones are deemed to be substantive and are achieved. A substantive milestone is one that is based on successful performance by the Company and not solely contingent upon the passage of time or performance by another party. Milestone payments collected in advance that have significant future performance obligations are presented as advance payments or deferred revenue, and are recognized when the milestone is achieved.

As part of our ongoing participation in the B787-9 program, we received research and development milestone payments of \$4.6 and \$2.8 for the three months ended March 28, 2013 and March 29, 2012, respectively. Revenue and cost associated with the performance of this research and development are included in program revenue and costs. We expect to receive additional payments related to research and development on this program. These additional payments remain un-negotiated as of March 28, 2013.

#### **9. Advance Payments and Deferred Revenue/Credits**

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

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In March 2012, we signed a Memorandum of Agreement with Airbus providing for us to receive advance payments of \$250.0 in 2012. The advance payments will be offset against the recurring price of A350 XWB ship sets invoiced by Spirit at a rate of \$1.25 per ship set.

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

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

|                                                     | March 28,<br>2013 | December 31,<br>2012 |
|-----------------------------------------------------|-------------------|----------------------|
| B737                                                | \$ 20.2           | \$ 20.5              |
| B787                                                | 621.7             | 629.8                |
| A350 XWB                                            | 247.3             | 250.2                |
| Airbus All other platforms                          | 6.0               | 6.7                  |
| Gulfstream                                          | 26.8              | 28.2                 |
| Other                                               | 17.6              | 18.1                 |
| Total advance payments and deferred revenue/credits | \$ 939.6          | \$ 953.5             |

**10. Government Grants**

We received grants in the form of government funding for a portion of the site construction and other specific capital asset cost at our 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 in a manner consistent with the job performance criteria. In Malaysia, the deferred grant income is being amortized based on the lives of the eligible assets constructed with the grant funds as there are no performance criteria. The value recorded within property, plant and equipment prior to amortization, including foreign exchange rate changes, related to the use of grant funds in North Carolina and Malaysia was \$150.0 and \$148.7 as of March 28, 2013 and December 31, 2012, respectively.

Deferred grant income liability, net consists of the following:

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|                                                       |    |       |
|-------------------------------------------------------|----|-------|
| Balance, December 31, 2012                            | \$ | 123.5 |
| Grant income recognized                               |    | (1.6) |
| Exchange rate                                         |    | (2.3) |
| Total deferred grant income liability, March 28, 2013 | \$ | 119.6 |

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

|                                                                    |    |       |
|--------------------------------------------------------------------|----|-------|
| Balance, December 31, 2012                                         | \$ | 124.9 |
| Amortization                                                       |    | (1.3) |
| Exchange rate                                                      |    | (2.3) |
| Total asset value related to deferred grant income, March 28, 2013 | \$ | 121.3 |

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**11. Fair Value Measurements**

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

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

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

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

| Description                | Total Carrying<br>Amount in<br>Balance Sheet | Fair Value Measurements             |                                          |                                                                            |                                                           |                                                    |
|----------------------------|----------------------------------------------|-------------------------------------|------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                            |                                              | March 28, 2013                      |                                          |                                                                            | At March 28, 2013 using                                   |                                                    |
|                            |                                              | Assets<br>Measured at<br>Fair Value | Liabilities<br>Measured at Fair<br>Value | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <i>Money Market Fund</i>   | \$ 204.3                                     | \$ 204.3                            | \$                                       | \$ 204.3                                                                   | \$                                                        | \$                                                 |
| <i>Interest Rate Swaps</i> | \$ (3.2)                                     | \$                                  | \$ (3.2)                                 | \$                                                                         | \$ (3.2)                                                  | \$                                                 |

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| Description                | Fair Value Measurements                      |                                     |                                          |                                                                            |                                                           |                                                    |
|----------------------------|----------------------------------------------|-------------------------------------|------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                            | December 31, 2012                            |                                     |                                          | At December 31, 2012 using                                                 |                                                           |                                                    |
|                            | Total Carrying<br>Amount in<br>Balance Sheet | Assets<br>Measured at<br>Fair Value | Liabilities<br>Measured at Fair<br>Value | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <i>Money Market Fund</i>   | \$ 312.2                                     | \$ 312.2                            | \$                                       | \$ 312.2                                                                   | \$                                                        | \$                                                 |
| <i>Interest Rate Swaps</i> | \$ (4.0)                                     | \$                                  | \$ (4.0)                                 | \$                                                                         | \$ (4.0)                                                  | \$                                                 |

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

The Company's long-term debt consists of a senior secured term loan, senior unsecured notes, and the Malaysian term loan. The estimated fair value of our debt obligations is based on the quoted market prices for such obligations or the historical default rate for

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debt with similar credit ratings. The following table presents the carrying amount and estimated fair value of long-term debt in accordance with FASB authoritative guidance on fair value measurements related to disclosures of financial instruments:

|                                                      | <b>March 28, 2013</b>      |                       | <b>December 31, 2012</b>   |                       |
|------------------------------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                                                      | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Senior secured term loan (including current portion) | \$ 542.1                   | \$ 551.3 (1)          | \$ 543.4                   | \$ 550.0 (1)          |
| Senior unsecured notes due 2017                      | 295.8                      | 318.8 (1)             | 295.6                      | 321.8 (1)             |
| Senior unsecured notes due 2020                      | 300.0                      | 321.0 (1)             | 300.0                      | 321.8 (1)             |
| Malaysian loan                                       | 12.6                       | 10.8 (2)              | 13.4                       | 11.8 (2)              |
| Total                                                | \$ 1,150.5                 | \$ 1,201.9            | \$ 1,152.4                 | \$ 1,205.4            |

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(1) Level 1 Fair Value hierarchy

(2) Level 2 Fair Value hierarchy

See Note 13, Investments for fair value disclosure on government and corporate debt securities.

**12. Derivative and Hedging Activities**

The Company enters into interest rate swap agreements to reduce its exposure to the variable rate portion of its long-term debt. The Company could enter into foreign currency hedge contracts to reduce the risks associated with the changes in foreign exchange rates on sales and cost of sales denominated in currencies other than the entities functional currency. Any gains or losses on hedges are included in earnings when the underlying transaction that was hedged occurs. The Company does not use these contracts for speculative or trading purposes. On the inception date, the Company designates a derivative contract as either a fair value or cash flow hedge in accordance with FASB guidance on accounting for derivatives and hedges and links the contract to either a specific asset or liability on the balance sheet, or to forecasted commitments or transactions. The Company formally documents the hedging relationship between the hedging instrument and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on a quarterly basis, whether the derivative item is effective in offsetting changes in fair value or cash flows.

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

The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. The Company has applied these valuation techniques as of March 28, 2013 and believes it has obtained the most accurate information available for the types of derivative contracts it holds. The Company attempts to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions which are expected to be able to fully perform under the terms of the agreement.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; the derivative expires or is sold, terminated or exercised; the derivative is no longer designated as a hedging instrument because it is unlikely that a forecasted transaction will occur; or management determines that the designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued, the

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Company would carry the derivative instrument on the balance sheet at its fair value with subsequent changes in fair value included in earnings, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings to the extent the forecasted transaction is not expected to occur, or when the underlying transaction settles.

To the extent that derivative instruments do not qualify for hedge accounting treatment, the changes in fair market value of the instruments are reported in the results of operations for the current period. As a result of the senior secured Credit Agreement entered into on April 18, 2012, the interest rate swaps no longer qualify for hedge accounting while LIBOR is below the LIBOR floor of 75 basis points under the Credit Agreement. Amounts in other comprehensive income for interest rate swaps as of April 18, 2012 have been included in earnings.

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

The Company has certain derivative instruments covered by master netting arrangements whereby, in the event of a default as defined by the senior secured credit facility or termination event, the non-defaulting party has the right to offset any amounts payable against any obligation of the defaulting party under the same counterparty agreement.

The entire asset classes of the Company are pledged as collateral for both the term loan and the revolving credit facility under the Company's senior secured credit facility (see Note 14, Debt).

**Interest Rate Swaps**

We enter into floating-to-fixed interest rate swap agreements periodically. As of March 28, 2013, the interest rate swap agreements had notional amounts totaling \$275.0.

| Notional Amount | Expires   | Variable Rate | Fixed Rate (1) | Effective Fixed Rate(2) | Fair Value, March 28, 2013 |
|-----------------|-----------|---------------|----------------|-------------------------|----------------------------|
| \$ 50.0         | June 2013 | 1 Month LIBOR | 0.84%          | N/A                     | \$ (0.1)                   |
| \$ 225.0        | July 2014 | 1 Month LIBOR | 1.37%          | N/A                     | \$ (3.1)                   |
|                 |           |               |                | Total                   | \$ (3.2)                   |

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

(2) As of March 28, 2013 the interest rate swaps are no longer effective and therefore the effective fixed rate is not applicable.

The purpose of entering into these swaps was to reduce the Company's exposure to variable interest rates. The interest rate swaps settle on a monthly basis when interest payments are made. These settlements occur through the maturity date. The interest rate swaps are being accounted for as cash flow hedges in accordance with FASB authoritative guidance. The fair value of the interest rate swaps was a liability (unrealized loss) of \$(3.2) at March 28, 2013 and \$(4.0) at December 31, 2012.

#### **Foreign Currency Forward Contracts**

We could use foreign currency hedge contracts to reduce our exposure to currency exchange rate fluctuations, which include hedging contracts to hedge U.S. dollar revenue from certain customers. The objective of these contracts would be to minimize the impact of currency exchange rate movements on our operating results. The hedges would be accounted for as cash flow hedges in accordance with FASB authoritative guidance. Gains and losses from cash flow hedges would be recorded to other comprehensive income until the underlying transaction for which the hedge was placed occurs and then the value in other comprehensive income is reclassified to earnings. The exception to the aforementioned treatment of realized gains/losses involves certain cash payments to Airbus, payable in British pounds sterling which were hedged, and this amount in other comprehensive income was reclassified into other assets when the underlying transaction occurred and will be amortized over the first A350 XWB contract block.

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The following table summarizes the Company's fair value of outstanding derivatives at March 28, 2013 and December 31, 2012:

|                                                      | Fair Values of Derivative Instruments |                   |                             |                   |
|------------------------------------------------------|---------------------------------------|-------------------|-----------------------------|-------------------|
|                                                      | Other Asset Derivatives               |                   | Other Liability Derivatives |                   |
|                                                      | March 28, 2013                        | December 31, 2012 | March 28, 2013              | December 31, 2012 |
| <b>Derivatives designated as hedging instruments</b> |                                       |                   |                             |                   |
| Interest rate swaps                                  |                                       |                   |                             |                   |
| Current                                              | \$                                    | \$                | \$ 2.7                      | \$ 2.8            |
| Non-current                                          |                                       |                   | 0.6                         | 1.2               |
| Total derivatives designated as hedging instruments  |                                       |                   | 3.3                         | 4.0               |
| <b>Total derivatives</b>                             | \$                                    | \$                | \$ 3.3                      | \$ 4.0            |

We had no derivatives not designated as hedging instruments at March 28, 2013 and December 31, 2012.

The impact on other comprehensive income (OCI) and earnings from cash flow hedges for the three months ended March 28, 2013 and March 29, 2012 was as follows:

| Derivatives in Cash Flow Hedging Relationships | Location of (Gain) or Loss                                                                |                                                         | Location of (Gain) or Loss Recognized in Income on Derivative |                                            |
|------------------------------------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------|
|                                                | Reclassified from Accumulated OCI into Income                                             |                                                         | Amount Excluded from Effectiveness Testing                    |                                            |
|                                                | Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion) | Amount of Loss Recognized in Income (Effective Portion) | Amount of Loss Recognized in Income (Effective Portion)       | Amount Excluded from Effectiveness Testing |
|                                                | For the Three Months Ended March 28, 2013                                                 | For the Three Months Ended March 29, 2012               | For the Three Months Ended March 28, 2013                     | For the Three Months Ended March 29, 2012  |
| Interest rate swaps                            | \$                                                                                        | \$ (0.7)                                                | Interest expense                                              | \$ 0.7                                     |
| Foreign currency hedge contracts               |                                                                                           | 0.1                                                     | Sales/ Revenue                                                | 0.1                                        |
| Total                                          | \$                                                                                        | \$ (0.6)                                                |                                                               | \$ 0.8                                     |

The impact on earnings from interest rate swaps that are no longer effective was a loss of (\$1.1) and zero for the three months ended March 28, 2013 and March 29, 2012, respectively.

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The impact on earnings from foreign currency hedge contracts that do not qualify as cash flow hedges was income of zero and \$0.2 for the three months ended March 28, 2013 and March 29, 2012, respectively.

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

**13. Investments**

The amortized cost and approximate fair value of held-to-maturity securities are as follows:

|                                                 | March 28, 2013 |            | December 31, 2012 |            |
|-------------------------------------------------|----------------|------------|-------------------|------------|
|                                                 | Current        | Noncurrent | Current           | Noncurrent |
| <b>Government and Corporate Debt Securities</b> |                |            |                   |            |
| Amortized cost                                  | \$ 0.5         | \$ 3.0     | \$ 0.6            | \$ 2.8     |
| Unrealized gains                                |                | 0.1        |                   | 0.1        |
| Fair value                                      | \$ 0.5         | \$ 3.1     | \$ 0.6            | \$ 2.9     |

Maturities of held-to-maturity securities at March 28, 2013 are as follows:

|                   | Amortized Cost | Approximate Fair Value |
|-------------------|----------------|------------------------|
| Within One Year   | \$ 0.5         | \$ 0.5                 |
| One to Five Years | 1.6            | 1.7                    |
| Five to Ten Years | 0.2            | 0.2                    |
| After Ten Years   | 1.2            | 1.2                    |
| Total             | \$ 3.5         | \$ 3.6                 |

At March 28, 2013 and December 31, 2012, the fair value of certain investments in debt and marketable securities are less than their historical cost. Total fair value of these investments was \$1.0 and \$0.8, respectively, for the periods then ended, which is approximately 27% and 22%, respectively, of the Company's held-to-maturity investment portfolio. These declines primarily resulted from decreases in market interest rates and failure of certain investments to maintain consistent credit quality ratings or meet projected earnings targets.

Based on evaluation of available evidence, including changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

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Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the permanent impairment is identified.

### 14. Debt

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

|                                                | March 28,<br>2013 | December 31,<br>2012 |
|------------------------------------------------|-------------------|----------------------|
| Senior secured term loan (short and long-term) | \$ 542.1          | \$ 543.4             |
| Senior notes (due 2017 and 2020)               | 595.8             | 595.6                |
| Malaysian term loan                            | 12.6              | 13.4                 |
| Present value of capital lease obligations     | 15.5              | 16.4                 |
| Other                                          | 7.4               | 7.4                  |
| Total                                          | \$ 1,173.4        | \$ 1,176.2           |

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**Senior Secured Credit Facilities**

On April 18, 2012, Spirit entered into a \$1.2 billion senior secured Credit Agreement (the "Credit Agreement") consisting of a \$650.0 revolving credit facility and a \$550.0 term loan B facility. The Credit Agreement refinanced and replaced the Second Amended and Restated Credit Agreement dated as of November 27, 2006, as amended. Proceeds of the new term loan were used to pay off outstanding amounts under the prior credit agreement. The revolving credit facility matures April 18, 2017 and bears interest, at Spirit's option, at either LIBOR, or a defined base rate plus an applicable margin based on Spirit's debt-to-EBITDA ratio (see table below). The term loan matures April 18, 2019 and bears interest, at Spirit's option, at LIBOR plus 3.00% with a LIBOR floor of 0.75% or base rate plus 2.00%, subject to a step down to LIBOR plus 2.75% or base rate plus 1.75%, as applicable, in the event Spirit's secured debt-to-EBITDA ratio is below 1:1 at any time after 2012. Substantially all of Spirit's assets, including inventory and property, plant and equipment, were pledged as collateral for both the term loan and the revolving credit facility. As of March 28, 2013, the outstanding balance of the term loan was \$544.5 and the carrying amount of the term loan was \$542.1. The amount outstanding under the revolving credit facility was zero as of March 28, 2013.

In addition to paying interest on outstanding principal under the Credit Agreement, Spirit is required to pay an unused line fee on the unused portion of the commitments under the revolving credit facility based on Spirit's debt-to-EBITDA ratio (see table below). Spirit is required to pay letter of credit fees equal to the applicable margin for LIBOR rate revolving credit borrowings with respect to letters of credit issued under the revolving credit facility (see table below). Spirit is also required to pay to the issuing banks that issue any letters of credit, letter of credit fronting fees in respect of letters of credit at a rate equal to twenty basis points per year, and to the administrative agent thereunder customary administrative fees.

| Pricing Tier | Debt-to-EBITDA Ratio  | Commitment Fee | Letter of Credit Fee | Eurodollar Rate Loans | Base Rate Loans |
|--------------|-----------------------|----------------|----------------------|-----------------------|-----------------|
| 1            | ≥ 3.0:1               | 0.450%         | 2.50%                | 2.50%                 | 1.50%           |
| 2            | < 3.0:1 but ≥ 2.25:1  | 0.375%         | 2.25%                | 2.25%                 | 1.25%           |
| 3            | < 2.25:1 but ≥ 1.75:1 | 0.300%         | 2.00%                | 2.00%                 | 1.00%           |
| 4            | < 1.75:1              | 0.250%         | 1.75%                | 1.75%                 | 0.75%           |

At March 28, 2013, the Company's debt-to-EBITDA ratio was 4.12:1.0, resulting in applicable margins under the revolving credit facility, which will go into effect upon delivery of a quarterly compliance certificate, of 2.5% and 1.5% on Eurodollar and base rate loans, respectively, and commitment fees on the undrawn portion of the revolving credit facility and letter of credit fees of 0.45% and 2.5%, respectively.

The Credit Agreement contains customary affirmative and negative covenants, including restrictions on indebtedness, liens, type of business, acquisitions, investments, sales or transfers of assets, payments of dividends, transactions with affiliates, change in control and other matters customarily restricted in such agreements. The Credit Agreement also contained the following financial covenants (as defined in the Credit

Agreement):

|                               |                                |
|-------------------------------|--------------------------------|
| Senior Secured Leverage Ratio | Shall not exceed 2.75:1.0      |
| Interest Coverage Ratio       | Shall not be less than 4.0:1.0 |
| Total Leverage Ratio          | Shall not exceed 4.0:1.0       |

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To address the forward loss charges that the Company recognized in the third quarter of 2012, the Company amended the Credit Agreement effective October 26, 2012. The amendment resulted in a revision of the quarterly financial covenant ratios. No event of default has occurred and the Company was in full compliance as of March 28, 2013. The amended ratios are illustrated in the table below:

|                                                  | Q1 2013 | Q2 2013 | Thereafter |
|--------------------------------------------------|---------|---------|------------|
| Senior Secured Leverage Ratio (Shall not exceed) | 3.25    | 2.75    | 2.75       |
| Interest Coverage Ratio (Shall not be less than) | 2.25    | 3.00    | 4.00       |
| Total Leverage Ratio (Shall not exceed)          | 6.00    | 4.75    | 4.00       |

Additionally, the amendment increased the time the Company has to apply the proceeds from the insurance settlement in connection with the severe weather event against expenses resulting from the event from 12 months to 24 months before the proceeds may be considered eligible for prepayment against the senior secured credit facility.

**Senior Notes**

On November 18, 2010, we issued \$300.0 aggregate 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 28, 2013.

On September 30, 2009, we issued \$300.0 of 7.50% Senior Notes due October 1, 2017 (the 2017 Notes), with interest payable, in cash in arrears, on April 1 and October 1 of each year, beginning April 1, 2010. The 2017 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 2017 Notes was \$295.8 as of March 28, 2013.

As of March 28, 2013, we were and expect to remain in full compliance with all covenants contained in the indentures governing the 2020 Notes and the 2017 Notes for the foreseeable future.

***Malaysian Facility Agreement***

On June 2, 2008, the Company's wholly-owned subsidiary, Spirit AeroSystems Malaysia SDN BHD entered into a Facility Agreement for a term loan facility for Ringgit Malaysia ( RM ) 69.2 (approximately USD \$20.0 equivalent) (the Malaysia Facility ), with the Malaysian Export-Import Bank. The Malaysia Facility requires quarterly principal repayments of RM 3.3 (approximately USD \$1.0) from September 2011 through May 2017 and quarterly interest payments payable at a fixed interest rate of 3.50% per annum. The Malaysia Facility loan balance as of March 28, 2013 was \$12.6.

***French Factory Capital Lease Agreement***

On July 17, 2009, the Company's indirect wholly-owned subsidiary, Spirit AeroSystems France SARL entered into a capital lease agreement for 9.0 (approximately USD \$13.1 equivalent) with a subsidiary of BNP Paribas Bank to be used towards the construction of our aerospace-related component assembly plant in Saint-Nazaire, France. Lease payments are variable, subject to the three-month Euribor rate plus 2.20%. Lease payments are due quarterly through April 2025. As of March 28, 2013, the Saint-Nazaire capital lease balance was \$10.5.

***Nashville Design Center Capital Lease Agreement***

On September 21, 2012, the Company entered into a capital lease agreement for \$2.6 million for a portion of an office building in Nashville, Tennessee to be used for design of aerospace components. Lease payments are due monthly, and are subject to yearly rate increases until the end of the lease term of 124 months.

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**15. Pension and Other Post-Retirement Benefits**

| Components of Net Periodic Pension Income | Defined Benefit Plans<br>For the Three<br>Months Ended |        |                |
|-------------------------------------------|--------------------------------------------------------|--------|----------------|
|                                           | March 28, 2013                                         |        | March 29, 2012 |
|                                           |                                                        |        |                |
| Service cost                              | \$                                                     | 1.9    | \$ 1.6         |
| Interest cost                             |                                                        | 11.7   | 11.3           |
| Expected return on plan assets            |                                                        | (21.3) | (18.7)         |
| Amortization of net (gain)/loss           |                                                        | 3.1    | 1.8            |
| Net periodic pension income               | \$                                                     | (4.6)  | \$ (4.0)       |

| Components of Other Benefit Expense | Other Benefits<br>For the Three<br>Months Ended |     |                |
|-------------------------------------|-------------------------------------------------|-----|----------------|
|                                     | March 28, 2013                                  |     | March 29, 2012 |
|                                     |                                                 |     |                |
| Service cost                        | \$                                              | 0.7 | \$ 0.8         |
| Interest cost                       |                                                 | 0.6 | 0.9            |
| Amortization of net (gain)/loss     |                                                 |     | 0.1            |
| Net periodic other benefit expense  | \$                                              | 1.3 | \$ 1.8         |

**Employer Contributions**

We expect to contribute zero dollars to the U.S. qualified pension plan and a combined total of approximately \$1.4 for the Supplemental Executive Retirement Plan (SERP) and post-retirement medical plans in 2013. Our projected contributions to the U.K. pension plan for 2013 are \$8.8, of which \$2.5 was contributed by the end of the first quarter of 2013. We anticipate contributing the additional \$6.3 to the U.K. pension plan during the remainder of 2013. The entire amount contributed and the projected contributions can vary based on exchange rate fluctuations.

**16. 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.

For the three months ended March 28, 2013, Holdings recognized a net total of \$3.7 of stock compensation expense, which is net of stock forfeitures, as compared to \$4.0 of stock compensation expense, net of forfeitures, for the three months ended March 29, 2012. The entire \$3.7 of stock compensation expense recorded for the three months ended March 28, 2013 was recorded as selling, general and administrative expense in accordance with FASB authoritative guidance, and the amount includes \$0.4 accelerated vesting expense for participants meeting the conditions for Qualifying Retirement under the Short-Term Incentive Plan or STIP. The entire \$4.0 of stock compensation expense recorded for the three months ended March 29, 2012 was recorded as selling, general and administrative expense, and the amount includes \$0.9 accelerated vesting expense for participants meeting the condition for Qualifying Retirement under the Short-Term Incentive Plan or STIP as set out in the Proxy Statement for our 2012 annual meeting of stockholders.

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In February 2013, 86,063 shares of Class A common stock with an aggregate grant date fair value of \$1.4 were granted under the Company's Short-Term Incentive Plan and such shares will vest on the one-year anniversary of the grant date. Additionally, 95,759 shares of Class A common stock with an aggregate grant date fair value of \$2.3 granted under the Company's Short-Term Incentive Plan vested during the quarter ended March 28, 2013.

**17. Income Taxes**

The process for calculating our 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 assets at March 28, 2013 and December 31, 2012 were \$221.8 and \$238.6, respectively. This decrease is primarily due to recognizing certain amounts of long-term contract forward losses not currently deductible for tax purposes in previous periods.

We file income tax returns in all jurisdictions in which we operate. We established reserves to provide for additional income taxes that may be due in future years as these previously filed tax returns are audited. These reserves have been established based on management's assessment as to the potential exposure attributable to permanent differences 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 include finalizing amounts in income tax returns filed, finalizing audit examinations for open tax years, and an expiring statute of limitations.

We continue to operate under a tax holiday in Malaysia effective through September 2024. Management continues to maintain a reserve for the potential uncertainty in meeting the tax holiday's conditional employment and investment thresholds. If those thresholds are met by the required date, we expect a \$9.1 reduction in our unrecognized tax benefit liability.

The 30.5% effective tax rate for the three months ended March 28, 2013 differs from the 31.3% effective tax rate for the same period in 2012 primarily due to inclusion of the 2012 and 2013 U.S. Research Tax Credits, and an adjustment to the valuation allowance on certain state credits.

On January 2, 2013, the President signed legislation retroactively extending the U.S. Research Tax Credit for two years, from January 1, 2012 through December 31, 2013. Our income tax expense for 2013 reflects the entire benefit of the Research Tax Credit attributable to 2012, which is estimated at \$5.4, and the benefit of the 2013 Research Tax Credit.

We are participating in the Internal Revenue Service's Compliance Assurance Process (CAP) program for our 2012 and 2013 tax years. Additionally, we have been selected for the Compliance Maintenance phase of the CAP program for the 2013 tax year. The CAP program's objective is to resolve issues in a timely, contemporaneous manner and eliminate the need for a lengthy post-filing examination. HM Revenue & Customs is currently examining our 2010 U.K. income tax return. While a change could result from the ongoing examinations with exception of the Malaysia issue mentioned above, the Company expects no material change in its recorded unrecognized tax benefit liability in the next 12 months.

## 18. 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. No dividend may be declared on the Class A or Class B common stock unless at the same time an equal dividend is paid on every share of Class A and Class B common stock. Dividends paid in shares of the Company's common stock must be paid, with respect to a

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particular class of common stock, in shares of that class. The Company does not intend to pay cash dividends on its common stock. In addition, the terms of the Company's current financing agreements preclude it from paying any cash dividends on its common stock.

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

|                                              | March 28, 2013 |        | For the Three Months Ended |         | March 29, 2012 |                  |  |
|----------------------------------------------|----------------|--------|----------------------------|---------|----------------|------------------|--|
|                                              | Income         | Shares | Per Share Amount           | Income  | Shares         | Per Share Amount |  |
| <b>Basic EPS</b>                             |                |        |                            |         |                |                  |  |
| Income available to common shareholders      | \$ 80.4        | 141.0  | \$ 0.57                    | \$ 72.4 | 139.5          | \$ 0.52          |  |
| Income allocated to participating securities | 0.8            | 1.4    |                            | 1.2     | 2.3            |                  |  |
| Net income                                   | \$ 81.2        |        |                            | \$ 73.6 |                |                  |  |
| Diluted potential common shares              |                | 0.7    |                            |         | 0.7            |                  |  |
| <b>Diluted EPS</b>                           |                |        |                            |         |                |                  |  |
| Net income                                   | \$ 81.2        | 143.1  | \$ 0.57                    | \$ 73.6 | 142.5          | \$ 0.52          |  |

The balance of outstanding common shares presented in the condensed consolidated balance sheets was 143.7 million and 142.9 million at March 28, 2013 and March 29, 2012, respectively. Included in the outstanding common shares were 2.6 million and 2.5 million of issued but unvested shares at March 28, 2013 and March 29, 2012, respectively, which are excluded from the basic EPS calculation.

**Accumulated Other Comprehensive Loss**

Accumulated Other Comprehensive Loss is summarized by component as follows:

|                       | For the Three Months Ended<br>March 28, 2013 | For the Twelve Months Ended<br>December 31, 2012 |
|-----------------------|----------------------------------------------|--------------------------------------------------|
| Pension               | (132.5)                                      | (132.0)                                          |
| SERP/ Retiree medical | (2.4)                                        | (2.6)                                            |

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|                                                        |    |         |    |         |
|--------------------------------------------------------|----|---------|----|---------|
| Foreign currency impact on long term intercompany loan |    | (6.7)   |    | (3.5)   |
| Currency translation adjustment                        |    | (17.1)  |    | (7.1)   |
| Total accumulated other comprehensive loss             | \$ | (158.7) | \$ | (145.2) |

### *Noncontrolling Interest*

The balance of noncontrolling interest presented in the consolidated balance sheet was \$1.8 and \$0.5 at March 28, 2013 and March 29, 2012, respectively.

### **19. Related Party Transactions**

On May 3, 2012, Hawker Beechcraft, Inc. ( Hawker ) filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code and emerged from bankruptcy on February 19, 2013 as Beechcraft Corporation. The Company's remaining balance of its \$3.5 receivable from Hawker was written off as of March 28, 2013. The Company's Prestwick facility provided wing components for the Hawker 800 Series manufactured by Hawker. For the three months ended March 28, 2013 and March 29, 2012, sales to Hawker were zero and \$1.2, respectively.

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The Company paid less than \$0.1 to a subsidiary of Onex for services rendered for each of the three month periods ended March 28, 2013 and March 29, 2012. Management believes the amounts charged were reasonable in relation to the services provided.

A director (and former executive) of the Company is a member of the Board of Directors of Rockwell Collins, Inc., a supplier of manufacturing parts to the Company. Under the commercial terms of the arrangement with the supplier, Spirit paid less than \$0.1 for each of the three month periods ended March 28, 2013 and March 29, 2012. The amounts owed to Rockwell Collins and recorded as accrued liabilities were less than \$0.1 as of March 28, 2013 and March 29, 2012.

A director (and former executive) of the Company is a member of the Board of Directors of a Wichita, Kansas bank that provides banking services to Spirit. In connection with the banking services provided to Spirit, the Company pays fees consistent with commercial terms that would be available to unrelated third parties. Such fees are not material to the Company.

**20. Commitments, Contingencies and Guarantees**

***Litigation***

From time to time we are subject to, and are 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. Consistent with the requirements of authoritative guidance on accounting for contingencies, we had no accruals at March 28, 2013 for loss contingencies. However, an unexpected adverse resolution of one or more of these items could have a material adverse effect on the results of operations in a particular quarter or fiscal year.

From time to time, in the ordinary course of business and like 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.

In December 2005, a lawsuit was filed against Spirit, Onex and Boeing alleging age discrimination in the hiring of employees by Spirit when Boeing sold its Wichita commercial division to Onex. The complaint was filed in U.S. District Court in Wichita, Kansas and seeks class-action status, an unspecified amount of compensatory damages and more than \$1.5 billion in punitive damages. The asset purchase agreement from the Boeing Acquisition requires Spirit to indemnify Boeing for damages resulting from the employment decisions that were made by us with respect to former employees of Boeing Wichita, which relate or allegedly relate to the involvement of, or consultation with, employees of Boeing in such employment decisions. On June 30, 2010, the U.S. District Court granted defendants' dispositive motions, finding that the case should not be allowed to proceed as a class action. Following plaintiffs' appeal, on August 27, 2012 the Tenth Circuit Court of Appeals affirmed the District Court's ruling in all respects. The district court has now set certain deadlines for certain prospective plaintiffs to bring individual claims. In the event this litigation continues, the Company intends to continue to vigorously defend itself. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

In December 2005, a federal grand jury sitting in Topeka, Kansas issued subpoenas regarding the vapor degreasing equipment at our Wichita, Kansas facility. The government's investigation appeared to focus on whether the degreasers were operating within permit parameters and whether chemical wastes from the degreasers were disposed of properly. The subpoenas covered a time period both before and after our purchase of the Wichita, Kansas facility. Subpoenas were issued to Boeing, Spirit and individuals who were employed by Boeing prior to the Boeing Acquisition, but are now employed by us. We responded to the subpoena and provided additional information to the government as requested. On March 25, 2008, the U.S. Attorney's Office informed the Company that it was closing its criminal file on the investigation. A civil investigation into this matter is ongoing. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

On February 16, 2007, an action entitled Harkness et al. v. The Boeing Company et al. was filed in the U.S. District Court for the District of Kansas. The defendants were served in early July 2007. The defendants include Spirit AeroSystems Holdings, Inc., Spirit AeroSystems, Inc., the Spirit AeroSystems Holdings Inc. Retirement Plan for the International Brotherhood of Electrical Workers

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(IBEW), Wichita Engineering Unit (SPEEA WEU) and Wichita Technical and Professional Unit (SPEEA WTPU) Employees, and the Spirit AeroSystems Retirement Plan for International Association of Machinists and Aerospace Workers (IAM) Employees, along with Boeing and Boeing retirement and health plan entities. The named plaintiffs are twelve former Boeing employees, eight of whom were or are employees of Spirit. The plaintiffs assert several claims under the Employee Retirement Income Security Act and general contract law and brought the case as a class action on behalf of similarly situated individuals. The putative class consists of approximately 2,500 current or former employees of Spirit. The parties agreed to class certification. The sub-class members who have asserted claims against the Spirit entities are those individuals who, as of June 2005, were employed by Boeing in Wichita, Kansas, were participants in the Boeing pension plan, had at least 10 years of vesting service in the Boeing plan, were in jobs represented by a union, were between the ages of 49 and 55, and who went to work for Spirit on or about June 17, 2005. Although there are many claims in the suit, the plaintiffs' claims against the Spirit entities, asserted under various theories, are (1) that the Spirit plans wrongfully failed to determine that certain plaintiffs are entitled to early retirement bridging rights to pension and retiree medical benefits that were allegedly triggered by their separation from employment by Boeing and (2) that the plaintiffs' pension benefits were unlawfully transferred from Boeing to Spirit in that their claimed early retirement bridging rights are not being afforded these individuals as a result of their separation from Boeing, thereby decreasing their benefits. The plaintiffs initially sought a declaration that they are entitled to the early retirement pension benefits and retiree medical benefits, an injunction ordering that the defendants provide the benefits, damages pursuant to breach of contract claims and attorney fees. Discovery is now complete and currently pending is a motion filed jointly by plaintiffs and Spirit on September 25, 2012 to dismiss all claims against Spirit with prejudice. Notices of a fairness hearing related to Spirit's dismissal from this lawsuit have been sent to class members. Plaintiffs' claims against Boeing entities are not subject to the motion and will remain pending in the litigation. Boeing has notified Spirit that it believes it is entitled to indemnification from Spirit for any indemnifiable damages it may incur in the Harkness litigation, under the terms of the asset purchase agreement from the Boeing Acquisition between Boeing and Spirit. Spirit disputes Boeing's position on indemnity. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

On July 21, 2005, the International Union, Automobile, Aerospace and Agricultural Implement Workers of America (UAW) filed a grievance against Boeing on behalf of certain former Boeing employees in Tulsa and McAlester, Oklahoma, regarding issues that parallel those asserted in Harkness et al. v. The Boeing Company et al. Boeing denied the grievance, and the UAW subsequently filed suit to compel arbitration, which the parties eventually agreed to pursue. The arbitration was conducted in January 2008. In July 2008, the arbitrator issued an opinion and award in favor of the UAW. The arbitrator directed Boeing to reinstate the seniority of the employees and afford them the benefits appurtenant thereto. On March 5, 2009, the arbitrator entered an Opinion and Supplemental Award that directed Boeing to award certain benefits to UAW members upon whose behalf the grievance was brought, notwithstanding the prior denial of such benefits by the Boeing Plan Administrator. On April 10, 2009, Boeing filed a Complaint in the United States District Court for the Northern District of Illinois, seeking a ruling that the arbitrator exceeded his authority in granting the Supplemental Award. On September 16, 2009, the District Court entered an order affirming the arbitrator's Supplemental Award. Boeing appealed the District Court's decision to the U.S. Seventh Circuit Court of Appeals, which affirmed the District Court's decision. Boeing previously notified Spirit of its intent to seek indemnification from Spirit for any indemnifiable damages it may incur in the UAW matter, pursuant to the terms of the asset purchase agreement from the Boeing Acquisition. Spirit disputes Boeing's position on indemnity. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

On May 11, 2009, Spirit filed a lawsuit in the United States District Court for the District of Kansas against SPS Technologies LLC (SPS) and Precision Castparts Corp. Spirit's claims are based on the sale by SPS of certain non-conforming nut plate fasteners to Spirit between August 2007 and August 2008. Many of the fasteners were used on assemblies that Spirit sold to a customer. In the fall of 2008, Spirit

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discovered the non-conformity and notified the customer of the discrepancy. Subsequently, Spirit and the customer removed and replaced nut plates on various in-process aircraft assemblies and subsequently agreed to an appropriate cost related to those efforts. Spirit's lawsuit seeks damages, including damages related to these efforts, under various theories, including breach of contract and breach of implied warranty.

### *Guarantees*

Contingent liabilities in the form of letters of credit, letters of guarantee and performance bonds have been provided by the Company. These letters of credit reduce the amount of borrowings available under the revolving credit facility. As of both March 28, 2013 and December 31, 2012, outstanding letters of credit were \$19.9. Outstanding guarantees were \$25.0 and \$25.6 at March 28, 2013 and December 31, 2012, respectively.

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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

***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***

The Company provides service and warranty policies on its products. Liability under service and warranty policies is based upon specific claims and a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance or quality issues.

The following is a roll forward of the service warranty and extraordinary rework balance at March 28, 2013:

|                               |    |       |
|-------------------------------|----|-------|
| Balance, December 31, 2012    | \$ | 30.9  |
| Charges to costs and expenses |    | 10.2  |
| Write-offs, net of recoveries |    | (0.2) |
| Exchange rate                 |    | (0.3) |
| Balance, March 28, 2013       | \$ | 40.6  |

**21. Other Income (Expense), Net**

Other income (expense), net is summarized as follows:

Foreign currency gains (loss) are due to the impact of movement in foreign currency exchange rates on trade and intercompany receivables/payables and other long-term contractual rights/obligations denominated in a currency other than the entity's functional currency.

|                                    | For the Three Months Ended |        |                   |       |
|------------------------------------|----------------------------|--------|-------------------|-------|
|                                    | March 28,<br>2013          |        | March 29,<br>2012 |       |
| KDFA bond                          | \$                         | 0.9    | \$                | 1.2   |
| Rental and miscellaneous (expense) |                            | 0.1    |                   | (0.1) |
| Foreign currency gains (loss)      |                            | (10.9) |                   | 2.4   |
| <b>Total</b>                       | \$                         | (9.9)  | \$                | 3.5   |

## 22. Business Combinations

In accordance with the applicable accounting guidance for the consolidation of variable interest entities, we analyze our variable interests, including equity investments, to determine if an entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the revenues for each customer or type of customer of the entity, and our qualitative analysis on our review of the design of the entity, its organizational structure including decision-making ability and relevant financial agreements. We also use our quantitative and qualitative analyses to determine if we must consolidate a variable interest entity as its primary beneficiary. Our variable interest entities are described in more detail in footnote 1, *Organization and Basis of Interim Presentation*.

Based on the evaluation of our Spirit-Progresstech joint venture in the first quarter, the Company has made the determination that the Company has the power to direct the activities of Spirit-Progresstech. This determination was made based on the amount of

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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

revenue Spirit-Progressstech derives from Spirit in relation to the entire revenue generating activities of SPLLC. Due to a continuing growth of revenues from Spirit and revised expectations of gaining business outside of the Spirit relationship, it was determined that Spirit is now the primary beneficiary of SPLLC.

The financial risk of involvement with SPLLC, is limited to our \$2.8 equity interest in the joint venture as of March 28, 2013. Beneficial interest holders of SPLLC have no recourse to general credit or assets of Spirit.

In the course of consolidation, all activities between SPLLC and Spirit have been eliminated. The resulting impact to Spirit's financial position and cash flow is immaterial to the financial statements as a whole.

**23. 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 92% of the Company's net revenues for the three months ended March 28, 2013 came from our 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 unallocated corporate selling, general and administrative expenses, unallocated impact of severe weather event, unallocated research and development and unallocated cost of sales. Unallocated corporate selling, general and administrative expenses include centralized functions such as accounting, treasury and human resources that are not specifically related to our operating segments and are not allocated in measuring the operating segments' profitability and performance and operating margins. Unallocated impact of severe weather event includes property repairs, clean up and recovery costs related to the April 14, 2012 tornado at the Company's Wichita facility. Unallocated 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 early retirement and other incentives. All of these unallocated items are not specifically related to our operating segments and are not allocated in measuring the operating segments' profitability and performance and operating margins.

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. 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 operating income as presented in its primary financial statements and a reconciliation of the segment and consolidated results is provided in the table set forth below. Most selling, general and administrative expenses, and all interest expense or income, related financing costs and income tax amounts, are not allocated to the operating segments.

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

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**Spirit AeroSystems Holdings, Inc.**
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

The following table shows segment revenues and operating income for the three months ended March 28, 2013 and March 29, 2012:

|                                            | <b>Three Months Ended</b> |                           |
|--------------------------------------------|---------------------------|---------------------------|
|                                            | <b>March 28,<br/>2013</b> | <b>March 29,<br/>2012</b> |
| <b>Segment Revenues</b>                    |                           |                           |
| Fuselage Systems                           | \$ 717.9                  | \$ 622.6                  |
| Propulsion Systems                         | 375.3                     | 344.0                     |
| Wing Systems                               | 343.3                     | 296.6                     |
| All Other                                  | 5.7                       | 2.6                       |
|                                            | \$ 1,442.2                | \$ 1,265.8                |
| <b>Segment Operating Income (Loss)</b>     |                           |                           |
| Fuselage Systems                           | \$ 121.4                  | \$ 88.1                   |
| Propulsion Systems                         | 65.3                      | 58.3                      |
| Wing Systems (1)                           | 18.2                      | 20.8                      |
| All Other                                  | 1.6                       | 0.2                       |
|                                            | 206.5                     | 167.4                     |
| Unallocated corporate SG&A                 | (39.6)                    | (40.7)                    |
| Unallocated impact of severe weather event | (8.8)                     |                           |
| Unallocated research and development       | (1.8)                     | (1.1)                     |
| Unallocated cost of sales(2)               | (11.8)                    | (3.3)                     |
| <b>Total operating income (loss)</b>       | \$ 144.5                  | \$ 122.3                  |

(1) For 2013, net of \$15.3 forward loss charge recorded for the B787 wing program. For 2012, net of \$2.7 and \$10.7 forward loss charges recorded for the B747-8 and G280 wing programs, respectively.

(2) For 2013, includes a warranty reserve of \$10.0 and \$1.8 related to early retirement incentives to eligible employees. For 2012, includes \$2.3 reclassified from segment operating income to unallocated cost of sales to conform to current year presentation and charges of \$1.0 related to early retirement incentives to eligible employees.

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**Spirit AeroSystems Holdings, Inc.**

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

**24. Condensed Consolidating Financial Information**

On November 18, 2010, Spirit completed an offering of \$300.0 aggregate principal amount of its 2020 Notes. On September 30, 2009, Spirit completed an offering of \$300.0 aggregate principal amount of its 2017 Notes. Both the 2017 Notes and the 2020 Notes were sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States only to non-U.S. persons pursuant to Regulation S promulgated under the Securities Act.

In connection with the initial sales of the 2017 Notes and the 2020 Notes, the Company entered into Registration Rights Agreements with the initial purchasers of the 2017 Notes and the 2020 Notes, respectively, pursuant to which the Company, Spirit and the Subsidiary Guarantors (as defined below) agreed to file (x) a registration statement with respect to an offer to exchange original 2017 Notes for a new issue of substantially identical notes registered under the Securities Act (the "2017 Notes Exchange Offer") and (y) a registration statement with respect to an offer to exchange the original 2020 Notes for a new issue of substantially identical notes registered under the Securities Act (the "2020 Notes Exchange Offer"). The 2017 Notes Exchange Offer was consummated on May 26, 2010. The 2020 Notes Exchange Offer was consummated on January 31, 2011. The 2017 Notes and 2020 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;
- (ii) Spirit, as the subsidiary issuer of the 2017 Notes and the 2020 Notes;
- (iii) The Subsidiary Guarantors, on a combined basis, as guarantors of the 2017 Notes and the 2020 Notes;
- (iv) The Company's subsidiaries, other than the Subsidiary Guarantors, which are not guarantors of the 2017 Notes and the 2020 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 28, 2013**

|                                                                                                  | Holdings | Spirit     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|--------------------------------------------------------------------------------------------------|----------|------------|---------------------------|-------------------------------|------------------------------|------------|
| Net Revenues                                                                                     | \$       | \$ 1,312.1 | \$ 48.5                   | \$ 165.7                      | \$ (84.1)                    | \$ 1,442.2 |
| <b>Operating costs and expenses</b>                                                              |          |            |                           |                               |                              |            |
| Cost of sales                                                                                    |          | 1,125.8    | 45.2                      | 150.2                         | (84.1)                       | 1,237.1    |
| Selling, general and administrative                                                              | 1.0      | 37.5       | 0.9                       | 4.9                           |                              | 44.3       |
| Impact from severe weather event                                                                 |          | 8.8        |                           |                               |                              | 8.8        |
| Research and development                                                                         |          | 7.0        |                           | 0.5                           |                              | 7.5        |
| Total operating costs and expenses                                                               | 1.0      | 1,179.1    | 46.1                      | 155.6                         | (84.1)                       | 1,297.7    |
| Operating (loss) income                                                                          | (1.0)    | 133.0      | 2.4                       | 10.1                          |                              | 144.5      |
| Interest expense and financing fee amortization                                                  |          | (17.4)     |                           | (2.6)                         | 2.4                          | (17.6)     |
| Interest income                                                                                  |          | 2.5        |                           |                               | (2.4)                        | 0.1        |
| Other income (expense), net                                                                      |          | 0.9        | 0.1                       | (10.8)                        |                              | (9.9)      |
| (Loss) income before income taxes and equity in net (loss) income of affiliates and subsidiaries | (1.0)    | 118.9      | 2.5                       | (3.3)                         |                              | 117.1      |
| Income tax benefit (provision)                                                                   |          | (35.1)     | (1.0)                     | 0.4                           |                              | (35.7)     |
| (Loss) income before equity in net (loss) income of affiliates and subsidiaries                  | (1.0)    | 83.8       | 1.5                       | (2.9)                         |                              | 81.4       |
| Equity in net (loss) income of affiliates                                                        | (0.2)    |            |                           | (0.2)                         | 0.2                          | (0.2)      |
| Equity in net (loss) income of subsidiaries                                                      | 82.4     | (1.4)      |                           |                               | (81.0)                       |            |
| Net (loss) income                                                                                | 81.2     | 82.4       | 1.5                       | (3.1)                         | (80.8)                       | 81.2       |
| Other comprehensive (loss) income                                                                | (13.5)   | 0.2        |                           | (13.7)                        | 13.5                         | (13.5)     |
| Comprehensive (loss) income                                                                      | \$ 67.7  | \$ 82.6    | \$ 1.5                    | \$ (16.8)                     | \$ (67.3)                    | \$ 67.7    |



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**Spirit AeroSystems Holdings, Inc.**
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

**Condensed Consolidating Statements of Operations**
**For the Three Months Ended March 29, 2012**

|                                                                                                  | Holdings | Spirit     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|--------------------------------------------------------------------------------------------------|----------|------------|---------------------------|-------------------------------|------------------------------|------------|
| Net Revenues                                                                                     | \$       | \$ 1,149.0 | \$ 55.4                   | \$ 136.6                      | \$ (75.2)                    | \$ 1,265.8 |
| <b>Operating costs and expenses</b>                                                              |          |            |                           |                               |                              |            |
| Cost of sales                                                                                    |          | 996.3      | 49.3                      | 120.7                         | (75.2)                       | 1,091.1    |
| Selling, general and administrative                                                              | 1.1      | 38.8       | 0.5                       | 4.6                           |                              | 45.0       |
| Research and development                                                                         |          | 7.0        |                           | 0.4                           |                              | 7.4        |
| Total operating costs and expenses                                                               | 1.1      | 1,042.1    | 49.8                      | 125.7                         | (75.2)                       | 1,143.5    |
| Operating (loss) income                                                                          | (1.1)    | 106.9      | 5.6                       | 10.9                          |                              | 122.3      |
| Interest expense and financing fee amortization                                                  |          | (18.0)     |                           | (2.2)                         | 1.9                          | (18.3)     |
| Interest income                                                                                  |          | 1.9        |                           |                               | (1.9)                        |            |
| Other income, net                                                                                |          | 1.2        |                           | 2.3                           |                              | 3.5        |
| (Loss) income before income taxes and equity in net (loss) income of affiliates and subsidiaries | (1.1)    | 92.0       | 5.6                       | 11.0                          |                              | 107.5      |
| Income tax benefit (provision)                                                                   | 0.4      | (30.2)     | (2.1)                     | (1.7)                         |                              | (33.6)     |
| (Loss) income before equity in net (loss) income of affiliates and subsidiaries                  | (0.7)    | 61.8       | 3.5                       | 9.3                           |                              | 73.9       |
| Equity in net (loss) income of affiliates                                                        | (0.3)    | (0.4)      |                           | 0.1                           | 0.3                          | (0.3)      |
| Equity in net (loss) income of subsidiaries                                                      | 74.6     | 12.8       |                           |                               | (87.4)                       |            |
| Net (loss) income                                                                                | 73.6     | 74.2       | 3.5                       | 9.4                           | (87.1)                       | 73.6       |
| Other comprehensive (loss) income                                                                | 5.1      |            |                           | 5.1                           | (5.1)                        | 5.1        |
| Comprehensive (loss) income                                                                      | \$ 78.7  | \$ 74.2    | \$ 3.5                    | \$ 14.5                       | \$ (92.2)                    | \$ 78.7    |

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## Spirit AeroSystems Holdings, Inc.

## Notes to the Condensed Consolidated Financial Statements (unaudited)

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

## Condensed Consolidating Balance Sheet

March 28, 2013

|                                                                        | Holdings   | Spirit     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total      |
|------------------------------------------------------------------------|------------|------------|---------------------------|-------------------------------|------------------------------|------------|
| <b>Current assets</b>                                                  |            |            |                           |                               |                              |            |
| Cash and cash equivalents                                              | \$         | \$ 255.0   | \$                        | \$ 58.1                       | \$                           | \$ 313.1   |
| Accounts receivable, net                                               |            | 637.4      | 8.5                       | 172.8                         | (231.4)                      | 587.3      |
| Inventory, net                                                         |            | 2,084.9    | 168.1                     | 239.9                         |                              | 2,492.9    |
| Deferred tax asset-current                                             |            | 60.5       |                           | 1.0                           |                              | 61.5       |
| Other current assets                                                   |            | 20.5       |                           | 3.8                           |                              | 24.3       |
| Total current assets                                                   |            | 3,058.3    | 176.6                     | 475.6                         | (231.4)                      | 3,479.1    |
| Property, plant and equipment, net                                     |            | 1,250.5    | 286.5                     | 180.9                         |                              | 1,717.9    |
| Property, plant and equipment related to Variable Interest Entity, net |            |            |                           | 0.1                           |                              | 0.1        |
| Pension assets                                                         |            | 76.1       |                           | 8.4                           |                              | 84.5       |
| Investment in subsidiary                                               | 1,016.5    | 281.4      |                           |                               | (1,297.9)                    |            |
| Equity in net assets of subsidiaries                                   | 1,055.8    | 57.9       |                           | 1.4                           | (1,113.7)                    | 1.4        |
| Deferred tax asset-non-current, net                                    |            | 169.0      |                           | (0.3)                         |                              | 168.7      |
| Other assets                                                           |            | 402.0      | 80.0                      | 21.5                          | (421.5)                      | 82.0       |
| Total assets                                                           | \$ 2,072.3 | \$ 5,295.2 | \$ 543.1                  | \$ 687.6                      | \$ (3,064.5)                 | \$ 5,533.7 |
| <b>Current liabilities</b>                                             |            |            |                           |                               |                              |            |
| Accounts payable                                                       | \$         | \$ 612.6   | \$ 154.0                  | \$ 162.4                      | \$ (230.9)                   | \$ 698.1   |
| Accounts payable related to Variable Interest Entity                   |            |            |                           | 0.5                           |                              | 0.5        |
| Accrued expenses                                                       |            | 208.7      | 1.3                       | 23.5                          |                              | 233.5      |
| Accrued expenses to Variable Interest Entity                           |            |            |                           | 0.7                           |                              | 0.7        |
| Profit sharing                                                         |            | 17.2       |                           | 1.0                           |                              | 18.2       |
| Current portion of long-term debt                                      |            | 6.4        |                           | 3.7                           |                              | 10.1       |
| Advance payments, short-term                                           |            | 87.6       |                           |                               |                              | 87.6       |
| Deferred revenue, short-term                                           |            | 16.3       |                           | 1.6                           |                              | 17.9       |
| Deferred grant income liability - current                              |            |            | 6.4                       | 1.1                           |                              | 7.5        |
| Other current liabilities                                              |            | 59.8       |                           | 2.5                           |                              | 62.3       |
| Total current liabilities                                              |            | 1,008.6    | 161.7                     | 197.0                         | (230.9)                      | 1,136.4    |

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|                                               |            |            |          |          |              |            |
|-----------------------------------------------|------------|------------|----------|----------|--------------|------------|
| Long-term debt                                |            | 1,141.7    | 80.0     | 283.1    | (341.5)      | 1,163.3    |
| Advance payments, long-term                   |            | 804.7      |          |          |              | 804.7      |
| Pension/OPEB obligation                       |            | 76.6       |          |          |              | 76.6       |
| Deferred grant income liability - non-current |            |            | 81.2     | 30.8     |              | 112.0      |
| Deferred revenue and other deferred credits   |            | 20.5       |          | 8.9      |              | 29.4       |
| Other liabilities                             |            | 198.8      |          | 20.2     | (80.0)       | 139.0      |
| Total equity                                  | 2,072.3    | 2,044.3    | 220.2    | 147.6    | (2,412.1)    | 2,072.3    |
| Total liabilities and shareholders equity     | \$ 2,072.3 | \$ 5,295.2 | \$ 543.1 | \$ 687.6 | \$ (3,064.5) | \$ 5,533.7 |

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, 2012**

|                                                                              | <b>Holdings</b> | <b>Spirit</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Total</b> |
|------------------------------------------------------------------------------|-----------------|---------------|-----------------------------------|---------------------------------------|--------------------------------------|--------------|
| <b>Current assets</b>                                                        |                 |               |                                   |                                       |                                      |              |
| Cash and cash equivalents                                                    | \$              | \$ 369.1      | \$                                | \$ 71.6                               | \$                                   | \$ 440.7     |
| Accounts receivable, net                                                     |                 | 513.2         | 13.7                              | 171.7                                 | (277.9)                              | 420.7        |
| Inventory, net                                                               |                 | 2,006.9       | 164.3                             | 239.7                                 | (0.1)                                | 2,410.8      |
| Deferred tax asset-current                                                   |                 | 57.1          |                                   |                                       |                                      | 57.1         |
| Other current assets                                                         |                 | 22.2          |                                   | 3.9                                   |                                      | 26.1         |
| Total current assets                                                         |                 | 2,968.5       | 178.0                             | 486.9                                 | (278.0)                              | 3,355.4      |
| Property, plant and equipment,<br>net                                        |                 | 1,221.1       | 289.3                             | 188.1                                 |                                      | 1,698.5      |
| Property, plant and equipment<br>related to Variable Interest<br>Entity, net |                 |               |                                   |                                       |                                      |              |
| Pension assets                                                               |                 | 69.9          |                                   | 8.5                                   |                                      | 78.4         |
| Investment in subsidiary                                                     | 1,013.7         | 281.4         |                                   |                                       | (1,295.1)                            |              |
| Equity in net assets of<br>subsidiaries                                      | 983.2           | 58.2          |                                   |                                       | (1,041.4)                            |              |
| Deferred tax asset- non-current,<br>net                                      |                 | 192.3         |                                   | (0.3)                                 |                                      | 192.0        |
| Other assets                                                                 |                 | 405.0         | 80.0                              | 27.5                                  | (421.5)                              | 91.0         |
| Total assets                                                                 | \$ 1,996.9      | \$ 5,196.4    | \$ 547.3                          | \$ 710.7                              | \$ (3,036.0)                         | \$ 5,415.3   |
| <b>Current liabilities</b>                                                   |                 |               |                                   |                                       |                                      |              |
| Accounts payable                                                             | \$              | \$ 616.3      | \$ 157.2                          | \$ 163.4                              | \$ (277.9)                           | \$ 659.0     |
| Accounts payable related to<br>Variable Interest Entity                      |                 |               |                                   |                                       |                                      |              |
| Accrued expenses                                                             |                 | 188.4         | 2.6                               | 25.3                                  |                                      | 216.3        |
| Accrued expenses related to<br>Variable Interest Entity                      |                 |               |                                   |                                       |                                      |              |
| Profit sharing                                                               |                 | 25.9          |                                   | 2.4                                   |                                      | 28.3         |
| Current portion of long-term<br>debt                                         |                 | 6.6           |                                   | 3.7                                   |                                      | 10.3         |
| Advance payments, short-term                                                 |                 | 70.7          |                                   |                                       |                                      | 70.7         |
| Deferred revenue, short-term                                                 |                 | 16.6          |                                   | 1.8                                   |                                      | 18.4         |
| Deferred grant income liability -<br>current                                 |                 |               | 5.7                               | 1.2                                   |                                      | 6.9          |
| Other current liabilities                                                    |                 | 52.6          |                                   | 4.5                                   |                                      | 57.1         |
| Total current liabilities                                                    |                 | 977.1         | 165.5                             | 202.3                                 | (277.9)                              | 1,067.0      |
| Long-term debt                                                               |                 | 1,142.9       | 80.0                              | 284.5                                 | (341.5)                              | 1,165.9      |

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|                                               |            |            |          |          |              |            |
|-----------------------------------------------|------------|------------|----------|----------|--------------|------------|
| Advance payments, long-term                   | 833.6      |            |          |          |              | 833.6      |
| Pension/OPEB obligation                       | 75.6       |            |          |          |              | 75.6       |
| Deferred grant income liability - non-current |            | 83.3       | 33.3     |          |              | 116.6      |
| Deferred revenue and other deferred credits   | 21.1       |            | 9.7      |          |              | 30.8       |
| Other liabilities                             | 189.3      |            | 19.6     | (80.0)   |              | 128.9      |
| Total equity                                  | 1,996.9    | 1,956.8    | 218.5    | 161.3    | (2,336.6)    | 1,996.9    |
| Total liabilities and shareholders equity     | \$ 1,996.9 | \$ 5,196.4 | \$ 547.3 | \$ 710.7 | \$ (3,036.0) | \$ 5,415.3 |

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**Spirit AeroSystems Holdings, Inc.**
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

**Condensed Consolidating Statements of Cash Flows**
**For the Three Months Ended March 28, 2013**

|                                                                  | Holdings | Spirit    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total     |
|------------------------------------------------------------------|----------|-----------|---------------------------|-------------------------------|------------------------------|-----------|
| <b>Operating activities</b>                                      |          |           |                           |                               |                              |           |
| Net cash provided by (used in) operating activities              | \$ 81.2  | \$ (42.1) | \$ 2.5                    | \$ (5.8)                      | \$ (81.2)                    | \$ (45.4) |
| <b>Investing activities</b>                                      |          |           |                           |                               |                              |           |
| Purchase of property, plant and equipment                        |          | (68.0)    | (2.5)                     | (3.9)                         |                              | (74.4)    |
| Purchase of property, plant and equipment - severe weather event |          | (5.8)     |                           |                               |                              | (5.8)     |
| Proceeds from sale of assets                                     |          | 0.1       |                           |                               |                              | 0.1       |
| Consolidation of Variable Interest Entity                        |          |           |                           | 2.1                           |                              | 2.1       |
| Equity in net assets of subsidiaries                             | (81.2)   |           |                           |                               | 81.2                         |           |
| Other                                                            |          | 3.4       |                           | (3.4)                         |                              |           |
| Net cash provided by (used in) investing activities              | (81.2)   | (70.3)    | (2.5)                     | (5.2)                         | 81.2                         | (78.0)    |
| <b>Financing activities</b>                                      |          |           |                           |                               |                              |           |
| Principal payments of debt                                       |          | (1.7)     |                           | (0.9)                         |                              | (2.6)     |
| Net cash provided by (used in) financing activities              |          | (1.7)     |                           | (0.9)                         |                              | (2.6)     |
| Effect of exchange rate changes on cash and cash equivalents     |          |           |                           | (1.6)                         |                              | (1.6)     |
| Net (decrease) in cash and cash equivalents for the period       |          | (114.1)   |                           | (13.5)                        |                              | (127.6)   |
| Cash and cash equivalents, beginning of period                   |          | 369.1     |                           | 71.6                          |                              | 440.7     |
| Cash and cash equivalents, end of period                         | \$       | \$ 255.0  | \$                        | \$ 58.1                       | \$                           | \$ 313.1  |

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**Spirit AeroSystems Holdings, Inc.**
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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

**Condensed Consolidating Statements of Cash Flows**
**For the Three Months Ended March 29, 2012**

|                                                                  | Holdings | Spirit  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Total    |
|------------------------------------------------------------------|----------|---------|---------------------------|-------------------------------|------------------------------|----------|
| <b>Operating activities</b>                                      |          |         |                           |                               |                              |          |
| Net cash provided by (used in) operating activities              | \$ 73.9  | \$ 45.6 | \$ 1.6                    | \$ (35.6)                     | \$ (73.9)                    | \$ 11.6  |
| <b>Investing activities</b>                                      |          |         |                           |                               |                              |          |
| Purchase of property, plant and equipment                        |          | (42.6)  | (1.6)                     | (10.0)                        |                              | (54.2)   |
| Insurance proceeds for investing purposes - severe weather event |          |         |                           |                               |                              |          |
| Proceeds from the sale of assets                                 |          |         |                           | 1.3                           |                              | 1.3      |
| Consolidation of Variable Interest Entity                        |          |         |                           |                               |                              |          |
| Equity in net assets of subsidiaries                             | (73.9)   |         |                           |                               | 73.9                         |          |
| Other                                                            |          | (0.4)   |                           | (0.3)                         |                              | (0.7)    |
| Net cash provided by (used in) investing activities              | (73.9)   | (43.0)  | (1.6)                     | (9.0)                         | 73.9                         | (53.6)   |
| <b>Financing activities</b>                                      |          |         |                           |                               |                              |          |
| Proceeds from revolving credit facility                          |          | 120.0   |                           |                               |                              | 120.0    |
| Payments on revolving credit facility                            |          | (120.0) |                           |                               |                              | (120.0)  |
| Principal payments of debt                                       |          | (1.7)   |                           | (0.8)                         |                              | (2.5)    |
| Collection on (repayment of) intercompany debt                   |          | (19.5)  |                           | 19.5                          |                              |          |
| Excess tax benefits from share-based payment arrangements        |          | 0.1     |                           |                               |                              | 0.1      |
| Net cash provided by (used in) financing activities              |          | (21.1)  |                           | 18.7                          |                              | (2.4)    |
| Effect of exchange rate changes on cash and cash equivalents     |          |         |                           | 0.7                           |                              | 0.7      |
| Net (decrease) in cash and cash equivalents for the period       |          | (18.5)  |                           | (25.2)                        |                              | (43.7)   |
| Cash and cash equivalents, beginning of period                   |          | 106.7   |                           | 71.1                          |                              | 177.8    |
| Cash and cash equivalents, end of period                         | \$       | \$ 88.2 | \$                        | \$ 45.9                       | \$                           | \$ 134.1 |

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**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 may, will, should, expect, anticipate, intend, believe, project, continue, plan, forecast, or other similar words. 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, 2012 (our 2012 Form 10-K), filed with the SEC on March 1, 2013. 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 19, 2013, the Federal Aviation Administration (FAA) approved battery system improvements for the Boeing B787 aircraft. The approval allows Boeing and its customers to install the approved modifications and will lead to a return of service and resumption of new production deliveries for the program following an emergency airworthiness directive which grounded the commercial fleet in January 2013.

On April 16, 2013, Spirit was notified that issues relating to the earlier loss of government production approval at our St. Nazaire facility had been rectified and that this approval had been re-instated.

On April 4, 2013, Michael G. King, Executive Vice President and Chief Operations Officer of Spirit notified Spirit of his decision to retire from Spirit in the summer of 2013. He will remain an employee of Spirit through his retirement date, which will be determined with specificity after further consultation with our Chief Executive Officer.

On March 19, 2013, the Board of Directors named Larry A. Lawson our president and chief executive officer, effective April 6, 2013. Mr. Lawson, formerly Executive Vice President of Lockheed Martin's Aeronautics business segment, succeeds Jeffrey L. Turner, who has been Spirit's President and Chief Executive Officer since the Company's formation in 2005. Mr. Turner remains on the Company's board of directors.

**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 fuselages, propulsion systems and wing systems for commercial and military aircraft. For the three months ended March 28, 2013, we generated net revenues of \$1,442.2 million and net income of \$81.2 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 50%, 26%, 24% and less than 1%, respectively, of our net revenues for the three months ended March 28, 2013.

#### **New Programs**

We are currently performing work on several new programs, which are in various stages of development. The G280 and G650 aircraft received FAA Type Certification during the third quarter of 2012, with both programs making deliveries to the final customer by the end of 2012. The Boeing B787-8 and Boeing B747-8 have each received FAA and JAA certifications, as well as EASA certification for entry into service, and each of these Boeing programs has made aircraft deliveries to the end customer. We have

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delivered seven revenue-generating test articles on the Sikorsky CH-53K helicopter program, including our delivery of the final test article during the first quarter of 2013.

**A350 XWB**

We continue to support the development of the A350 XWB program through a wing contract and a fuselage contract, both of which are segmented into a non-recurring design engineering phase and recurring production phase. During the first quarter of 2013, we recorded a negative cumulative catch-up adjustment of \$6.7 million on the A350 XWB fuselage non-recurring contract reflecting higher costs as we work to close out the engineering work on the A350 XWB-900 model. We reduced A350 XWB fuselage recurring and A350 XWB wing recurring program margins to break-even to reflect an appropriate level of conservatism based on the risk profile of these programs. While we have now substantially completed the engineering and design for the first model for both the wing and fuselage, we still have yet to design the next derivative model which is a major element of the non-recurring contracts for both the fuselage and wing contracts. Unexpected delays in the completion of the design engineering, significant changes to the design as a result of test or other requirements changes, or delays in delivery schedule could result in additional forward losses on the non-recurring wing and fuselage elements of the program and additional cost pressure on the recurring elements of this program. Although we have projected the wing and fuselage recurring production contracts to be break-even, there is still a substantial amount of risk similar to what we have experienced on other development programs. Particularly, our ability to manage risks related to supply chain contracting, supplier performance, execution of cost reduction strategies, hiring and retaining skilled production and management personnel, quality and manufacturing execution and program schedule delays among other risks, will determine the ultimate performance of these programs.

Our A350 XWB Section 15 assembly has experienced various production delays and performance-related issues mostly driven by engineering change to the aircraft design. On April 16, 2013, our government production approval at our St. Nazaire facility, which had been suspended in late 2012, was restored. The suspension did not impact our ability to perform under our A350 XWB contract. Airbus is assisting us to work through these issues and has provided additional resources to work alongside our personnel. While we have not incurred any specific charges for this assistance to date, there could be additional cost associated with this at some point in the future and those amounts could be significant depending on the work scope, duration of assistance and the allocation of responsibility.

**B787 Program**

As we move into higher production, our performance at the current contracted price depends on our being able to achieve production cost reductions as we gain production experience. During the first quarter of 2013, we continued to experience production inefficiencies as we transitioned to production on the B787-9 derivative. Accordingly, we recorded a \$15.3 million forward loss on the B787 wing program for the three months ended March 28, 2013.

We do not yet have established pricing for the Boeing B787-9 or any future derivatives, though the B787 Supply Agreement provides for methodologies to negotiate pricing. Our ability to successfully negotiate fair and equitable prices for these models is a key factor in achieving the projected financial performance for this program.

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On January 16, 2013, following two recent incidents with the B787 involving lithium ion battery failures, the Federal Aviation Administration (FAA) issued an emergency airworthiness directive to address a potential battery fire risk and to require airlines to temporarily cease operations, and caused Boeing to suspend deliveries of the B787 aircraft. Following the FAA's directive, civil aviation authorities in several other jurisdictions took similar action to cover the fleets operating in their jurisdictions. On April 19, 2013, FAA approved battery system improvements for the B787 aircraft. The approval allows Boeing and its customers to install the approved modifications and will lead to a return of service and resumption of new production deliveries for the B787 program. These events did not result in any production delays, and in the first quarter of 2013, we delivered seventeen B787 units to Boeing.

### ***G280 and G650 Programs***

The Gulfstream G650 and G280 programs face near term risks that include achieving supply chain cost reductions, as well as successful performance to manufacturing plans. The G650 program has significant near term risk as we work with our customer to resolve certain commercial issues related to Gulfstream's contention that delivered units failed to meet schedule and weight requirements. Failure to achieve projected cost reductions and, in the case of the G650, failure to successfully resolve commercial issues with Gulfstream, could result in the need to record additional forward losses on these programs.

### ***General Statement Regarding New Programs***

The remainder of 2013 will be a critical time for all of our new programs, including the Rolls-Royce BR725 program, as we either manufacture the initial units or progress through low-rate production, which will establish baseline performance for the recurring cost structure. We have decided to undertake a comprehensive strategic and financial review of our development programs in Tulsa, Wichita, Kinston, and St. Nazaire. Recognition of forward losses in future periods continues to be a significant risk and will depend upon several factors including the results of our comprehensive review of certain development programs, our market forecast, possible airplane program delays, our ability to successfully perform under revised design and manufacturing plans, achievement of forecasted cost reductions as we enter into production and our ability to successfully resolve claims and assertions with our customers and suppliers.

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## Results of Operations

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

|                                                                       | Three<br>Months<br>Ended<br>March 28, 2013 | Three<br>Months<br>Ended<br>March 29, 2012 | Percentage<br>Change<br>to Prior Year |
|-----------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|---------------------------------------|
|                                                                       | (\$ in millions)                           |                                            |                                       |
| Net revenues                                                          | \$ 1,442.2                                 | \$ 1,265.8                                 | 14%                                   |
| <b>Operating costs and expenses</b>                                   |                                            |                                            |                                       |
| Cost of sales                                                         | 1,237.1                                    | 1,091.1                                    | 13%                                   |
| Selling, general and administrative expenses                          | 44.3                                       | 45.0                                       | (2)%                                  |
| Severe weather event                                                  | 8.8                                        |                                            | NA                                    |
| Research and development                                              | 7.5                                        | 7.4                                        | 1%                                    |
| Operating (loss) income                                               | 144.5                                      | 122.3                                      | 18%                                   |
| Interest expense and financing fee amortization                       | (17.6)                                     | (18.3)                                     | (4)%                                  |
| Interest income                                                       | 0.1                                        |                                            | 0%                                    |
| Other income (expense), net                                           | (9.9)                                      | 3.5                                        | (383)%                                |
| (Loss) income before income taxes and equity in net loss of affiliate | 117.1                                      | 107.5                                      | 9%                                    |
| Income tax benefit (provision)                                        | (35.7)                                     | (33.6)                                     | 6%                                    |
| Income before equity in net (loss) of affiliate                       | 81.4                                       | 73.9                                       | 10%                                   |
| Equity in net loss of affiliate                                       | (0.2)                                      | (0.3)                                      | (33)%                                 |
| Net (loss) income                                                     | \$ 81.2                                    | \$ 73.6                                    | 10%                                   |

Comparative ship set deliveries by model are as follows:

| Model                  | Three Months<br>Ended<br>March 28, 2013 | Three Months<br>Ended<br>March 29, 2012 |
|------------------------|-----------------------------------------|-----------------------------------------|
| B737                   | 106                                     | 105                                     |
| B747                   | 6                                       | 5                                       |
| B767                   | 6                                       | 7                                       |
| B777                   | 24                                      | 21                                      |
| B787                   | 17                                      | 8                                       |
| Total Boeing           | 159                                     | 146                                     |
| A320 Family            | 121                                     | 112                                     |
| A330/340               | 27                                      | 25                                      |
| A350                   | 2                                       | 1                                       |
| A380                   | 7                                       | 7                                       |
| Total Airbus           | 157                                     | 145                                     |
| Business/Regional Jets | 20                                      | 12                                      |
| Total                  | 336                                     | 303                                     |

For purposes of measuring production or ship set deliveries for Boeing aircraft in a given period, the term "ship set" refers to sets of structural fuselage components produced or delivered for one aircraft in such period. For purposes of measuring production or ship set deliveries for

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Airbus and Business/Regional Jet aircraft in a given period, the term "ship set" refers to all structural aircraft components produced or delivered for one aircraft in such period. Other components which are part of the same aircraft ship sets could be produced or shipped in earlier or later accounting periods than the components used to measure production or ship set deliveries, which may result in slight variations in production or delivery quantities of the various ship set components in any given period.

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Net revenues by prime customer are as follows:

| Prime Customer     | Three Months<br>Ended<br>March 28, 2013 | Three Months<br>Ended<br>March 29, 2012 |
|--------------------|-----------------------------------------|-----------------------------------------|
| Boeing             | \$ 1,226.7                              | \$ 1,056.7                              |
| Airbus             | 139.7                                   | 121.4                                   |
| Gulfstream         | 30.8                                    | 23.3                                    |
| Sikorsky           | 2.5                                     | 9.9                                     |
| Other              | 42.5                                    | 54.5                                    |
| Total net revenues | \$ 1,442.2                              | \$ 1,265.8                              |

***Three Months Ended March 28, 2013 as Compared to Three Months Ended March 29, 2012***

**Net Revenues.** Net revenues for the three months ended March 28, 2013 were \$1,442.2 million, an increase of \$176.4 million, or 14%, compared with net revenues of \$1,265.8 million for the same period in the prior year. The increase in net revenues in 2013 as compared to 2012 was primarily due to approximately \$182.0 million of higher production volume driven by customer delivery schedules and an increase of approximately \$6.7 million in non-recurring revenue, offset by a decrease of approximately \$15.5 million in aftermarket volume. Non-recurring revenues, which includes design and development efforts, increased during 2013 primarily due to increased efforts on the B737, B767, and B787. Deliveries to Boeing increased by 9% to 159 ship sets during 2013, compared to 146 ship sets delivered in the prior year, as ship set deliveries increased across all Boeing programs, driven by customer delivery schedules. Deliveries to Airbus increased by 8% to 157 ship sets during 2013, compared to 145 ship sets delivered in the prior year, driven by higher customer delivery schedules. In total, ship set deliveries increased 11% to 336 ship sets in 2013, compared to 303 ship sets for the same period in the prior year. Approximately 95% of Spirit's net revenues for the first quarter of 2013 came from our two largest customers, Boeing and Airbus.

**Cost of Sales.** Cost of sales as a percentage of net revenues was 86% for each of the three month periods ended March 28, 2013 and March 29, 2012. The first quarter of 2013 reflects net positive cumulative catch-up adjustments, partially offset by forward loss charges of \$15.3 million on the B787 wing program. During the first quarter of 2013, we recorded a favorable \$20.3 million cumulative catch-up adjustment related to periods prior to 2013, primarily driven by productivity and efficiency on core programs, partially offset by negative cumulative catch-up adjustments on the A350 recurring and non-recurring programs. In comparison, in the same period of 2012, we recorded a \$2.7 million forward loss charge on the B747-8, a \$10.7 million forward loss charge on the G280 wing program, and a \$1.0 million charge in early retirement incentives, as well as an unfavorable \$0.1 million cumulative catch-up adjustment related to periods prior to 2012.

**SG&A, Research and Development.** Combined SG&A and Research and Development costs as a percentage of net revenues was 4% for the three months ended March 28, 2013, which was consistent with the same period in the prior year. Overall, SG&A expense decreased \$0.7 million for the three months ended March 28, 2013 compared to the same period in 2012. Research and development expenses for the three months ended March 28, 2013 were up \$0.1 million compared to the same period in the prior year.

**Impact of Severe Weather Event.** For the three months ended March 28, 2013, the Company recorded severe weather event costs of \$8.8 million, which represents continuing incremental freight, warehousing and other costs related to the April 14, 2012 severe weather event at our Wichita, Kansas facility. These costs are recorded as incurred. The Company's estimate of these future expenditures is likely to change as the Company evaluates different repair and build-back options.

*Operating Income.* Operating income for the three months ended March 28, 2013 was \$144.5 million, which was \$22.2 million higher than operating income of \$122.3 million for the same period in the prior year. The increase in operating income for the first quarter of 2013 was favorably impacted by higher production and a net positive cumulative catch-up adjustment of \$20.3 million, partially offset by forward loss charges of \$15.3 million recorded on the B787 wing program compared to the \$13.4 million of forward losses recorded in the same period of 2012.

*Interest Expense and Financing Fee Amortization.* Interest expense and financing fee amortization for the three months ended March 28, 2013 includes \$16.1 million of interest and fees paid or accrued in connection with long-term debt and \$1.5 million in amortization of deferred financing costs, as compared to \$16.7 million of interest and fees paid or accrued in connection with long-term debt and \$1.6 million in amortization of deferred financing costs for the same period in the prior year.

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*Other Income (Expense), net.* Other income (expense), net for the three months ended March 28, 2013 amounted to a net expense of \$9.9 million, which primarily reflects a net loss of \$10.0 million on foreign exchange rates for intercompany activity and borrowings, compared to income of \$3.5 million for the same period in the prior year. The primary driver for the expense in 2013 was the strengthening of the US dollar against the British pound sterling.

*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 28, 2013 includes \$32.4 million for federal taxes, \$3.7 million for state taxes and \$(0.4) million for foreign taxes. The income tax provision for the three months ended March 29, 2012 includes \$31.0 million for federal taxes, \$1.0 million for state taxes and \$1.6 million for foreign taxes. The 2013 effective tax rate was 30.5% as compared to 31.3% for 2012. The difference in the effective tax rate recorded for 2013 as compared to 2012 related primarily to adjusting the valuation allowance on certain state income tax credits and the effect of recognizing the 2012 and 2013 U.S. Research Tax Credit. The decrease from the U.S. statutory tax rate is attributable primarily to the U.S. Research Tax Credit, qualified domestic production activities deduction and state income tax credits.

On January 2, 2013, the President signed legislation retroactively extending the U.S. Research Tax Credit for two years, from January 1, 2012 through December 21, 2013. Our income tax expense for 2013 reflects the entire benefit of the Research Tax Credit attributable to 2012, which is estimated at \$5.4 million and the benefit of the 2013 Research Tax Credit.

*Segments.* The following table shows segment revenues and operating income for the three months ended March 28, 2013 and March 29, 2012:

|                                            | Three Months Ended |                   |
|--------------------------------------------|--------------------|-------------------|
|                                            | March 28,<br>2013  | March 29,<br>2012 |
| <b>Segment Revenues</b>                    |                    |                   |
| Fuselage Systems                           | \$ 717.9           | \$ 622.6          |
| Propulsion Systems                         | 375.3              | 344.0             |
| Wing Systems                               | 343.3              | 296.6             |
| All Other                                  | 5.7                | 2.6               |
|                                            | \$ 1,442.2         | \$ 1,265.8        |
| <b>Segment Operating Income (Loss)</b>     |                    |                   |
| Fuselage Systems                           | \$ 121.4           | \$ 88.1           |
| Propulsion Systems                         | 65.3               | 58.3              |
| Wing Systems (1)                           | 18.2               | 20.8              |
| All Other                                  | 1.6                | 0.2               |
|                                            | 206.5              | 167.4             |
| Unallocated corporate SG&A                 | (39.6)             | (40.7)            |
| Unallocated impact of severe weather event | (8.8)              |                   |
| Unallocated research and development       | (1.8)              | (1.1)             |
| Unallocated cost of sales(2)               | (11.8)             | (3.3)             |
| <b>Total operating income (loss)</b>       | <b>\$ 144.5</b>    | <b>\$ 122.3</b>   |

(1) For 2013, net of \$15.3 million forward loss charge recorded for the B787 wing program. For 2012, net of \$2.7 million and \$10.7 million forward loss charges recorded for the B747-8 and G280 wing programs, respectively.

(2) For 2013, includes a warranty reserve of \$10.0 million and \$1.8 million related to early retirement incentives to eligible employees. For 2012, includes \$2.3 million reclassified from segment operating income to unallocated cost of sales to conform to current year presentation and charges of \$1.0 million related to early retirement incentives to eligible employees.

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Fuselage Systems, Propulsion Systems, Wing Systems and All Other represented approximately 50%, 26%, 24% and less than 1%, respectively, of our net revenues for the three months ended March 28, 2013.

*Fuselage Systems.* Fuselage Systems segment net revenues for the three months ended March 28, 2013 were \$717.9 million, an increase of \$95.3 million, or 15%, compared to the same period in the prior year. The increase was primarily due to recurring net revenue increases on the B737, B777 and B787. Non-recurring net revenue, which includes design and development efforts, increased in 2013 on the B737 and B767, partially offset by reduced design and developmental effort on the A350 XWB non-recurring program. Fuselage Systems posted segment operating margins of 17% for the three months ended March 28, 2013, up from 14% for the same period in the prior year. Improved segment operating margins were primarily driven by higher production volume due to rate increases on several Boeing programs with favorable margins and improved productivity and efficiency performance on our core programs. In the first quarter of 2013, the segment recognized a favorable cumulative catch-up adjustment related to periods prior to 2013 of \$11.0 million, driven by productivity and efficiency on core programs. In comparison, during the first quarter of 2012, the segment recognized a \$5.5 million unfavorable cumulative catch-up adjustment related to periods prior to 2012.

*Propulsion Systems.* Propulsion Systems segment net revenues for the three months ended March 28, 2013 were \$375.3 million, an increase of \$31.3 million, or 9%, compared to the same period in the prior year. The increase in net revenues was primarily driven by higher production volume on Boeing and Airbus models and increased non-recurring efforts on the B737. Propulsion Systems posted segment operating margins of 17% for the three months ended March 28, 2013, consistent with segment operating margins for the same period in the prior year. In the first quarter of 2013, the segment recognized a favorable cumulative catch-up adjustment related to periods prior to 2013 of \$9.7 million, driven by productivity and efficiency on core programs. In comparison, during the first quarter of 2012, the segment recognized a \$3.6 million favorable cumulative catch-up adjustment related to periods prior to 2012.

*Wing Systems.* Wing Systems segment net revenues for the three months ended March 28, 2013 were \$343.3 million, an increase of \$46.7 million, or 16%, compared to the same period in the prior year. The increase in net revenues was primarily driven by higher production volume on core Boeing and Airbus models, partially offset by reduced non-recurring revenue on the B787 wing program. Wing Systems posted segment operating margins of 5% for the three months ended March 28, 2013, a decrease from segment operating margins of 7% for the same period in the previous year. In the first quarter of 2013, the segment recorded a forward loss charge of \$15.3 million on the B787 wing program as well as an unfavorable cumulative catch-up adjustment of \$0.4 million. In comparison, during the first three months of 2012, the segment recorded forward loss charges of \$2.7 million on the B747-8 program and \$10.7 million on the G280 program, partially offset by a favorable cumulative catch-up adjustment related to periods prior to 2012 of \$1.8 million.

*All Other.* All Other segment net revenues consist of sundry sales of miscellaneous services, tooling contracts and revenues from KIESC. In the three months ended March 28, 2013, All Other segment net revenues were \$5.7 million, an increase of \$3.1 million, as compared to the same period in the prior year. The increase in net revenues was primarily driven by an increase in tooling sales. The All Other segment recorded 28% operating margins for the three months ended March 28, 2013, up from segment operating margins of 8% for the same period in the prior year driven by additional sundry sales with increased margins.

**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, during 2012, we received insurance proceeds from insurers in connection with the severe weather event. 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 ten to twenty years of recurring production. 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 are typically 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. Occasionally, we have utilized borrowings and other sources of cash to fund non-recurring investments during periods where cash received from our customers is not adequate to fund our purchase commitments. 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.

As of March 28, 2013, we had \$313.1 million of cash and cash equivalents on the balance sheet and \$650.0 million of available borrowing capacity under our revolving credit facility. During the first quarter of 2013 there were no borrowings under our revolving credit facility and there were no outstanding balances under our revolving credit facility as of March 28, 2013. 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

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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.

## Cash Flows

The following table provides a summary of our cash flows for the three months ended March 28, 2013 and March 29, 2012:

|                                                             | For the Three Months Ended |                |
|-------------------------------------------------------------|----------------------------|----------------|
|                                                             | March 28, 2013             | March 29, 2012 |
|                                                             | (\$ in millions)           |                |
| Net income                                                  | \$ 81.2                    | \$ 73.6        |
| Adjustments to reconcile net income                         | 69.8                       | 39.4           |
| Changes in working capital                                  | (196.4)                    | (101.4)        |
| Net cash (used in) provided by operating activities         | (45.4)                     | 11.6           |
| Net cash (used in) investing activities                     | (78.0)                     | (53.6)         |
| Net cash (used in) financing activities                     | (2.6)                      | (2.4)          |
| Effect of exchange rate change on cash and cash equivalents | (1.6)                      | 0.7            |
| Net (decrease) in cash and cash equivalents for the period  | (127.6)                    | (43.7)         |
| Cash and cash equivalents, beginning of period              | 440.7                      | 177.8          |
| Cash and cash equivalents, end of period                    | \$ 313.1                   | \$ 134.1       |

## Three Months Ended March 28, 2013 as Compared to Three Months Ended March 29, 2012

**Operating Activities.** For the three months ended March 28, 2013, we had a net cash outflow of \$45.4 million from operating activities, a decrease of \$57.0 million, compared to a net cash inflow of \$11.6 million for the same period in the prior year. During the first quarter of 2013, net cash used in operating activities was primarily driven by inventory build and the timing of vendor payments and receivables from customers. In comparison, for the same period in the prior year, net cash inflow from operating activities was primarily due to the receipt of a \$150.0 million advance payment associated with an agreement on the A350 XWB fuselage program, offset by inventory build and the timing of vendor payments and receivables from customers.

We continue to invest in inventory for new programs and additional production costs for ramp-up activities in support of increasing build rates on several mature Boeing and Airbus programs. During the first quarter of 2013, working capital for new programs, including the B787, A350 XWB and Gulfstream programs, increased \$94.5 million, compared to an increase of \$123.9 million for the same period in the prior year. Additionally, working capital for mature Boeing and Airbus programs, including costs associated with announced increasing build rates on mature programs, was approximately \$38.7 million, compared to an increase of \$7.4 million for the same period in the prior year. These activities were funded through cash flows from operations, including receivables from customers and customer advances.

**Investing Activities.** For the three months ended March 28, 2013, we had a net cash outflow of \$78.0 million from investing activities, an increase in outflow of \$24.4 million compared to a net cash outflow of \$53.6 million for the same period in the prior year. In the first quarter of 2013, capital expenditures consisted of tooling and machinery and equipment to support the increasing production rates on the B737, B777, and B787 programs. In comparison, in the first quarter of 2012, the capital expenditure purchases included tooling and machinery and equipment for

the manufacturing of our A350 XWB and B787 programs.

*Financing Activities.* For the three months ended March 28, 2013, we had a net cash outflow of \$2.6 million from financing activities, an increase in outflow of \$0.2 million, compared to a net cash outflow of \$2.4 million for the same period in the prior year.

***Future Cash Needs and Capital Spending***

Our primary future cash needs will consist of working capital, repair and recovery expenses related to the April 2012 severe weather event, debt service, research and development and capital expenditures. 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 programs, including the B737. We also require capital to develop new technologies for the next generation of aircraft and are evaluating various plans to relieve capacity constraints for the announced customer production rate increases. Capital expenditures during the first quarter of 2013 totaled approximately \$80.2 million, which includes \$5.8 million in costs from the severe weather event. Excluding the impact of the severe weather event, capital expenditures totaled

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approximately \$74.4 for the three months ended March 28, 2013, as compared to \$54.2 million for the first quarter of 2012. While the Company continues to assess the impact of the severe weather event damage, we anticipate that tornado-related capital spending will be limited to insurance proceeds recovered. We plan to fund future capital expenditures and cash requirements from cash on hand, cash generated by operations, customer cash advances, insurance proceeds and borrowings available under our revolving credit facility.

*Insurance Recovery.* On October 19, 2012, the Company reached an agreement with its insurers on a final settlement for all claims relating to the April 14, 2012 severe weather event. Under the terms of this settlement, the insurers agreed to pay the Company \$234.9 million (less \$105.0 million in cash advance payments previously paid to the Company in the second quarter of 2012) to resolve all property damage, clean-up and recovery costs related to the severe weather event as well as all expenses incurred to make up for the interruption of production and to reduce further disruptions. As of December 31, 2012, the Company had received the entire settlement amount that the insurers agreed to pay. Under the settlement agreement, the Company assumes all future risk involving the severe weather event. In accordance with the credit agreement, the Company provided a certificate to its lenders indicating that all net proceeds received in connection with destruction caused by the severe weather event would be used for repair, replacement or restoration at the Wichita facility. Any insurance proceeds not used for repair, replacement or restoration at the Wichita facility within two years of receipt will be applied to prepayment of our senior secured credit facility.

While the Company believes that most past and future charges relating to the severe weather event will be offset by the insurance settlement there can be no assurance that complete offsetting will occur.

***Pension and Other Post Retirement Benefit Obligations***

Our U.S. pension plan remained fully funded at March 28, 2013 and we anticipate non-cash pension income for 2013 to remain at or near the same level as 2012. 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. We continue to make contributions to our U.K. pension plan. Our projected contributions to the U.K. pension plan for 2013 are \$8.8 million.

***Debt and Other Financing Arrangements***

*Senior Secured Credit Facilities.* On April 18, 2012, Spirit entered into a \$1.2 billion senior secured Credit Agreement (the "Credit Agreement") consisting of a \$650.0 million revolving credit facility and a \$550.0 million term loan B facility. The Credit Agreement refinanced and replaced the Second Amended and Restated Credit Agreement dated as of November 27, 2006, as amended. Proceeds of the new term loan were used to pay off outstanding amounts under the prior credit agreement. The revolving credit facility matures April 18, 2017 and bears interest, at Spirit's option, at either LIBOR, or a defined base rate plus an applicable margin based on Spirit's debt-to-EBITDA ratio (see table below). The term loan matures April 18, 2019 and bears interest, at Spirit's option, at LIBOR plus 3.00% with a LIBOR floor of 0.75% or base rate plus 2.00%, subject to a step down to LIBOR plus 2.75% or base rate plus 1.75%, as applicable, in the event Spirit's secured debt-to-EBITDA ratio is below 1:1 at any time after 2012. Substantially all of Spirit's assets, including inventory and property, plant and equipment, were pledged as collateral for both the term loan and the revolving credit facility. As of March 28, 2013, the outstanding balance of the term loan was \$544.5 million and the carrying amount of the term loan was \$542.1 million. The amount outstanding under the revolving credit facility was zero as of March 28, 2013.

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In addition to paying interest on outstanding principal under the Credit Agreement, Spirit is required to pay an unused line fee on the unused portion of the commitments under the revolving credit facility based on Spirit's debt-to-EBITDA ratio (see table below). Spirit is required to pay letter of credit fees equal to the applicable margin for LIBOR rate revolving credit borrowings with respect to letters of credit issued under the revolving credit facility (see table below). Spirit is also required to pay to the issuing banks that issue any letters of credit, letter of credit fronting fees in respect of letters of credit at a rate equal to twenty basis points per year, and to the administrative agent thereunder customary administrative fees.

| Pricing Tier | Debt-to-EBITDA Ratio  | Commitment Fee | Letter of Credit Fee | Eurodollar Rate Loans | Base Rate Loans |
|--------------|-----------------------|----------------|----------------------|-----------------------|-----------------|
| 1            | ≥ 3.0:1               | 0.450%         | 2.50%                | 2.50%                 | 1.50%           |
| 2            | < 3.0:1 but ≥ 2.25:1  | 0.375%         | 2.25%                | 2.25%                 | 1.25%           |
| 3            | < 2.25:1 but ≥ 1.75:1 | 0.300%         | 2.00%                | 2.00%                 | 1.00%           |
| 4            | < 1.75:1              | 0.250%         | 1.75%                | 1.75%                 | 0.75%           |

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At March 28, 2013, the Company's debt-to-EBITDA ratio was 4.12:1.0, resulting in applicable margins under the revolving credit facility, which will go into effect upon delivery of a quarterly compliance certificate, of 2.5% and 1.5% on Eurodollar and base rate loans, respectively, and commitment fees on the undrawn portion of the revolving credit facility and letter of credit fees of 0.45% and 2.5%, respectively.

The Credit Agreement contains customary affirmative and negative covenants, including restrictions on indebtedness, liens, type of business, acquisitions, investments, sales or transfers of assets, payments of dividends, transactions with affiliates, change in control and other matters customarily restricted in such agreements. The Credit Agreement also contained the following financial covenants (as defined in the Credit Agreement):

|                               |                                |
|-------------------------------|--------------------------------|
| Senior Secured Leverage Ratio | Shall not exceed 2.75:1.0      |
| Interest Coverage Ratio       | Shall not be less than 4.0:1.0 |
| Total Leverage Ratio          | Shall not exceed 4.0:1.0       |

To address the forward loss charges that the Company recognized in the third quarter of 2012, the Company amended the Credit Agreement effective October 26, 2012. The amendment resulted in a revision of the quarterly financial covenant ratios. No event of default has occurred and the Company was in full compliance as of March 28, 2013. The amended ratios are illustrated in the table below:

|                               | Q1 2013 | Q2 2013 | Thereafter |
|-------------------------------|---------|---------|------------|
| Senior Secured Leverage Ratio | 3.25    | 2.75    | 2.75       |
| Interest Coverage Ratio       | 2.25    | 3.00    | 4.00       |
| Total Leverage Ratio          | 6.00    | 4.75    | 4.00       |

Additionally, the amendment increased the time the Company has to apply the proceeds from the insurance settlement in connection with the severe weather event against expenses resulting from the event from 12 months to 24 months before the proceeds may be considered eligible for prepayment against the senior secured credit facility.

*Senior Notes.* On November 18, 2010, we issued \$300.0 million aggregate 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 28, 2013.

On September 30, 2009, we issued \$300.0 million of 7.50% Senior Notes due October 1, 2017 (the "2017 Notes"), with interest payable, in cash in arrears, on April 1 and October 1 of each year, beginning April 1, 2010. The 2017 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 2017 Notes was \$295.8 million as of March 28, 2013.

As of March 28, 2013, we were and expect to remain in full compliance with all covenants contained in the indentures governing the 2020 Notes and the 2017 Notes for the foreseeable future.

*Advances and Deferred Revenue on the B787 Program.* On May 12, 2011, Spirit and Boeing entered into the B787 Amendment which, among other things, established a new repayment schedule for advances made by Boeing to Spirit to be repaid against the purchase price of the first 1,000 B787 ship sets delivered to Boeing. In the event Boeing does not take delivery of 1,000 ship sets 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. The B787 Amendment also changed the treatment of advances paid by Boeing for certain non-recurring work into a nonrefundable payment in full for such work. As of March 28, 2013, the amount of advance payments and deferred revenue received by us from Boeing under the B787 Supply Agreement and not yet repaid or recognized as revenue was approximately \$621.7 million.

*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 will be offset against the recurring price of A350 XWB ship sets invoiced by Spirit, at a rate of \$1.25 million per ship set. We received \$250.0 million in advance payments in 2012 and the balance that had not been repaid as of March 28, 2013 was \$243.8 million.

*Malaysian Facility Agreement.* On June 2, 2008, the Company's wholly-owned subsidiary, Spirit AeroSystems Malaysia SDN BHD entered into a Facility Agreement for a term loan facility for Ringgit Malaysia ( RM ) 69.2 million (approximately USD \$20.0

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million equivalent) (the Malaysia Facility), with the Malaysian Export-Import Bank. The Malaysia Facility requires quarterly principal repayments of RM 3.3 million (approximately USD \$1.0 million equivalent) from September 2011 through May 2017 and quarterly interest payments payable at a fixed interest rate of 3.50% per annum. The Malaysia Facility loan balance as of March 28, 2013 was \$12.6 million.

*French Factory Capital Lease Agreement.* On July 17, 2009, the Company's indirect wholly-owned subsidiary, Spirit AeroSystems France SARL entered into a capital lease agreement for 9.0 million (approximately USD \$13.1 million equivalent) with a subsidiary of BNP Paribas Bank to be used towards the construction of our aerospace-related component assembly plant in Saint-Nazaire, France. Lease payments are variable, subject to the three-month Euribor rate plus 2.20%. Lease payments are due quarterly through April 2025. As of March 28, 2013, the Saint-Nazaire capital lease balance was \$10.5 million.

*Nashville Design Center Capital Lease Agreement.* On September 21, 2012, the Company entered into a capital lease agreement for \$2.6 million for a portion of an office building in Nashville, Tennessee to be used for design of aerospace components. Lease payments are due monthly, and are subject to yearly rate increases until the end of the lease term of 124 months.

***Credit Ratings***

The company's credit rating remained unchanged at the end of the first quarter of 2013 with a BB rating, stable outlook by Standard and Poor's and a Ba2 rating, negative outlook by Moody Investor Services.

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, including certain financial metrics used by the rating agencies in determining our credit ratings. 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.

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**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 may, will, should, expect, anticipate, intend, estimate, believe, project, continue, plan, similar words, 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 programs;
- our ability to perform our obligations and manage costs related to our new commercial and business aircraft development programs and the related recurring production;
- margin pressures and the potential for additional forward losses on aircraft development programs;
- our ability to accommodate, and the cost of accommodating, announced increases in the build rates of certain aircraft;
- the effect on business and commercial aircraft demand and build rates of the following factors: continuing weakness in the global economy and economic challenges facing commercial airlines, a lack of business and consumer confidence, and the impact of continuing instability in global financial and credit markets, including, but not limited to, any failure to avert a sovereign debt crisis in Europe;
- customer cancellations or deferrals as a result of global economic uncertainty;
- the success and timely execution of key milestones such as deliveries and resumption of service of Boeing's B787 and first flight, certification and first delivery of Airbus A350 XWB aircraft program, receipt of necessary regulatory approvals and customer adherence to their announced schedules;

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- our ability to successfully negotiate new pricing under our main supply agreement with Boeing.
- our ability to enter into profitable supply arrangements with additional customers and the ability of all parties to satisfy their performance requirements under existing supply contracts with Boeing and Airbus, our two major customers, 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;
- 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 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;
- the cost and availability of raw materials and purchased components;
- our ability to recruit and retain highly-skilled employees and our relationships with the unions representing many of our employees;

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- 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 our interest rate and foreign currency hedging programs;
- the outcome or impact of ongoing or future litigation, claims and regulatory actions;
- our exposure to potential product liability and warranty claims; and
- the accuracy and completeness of our assessment of damage and costs of restoration and recovery from the severe weather event that hit our Wichita, Kansas facility on April 14, 2012.

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 2012 Form 10-K for a more complete discussion of these and other factors that may affect our business.

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**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 2012 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 2012 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 28, 2013 in order to reach a conclusion on whether 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 is recorded, processed, summarized and reported within the time period specified in the SEC 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, including the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation, management has concluded that our disclosure controls and procedures were not effective as of March 28, 2013, due to the fact that there was a material weakness in our internal control over financial reporting as discussed in more detail in our 2012 Annual Report on Form 10-K under Part II, Item 9A.

**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 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

**Item 1. *Legal Proceedings***

Information regarding any recent material development relating to our legal proceedings since the filing of our 2012 Form 10-K is included in Note 20 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 2012 Form 10-K, which could materially affect our business, financial condition or results of operations. Other than the modifications to the risk factors set forth below, there have been no material changes to the Company's risk factors previously disclosed in our 2012 Form 10-K.

*Our financial results could be materially affected by the outcome of comprehensive strategic and financial reviews of development programs.*

We have decided to undertake a comprehensive strategic and financial review of our development programs in Tulsa, Wichita, Kinston, and St. Nazaire. The outcome of these reviews could have a material impact on our results of operations.

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**Item 6. Exhibits**

**Article I.**

**Exhibit**

**Number**

**Section 1.01 Exhibit**

|         |                                                                                                 |
|---------|-------------------------------------------------------------------------------------------------|
| 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.

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\* Filed herewith

\*\* Furnished herewith

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**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.

|     | <b>Signature</b>   | <b>Title</b>                              | <b>Date</b> |
|-----|--------------------|-------------------------------------------|-------------|
| /s/ | Philip D. Anderson | Senior Vice President and Chief Financial | May 3, 2013 |
|     | Philip D. Anderson | Officer (Principal Financial Officer)     |             |