Spirit AeroSystems Holdings, Inc.
Form 10-K
February 08, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2018
Or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File Number 001-33160
Spirit AeroSystems Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-2436320
(State of Incorporation)	(I.R.S. Employer Identification Number)

3801 South Oliver
Wichita, Kansas 67210
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code:
(316) 526-9000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark whether the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of Exchange Act. o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of the class A common stock on June 28, 2018, as reported on the New York Stock Exchange was approximately $9,797,077,735.

As of February 1, 2019, the registrant had outstanding 105,458,685 shares of class A common stock, $0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed not later than 120 day after the end of the fiscal year covered by this Report are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements.” Forward-looking statements generally can be identified by the use of forward-looking terminology such as “aim,” “anticipate,” “believe,” “could,” “continue,” “estimate,” “expect,” “goa “forecast,” “intend,” “may,” “might,” “objective,” “outlook,” “plan,” “predict,” “project,” “should,” “target,” “will,” “would,” words, or phrases, or the negative thereof, unless the context requires otherwise. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. Our actual results may vary materially from those anticipated in forward-looking statements. We caution investors not to place undue reliance on any forward-looking statements.

Important factors that could cause actual results to differ materially from those reflected in such forward-looking statements and that should be considered in evaluating our outlook include, but are not limited to, the following:1) our ability to continue to grow our business and execute our growth strategy, including the timing, execution, and profitability of new and maturing programs; 2) our ability to perform our obligations under our new and maturing commercial, business aircraft, and military development programs, and the related recurring production, including our ability to meet contractually required production rate increases; 3) our ability to accurately estimate and manage performance, cost, and revenue under our contracts, including our ability to achieve certain cost reductions with respect to the B787 program and other programs; 4) margin pressures and the potential for additional forward losses on new and maturing programs; 5) our ability and our suppliers’ ability to accommodate, and the cost of accommodating, announced increases in the build rates of certain aircraft and expanding model mixes; 6) the effect on aircraft demand and build rates of changing customer preferences for business aircraft, including the effect of global economic conditions on the business aircraft market and expanding conflicts or political unrest; 7) customer cancellations or deferrals as a result of global economic uncertainty or otherwise; 8) the effect of economic conditions in the industries and markets in which we operate in the U.S. and globally and any changes therein, including fluctuations in foreign currency exchange rates; 9) the success and timely execution of key milestones such as the receipt of necessary regulatory approvals, including our ability to obtain in a timely fashion any required regulatory or other third party approvals for the consummation of our announced acquisition of Asco, and customer adherence to their announced schedules; 10) our ability to successfully negotiate, or re-negotiate, future pricing under our supply agreements with Boeing and our other customers; 11) our ability to enter into profitable supply arrangements with additional customers; 12) the ability of all parties to satisfy their performance requirements, including our ability to timely deliver quality products, under existing supply contracts with our two major customers, Boeing and Airbus, and other customers, and the risk of nonpayment by such customers; 13) 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, domestic or international hostilities, or acts of terrorism; 14) any adverse impact on the demand for air travel or our operations from the outbreak of diseases or epidemic or pandemic outbreaks; 15) our ability to avoid or recover from cyber-based or other security attacks, information technology failures, or other disruptions; 16) returns on pension plan assets and the impact of future discount rate changes on pension obligations; 17) our ability to borrow additional funds or refinance debt, including our ability to obtain the debt to finance the purchase price for our announced acquisition of Asco on favorable terms or at all; 18) competition from or in-sourcing by commercial aerospace original equipment manufacturers and competition from other aerostructures suppliers; 19) 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; 20) the effect of changes in tax law, such as the effect of The Tax Cuts and Jobs Act that was enacted on December 22, 2017, and changes to the interpretations of or guidance related thereto, and the Company’s ability to accurately calculate and estimate the effect of such changes; 21) any reduction in our credit ratings; 22) our dependence on our suppliers, as well as the cost and availability of raw materials and purchased components; 23) our ability to recruit and retain a critical mass of highly-skilled employees and our relationships with the unions representing many of our employees, including our ability to avoid labor disputes and work stoppages with respect to our union employees; 24) spending by the U.S. and other governments on defense; 25) the possibility that our cash flows and our credit facility may not be adequate for our additional capital needs or for payment of interest on, and principal of, our indebtedness; 26) our exposure under our revolving credit facility to higher interest payments should interest rates increase substantially; 27) the effectiveness of any interest rate hedging programs; 28) the effectiveness of our internal control over financial reporting; 29) the outcome or impact of ongoing or future litigation, claims, and regulatory actions; 30) exposure to potential product liability and warranty claims; 31) our ability to effectively assess, manage and integrate acquisitions that we pursue, including our ability to successfully integrate the Asco business and generate synergies and other cost savings; 32) the consummation of our announced acquisition of Asco while avoiding any unexpected costs, charges, expenses, adverse changes to business relationships and other business disruptions for ourselves and Asco as a result of the acquisition; 33) our ability to continue selling certain receivables through our supplier financing program; 34) the risks of doing business internationally, including fluctuations in foreign current exchange rates, impositions of tariffs or embargoes, trade restrictions, compliance with foreign laws, and domestic and foreign government policies; and 35) prolonged periods of inflation where we do not have adequate inflation protections in our customer contracts, among other things.

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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 section captioned “Risk Factors” in this Annual Report for a more complete discussion of these and other factors that may affect our business.

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PART I

Item 1. Business

Our Company

Unless the context otherwise indicates or requires, as used in this Annual Report, references to “we,” “us,” “our,” and the “Company” refer to Spirit AeroSystems Holdings, Inc. and its consolidated subsidiaries. References to “Spirit” refer only to our subsidiary, Spirit AeroSystems, Inc., and references to “Spirit Holdings” or “Holdings” refer only to Spirit AeroSystems Holdings, Inc.

The Company, with its headquarters in Wichita, Kansas, is one of the largest independent non-Original Equipment Manufacturer (“OEM”) commercial aerostructures designers and manufacturers in the world. We design, engineer, and manufacture large, complex, and highly engineered commercial aerostructures such as fuselages, nacelles (including thrust reversers), struts/pylons, wing structures, and flight control surfaces. In addition to supplying commercial aircraft structures, we also design, engineer, and manufacture structural components for military aircraft and other applications. A portion of our defense business is classified by the U.S. Government and cannot be specifically described; however, it is included in our consolidated financial statements. We are a critical partner to our commercial and defense customers due to the broad range of products we currently supply to them and our leading design and manufacturing capabilities using both metallic and composite materials. For the twelve months ended December 31, 2018, we generated net revenues of $7,222.0 million and had net income of $617.0 million.

Operating Segments and Products

We operate in three principal segments: Fuselage Systems, Propulsion Systems, and Wing Systems. Our largest customer, The Boeing Company (“Boeing”), represents a substantial portion of our revenues in all segments. Further, our second largest customer, Airbus S.A.S., a division of Airbus Group SE (“Airbus”), represents a substantial portion of revenues in the Wing Systems segment. We serve customers in addition to Boeing and Airbus across our three principal segments; however, these customers currently do not represent a significant portion of our revenues and are not expected to in the near future. 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.

Segment	Percentage of Net Revenues for the Twelve Months Ended December 31, 2018	Locations	Commercial Programs	Non-Classified Defense Programs
Fuselage Systems	55%	Wichita, KS; Kinston, NC; St.-Nazaire, France; Subang, Malaysia	B737, B747, B767, B777, B787, A350 XWB	Sikorsky CH-53K, Bell Helicopter V280
Propulsion Systems	24%	Wichita, KS	B737, B747, B767, B777, B787, Rolls-Royce BR725 Engine, Mitsubishi Regional Jet, A220 (formerly Bombardier CSeries)	
Wing Systems	21%	Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Subang, Malaysia; Kinston, North Carolina	B737, B747, B767, B777, B787, A320 family, A330, A350 XWB, A380	Various

Fuselage Systems. The Fuselage Systems segment includes development, production, and marketing of the following:

- The forward section of the aerostructure, which houses the flight deck, passenger cabin, and cargo area;
- The mid and rear fuselage sections;
- Other structure components of the fuselage, including floor beams; and

• Related spares and maintenance, repair, and overhaul (“MRO”) services.

Net revenue in the Fuselage Systems Segment amounted to $4,000.8 million, $3,730.8 million, and $3,498.8 million in 2018, 2017, and 2016, respectively.

Propulsion Systems. The Propulsion Systems Segment includes development, production, and marketing of the following:
- Nacelles (including thrust reversers) - aerodynamic structure surrounding engines;
- Struts/pylons - structure that connects the engine to the wing;
- Other structural engine components; and
- Related spares and MRO services.

Net revenue in the Propulsion Systems Segment amounted to $1,702.5 million, $1,666.2 million, and $1,777.3 million in 2018, 2017, and 2016, respectively.

Wing Systems. The Wing Systems Segment includes development, production, and marketing of the following:
- Flaps and slats - flight control surfaces;
- Wing structures - framework that consists mainly of spars, ribs, fixed leading edge, stringers, trailing edges, and flap track beams; and
- Related spares and MRO services.

Net revenue in the Wing Systems Segment amounted to $1,513.0 million, $1,578.8 million, and $1,508.7 million in 2018, 2017, and 2016, respectively.

Our Manufacturing, Engineering, and Support Services

Manufacturing

Our expertise is in designing, engineering, and manufacturing large-scale, complex aerostructures. We maintain seven state-of-the-art manufacturing facilities in Wichita, Kansas; Tulsa, Oklahoma; McAlester, Oklahoma; Kinston, North Carolina; Prestwick, Scotland; Saint-Nazaire, France; and Subang, Malaysia.

Our core manufacturing competencies include:
- composites design and manufacturing processes;
- leading mechanized and automated assembly and fastening techniques;
- large-scale skin fabrication using both metallic and composite materials;
- chemical etching and metal bonding expertise;
- monolithic structures technology; and
- precision metal forming producing complex contoured shapes in sheet metal and extruded aluminum.

Our manufacturing expertise is supported by our state-of-the-art equipment. We have thousands of major pieces of equipment installed in our customized manufacturing facilities. For example, for the manufacture of the B787 composite forward fuselage, we installed two of the largest autoclaves in the world in our Wichita, KS facility. An autoclave is an enclosure device used in the manufacture of composite structures that generates controlled internal heat and pressure conditions used to cure and bond certain resins. We installed two autoclaves as well as other specialized machines in Kinston, North Carolina to support our work on the A350 XWB. We intend to continue to make the appropriate investments in our facilities to support and maintain our industry-leading manufacturing expertise.

Engineering

The Company is an industry leader in aerospace engineering with access to talent across the globe. The purpose of the engineering organization is to provide continuous support for new and ongoing designs, technology innovation, development for customer advancements, and production-related process improvements. We possess a broad base of engineering skills for design, analysis, test, certification, tooling, and support of major fuselage, wing, and propulsion assemblies using both metallic and composite materials. In addition, our regulatory certification expertise helps ensure associated designs and design changes are compliant with applicable regulations.

Our industry-leading engineering capabilities are key strategic factors differentiating us from our competitors.

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Global Customer Support & Services (“GCS&S”)

Through GCS&S, we provide rotable assets, components, repair solutions, and engineering services. Our inventory of rotable assets is available for lease, exchange, and purchase. Additionally, our global repair stations are staffed with technicians specializing in advanced composite repair techniques. We provide MRO services for both metallic and composite components, either on site or at certified MRO stations. We are equipped with original production manufacturing tooling and specialize in service bulletin maintenance for Spirit nacelle components.

Product	Description	Aircraft Program
MRO	Certified repair stations that provide complete on-site repair and overhaul; maintains global partnerships to support MRO services	B737, B747, B767, B777, B787 and Rolls-Royce BR725
Rotable Assets	Maintain a pool of rotable assets for sale, exchange, and/or lease	B737, B747, B767, B777
Engineering Services	Engineering, tooling, and measurement services. On-call field service representatives.	Multiple programs

Business Development

The Company’s core products include fuselages, struts/pylons, nacelles, and wing components, and we continue to focus on business growth through the application of key strengths, including design for manufacturability, materials utilization expertise, targeted automation, advanced tooling and testing concepts, and determinate assembly to enable cost-effective, highly efficient production. We invest in new technology to bring the most advanced techniques, manufacturing, and automation to our customers.

The Company applies extensive experience in advanced material systems, manufacturing technologies, and prototyping to continually invent and patent new technologies that improve quality, lower costs, and increase production capabilities. Our business growth is focused on application of these strengths to expand into new addressable commercial and defense markets and customers.

Defense Business Growth

In addition to providing aerostructures for commercial aircraft, we also design, engineer and manufacture structural components for military aircraft. We have been awarded a significant amount of work for Boeing’s P-8, C40, and KC-46 Tanker. The Boeing P-8, C40, and KC-46 Tanker are commercial aircraft modified for military use. Other military programs for which we provide products include the development of the Sikorsky CH-53K, Bell Helicopter V280 tilt-rotor, and B-21 Raider. A portion of our defense business is classified by the U.S. Government, including the B-21 Raider program, and cannot be specifically described. The operating results of these classified contracts are included in our consolidated financial statements. The business risks associated with classified contracts historically have not differed materially from those of our other U.S. Government contracts. Our internal controls addressing the financial reporting of classified contracts are consistent with our internal controls for our non-classified contracts.

The following table summarizes by product and military program the major non-classified military programs that we currently have under contract.

Product	Applicable Segment	Description	Military Program
Low Observables	Wing Systems	Radar absorbent and translucent materials	Various
Rotorcraft	Fuselage Systems	Forward cockpit and cabin, fuselage	Sikorsky CH-53K, Bell Helicopter V280 Development Program
Other Military	Wing Systems	Fabrication, bonding, assembly, testing, tooling, processing, engineering analysis, and training	Various

Fabrication Business Growth

The Company offers customers a wide range of solutions including machining, skin and sheet metal fabrication, and chemical processing. These capabilities are utilized for both internal and external sourcing and include the following:

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Fabrication	Description
Machine	5-axis machining capabilities: high-speed aluminum fabrication up to 23 feet, seat track machining, and extensive hard metal capabilities
Fabrication	3- and 4-axis machining capabilities: range of hard metal capabilities, multi-spindle machines, and manufactured parts
Sheet Metal Fabrication	Includes stretch and hydro forming, roll, hammer, profiling, gauge reduction of extrusions and aluminum heat treat, as well as subassemblies
Chemical Processing	Includes a range of hard and soft metals with one of the largest automated lines in the industry
Skin Fabrication	Include skin stretch forming up to 1,500 tons, laser scribe, trim and drill, and chemical milling

Our Customers

Our revenues are substantially dependent on Boeing and Airbus. The loss of either of these customers would have a material adverse effect on the Company. For the twelve months ended both December 31, 2018 and December 31, 2017, approximately 79% and 16% of our net revenues were generated from sales to Boeing and Airbus, respectively. We are currently the sole-source supplier for nearly all of the products we sell to Boeing and Airbus.

Boeing

We are the largest independent supplier of aerostructures to Boeing and manufacture aerostructures for every Boeing commercial aircraft currently in production, including the majority of the airframe content for the Boeing B737, the most popular major commercial aircraft in history, and the Boeing B787, Boeing's next generation twin aisle composite aircraft. We supply these products through long-term supply agreements that cover the life of these programs, including any commercial derivative models. These supply agreements are described in more detail under "Our Relationship with Boeing" below. We believe our relationship with Boeing will allow us to continue to be an integral partner with Boeing in the designing, engineering, and manufacturing of complex aerostructures.

Airbus

We originally became a supplier to Airbus in April 2006 through the acquisition of BAE Aerostructures (the "BAE Acquisition") and subsequently won additional work packages with Airbus. We are one of the largest content suppliers of wing systems for the Airbus A320 family and are a significant supplier for the Airbus A380 and the Airbus A350 XWB. Under our supply agreement with Airbus for the A320 and A330, we supply products for the life of the aircraft program. For the A350 XWB and A380 programs, we have long-term requirements contracts with Airbus. We believe we can leverage our relationship with Airbus and our history of delivering high-quality products to further increase our sales to Airbus and continue to partner with Airbus on new programs going forward.

Other Customers

Other significant customers include Northrop Grumman, Sikorsky, Rolls-Royce, Mitsubishi Aircraft Corporation, and Bell Helicopter.

U.S. and International Customer Mix

Although most of our revenues are obtained from sales inside the U.S., we generated $1,254.9 million, $1,260.1 million, and $1,142.8 million in sales to international customers for the twelve months ended December 31, 2018, 2017, and 2016, respectively, primarily to Airbus. The international revenue is included primarily in the Wing Systems segment. All other segment revenues are primarily from U.S. sales. Approximately 4% of our long-lived assets based on book value are located in the U.K. with approximately another 4% of our long-lived assets located in countries outside the U.S. and the U.K.

Our Relationship with Boeing

A significant portion of Spirit's operations related to Boeing aerostructures was owned and controlled by Boeing until 2005. On February 7, 2005, Spirit Holdings became a standalone Delaware company, and commenced operations on June 17, 2005 through the acquisition of Boeing's operations in Wichita, Kansas, Tulsa, Oklahoma, and McAlester, Oklahoma (the "Boeing Acquisition") by an investor group led by Onex Partners LP and Onex Corporation (together with its affiliates, "Onex"). As of August 2014, Onex no longer held any investment in the Company. Boeing's commercial aerostructures manufacturing operations in Wichita, Kansas and Tulsa and McAlester, Oklahoma, are referred to in this Report as “Boeing Wichita.”

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In connection with the Boeing Acquisition, we entered into long-term supply agreements under which we are Boeing's exclusive supplier for substantially all of the products and services provided by Boeing Wichita to Boeing prior to the Boeing Acquisition. These supply agreements include products for Boeing's B737, B747, B767, and B777 commercial aircraft programs, as well as for certain products for Boeing's B787 program. These supply agreements cover the life of these programs, including any commercial derivative models.

Supply Agreement with Boeing for B737, B747, B767, and B777 Programs ("Sustaining Programs")

Overview. Two documents effectively comprise the Sustaining Programs' supply contract: (1) the Special Business Provisions ("Sustaining SBP"), which sets forth the specific terms of the Sustaining Programs' supply arrangement, and (2) the General Terms Agreement ("Sustaining GTA," and, together with the Sustaining SBP (and any related purchase order or contract), as amended, the "Sustaining Agreement"), which sets forth other general contractual provisions, including provisions relating to termination, events of default, assignment, ordering procedures, inspections, and quality controls.

The Sustaining Agreement is a requirements contract that covers certain products, including fuselages, struts/pylons, and nacelles (including thrust reversers), wings and wing components, as well as tooling, for the Sustaining Programs for the life of these programs, including any commercial derivative models. During the term of the Sustaining Agreement, and absent default by Spirit, Boeing is obligated to purchase from Spirit all of its requirements for products covered by the Sustaining Agreement. Although Boeing is not required to maintain a minimum production rate, Boeing is subject to a maximum production rate above which it must negotiate with us regarding responsibility for recurring and non-recurring expenditures related to a capacity increase. Boeing owns substantially all of the tooling used in production or inspection of products covered by the Sustaining Agreement.

Pricing. On September 22, 2017, Boeing and Spirit entered into Amendment No. 30 to the Sustaining SBP ("Sustaining Amendment #30"). Sustaining Amendment #30 generally established pricing terms for the Sustaining Program models (excluding the B777x) through December 31, 2022 (with certain limited exceptions) and provided that Boeing and Spirit would negotiate follow-on pricing for periods beyond January 1, 2023 beginning 24 months prior to January 1, 2023. In addition, Sustaining Amendment #30 provided that the parties would make certain investments for rate increases on the B737 program and implemented industry standard payment terms.

On December 21, 2018, Boeing and Spirit executed a Collective Resolution 2.0 Memorandum of Agreement (the "2018 MOA"). The 2018 MOA established, among other items, pricing for certain programs through December 31, 2030, including the B737NG (including the P8), B737 MAX, B767 (but excluding 767-2C for which pricing is separately established), and the B777 freighters and 777-9 (pricing for the B777 300ER and 200LR was previously established and pricing for the B777-8 is subject to future negotiation). In addition, the 2018 MOA established B737 pricing based on production rates above and below current production levels, investments for tooling and capital for certain B737 rate increases, a joint cost reduction program for the B777X (a joint cost reduction program for the B737 is separately established), and the release of liability and claims asserted by both parties, including the B737 disruption activity claim. The parties further agreed to reconvene in 2028 to negotiate pricing beyond 2030. Consistent with the 2018 MOA, on January 30, 2019, Boeing and Spirit executed SBP Amendment #40 ("Sustaining Amendment #40") to implement the December 2018 MOA terms and conditions applicable to the Sustaining Programs.

Termination of Airplane Program. If Boeing decides not to initiate or continue production of a Sustaining Program model or commercial derivative because it determines there is insufficient business basis for proceeding, Boeing may terminate such model or derivative, including any order therefore, by written notice to Spirit. In the event of such a termination, Boeing will be liable to Spirit for any orders issued prior to the date of the termination notice and may also be liable for certain termination costs.

Events of Default and Remedies. Events of default under the Sustaining Agreement include Spirit's failure to deliver products when and as required, and failure to maintain a required system of quality assurance, among other things. Certain events of default may allow Boeing to cancel orders under or terminate the Sustaining Agreement.

Intellectual Property. All technical work product and works of authorship produced by or for Spirit with respect to any work performed by or for Spirit pursuant to the Sustaining Agreement are the exclusive property of Boeing. All inventions conceived by or for Spirit with respect to any work performed by or for Spirit pursuant to the Sustaining

Agreement and any patents claiming such inventions are the exclusive property of Spirit, except that Boeing will own any such inventions that Boeing reasonably believes are applicable to the B787 Program, and Boeing may seek patent protection for such B787 inventions or hold them as trade secrets, provided that, if Boeing does not seek patent protection, Spirit may do so.

B787 Supply Agreement with Boeing ("B787 Program")

Overview. Two documents effectively comprise the B787 Program supply contract: (1) the Special Business Provisions ("787 SBP"), which sets forth the specific terms of the B787 Program's supply arrangement and (2) the General Terms Agreement ("787 GTA," and, together with 787 SBP (and any related purchase order or contract), as amended, the "B787 Agreement"), which sets forth other general contractual provisions, including provisions relating to termination, events of default, assignment, ordering

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procedures, inspections, and quality controls. The B787 Agreement is a requirements contract pursuant to which Spirit is Boeing's exclusive supplier for the forward fuselage, fixed, and movable leading wing edges, engine pylons, and related tooling for the B787.

Pricing. On September 22, 2017, Boeing and Spirit entered into Amendment #25 to the B787 Agreement (the "787 Amendment #25"). 787 Amendment #25 established pricing terms for the B787-8, -9, and -10 models through line unit 1405 and provided that Boeing and Spirit would negotiate follow-on pricing for line units 1406 and beyond beginning 24 months prior to the scheduled delivery date for line unit 1405. 787 Amendment #25 also implemented industry standard payment terms and required the Company to repay Boeing $236.0 million less certain adjustments, as a retroactive adjustment for payments that were based on interim pricing. This amount was repaid in October 2017.

On December 21, 2018, Boeing and Spirit executed the 2018 MOA, which also established, among other things, pricing for the B787 for line unit 1004 through line unit 2205, and established a joint cost reduction program for the B787. Consistent with the 2018 MOA, on January 30, 2019, Boeing and Spirit executed Amendment #28 to the B787 Agreement (the "787 Amendment #28") to implement the 2018 MOA terms and conditions applicable to the B787 Program.

Advance Payments. Boeing has made advance payments to Spirit under the B787 Agreement, which are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries. Advance repayments were scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing, except that pursuant to an amendment to the B787 Agreement entered into in April 2014, advance repayments were suspended from April 1, 2014 through March 31, 2015, and any repayments that otherwise would have become due during such 12-month period will be made by offset against the purchase price for shipset 1,001 through 1,120. Re-payments resumed in 2015. The 2018 MOA also provided for the suspension of advance repayments with respect to the B787 beginning with line number 818; to resume at a lower rate of $450,319 per shipset at line number 1135 and continue through line number 1605.

In the event Boeing does not take delivery of a sufficient number of shipsets to repay the full amount of advances prior to the termination of the B787 Program or the B787 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. Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our balance sheet. As of December 31, 2018, the amount of advance payments received by us from Boeing not yet repaid was $233.9 million.

Termination of Airplane Program. If Boeing decides not to continue production of the B787 Program because it determines, after consultation with Spirit, that there is an insufficient business basis for proceeding, Boeing may terminate the B787 Program, including any orders, by written notice to Spirit. In the event of such a termination, Boeing will be liable to Spirit for costs incurred in connection with any orders issued prior to the date of the termination notice and may also be liable for certain termination costs and for compensation for any tools, raw materials or work-in-process requested by Boeing in connection with the termination.

Events of Default and Remedies. Events of default under the B787 Agreement include Spirit's failure to deliver products when and as required, and failure to maintain a required system of quality assurance, among other things. Certain events of default may allow Boeing to cancel orders under or terminate the B787 Agreement.

Intellectual Property. The B787 Agreement established three classifications for patented invention and proprietary information: (1) intellectual property developed by Spirit during activity under the B787 Agreement ("Spirit IP"); (2) intellectual property developed jointly by Boeing and Spirit during that activity ("Joint IP"); and (3) all other intellectual property developed during activity under the B787 Agreement ("Boeing IP").

Boeing may use Spirit IP for work on the B787 Program and Spirit may license it to third parties for work on such program. Each party is free to use Joint IP in connection with work on the B787 Program and other Boeing programs, but each must obtain the consent of the other to use it for other purposes. Spirit is entitled to use Boeing IP for the

B787 Program, and may require Boeing to license it to subcontractors for the same purpose.

The foregoing descriptions of the various agreements between Spirit and Boeing do not purport to be complete and are qualified in their entirety by reference to the full text of each agreement as filed with the SEC, subject to certain omissions of confidential portions pursuant to requests for confidential treatment filed separately with the SEC.

Intellectual Property

We have several patents pertaining to our processes and products. While our patents, in the aggregate, are of material importance to our business, no individual patent or group of patents is of material importance. We also rely on trade secrets, confidentiality agreements, unpatented knowledge, creative products development, and continuing technological advancement to maintain our competitive position.

Competition

Although we are one of the largest independent non-OEM aerostructures suppliers based on annual revenues, with an estimated 20% share of the global non-OEM aerostructures market, this market remains highly competitive and fragmented. Our primary competition currently comes from either work performed internally by OEMs or other tier-one suppliers, and direct competition continues to grow.

Our principal competitors among OEMs include Boeing, Airbus (including its wholly-owned subsidiaries Stelia Aerospace and Premium Aerotec GmbH), Embraer Brazilian Aviation Co., Leonardo, and United Technologies Corporation. Our principal competitors among non-OEM tier-1 aerostructures suppliers include Aernnova, GKN Aerospace, Kawasaki Heavy Industries, Inc., Mitsubishi Heavy Industries, Safran Nacelles, Sonaca, Subaru Corporation, Triumph Group, Inc. ("Triumph"), and Latecoere S.A.

Expected Backlog

As of December 31, 2018, our expected backlog associated with large commercial aircraft, business and regional jets, and military equipment deliveries through 2023, calculated based on contractual and historical product prices and expected delivery volumes, was approximately $48.4 billion. This is an increase of $900 million from our corresponding estimate as of the end of 2017. Backlog is calculated based on the number of units Spirit is under contract to produce on our fixed quantity contracts, and Boeing's and Airbus' announced backlog on our supply agreements. The number of units may be subject to cancellation or delay by the customer prior to shipment, depending on contract terms. The level of unfilled orders at any given date during the year may be materially affected by the timing of our receipt of firm orders and additional airplane orders, and the speed with which those orders are filled. Accordingly, our expected backlog as of December 31, 2018 may not necessarily represent the actual amount of deliveries or sales for any future period. Approximately 17% of our backlog as of December 31, 2018 is expected to be converted into sales in 2019.

Suppliers and Materials

The principal raw materials used in our manufacturing operations are aluminum, titanium, steel, and carbon fiber. We also purchase metallic parts, non-metallic parts, and machined components. In addition, we procure subassemblies from various manufacturers that are used in the final aerostructure assembly. From time to time, we also review our make versus buy strategy to determine whether it would be beneficial to us to outsource work that we currently produce in-house or vice versa.

We have long-standing relationships with hundreds of manufacturing suppliers. Our strategy is to enter into long-term contracts with suppliers to secure competitive pricing. Our exposure to rising costs of raw material is limited to some extent through leveraging relationships with our OEM customers' high-volume contracts.

We continue to seek and develop sourcing opportunities in North America, Europe, and Asia to achieve a competitive global cost structure. Over 25 countries are represented in our international network of suppliers.

Research and Development

We believe that a world-class research and development focus helps maintain our position as an advanced partner to our OEM customers' new product development teams. As a result, we spend capital and financial resources on our research and development, including $42.5 million for the year ended December 31, 2018, $31.2 million for the year ended December 31, 2017, and $23.8 million for the year ended December 31, 2016. Through our research, we strive to develop unique intellectual property and technologies that will improve our products and our customers' products and, at the same time, position us to win work on new products. Our development effort primarily focuses on preparing for the initial production of new products and improving manufacturing processes on our current work. It also serves as an ongoing process that helps develop ways to reduce production costs and streamline manufacturing processes.

Our research and development is geared toward the architectural design of and manufacturing processes for our principal products: fuselage systems, propulsion systems, and wing systems. We are currently focused on research in areas such as advanced metallic joining, low-cost composites, acoustic attenuation, efficient structures, systems integration, advanced design and analysis methods, and new material systems. Other items that are expensed relate to research and development that is not funded by the customer. We collaborate with universities, research facilities, and

technology partners in our research and development.
Regulatory Matters
Environmental. Our operations and facilities are subject to various environmental, health, and safety laws and regulations, including federal, state, local, and foreign government requirements governing, among other matters, the emission, discharge,

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handling, and disposal of regulated materials, the investigation and remediation of contaminated sites, and permits required in connection with our operations. We continually monitor our operations and facilities to ensure compliance with these laws and regulations; however, management cannot provide assurance that future changes in such laws or their enforcement, or the nature of our operations will not require us to make significant additional expenditures to ensure continued compliance. Further, we could incur substantial costs, including costs to reduce air emissions, clean-up costs, fines and sanctions, and third-party property damage, or personal injury claims as a result of violations of or liabilities under environmental laws, relevant common law or the environmental permits required for our operations. It is reasonably possible that costs incurred to ensure continued environmental compliance could have a material impact on our results of operations, financial condition, or cash flows if additional work requirements or more stringent clean-up standards are imposed by regulators, new areas of soil, air, and groundwater contamination are discovered, and/or expansions of work scope are prompted by the results of investigations.

Government Contracts. Companies engaged in supplying defense-related equipment and services to U.S. Government agencies, either directly or by subcontract, are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally terminate existing contracts, suspend, or debar us from receiving new prime contracts or subcontracts, reduce the value of existing contracts, audit our contract-related costs and fees, including allocated indirect costs, and control and potentially prohibit the export of our products, among other things. If a contract was terminated for convenience, we could recover the costs we have incurred or committed, settlement expenses, and profit on the work completed prior to termination. However, if the termination is a result of our failure to perform, we may be liable for excess costs incurred by the prime contractor in procuring undelivered items from another source. In addition, failure to follow the requirements of the National Industrial Security Program Operating Manual (“NISPOM”) or any other applicable U.S. Government industrial security regulations could, among other things, result in termination of Spirit’s facility clearance, which in turn would preclude us from being awarded classified contracts or, under certain circumstances, performing on our existing classified contracts.

Commercial Aircraft. The commercial aircraft component industry is highly regulated by the FAA, the European Aviation Safety Agency (“EASA”), and other agencies throughout the world. The military aircraft component industry is governed by military quality specifications. We, and the components we manufacture, are required to be certified by one or more of these entities or agencies, and, in some cases, by individual OEMs, to engineer and service parts and components used in specific aircraft models. In addition, the FAA requires that various maintenance routines be performed on aircraft components. We believe that we currently satisfy or exceed these maintenance standards in our repair and overhaul services.

Export Control. The technical data and components used in the design and production of our products, as well as many of the products and technical data we export, either as individual items or as components incorporated into aircraft, are subject to compliance with U.S. export control laws. Collaborative agreements that we may have with foreign persons, including manufacturers or suppliers, are also subject to U.S. export control laws.

Health and Safety. Our operations are also subject to a variety of worker and community safety laws. The Occupational Safety and Health Act (“OSHA”) mandates general requirements for safe workplaces for all employees. In addition, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances. Our management believes that our operations are in material compliance with OSHA’s health and safety requirements.

Employees

At December 31, 2018, we had approximately 17,000 employees: 15,000 located in our four U.S. facilities, 1,000 located at our U.K. facility, 900 located in our Malaysia facility and 100 in our France facility.

Our principal U.S. collective bargaining agreements were with the following unions as of December 31, 2018:

Union	Percent of our U.S. Employees Represented	Status of the Agreements with Major Union
The International Association of Machinists and Aerospace Workers (IAM)	61%	We have two major agreements - one expires in June 2020 and one expires in December 2024.
	18%	

The Society of Professional Engineering Employees in Aerospace (SPEEA)		We have two major agreements - one expires in January 2021 and one expires in December 2024.
The International Union, Automobile, Aerospace and Agricultural Implement Workers of America (UAW)	9%	We have one major agreement expiring in December 2025.
The International Brotherhood of Electrical Workers (IBEW)	1%	We have one major agreement expiring in September 2020.

Approximately 69% of our U.K. employees are represented by one union, Unite (Amicus Section). In 2013, the Company negotiated two separate ten-year pay agreements with the Manual Staff bargaining and the Monthly Staff bargaining groups of the Unite union. These agreements fundamentally cover basic pay and variable at risk pay, while other employee terms and conditions generally remain the same from year to year until both parties agree to change them. The current pay agreements expire December 31, 2022.

In France, our employees are represented by CFTC ("Confédération Française des Travailleurs Chrétiens or French Confederation of Christian Workers") and FO ("Force Ouvrière or Labor Force"). The Company negotiates yearly on compensation and once every four years on issues related to gender equality and work-life balance. The next election to determine union representation will occur in July 2019.

None of our Malaysia employees are currently represented by a union.

We consider our relationships with our employees to be satisfactory.

Available Information

Our Internet address is http://www.spiritaero.com. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report. We make available through our Internet website, under the heading "Investors," our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and amendments to those reports after we electronically file such materials with the SEC. Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Business Conduct, Transactions with Related Persons Policy, Finance Code of Professional Conduct, and charters for our Audit Committee, Risk Committee, Compensation Committee, and Corporate Governance and Nominating Committee are also available on our website.

The SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy information statement, and other information regarding issuers that file electronically with the SEC. Our filed Annual and Quarterly Reports, Current Reports, Proxy Statement and other reports previously filed with the SEC are available through the SEC's website.

Item 1A. Risk Factors

An investment in our securities involves risks and uncertainties. The risks and uncertainties set forth below are those that we currently believe may materially and adversely affect us, our future business or results of operations, our industry, or investments in our securities. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial may also materially and adversely affect us, our future business or results of operations, or investments in our securities.

Because we depend on Boeing and, to a lesser extent, Airbus, as our largest customers, our sales, cash flows from operations, and results of operations will be negatively affected if either Boeing or Airbus reduces the number of products it purchases from us or if either experiences business difficulties or breaches its obligations to us.

Currently, Boeing is our largest customer and Airbus is our second-largest customer. For the twelve months ended December 31, 2018 and December 31, 2017, approximately 79% and 16% of our net revenues were generated from sales to Boeing and Airbus, respectively. Although our strategy is, in part, to diversify our customer base by entering into supply arrangements with additional customers, we cannot give any assurance that we will be successful in doing so. Even if we are successful in obtaining and retaining new customers, we expect that Boeing and, to a lesser extent, Airbus, will continue to account for a substantial portion of our sales for the foreseeable future.

Although we are a party to various supply contracts with Boeing and Airbus that obligate Boeing and Airbus to purchase all of their requirements for certain products from us, those agreements generally do not require specific minimum purchase volumes. In addition, if we breach certain obligations under these supply agreements and Boeing or Airbus exercises its right to terminate such agreements, our business will be materially adversely affected. Further, if we are unable to perform our obligations under these supply agreements to the customer's satisfaction, Boeing or Airbus could seek damages from us, which could materially adversely affect our business. Boeing and Airbus also have the contractual right to cancel their supply agreements with us for convenience, which could include the termination of one or more aircraft models or programs for which we supply products. Although Boeing and Airbus would be required to reimburse us for certain expenses, there can be no assurance these payments would adequately cover our expenses or lost profits resulting from the termination. In addition, we have agreed to a limitation on recoverable damages if Boeing wrongfully terminates our main supply agreement with respect to any model or program. If this occurs, we may not be able to recover the full amount of our actual damages. Furthermore, if Boeing or Airbus (1) experiences a

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decrease in requirements for the products that we supply to it; (2) experiences a major disruption in its business, such as a strike, work stoppage or slowdown, a supply-chain problem, or a decrease in orders from its customers; (3) files for bankruptcy protection; or (4) fails to perform its contractual obligations under its agreements with us; our business, financial condition, and results of operations could be materially adversely affected.

Our business depends, in large part, on sales of components for a single aircraft program, the B737.

For the twelve months ended December 31, 2018, approximately 56% of our net revenues were generated from sales of components to Boeing for the B737 aircraft. While we have entered into long-term supply agreements with Boeing to continue to provide components for the B737 for the life of the aircraft program, including commercial and the military P-8 derivatives, Boeing does not have any obligation to purchase components from us for any replacement for the B737 that is not a commercial derivative model as defined by the Sustaining Agreement. If we were unable to obtain significant aerostructures supply business for any B737 replacement program, our business, financial condition, and results of operations could be materially adversely affected.

The Company's ability to meet increased production rates depends on a number of factors. The failure of any one factor could affect the Company's ability to meet quality or delivery requirements and, as a result, could adversely affect the Company's business and financial results.

The Company is facing production rate increases on several of its programs, including the B737 program, which comprised 56% of the Company's net revenues for the twelve months ended December 31, 2018. In addition, increased production rates have been announced on other programs, including the A320 and B787 programs. The Company's ability to meet production rate increases is dependent upon several factors, including without limitation, expansion and alignment of its production facilities, tooling, and equipment; improved efficiencies in its production line; on-time delivery of component parts from the Company's suppliers; adequate supply of skilled labor; and implementation of customer customizations upon demand. If the Company fails to meet the quality or delivery expectations or requirements of its customers, disruptions in manufacturing lines could result, which could have a material adverse impact on the Company's ability to meet commitments to its customers and on its future financial results.

In some cases, in order to meet these increases in production rates, we will need to make significant capital expenditures to expand our capacity and improve our performance or find alternative solutions such as outsourcing some of our existing work to free up additional capacity. While some of these expenditures will be reimbursed by our customers, we could be required to bear a significant portion of the costs. In addition, the increases in production rates could cause disruptions in our manufacturing lines, which could materially adversely impact our ability to meet our commitments to our customers, and have a resulting adverse effect on our financial condition and results of operations.

Interruptions in deliveries of components or raw materials, or increased prices for components or raw materials used in our products could delay production and/or materially adversely affect our financial performance, profitability, margins, and revenues.

We are highly dependent on the availability of essential materials and purchased components from our suppliers, some of which are available only from a sole source or limited sources. Further, many of our suppliers are international. International supply sources possess additional risks, some of which are similar to those described below with respect to international revenue. Our dependency upon regular deliveries from particular suppliers of components and raw materials means that interruptions or stoppages in such deliveries could materially adversely affect our operations until arrangements with alternate suppliers, to the extent alternate suppliers exist, could be made. If any of our suppliers were unable or were to refuse to deliver materials to us for an extended period of time, or if we were unable to negotiate acceptable terms for the supply of materials with these or alternative suppliers, our business could suffer and be materially affected.

Moreover, we are dependent upon the ability of our suppliers to provide materials and components that meet specifications, quality standards, and delivery schedules. Our suppliers’ failure to provide expected raw materials or component parts that meet our technical specifications could materially adversely affect production schedules and contract profitability. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs for us and possible forward losses on certain contracts. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to our business and might lead to termination of our supply agreements with our customers.

Our continued supply of materials is subject to a number of risks including:

- the destruction of or damage to our suppliers' facilities or their distribution infrastructure;
- embargoes, force majeure events, domestic or international acts of hostility, terrorism, or other events impacting our suppliers' ability to perform;
- a work stoppage or strike by our suppliers' employees;
- the failure of our suppliers to provide materials of the requisite quality or in compliance with specifications;

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- the failure of essential equipment at our suppliers’ plants;
- the failure of our suppliers to satisfy U.S. and international import and export control laws for goods that we purchase from such suppliers;
- the failure of our suppliers to meet regulatory standards;
- the failure, shortage. or delay in the delivery of raw materials to our suppliers;
- imposition of tariffs and similar import limitations on us or our suppliers;
- contractual amendments and disputes with our suppliers; and
- the inability of our suppliers to perform as a result of global economic conditions or otherwise.

In addition, our profitability is affected by the prices of the components and raw materials, such as titanium, aluminum, steel, and carbon fiber, used in the manufacturing of our products. These prices may fluctuate based on a number of factors beyond our control, including world oil prices, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and, in some cases, government regulation. Although our supply agreements with Boeing and Airbus allow us to pass on to our customers certain unusual increases in component and raw material costs in limited situations, we may not be fully compensated by the customers for the entirety of any such increased costs.

Our business depends, in part, on securing work for replacement programs.

While we have entered into long-term supply agreements with respect to the Sustaining Programs, Boeing does not have any obligation to purchase components from us for any subsequent variant of these aircraft that is not a commercial derivative as defined by the Sustaining Agreement. If we are unable to obtain significant aerostructures supply business for any aircraft program for which we provide significant content, our business, financial condition, and results of operations could be materially adversely affected.

Our commercial business is cyclical and sensitive to commercial airlines’ profitability.

We compete in the aerostructures segment of the aerospace industry. Our customers’ business, and therefore our own, is directly affected by the financial condition of commercial airlines and other economic factors, including global economic conditions and geo-political considerations that affect the demand for air transportation. Specifically, our commercial business is dependent on the demand from passenger airlines and cargo carriers for the production of new aircraft. Accordingly, demand for our commercial products is tied to the worldwide airline industry’s ability to finance the purchase of new aircraft and the industry’s forecasted demand for seats, flights, routes, and cargo capacity. Availability of financing to non-U.S. customers depends in part on the continued operations of the U.S. Export-Import Bank. Additionally, the size and age of the worldwide commercial aircraft fleet affects the demand for new aircraft and, consequently, for our products. Such factors, in conjunction with evolving economic conditions, cause the market in which we operate to be cyclical to varying degrees, thereby affecting our business and operating results.

Significant consolidation in the aerospace industry could make it difficult for us to obtain new business.

Suppliers in the aerospace industry have consolidated and formed alliances to broaden their product and integrated system offerings and achieve critical mass. This supplier consolidation is, in part, attributable to aircraft manufacturers more frequently awarding long-term sole-source or preferred supplier contracts to the most capable suppliers, thus reducing the total number of suppliers. If this consolidation were to continue, it may become more difficult for us to be successful in obtaining new customers.

We operate in a very competitive business environment.

Competition in the aerostructures segment of the aerospace industry is intense. We face substantial competition from both OEMs and non-OEM aerostructures suppliers in trying to expand our customer base and the types of parts we make.

OEMs may choose not to outsource production of aerostructures due to, among other things, their own direct labor and other overhead considerations and capacity utilization at their own facilities. Consequently, traditional factors affecting competition, such as price and quality of service, may not be significant determinants when OEMs decide whether to produce a part in-house or to outsource.

Some of our competitors have greater resources than we do and, therefore, may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the promotion and sale of their products than we can. Providers of aerostructures have traditionally competed on the basis of cost, technology, quality, and service. We believe that developing and maintaining a competitive advantage will require continued investment in product development, engineering, supply-chain management, and sales and marketing, and we may not have enough resources to make such investments. For these reasons, we may not be able to compete successfully in this market or against our competitors, which could have a material adverse effect on our business, financial condition and results of operations.

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High switching costs may substantially limit our ability to obtain business that is currently under contract with other suppliers.

Once a contract is awarded by an OEM to an aerostructures supplier, the OEM and the supplier are typically required to spend significant amounts of time and capital on design, manufacture, testing, and certification of tooling and other equipment. For an OEM to change suppliers during the life of an aircraft program, further testing and certification would be necessary, and the OEM would be required either to move the tooling and equipment used by the existing supplier for performance under the existing contract, which may be expensive and difficult (or impossible), or to manufacture new tooling and equipment. Additionally, in some cases, the existing incumbent supplier may have proprietary designs, know-how, processes, or technologies. Accordingly, any change of suppliers would likely result in production delays and additional costs to both the OEM and the new supplier. These high switching costs may make it more difficult for us to bid competitively against existing suppliers and less likely that an OEM will be willing to switch suppliers during the life of an aircraft program, which could materially adversely affect our ability to obtain new work on existing aircraft programs.

We face risks as we work to successfully execute on new or maturing programs.

New or maturing programs with new technologies typically carry risks associated with design responsibility, development of new production tools, hiring and training of qualified personnel, increased capital and funding commitments, ability to meet customer specifications, delivery schedules, and unique contractual requirements, supplier performance, ability of the customer to meet its contractual obligations to us, and our ability to accurately estimate costs associated with such programs. In addition, any new or maturing aircraft program may not generate sufficient demand or may experience technological problems or significant delays in the regulatory certification or manufacturing and delivery schedule. If we were unable to perform our obligations under new or maturing programs to the customer’s satisfaction or manufacture products at our estimated costs, if we were to experience unexpected fluctuations in raw material prices or supplier problems leading to cost overruns, if we were unable to successfully perform under revised design and manufacturing plans or successfully resolve claims and assertions, or if a new or maturing program in which we had made a significant investment was terminated or experienced weak demand, delays or technological problems could result and our business, financial condition, and results of operations could be materially adversely affected. Some of these risks have affected our maturing programs to the extent that we have recorded significant forward losses and maintain certain of our maturing programs at zero or low margins due to our inability to overcome the effects of these risks. We continue to face similar risks as well as the potential for default, quality problems, or inability to meet weight requirements and these could result in continued zero or low margins or additional forward losses, and the risk of having to write-off additional inventory if it were deemed to be unrecoverable over the life of the program. In addition, beginning new work on existing programs also carries risks associated with the transfer of technology, knowledge, and tooling.

In order to perform on new or maturing programs we may be required to construct or acquire new facilities requiring additional up-front investment costs. In the case of significant program delays and/or program cancellations, we could be required to bear certain unrecoverable construction and maintenance costs and incur potential impairment charges for the new facilities. Also, we may need to expend additional resources to determine an alternate revenue-generating use for the facilities. Likewise, significant delays in the construction or acquisition of a plant site could impact production schedules.

We use estimates in accounting for revenue and cost for our contracts. Changes in our estimates could adversely affect our future financial performance.

The Company recognizes revenue using the principles of Accounting Standards Codification Topic 606 and estimates revenue and cost for contracts that span a period of multiple years. This method of accounting requires judgment on a number of underlying assumptions to develop our estimates such as favorable trends in volume, learning curve efficiencies, and future pricing from suppliers that reduce our production costs. However, several factors may cause the costs we incur in fulfilling these contracts to vary substantially from our original estimates such as technical problems, delivery reductions, materials shortages, supplier difficulties, and multiple other events. Other than certain increases in raw material costs that can generally be passed on to our customers, in most instances we must fully absorb cost overruns. Due to the significant length of time over which some revenue streams are generated, the variability of future period estimated revenue and cost may be adversely affected if circumstances or underlying assumptions change. If our estimated costs exceed our estimated revenues under a fixed-price contract, we will be required to recognize a forward loss on the affected program, which could have a material adverse effect on our results of operations. The risk particularly applies to products such as the B787, in that our performance at the contracted price depends on our being able to achieve production cost reductions as we gain production experience. For additional information on our accounting policies for recognizing revenue and profit, please see our discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in this Form 10-K.

Further, some of our long-term supply agreements, such as the Sustaining Agreement and the B787 Agreement, provide for the re-negotiation of established pricing terms at specified times in the future. If such negotiations result in costs that exceed our revenue under a fixed-price contract, or operating margins that our lower than our current margins, we may need to recognize a forward loss on the affected program, which could have a material adverse effect on our results of operations.

Additionally, variability of future period estimated revenue and cost may result in recording additional valuation allowances against future deferred tax assets, which could adversely affect our future financial performance.

Prolonged periods of inflation where we do not have adequate inflation protections in our customer contracts could have a material adverse effect on our results of operations.

A majority of our sales are conducted pursuant to long-term contracts that set fixed unit prices. Certain, but not all, of these contracts provide for price adjustments for inflation or abnormal escalation. Although we have attempted to minimize the effect of inflation on our business through contractual protections, the presence of longer pricing periods within our contracts increases the likelihood that there will be sustained or higher than anticipated increases in costs of labor or material. Furthermore, if one of the raw materials on which we are dependent (e.g. aluminum, titanium, or composite material) were to experience an isolated price increase without inflationary impacts on the broader economy, we may not be entitled to inflation protection under certain of our contracts. If our contractual protections do not adequately protect us in the context of substantial cost increases, it could have a material adverse effect on our results of operations.

Our business could be materially adversely affected by product warranty obligations or defective product claims.

We are exposed to liabilities that are unique to the products and services we provide. Our operations expose us to potential liabilities for warranty or other claims with respect to aircraft components that have been designed, manufactured, or serviced by us or our suppliers. We maintain insurance for certain risks. The amount of our insurance coverage may not cover all claims or liabilities and we may be forced to bear substantial costs. Material obligations in excess of our insurance coverage (or other third party indemnification) could have a material adverse effect on our business, financial condition, and results of operations.

In addition, if our products are found to be defective and lacking in quality, or if one of our products causes an accident, our reputation could be damaged and our ability to retain and attract customers could be materially adversely affected.

We may be required to repay Boeing advanced payments in the event Boeing does not take delivery of a sufficient number of shipsets prior to the termination of the aircraft program.

Boeing has made advance payments to Spirit under the B787 Supply Agreement, that are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries. Advance repayments were originally scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing. On April 8, 2014, the Company signed a memorandum of agreement with Boeing that suspended advance repayments related to the B787 program for a period of twelve months beginning April 1, 2014. The 2018 MOA also provided for the suspension of advance repayments with respect to the B787 beginning with line number 818; to resume at a lower rate of $450,319 per shipset at line number 1135 and continue through line number 1605.

In the event Boeing does not take delivery of a sufficient number of shipsets to repay the full amount of advances prior to the termination of the B787 program or the B787 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of $42.0 million due on December 15th of each year until the advance payments have been fully recovered by Boeing.

Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our balance sheet. As of December 31, 2018, the amount of advance payments received by us from Boeing and not yet repaid was approximately $233.9 million.

In order to be successful, we must attract, retain, train, motivate, develop and transition key employees, and failure to do so could harm our business.

In order to be successful, we must attract, retain, train, motivate, develop, and transition qualified executives and other key employees, including those in managerial, manufacturing, and engineering positions. Competition for experienced employees in the aerospace industry, and in particular in Wichita, Kansas, where the majority of our manufacturing and executive offices are located, is intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and share-based compensation. A significant portion of our cash-based incentive compensation is conditioned on our achievement of certain designated financial performance targets, and a portion of our share-based incentive awards is conditioned on our achievement of certain designated financial performance targets and our stock price performance, which makes the size of a particular year's awards uncertain. If employees do not receive share-based incentive awards with a value they anticipate, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

Our human resource talent pool may not be adequate to support our growth.

The Company's operations and strategy require that we employ a critical mass of highly skilled employees. Specifically, we need employees with industry experience and engineering, technical, or mechanical skills. As the Company experiences an increase in retirements, the level of skill replacing our experienced workers is being impacted due to the availability of skilled labor in the market and low unemployment rates. Talent is being replaced with less experienced talent and the organization is having to grow our own to meet the talent gap. We continue to work with learning institutions to develop programs to attract and train new talent. Our inability to attract and retain skilled employees may adversely impact our ability to meet our customers' expectations, the cost and schedule of development projects, and the cost and efficiency of existing operations.

The profitability of certain programs depends significantly on the assumptions surrounding satisfactory settlement of claims and assertions.

For certain of our programs, we regularly commence work or incorporate customer requested changes prior to negotiating pricing terms for engineering work or the product that has been modified. We typically have the contractual right to negotiate pricing for customer directed changes. In those cases, we assert to our customers our contractual rights to obtain the additional revenue or cost reimbursement we expect to receive upon finalizing pricing terms. An expected recovery value of these assertions is incorporated into our contract profitability estimates. Our inability to recover these expected values, among other factors, could result in the recognition of a forward loss on these programs and could have a material adverse effect on our results of operations.

Our operations depend on our ability to maintain continuing, uninterrupted production at our manufacturing facilities and our suppliers' facilities. Our production facilities and our suppliers' facilities are subject to physical and other risks that could disrupt production.

Our manufacturing facilities or our suppliers' manufacturing facilities could be damaged or disrupted by a natural disaster, war, terrorist activity, interruption of utilities, or sustained mechanical failure. Although we have obtained property damage and business interruption insurance where appropriate, a sustained mechanical failure of a key piece of equipment, major catastrophe (such as a fire, flood, tornado, hurricane, major snow storm, or other natural disaster), war, or terrorist activities in any of the areas where we or our suppliers conduct operations could result in a prolonged interruption of all or a substantial portion of our business. Any disruption resulting from these events could cause significant delays in shipments of products and the loss of sales and customers and we may not have insurance to adequately compensate us for any of these events. A large portion of our operations takes place at one facility in Wichita, Kansas and any significant damage or disruption to this facility in particular would materially adversely affect our ability to service our customers.

The Company maintains broad insurance coverage for both property damage and business interruption where appropriate. While the Company expects the insurance proceeds would be sufficient to cover most of the business interruption expenses, certain deductibles and limitations will apply and no assurance can be made that all recovery costs will be covered.

Any future business combinations, acquisitions, mergers, or joint ventures will expose us to risks, including the risk that we may not be able to successfully integrate these businesses or achieve expected operating synergies.

We actively consider strategic transactions from time to time. We evaluate acquisitions, joint ventures, alliances, and co-production programs as opportunities arise, and we may be engaged in varying levels of negotiations with potential candidates at any time. We may not be able to effect transactions with strategic alliance, acquisition, or co-production program candidates on commercially reasonable terms or at all. If we enter into these transactions, we also may not realize the benefits we anticipate. In addition, we may not be able to obtain additional financing for these transactions. The integration of companies that have previously been operated separately involves a number of risks, including, but not limited to:

- demands on management related to the increase in size after the transaction;
- the diversion of management's attention from the management of daily operations to the integration of operations;
- difficulties in the assimilation and retention of employees;
- difficulties in the assimilation of different cultures and practices, as well as in the assimilation of geographically dispersed operations and personnel, who may speak different languages;
- difficulties combining operations that use different currencies or operate under different legal structures and laws;

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- difficulties in the integration of departments, systems (including accounting, production, ERP, and IT systems), technologies, books and records and procedures, as well as in maintaining uniform standards, controls (including internal accounting controls), procedures, and policies;
- compliance with applicable competition laws;
- compliance with the Foreign Corrupt Practices Act, the U.K. Bribery Act and other applicable anti-bribery laws; and
- constraints (contractual or otherwise) limiting our ability to consolidate, rationalize and/or leverage supplier arrangements to achieve integration.

Consummating any acquisitions, joint ventures, alliances, or co-production programs could result in the incurrence of additional debt and related interest expense, as well as unforeseen contingent liabilities.

The Company's proposed acquisition of Asco is subject to significant risk and uncertainties.

As described elsewhere in this Annual Report on Form 10-K, on May 1, 2018, the Company and its wholly owned subsidiary Spirit AeroSystems Belgium Holdings BVBA (“Spirit Belgium”) entered into a definitive agreement (the “purchase agreement”) with certain sellers pursuant to which Spirit Belgium will purchase all of the issued and outstanding equity of S.R.I.F. N.V., the parent company of Asco Industries N.V. (“Asco”), for $650.0 million in cash, subject to certain customary closing adjustments. Our ability to complete the proposed acquisition on a timely basis or at all is subject to numerous risks and uncertainties, including, but not limited to, the following:

- we may not obtain required regulatory approvals or receipt of regulatory approvals may take longer than expected or may impose conditions to the proposed acquisition that are not presently anticipated or cannot be met;
- conditions to the proposed acquisition may not be fulfilled in a timely manner or at all; or
- unforeseen events and those beyond our control.

One of the closing conditions is receipt of clearance from the European Commission (the “Commission”). During the scope of the Commission's Phase 1 review, the Commission identified issues that it required to be addressed regarding the transaction. Consequently, on October 26, 2018, we withdrew our notification of the transaction from the Commission in order to address those issues. The withdrawal interrupted the Commission's review of the transaction. After several months of addressing the issues, the Company refiled its application with the Commission on January 30, 2019, and the Commission is proceeding with a Phase 1 review of the transaction. There can be no assurances that we will receive the clearance of the Commission.

We have incurred and expect to incur transaction and acquisition-related costs associated with the proposed acquisition. In addition, while we have attempted to mitigate our exposure to currency exchange rate fluctuations, movements in the Euro exchange rate could cause the purchase price to fluctuate, affecting our cash flows. These, as well as other unanticipated costs and expenses, could have a material impact on our financial condition and operating results. Combining our businesses may be more difficult, costly, or time consuming than expected. In addition, events outside of our control, including changes in regulation and laws as well as economic trends, could adversely affect our ability to realize the expected benefits from the acquisition.

The success of the proposed acquisition will depend on, among other things, our ability to realize the anticipated benefits and cost savings from combining our and Asco's businesses in a manner that facilitates growth opportunities and realizes anticipated synergies and cost savings. These anticipated benefits and cost savings may not be realized fully or at all, or may take longer to realize than expected or could have other adverse effects that we do not currently foresee.

We actively consider divestitures from time to time. Engagement in divestiture activity could disrupt our business and present risks not contemplated at the time of the divestiture.

Divestitures that we may pursue could involve numerous potential risks, including the following:

- difficulties in the separation of operations, services, products, and personnel;
- diversion of resources and management’s attention from the operation of our business;
- loss of key employees;
- damage to our existing customer, supplier, and other business relationships;
-

negative effects on our reported results of operations from disposition-related charges, amortization expenses related to intangibles, and/or charges for impairment of long-term assets;

- the need to agree to retain or assume certain current or future liabilities in order to complete the divestiture; and
- the expenditure of substantial legal and other fees, which may be incurred whether or not a transaction is consummated.

As a result of the aforementioned risks, among others, the pursuit of any divestiture may not lead to increased stockholder value.

We do not own most of the intellectual property and tooling used in our business.

Our business depends on using certain intellectual property and tooling that we have rights to use under license grants from Boeing. These licenses contain restrictions on our use of Boeing intellectual property and tooling and may be terminated if we default under certain of these restrictions. If Boeing terminates our licenses to use Boeing intellectual property or tooling as a result of default or otherwise, or fails to honor its obligations under certain licenses, our business would be materially affected. See “Business-Our Relationship with Boeing-License of Intellectual Property.” In addition to the licenses with Boeing, we license some of the intellectual property needed for performance under some of our supply contracts from our customers under those supply agreements. We must honor our contractual commitments to our customers related to intellectual property and comply with infringement laws governing our use of intellectual property. In the event we obtain new business from new or existing customers, we will need to pay particular attention to these contractual commitments and any other restrictions on our use of intellectual property to make sure that we will not be using intellectual property improperly in the performance of such new business. In the event we use any such intellectual property improperly, we could be subject to an infringement or misappropriation claim by the owner or licensee of such intellectual property.

In the future, our entry into new markets may require obtaining additional license grants from Boeing and/or from other third parties. If we are unable to negotiate additional license rights on acceptable terms (or at all) from Boeing and/or other third parties as the need arises, our ability to enter new markets may be materially restricted. In addition, we may be subject to restrictions in future licenses granted to us that may materially restrict our use of third party intellectual property.

Our success depends in part on the success of our research and development initiatives.

We spent $42.5 million on research and development during the twelve months ended December 31, 2018. Our expenditures on our research and development efforts may not create any new sales opportunities or increases in productivity that are commensurate with the level of resources invested.

We are in the process of developing specific technologies and capabilities in pursuit of new business and in anticipation of customers going forward with new programs. If any such programs do not go forward or are not successful, or if we are unable to generate sufficient new business, we may be unable to recover the costs incurred in anticipation of such programs or business and our profitability and revenues may be materially adversely affected.

We will need to expend significant capital to keep pace with technological developments in our industry.

The aerospace industry is constantly undergoing development and change. In order for us to remain competitive, we will need to expend significant capital to research and develop technologies, purchase new equipment and machines, or to train our employees in the new methods of production and service. We may not be successful in developing new products and these capital expenditures may have a material adverse effect on us.

We could be required to make future contributions to our defined benefit pension and post-retirement benefit plans as a result of adverse changes in interest rates and the capital markets.

Our estimates of liabilities and expenses for pensions and other post-retirement benefits incorporate significant assumptions including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age, and mortality). A dramatic decrease in the fair value of our plan assets resulting from movements in the financial markets or a decrease in discount rates may cause the status of our plans to go from an over-funded status to an under-funded status and result in cash funding requirements to meet any minimum required funding levels. Our results of operations, liquidity, or shareholders’ equity in a particular period could be affected by a decline in the rate of return on plan assets, the rate used to discount the future estimated liability, or changes in employee workforce assumptions.

We derive a significant portion of our net revenues from direct and indirect sales outside the U.S. and are subject to the risks of doing business in foreign countries.

We derive a significant portion of our revenues from sales by Boeing and Airbus to customers outside the U.S. In addition, for the twelve months ended December 31, 2018, direct sales to our non-U.S. customers accounted for approximately 17% of our net revenues. We expect that our and our customers’ international sales will continue to account for a significant portion of our net revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

- changes in regulatory requirements;
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements;
- fluctuations in foreign currency exchange rates;
- the complexity and necessity of using foreign representatives and consultants;

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- uncertainties and restrictions concerning the availability of funding credit or guarantees;
- tariffs (imposed or threatened) on imports, including tariffs imposed in a retaliatory manner on U.S. exports, embargoes, export controls, and other trade restrictions;
- potential or actual withdrawal or modification of international trade agreements;
- modifications to sanctions imposed on other countries;
- changes to immigration policies that may present risks to companies that rely on foreign employees or contractors;
- differences in business practices;
- the difficulty of management and operation of an enterprise spread over various countries;
- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and other applicable anti-bribery laws; and
- economic and geopolitical developments and conditions, including domestic or international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships, and military and political alliances.

While these factors and the effect of these factors are difficult to predict, adverse developments in one or more of these areas could materially adversely affect our business, financial condition, and results of operations in the future.

The outcome of litigation and of government inquiries and investigations involving our business is unpredictable and an adverse decision in any such matter could have a material effect on our financial position and results of operations.

We are involved in a number of litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits could have a material impact on our financial position and results of operations. In addition, we are sometimes subject to government inquiries and investigations of our business due, among other things, to the heavily regulated nature of our industry and our participation on government programs. Any such inquiry or investigation could potentially result in an adverse ruling against us, which could have a material impact on our financial position and operating results.

Increases in labor costs, potential labor disputes, and work stoppages at our facilities or the facilities of our suppliers or customers could materially adversely affect our financial performance.

Our financial performance is affected by the availability of qualified personnel and the cost of labor. A majority of our workforce is represented by unions. If our workers were to engage in a strike, work stoppage, or other slowdown, we could experience a significant disruption of our operations, which could cause us to be unable to deliver products to our customers on a timely basis and could result in a breach of our supply agreements. This could result in a loss of business and an increase in our operating expenses, which could have a material adverse effect on our business, financial condition, and results of operations. In addition, our non-unionized labor force may become subject to labor union organizing efforts, which could cause us to incur additional labor costs and increase the related risks that we now face.

Due to the receipt of occasional government incentives, we have certain commitments to keep our programs in their current locations. This may prevent us from being able to offer our products at prices that are competitive in the marketplace and could have a material adverse effect on our ability to generate new business.

In addition, many aircraft manufacturers, airlines, and aerospace suppliers have unionized work forces. Any strikes, work stoppages, or slowdowns experienced by aircraft manufacturers, airlines, or aerospace suppliers could reduce our customers’ demand for additional aircraft structures or prevent us from completing production of our aircraft structures.

The U.S. Government is a significant customer of certain of our customers and we and they are subject to specific U.S. Government contracting rules and regulations.

We provide aerostructures to defense aircraft manufacturers ("defense customers"). Our defense customers' businesses, and by extension, our business, is affected by the U.S. Government's continued commitment to programs under contract with our customers. Contracts with the U.S. Government generally permit the government to terminate contracts partially or completely, with or without cause, at any time. An unexpected termination of a significant government contract, a reduction in expenditures by the U.S. Government for aircraft using our products, lower margins resulting from increasingly competitive procurement policies, a reduction in the volume of contracts awarded to us, or substantial cost overruns could materially reduce our cash flow and results of operations. We bear the potential risk that the U.S. Government may unilaterally suspend our defense customers or us from new contracts pending the resolution of alleged violations of procurement laws or regulations.

A decline in the U.S. defense budget or change of funding priorities may reduce demand for our defense customers' aircraft and reduce our sales of defense products.

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The U.S. defense budget has fluctuated in recent years, at times resulting in reduced demand for new aircraft. Changes in military strategy and priorities, or reductions in defense spending, may affect current and future funding of these programs and could reduce the demand for our defense customers' products, and thereby reduce sales of our defense products, which could adversely affect our financial position, results of operations, and cash flows.

Our business may be materially adversely affected if we lose our government, regulatory or industry approvals, if we lose our facility security clearance, if more stringent government regulations are enacted, or if industry oversight is increased.

The FAA prescribes standards and qualification requirements for aerostructures, including virtually all commercial airline and general aviation products, and licenses component repair stations within the U.S. comparable agencies, such as the EASA in Europe, regulate these matters in other countries. If we fail to qualify for or obtain a required license for one of our products or services or lose a qualification or license previously granted, the sale of the subject product or service would be prohibited by law until such license is obtained or renewed and our business, financial condition, and results of operations could be materially adversely affected. In addition, designing new products to meet existing regulatory requirements and retrofitting installed products to comply with new regulatory requirements can be expensive and time consuming.

A facility security clearance is required for a company to be awarded and perform on classified contracts for the Department of Defense (“DOD”) and certain other agencies of the U.S. Government. We have obtained a facility clearance at the “Secret” level (“FCL”). If we were to violate the terms and requirements of the NISPOM or any other applicable U.S. Government industrial security regulations, we could lose our FCL. We cannot give any assurance that we will be able to maintain our FCL. If for some reason our FCL is invalidated or terminated, we may not be able to continue to perform under our classified contracts in effect at that time, and we would not be able to enter into new classified contracts, which could adversely affect our revenues.

In addition, our growth objectives in the defense business may be materially adversely affected by the ability to obtain government security clearances for our existing employees and new hires.

From time to time, government agencies propose new regulations or changes to existing regulations. These changes or new regulations generally increase the costs of compliance. To the extent the agencies implement regulatory changes, we may incur significant additional costs to achieve compliance.

In addition, certain aircraft repair activities we intend to engage in may require the approval of the aircraft’s OEM. Our inability to obtain OEM approval could materially restrict our ability to perform such aircraft repair activities.

Our business is subject to regulation in the U.S. and internationally.

The manufacturing of our products is subject to numerous federal, state, and foreign governmental regulations. The number of laws and regulations that are being enacted or proposed by various governmental bodies and authorities are increasing. Compliance with these regulations is difficult and expensive. If we fail to adhere, or are alleged to have failed to adhere, to any applicable federal, state, or foreign laws or regulations, or if such laws or regulations negatively affect sales of our products, our business, prospects, results of operations, financial condition, or cash flows may be adversely affected. In addition, our future results could be adversely affected by changes in applicable federal, state, and foreign laws and regulations, or the interpretation or enforcement thereof, including those relating to manufacturing processes, product liability, government contracts, trade rules and customs regulations, intellectual property, consumer laws, privacy laws, as well as accounting standards and taxation requirements (including tax-rate changes, new tax laws, revised tax law interpretations, or other potential impacts outlined in proposals on the Tax Cuts and Jobs Act (the “TCJA”)).

We are subject to environmental, health, and safety regulations and our ongoing operations may expose us to related liabilities.

Our operations are subject to extensive regulation under environmental, health, and safety laws and regulations in the U.S. and other countries in which we operate. We may be subject to potentially significant fines or penalties, including criminal sanctions, if we fail to comply with these requirements. We have made, and will continue to make, significant capital and other expenditures to comply with these laws and regulations. We cannot predict with certainty what environmental legislation will be enacted in the future or how existing laws will be administered or interpreted.

Our operations involve the use of large amounts of hazardous substances and regulated materials and generate many types of wastes, including emissions of hexavalent chromium and volatile organic compounds, and greenhouse gases such as carbon dioxide. Spills and releases of these materials may subject us to clean-up liability for remediation and claims of alleged personal injury, property damage, and damage to natural resources, and we may become obligated to reduce our emissions of hexavalent chromium, volatile organic compounds and/or greenhouse gases. We cannot give any assurance that the aggregate amount of future remediation costs and other environmental liabilities will not be material.

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Boeing, our predecessor at the Wichita facility, is under an administrative consent order issued by the Kansas Department of Health and Environment to contain and remediate contaminated groundwater, which underlies a majority of our Wichita facility. Pursuant to this order and its agreements with us, Boeing has a long-term remediation plan in place, and treatment, containment, and remediation efforts are underway. If Boeing does not comply with its obligations under the order and these agreements, we may be required to undertake such efforts and make material expenditures.

In connection with the BAE Acquisition, we became a supplier to Airbus and acquired a manufacturing facility in Prestwick, Scotland that is adjacent to contaminated property retained by BAE Systems. The contaminated property may be subject to a regulatory action requiring remediation of the land. It is also possible that the contamination may spread into the property we acquired. BAE Systems has agreed to indemnify us, subject to certain contractual limitations and conditions, for certain clean-up costs and other losses, liabilities, expenses, and claims related to existing pollution on the acquired property, existing pollution that migrates from the acquired property to a third party's property and any pollution that migrates to our property from property retained by BAE Systems. If BAE Systems does not comply with its obligations under the BAE Acquisition agreement, we may be required to undertake such efforts and make material expenditures.

In the future, contamination may be discovered at or emanating from our facilities or at off-site locations where we send waste. The remediation of such newly discovered contamination, related claims for personal injury or damages, or the enactment of new laws or a stricter interpretation of existing laws, may require us to make additional expenditures, some of which could be material. See "Business - Regulatory Matters."

We are subject to regulation of our technical data and goods under U.S. export control laws.

As a manufacturer and exporter of defense and dual-use technical data and commodities, we are subject to U.S. laws and regulations governing international trade and exports, including, but not limited to, the International Traffic in Arms Regulations, administered by the U.S. Department of State, and the Export Administration Regulations, administered by the U.S. Department of Commerce. Collaborative agreements that we may have with foreign persons, including manufacturers and suppliers, are also subject to U.S. export control laws. In addition, we are subject to trade sanctions against embargoed countries, which are administered by the Office of Foreign Assets Control within the U.S. Department of the Treasury.

A determination that we have failed to comply with one or more of these export controls or trade sanctions could result in civil or criminal penalties, including the imposition of fines upon us as well as the denial of export privileges and debarment from participation in U.S. government contracts. Additionally, restrictions may be placed on the export of technical data and goods in the future as a result of changing geopolitical conditions. Any one or more of such sanctions could have a material adverse effect on our business, financial condition, and results of operations.

We are required to comply with "conflict minerals" rules promulgated by the SEC, which impose costs on us, may make our supply chain more complex, and could adversely impact our business.

We are subject to annual due diligence, disclosure, and reporting requirements as a company that manufactures or contracts to manufacture products that contain certain minerals and metals known as "conflict minerals." We have, and expect to continue to, incur additional costs and expenses, in order to comply with these rules, including for due diligence to determine whether conflict minerals are necessary to the functionality or production of any of our products and, if so, to verify the sources of such conflict minerals; and to implement any changes we deem necessary to our products, processes, or sources of supply as a result of such diligence and verification activities. Compliance with these rules could adversely affect the sourcing, supply, and pricing of materials used in certain of our products. As there may be only a limited number of suppliers offering conflict minerals from sources outside of the Democratic Republic of Congo or adjoining countries, or that have been independently verified as not funding armed conflict in those countries, we cannot assure that we will be able to obtain such verified minerals from such suppliers in sufficient quantities or at competitive prices. Since our supply chain is complex, we may not ultimately be able to sufficiently verify the origin of the conflict minerals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, stockholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of the components in our products be certified as “conflict free.” If we are not able to meet such requirements, customers may choose to disqualify us as a supplier, which may require us to write off inventory that cannot be sold. Any one or a combination of these factors could harm our business, reduce market demand for our products, and adversely affect our profit margins, net sales, and overall financial results. We may face similar risks in connection with any other regulations focusing on social responsibility or ethical sourcing that may be adopted in the future.

The Company's results could be adversely affected by economic and geopolitical considerations.

The commercial airline industry is impacted by the strength of the global economy and the geopolitical events around the world. Possible exogenous shocks such as expanding conflicts or political unrest in the Middle East or Asia, renewed terrorist attacks against the industry, or pandemic health crises have the potential to cause precipitous declines in air traffic. Any protracted economic slump, adverse credit market conditions, future terrorist attacks, war, or health concerns could cause airlines to cancel or delay the purchase of additional new aircraft, which could result in a deterioration of commercial airplane backlogs. If demand for new aircraft decreases, there would likely be a decrease in demand for our commercial aircraft products, and our business, financial condition, and results of operations could be materially adversely affected.

There continues to be substantial uncertainty regarding the economic impact of the Referendum on the United Kingdom's Membership of the European Union ("EU") (referred to as "Brexit"). Potential adverse consequences of Brexit such as global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the UK and other countries and increased regulatory complexities could have a negative impact on our business, financial condition, and results of operations. Adverse economic conditions may decrease our customers' demand for our products and services or impair the ability of our customers to pay for products and services they have purchased. As a result, our sales could decrease and reserves for our credit losses and write-offs of receivables may increase.

We are pursuing growth opportunities in a number of newly developed and emerging markets. These investments may expose us to heightened risks of economic, geopolitical, or other events, including governmental takeover (i.e., nationalization) of our manufacturing facilities or intellectual property, restrictive exchange or import controls, disruption of operations as a result of systemic political or economic instability, outbreak of war or expansion of hostilities, and acts of terrorism, each of which could have a substantial adverse effect on our financial condition and results of operations. Further, the U.S. government, other governments, and international organizations could impose additional sanctions that could restrict us from doing business directly or indirectly in or with certain countries or parties, which could include affiliates.

We could be materially adversely affected by high fuel prices

Due to the competitive nature of the airline industry, airlines are often unable to pass on increased fuel prices to customers by increasing fares. Fluctuations in the global supply of crude oil and the possibility of changes in government policy on jet fuel production, transportation, and marketing make it difficult to predict the future availability and price of jet fuel. In the event there is an outbreak or escalation of hostilities or other conflicts, or significant disruptions in oil production or delivery in oil-producing areas or elsewhere, there could be reductions in the production or importation of crude oil and significant increases in the cost of fuel. If there were major reductions in the availability of jet fuel or significant increases in its cost, the airline industry and, as a result, our business, could be materially adversely affected.

Our operations could be negatively impacted by service interruptions, data corruption or misuse, cyber-based attacks, or network security breaches.

We rely on information technology networks and systems to manage and support a variety of business activities, including procurement and supply chain, engineering support, and manufacturing. These networks and systems, some of which are managed by third-parties, are susceptible to damage, disruptions, or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers or insiders, telecommunication failures, user errors, or catastrophic events. If these networks and systems suffer severe damage, disruption, or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our manufacturing process could be disrupted, resulting in late deliveries or even no deliveries if there is a total shutdown. This could have a material adverse effect on our reputation and we could face financial losses.

The General Data Protection Regulation (“GDPR”) went into effect in the EU on May 25, 2018. The GDPR creates a range of compliance obligations applicable to the collection, use, retention, security, processing, and transfer of personally identifiable information of EU residents. Violations of the GDPR may result in significant fines and sanctions. Any failure, or perceived failure, by us to comply with the GDPR, or any other privacy, data protection, information security, or consumer protection-related privacy laws and regulations could result in financial losses and have an adverse effect on our reputation.

Further, we routinely experience cyber security threats and attempts to gain access to sensitive information, as do our customers, suppliers, and other third parties with which we work. We have established threat detection, monitoring, and mitigation processes and procedures and are continually exploring ways to improve these processes and procedures. However, we cannot provide assurance that these processes and procedures will be sufficient to prevent cyber security threats from materializing. If threats do materialize, we could experience significant financial or information losses and/or reputational harm. If we are unable to protect sensitive or confidential information from these threats, our customers or governmental authorities could question the adequacy of our threat mitigation and detection processes and procedures and, as a result, our present and future business could be negatively impacted.

Our debt could adversely affect our financial condition and our ability to operate our business. The terms of the indentures governing our bonds and our credit facility impose significant operating and financial restrictions on us, which could also adversely affect our operating flexibility and put us at a competitive disadvantage by preventing us from capitalizing on business opportunities.

As of December 31, 2018, we had total debt of $1,895.4 million, including $204.7 million of borrowings under our credit facility, $1,587.4 million of bonds, and $103.3 million of capital lease and other obligations. In addition to our debt, as of December 31, 2018, we had $27.3 million of letters of guarantee outstanding.

The 2018 Credit Agreement also contains the following financial covenants (as defined in the A&R Credit Agreement):

Interest Coverage Ratio	Shall not be less than 4.0:1.0
Total Leverage Ratio	Shall not exceed 3.5:1.0

As of December 31, 2018, Spirit was and expects to remain in full compliance with all covenants contained within the 2018 Credit Agreement through December 31, 2019.

The terms of the indentures governing our bonds and our credit facility impose significant operating and financial restrictions on us, which limit our ability to incur liens, and enter into certain transactions, among other things. In addition, our debt instruments require us to maintain compliance with financial covenants.

We cannot assure you that we will be able to maintain compliance with the covenants in the agreements governing our indebtedness in the future or, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants. Failure to maintain compliance with these covenants could have a material adverse effect on our operations.

We may periodically need to obtain additional financing in order to meet our debt obligations as they come due, to support our operations and/or to make acquisitions. Our access to the debt capital markets and the cost of borrowings are affected by a number of factors including market conditions and the strength of our credit ratings. If we cannot obtain adequate sources of credit on favorable terms, or at all, our business, operating results, and financial condition could be adversely affected.

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

As of December 31, 2018, our corporate credit ratings were BBB- by Standard & Poor's Financial Services LLC ("S&P"), and Baa3 by Moody's Investors Service, Inc. ("Moody's").

The ratings reflect the agencies' assessment of our ability to pay interest and principal on our debt securities and credit agreements. A rating is not a recommendation to purchase, sell, or hold securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating agency has its own methodology for assigning ratings and, accordingly, each rating should be considered independently of all other ratings. Lower ratings would typically result in higher interest costs of debt securities when they are sold, could make it more difficult to issue future debt securities, could require us to provide creditors with more restrictive covenants, which would limit our flexibility and ability to pay dividends and may require us to pledge collateral, under our credit facility. Any downgrade in our credit ratings could thus have a material adverse effect on our business or financial condition.

We may sell more equity and reduce your ownership in Spirit Holdings.

Our business plan may require the investment of new capital, which we may raise by issuing additional equity (including equity interests that may have a preference over shares of our class A common stock). However, this capital may not be available at all, or when needed, or upon terms and conditions favorable to us. The issuance of additional equity in Spirit Holdings may result in significant dilution of shares of our class A common stock. We may issue additional equity in connection with or to finance acquisitions. Further, our subsidiaries could issue securities in the future to persons or entities (including our affiliates) other than us or another subsidiary. This could materially adversely affect your investment in us because it would dilute your indirect ownership interest in our subsidiaries.

Spirit Holdings' certificate of incorporation and by-laws and our supply agreements with Boeing contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of Spirit Holdings' certificate of incorporation and by-laws may discourage, delay, or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our current board of directors. These provisions include:

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- advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and
- the authority of the board of directors to issue, without stockholder approval, up to 10 million shares of preferred stock with such terms as the board of directors may determine.

In addition, our supply agreements with Boeing include provisions giving Boeing the ability to terminate the agreements in the event any of certain disqualified persons acquire a majority of Spirit's direct or indirect voting power or all or substantially all of Spirit's assets. See "Business - Our Relationship with Boeing."

Item 1B. Unresolved Staff Comments

None.

Item 2. Significant Properties

The location, primary use, approximate square footage and ownership status of our principal properties as of December 31, 2018 are set forth below:

Location	Primary Use	Approximate Square Footage	Owned/Leased
United States			
Wichita, Kansas(1)	Primary Manufacturing Facility/Offices/Warehouse	12.0 million	Owned/Leased
Tulsa, Oklahoma	Manufacturing Facility	1.75 million	Leased
McAlester, Oklahoma	Manufacturing Facility	142,000	Owned
Kinston, North Carolina	Primary Manufacturing/Office/Warehouse	851,000	Leased
United Kingdom			
Prestwick, Scotland	Manufacturing Facility	974,000	Owned
Malaysia			
Subang, Malaysia	Manufacturing	386,000	Owned/Leased
France			
Saint-Nazaire, France	Primary Manufacturing/Office	58,800	Leased

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(1) 90% of the Wichita facility is owned.

Our physical assets consist of 16.2 million square feet of building space located on 1,351 acres in seven facilities. We produce our fuselage systems and propulsion systems from our primary manufacturing facility located in Wichita, Kansas with some fuselage work done in our Kinston, North Carolina; Saint Nazaire, France; and Subang, Malaysia facilities. We produce wing systems in our manufacturing facilities in Tulsa, Oklahoma; Kinston, North Carolina; Prestwick, Scotland; and Subang, Malaysia. In addition to these sites, we have a facility located in McAlester, Oklahoma that supplies machined parts and sub-assemblies to the Wichita and Tulsa facilities, and is now offering services to third parties as part of our focus on leveraging our fabrication and assembly expertise.

The Wichita facility, including Spirit's corporate offices, is comprised of 633 acres, 7.7 million square feet of manufacturing space, 1.6 million square feet of offices and laboratories for the engineering and design group and 2.7 million square feet for support functions and warehouses. A total of 355,000 square feet are currently vacant, with 75,000 square feet of that planned to support increases in rates across programs and the expansion of fabrication and assembly work. Two new facilities are currently under construction in Wichita. The first is the Global Digital Logistics Center, a 170,000 square foot automated warehouse that is scheduled for completion in June 2019. The second is the Northeast Manufacturing Facility, a 138,000 square foot manufacturing building that will house the B767 section 41 program and is scheduled for completion in October 2019. The Wichita site has access to transportation by rail, road, and air via the runways of McConnell Air Force Base.

The Tulsa facility consists of 1.75 million square feet of building space set on 160 acres. The Tulsa plant is located five miles from an international shipping port (Port of Catoosa) and is located next to the Tulsa International Airport. Triumph currently subleases 296,000 square feet of the Tulsa plant for manufacturing purposes. The sublease includes 261,000 square feet of manufacturing space and 35,000 square feet of office space. The McAlester site, which manufactures parts and sub-assemblies, consists of 142,000 square feet of building space on 89 acres.

The Prestwick facility consists of 974,000 square feet of building space, comprised of 444,000 square feet of manufacturing space, 255,000 square feet of office space, and 275,000 square feet of warehouse/support space. This facility is set on 100 acres. The Aerospace Innovation Center, a new 70,000 square foot facility, is scheduled for completion in December 2019. The Prestwick plant is located within close proximity to the motorway network that provides access between England and continental Europe. It is also easily accessible by air (at Prestwick International Airport) or by sea. A portion of the Prestwick facility is leased to the Regional Aircraft division of BAE Systems and certain other tenants.

The Malaysian manufacturing plant is located at the Malaysia International Aerospace Center in Subang. The 386,000 square foot leased facility is set on 45 acres and is centrally located with easy access to Kuala Lumpur, as well as nearby ports and airports. The facility assembles composite panels for wing components. A new 57,000 square foot warehouse was constructed in June 2018 to accommodate the need for more manufacturing space in the facility.

The Wichita and Tulsa manufacturing facilities have significant scale to accommodate the very large structures that are manufactured there, including, in Wichita, entire fuselages. Three of the U.S. facilities are in close proximity, with approximately 175 miles between Wichita and Tulsa and 90 miles between Tulsa and McAlester. Currently, these U.S. facilities utilize approximately 97% of the available building space. The Prestwick manufacturing facility currently utilizes only 74% of the space; of the remaining space, 15% is leased to others and 11% is vacant.

The Kinston, North Carolina facility supports the manufacturing of composite panels and wing components. The primary manufacturing site and off-site leased spaces total 318 acres and 851,000 square feet. In addition to the primary manufacturing facility, this includes three additional buildings leased from the North Carolina Global Transpark Authority: a 27,800 square foot warehouse/office supporting receiving needs, a 26,400 square foot warehouse providing tooling storage, and a 121,000 square foot manufacturing facility supporting light manufacturing. A new 11,000 square foot Trim & Drill expansion facility was completed in November 2018 in support of the A350 XWB program.

The Saint-Nazaire, France site was built on 6.25 acres and totals 58,800 square feet. This facility receives center fuselage frame sections for the Airbus A350 XWB from the facility in Kinston, North Carolina. Sections designed and manufactured in North Carolina are shipped across the Atlantic, received in Saint-Nazaire, and assembled before being transported to Airbus.

Item 3. Legal Proceedings

Information concerning the litigation and other legal proceedings in which the Company is involved may be found in Note 21 to the Consolidated Financial Statements, Commitments, Contingencies and Guarantees, under the sub-heading “Litigation” in this Annual Report and that information is hereby incorporated by reference.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Listed below are the names, ages, positions held, and biographies of all executive officers of Spirit Holdings. Executive officers hold office until their successors are appointed, or until their death, retirement, resignation, or removal.

Tom C. Gentile III, 54. Mr. Gentile became President and Chief Executive Officer on August 1, 2016. From April 2016 to July 2016, Mr. Gentile served as Executive Vice President and Chief Operating Officer. From 2014 to April 2016, Mr. Gentile served as President and Chief Operating Officer of GE Capital where he oversaw GE Capital’s global operations, IT, and capital planning and served on its board of directors. Mr. Gentile had been employed by GE since 1998, and prior to his most recent position with GE, held the position of President and CEO of GE Healthcare’s Healthcare Systems division from 2011 until 2014 and the position of President and CEO of GE Aviation Services from 2008 until 2011. Mr. Gentile received his Bachelor of Arts degree in economics and Master of Business

Administration degree from Harvard University, and studied International Relations at the London School of Economics.

Jose Garcia, 46. Mr. Garcia joined the Company on January 9, 2019 as Senior Vice President and Chief Financial Officer after a 22 year career at General Electric Company (“GE”). Most recently, beginning in November 2015, Mr. Garcia served as Vice President and Chief Financial Officer of General Electric Renewable Energy, a division of GE headquartered in Paris, France focusing on onshore and offshore wind, solar, and hydroelectric power generation. From July 2014 to November 2015, Mr. Garcia served as Vice President of Alstom Integration, Finance, and Synergies at GE. In this role, Mr. Garcia was responsible for finance

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integration, synergies, and value creation in connection with the largest industrial acquisition in GE's history. Prior to July 2014, Mr. Garcia served as Chief Financial Officer for a number of divisions at GE - from September 2011 to June 2014, Mr. Garcia served as Chief Financial Officer of GE in Latin America; from September 2009 to September 2011, Mr. Garcia served as Chief Financial Officer of GE Energy - Power Generation Services; and from April 2008 to September 2009, Mr. Garcia served as Chief Financial Officer of GE Energy - GE Hitachi Nuclear Energy Holdings. Prior to April 2008, Mr. Garcia served in a number of other capacities at GE including Finance Manager for commercial operations at GE Energy - Power Equipment, Chief Financial Officer of GE Energy Infrastructure in Greater China, and Executive Audit Manager at GE Corporate. Mr. Garcia received a Bachelor of Arts degree in business administration and management and a Master of Business Administration from ESADE Business School in Spain

William (Bill) Brown, 56. Mr. Brown has served as Senior Vice President, Boeing Programs, since October1, 2018. Previously, Mr. Brown served as Senior Vice President and General Manager, Oklahoma Operations, Business and Regional Jets and Global Customer Support. Mr. Brown assumed responsibility of Oklahoma Operations in December 2014 and responsibility of Business and Regional Jets in September 2017. Mr. Brown joined Spirit in May 2014 as Senior Vice President, Global Customer Support and Services. Previously, Mr. Brown served as Executive Vice President for Global Operations and President for Global Customer Service and Support at Beechcraft from 2007 to May 2014. Prior to joining Beechcraft, Mr. Brown served as President and General Manager of AAR Aircraft Services in Oklahoma and held senior-level positions with Independence Air, Avborne Inc. and Midwest Airlines. Mr. Brown received his Bachelor of Science degree in Aviation Management from Oklahoma State University and his Master's of Business Administration degree from Colorado State University. He also holds an A&P license and is a commercial instrument pilot.

Stacy Cozad, 48. Ms. Cozad became Senior Vice President, General Counsel, Chief Compliance Officer, and Corporate Secretary in September 2017. Previously, Ms. Cozad served Spirit as Senior Vice President, General Counsel, and Corporate Secretary since January 4, 2016. Prior to joining Spirit, she served as Southwest Airlines' associate general counsel for litigation from October 2006 to December 2015, overseeing all litigation for the airline. Prior to joining Southwest, Ms. Cozad was an associate and partner in private law practices from September 1997 to September 2006, working on high-profile litigation cases. Ms. Cozad earned a Bachelor of Arts degree in behavioral science from Concordia University Texas and her Juris Doctor degree from Pepperdine University.

Duane Hawkins, 60. Mr. Hawkins became Senior Vice President of Defense and Fabrication in October 2018. In January 2019, Mr. Hawkins was also given the title of President, Defense and Fabrication Division. Previously, from July 2015 to October 2018, he served as Senior Vice President and General Manager of Boeing, Defense, Business and Regional Jet Programs and Global Customer Support. From July 2013 to June 2015, Mr. Hawkins served as Senior Vice President - Operations. In that position, he had responsibility and oversight for Defense, Supply Chain Management, Fabrication, Global Quality, and Operations, including global footprint, Manufacturing Engineering, Industrial Engineering, and Tooling. Prior to joining Spirit, Mr. Hawkins was Vice President, Deputy Air Warfare Systems at Raytheon Missile Systems. From 2010 to 2012, Mr. Hawkins was Vice President, Deputy Land Combat Systems at Raytheon Missile Systems. Prior positions at Raytheon Missile Systems also include Vice President, Deputy Supply Chain Management and Standard Missile Program Director. From 1994 to 2001, Mr. Hawkins was President of Defense Research Inc., and from 1993 to 1994 he was Vice President, Engineering at the company. He was factory manager for Hughes Missile Systems/ General Dynamics from 1991 to 1993, and Chief of Manufacturing Engineering for General Dynamics Missile Systems from 1988 to1991. Mr. Hawkins holds a Bachelor of Science degree in manufacturing/industrial engineering from Brigham Young University and a Master in Business Administration degree from Regis University.

Samantha Marnick, 48. Ms. Marnick has served as the Company's Executive Vice President, Chief Administration Officer and Strategy since October1, 2018. Her responsibilities also include mergers and acquisitions, global customer support and services, and business and regional jets. From August 2016 to October 1, 2018, Ms. Marnick served as Executive Vice President, Chief Administration Officer. From October 2012 to July 2016, Ms. Marnick served as Senior Vice President, Chief Administration Officer. From January 2011 to September 2012, Ms. Marnick served as

Senior Vice President of Corporate Administration and Human Resources. From March 2008 to December 2010, Ms. Marnick served as Vice President Labor Relations and Workforce Strategy responsible for labor relations, the global human resource project management office, compensation and benefits, and workforce planning. Ms. Marnick previously served as Director of Communications and Employee Engagement from March 2006 to March 2008. Prior to joining the Company, Ms. Marnick was a senior consultant and Principal for Mercer Human Resource Consulting holding management positions in both the U.K. and in the U.S. Prior to that Ms. Marnick worked for Watson Wyatt, the UK's Department of Health and Social Security and The British Wool Marketing Board. Ms. Marnick holds a Master degree in Corporate Communication Strategy and Management from the University of Salford.

Kevin Matthies, 49. Mr. Matthies became Senior Vice President, Global Fabrication in September 2017. Mr. Matthies joined Spirit in 2013 and has held various leadership roles in both Airbus and Boeing program management, most recently serving as Vice President, General Manager of the B787 program until September 2017. Prior to joining Spirit AeroSystems, Mr. Matthies spent 26 years at Raytheon Missile Systems, where he most recently served as President of the Javelin joint venture between

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Raytheon and Lockheed Martin. Mr. Matthies is a 30 year veteran of the aerospace industry, having worked in executive positions for Raytheon Missile Systems, Hughes Aircraft Company, and General Dynamics. Mr. Matthies earned a Bachelor degree in Computer Science from California State University, San Bernadino, and a Master degree in Systems Engineering from the University of Arizona. He is a graduate of Raytheon's Leadership Excellence Program and was the recipient of the Raytheon 2010 Corporate Program Leadership Award.

John Pilla, 59.   Mr. Pilla became Senior Vice President, Chief Technology and Quality Officer in September 2017. Previously, Mr. Pilla served as the Senior Vice President of Engineering and Chief Technology Officer from June 2015 to September 2017. From May 2013 to June 2015, Mr. Pilla served as the Senior Vice President/General Manager - Airbus and A350 XWB Program Management. Mr. Pilla previously served as the Senior Vice President/General Manager, Propulsion Systems Segment from July 2009 through May 2013 as well as the Senior Vice President/General Manager of the Wing Systems Segment from September 2012 through May 2013. From July 2011 to May 2013, he was also responsible for the Aftermarket Customer Support Organization. From April 2008 to July 2009, Mr. Pilla was Chief Technology Officer of Spirit Holdings and he served as Vice President/General Manager-787 of Spirit Holdings and/or Spirit, a position he assumed at the date of the Boeing Acquisition in June 2005 and held until March 2008. He received his Bachelor degree in Aerospace Engineering from Kansas University, and a Master degree in Aerospace Structures Engineering and a Master of Business Administration degree from Wichita State University.

Ron Rabe, 53.   Mr. Rabe became the Company's Senior Vice President of Operations and the Chief Procurement Officer in October 2018. From September 2017 to October 2018, Mr. Rabe served as the Company's Senior Vice President, Fabrication and Supply Chain Management and from June 2015 to September 2017, Mr. Rabe served as the Company's Senior Vice President of Operations. Prior to joining Spirit in June 2015, Mr. Rabe was Eaton Corporation's vice president of global manufacturing and supply chain, vehicle group from June 2011 to June 2015. In that role he had responsibility for global operations of more than 40 sites, including with respect to supply chain, quality, materials, advanced manufacturing and lean manufacturing. From September 2009 to June 2011, Mr. Rabe worked at Eaton Aerospace Group, leading global operations on conveyance systems and operational support for the F-35, CH-53K, 787, and A350 new programs. Mr. Rabe also led operations for the global vehicle group and was responsible for opening new sites in China, India, and Mexico from 2000 to 2009. He started his career at the Boeing Company in Wichita in 1986. Mr. Rabe holds a Bachelor of Science degree from Newman University and a Masters of Business Administration degree from the Ross School of Business at University of Michigan in Ann Arbor.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our class A common stock ("Common Stock") has been quoted on the NYSE under the symbol "SPR" since November 21, 2006. As of February 1, 2019, there were approximately 802 holders of record of Common Stock and, in addition, there were approximately 58,650 stockholders with shares in street name or nominee accounts. The closing price on February 1, 2019 was $87.81 per share as reported by the NYSE.

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents restricted shares outstanding under the Omnibus Incentive Plan as of December 31, 2018.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	
Restricted Stock Awards			
Equity compensation plans approved by security holders(1)(2)	410,655	N/A	5,632,192
Equity compensation plans not approved by security holders(2)	—	—	—
Total	410,655	—	5,632,192

(1) On April 30, 2014, the Company's Board of Directors approved the Omnibus Incentive Plan of 2014 (as amended, the "Omnibus Plan"). The Omnibus Plan was approved by the Company's stockholders at the Company's 2014 annual stockholder's meeting. The Omnibus Plan provides for the issuance of incentive awards to officers, directors, employees, and consultants in the form of restricted stock, restricted stock units, stock appreciation rights, and other equity compensation, in lieu of cash compensation.

(2) Represents time-based and performance-based long-term incentives that may be issued under the Omnibus Plan. For outstanding performance-based awards, the amount shown reflects the maximum payout. The amount of shares that could be paid out under the performance-based awards ranges from 0-200% based on actual performance. On the initial grant dates for these performance-based awards, the Company grants shares of restricted stock in the amount that would vest if the Company achieves the award target.

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Stock Performance

The following graph shows a comparison from December 31, 2014 through December 31, 2018 of cumulative total return of our Common Stock, Standard & Poor's 500 Stock Index, and the Standard & Poor's 500 Aerospace & Defense Index. Such returns are based on historical results and are not intended to suggest future performance. We made dividend payments on our Common Stock during the year ended December 31, 2018.

	INDEXED RETURNS Years Ending					
Company/Index	Base Period 12/31/13	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Spirit AeroSystems Holdings, Inc.	100	126.29	146.92	171.51	257.97	214.33
S&P 500 Index	100	113.69	115.26	129.05	157.22	150.33
S&P 500 Aerospace & Defense Index	100	111.43	117.49	139.70	197.50	181.56

Issuer Purchases of Equity Securities

The following table provides information about our repurchases during the three months ended December 31, 2018 of our Common Stock that is registered pursuant to Section 12 of the Exchange Act.

ISSUER PURCHASES OF EQUITY SECURITIES

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Period [1]	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Plans or Programs [2]
	($ in millions other than per share amounts)			
September 28, 2018 - November 1, 2018	510,160	N/A[3]	510,160	$1,000.0
November 2, 2018 - November 29, 2018	584,242	N/A[3]	584,242	$1,000.0
November 30, 2018 - December 31, 2018	—	—	—	$1,000.0
Total	1,094,402	—	1,094,402	$1,000.0

(1) Our fiscal months often differ from the calendar months except for the month of December, as our fiscal year ends on December 31. For example, November 1, 2018 was the last day of our October 2018 fiscal month.

(2) In May 2018, the Company entered into two Accelerated Share Repurchase Agreements (the "ASRs") to repurchase in total $725.0 million of Common Stock. After repurchases made under the ASRs, the Company had approximately $200.0 million remaining in its share repurchase program. On October 24, 2018, the Board of Directors approved an increase to its existing share repurchase program of approximately $800.0 million, resulting in total program authorization of $1.0 billion.

(3) Shares received in October and November 2018, respectively, upon settlement of the ASRs, which were determined by the average daily volume weighted-average share price of Common Stock during the term of the ASRs. Final average price of all the shares delivered from the ASRs was $86.46.

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Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table sets forth our selected consolidated financial data for each of the periods indicated. Financial data is derived from the audited consolidated financial statements of Spirit Holdings. The audited consolidated financial statements for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 are included in this Annual Report. You should read the information presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our combined and consolidated financial statements and related notes contained elsewhere in the Annual Report.

	Spirit Holdings Twelve Months Ended				
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
	(Dollars in millions, except per share data)				
Statement of Income Data:					
Net revenues	$7,222.0	$ 6,983.0	$ 6,792.9	$ 6,643.9	$ 6,799.2
Cost of sales[(1)]	6,135.9	6,195.3	5,800.3	5,532.3	5,711.0
Selling, general and administrative expenses[(2)]	210.4	204.7	230.9	220.8	233.8
Impact of severe weather events	(10.0)	19.9	12.1	—	—
Research and development	42.5	31.2	23.8	27.8	29.3
Loss on divestiture of programs[(3)]	—	—	—	—	471.1
Operating income	843.2	531.9	725.8	863.0	354.0
Interest expense and financing fee amortization	(80.0)	(41.7)	(57.3)	(52.7)	(88.1)
Other (expense) income, net	(7.0)	44.4	(8.0)	(2.2)	(3.5)
Income before income taxes and equity in net income of affiliates	756.2	534.6	660.5	808.1	262.4
Income tax (provision) benefit	(139.8)	(180.0)	(192.1)	(20.6)	95.9
Equity in net income of affiliates	0.6	0.3	1.3	1.2	0.5
Net income	$617.0	$ 354.9	$ 469.7	$ 788.7	$ 358.8
Net income per share, basic	$5.71	$ 3.04	$ 3.72	$ 5.69	$ 2.55
Shares used in per share calculation, basic	108.0	116.8	126.1	138.4	140.0
Net income per share, diluted	$5.65	$ 3.01	$ 3.70	$ 5.66	$ 2.53
Shares used in per share calculation, diluted	109.1	117.9	127.0	139.4	141.6
Dividends declared per common share	$0.46	$ 0.40	$ 0.10	$ —	$ —

(1) Included in 2018 costs of sales are net favorable changes in estimates on loss programs of $3.9 million. Included in 2017 costs of sales are net forward loss charges of $327.3 million. Included in 2016 costs of sales are net forward loss charges of $118.2 million. Included in 2015 costs of sales are net favorable changes in estimates on loss programs totaling $10.8 million. Included in 2014 cost of sales are net favorable changes in estimates on loss programs totaling $26.1 million. Includes cumulative catch-up adjustments of $(3.8) million, $31.2 million, $36.6 million, $41.6 million, and $60.4 million for periods prior to the twelve months ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

(2) Includes non-cash stock compensation expenses of $27.4 million, $22.1 million, $42.5 million, $26.0 million, and $16.4 million for the respective periods starting with the twelve months ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

(3) On December 8, 2014, Spirit entered into an Asset Purchase Agreement with Triumph Aerostructures - Tulsa, LLC, a wholly-owned subsidiary of Triumph Group Inc. (“Triumph Sub”), to sell Spirit’s G280 and G650 programs, consisting of the design, manufacture, and support of structural components for the Gulfstream G280 and G650 aircraft in Spirit’s facilities in Tulsa, Oklahoma to Triumph Sub. The transaction closed on December 30, 2014. In

connection with the closing of the transaction, we recorded a loss on divestiture of programs of $471.1 million, representing the difference between the sale proceeds and the book value of the assets sold.

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	Spirit Holdings Twelve Months Ended				
	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
	(Dollars in millions)				
Other Financial Data:					
Cash flow provided by operating activities	$769.9	$ 573.7	$ 716.9	$ 1,289.7	$ 361.6
Cash flow used in investing activities	$(267.8)	$ (272.8)	$ (253.4)	$ (357.4)	$ (239.6)
Cash flow used in financing activities	$(153.5)	$ (578.7)	$ (718.7)	$ (351.1)	$ (164.2)
Capital expenditures	$(271.2)	$ (273.1)	$ (254.0)	$ (360.1)	$ (220.2)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$773.6	$ 423.3	$ 697.7	$ 957.3	$ 377.9
Accounts receivable, net	$545.1	$ 722.2	$ 660.5	$ 537.0	$ 605.6
Inventories, net	$1,012.6	$ 1,449.9	$ 1,515.3	$ 1,774.4	$ 1,753.0
Property, plant & equipment, net	$2,167.6	$ 2,105.3	$ 1,991.6	$ 1,950.7	$ 1,783.6
Total assets	$5,685.9	$ 5,267.8	$ 5,405.2	$ 5,764.5	$ 5,162.7
Total debt	$1,895.4	$ 1,151.0	$ 1,086.7	$ 1,120.2	$ 1,153.5
Long-term debt	$1,864.0	$ 1,119.9	$ 1,060.0	$ 1,085.3	$ 1,144.1
Total equity	$1,238.1	$ 1,801.5	$ 1,928.8	$ 2,120.0	$ 1,622.0

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with the Consolidated Financial Statement and notes thereto.

Management's Focus

In 2018, to help support our work on production rate increases and market growth, we continued to focus on attracting, developing, and retaining a world-class team at our sites and being a trusted partner to our customers and suppliers. As part of our ongoing efforts to be a trusted partner, we executed the 2018 MOA and related definitive agreements with Boeing, which set pricing terms for several of our Boeing products into the future. We also made great efforts to recover to our customers' delivery schedules after facing various challenges in the early quarters of 2018. The improvements we made to our supply chain and factory in 2018 put us in a better position to execute on future rate increases.

Our 2019 focus continues to revolve around our operational execution, with a focus on safety and quality while working to meet our customers' requirements for production rate changes. We continue to pursue organic and inorganic options for growth as the global market continues to evolve.

Programs

B737 Program

Throughout 2018, the B737 program steadily increased in rate due to increased demand, and will continue to increase in rate in 2019. As we supported increased demand on the program, we experienced supplier disruptions, challenges related to model mix changes from the B737 NG to B737 MAX, and other challenges that resulted in additional production costs including overtime, expedited freight, and surge resources. In response to these disruptions, we implemented a comprehensive recovery plan in the first half of 2018 to manage through the operational challenges and help mitigate future challenges. With this recovery plan in place, we made great efforts during the second and third quarters to recover to our planned production schedule and we fully recovered to our delivery schedule in the fourth quarter of 2018. Additional efforts will be ongoing to address these challenges on a go-forward basis. As a result of our efforts to recover to our delivery schedule, we incurred additional expenses that are reflected in our full-year 2018 results. We expect these additional costs to be considerably reduced in 2019.

B787 Program

As we continue on the B787 program, our financial performance depends on our continued ability to achieve cost reductions in our manufacturing and supply chain. During 2018, we recorded net favorable changes in estimates of $3.4 million on the B787 program due to favorable performance on several cost initiatives, partially offset by the adoption of ASU No. 2017-07, Compensation-Retirement Benefits in the first quarter of 2018 which reclassified the recognition of pension income from gross profit into other income.

Asco

On May 1, 2018, the Company and Spirit Belgium entered into the Purchase Agreement with certain private sellers pursuant to which Spirit Belgium will purchase all of the issues and outstanding equity of Asco for $650.0 million in cash, subject to certain customary closing adjustments, including foreign currency adjustments. The Company intends to close and integrate the acquisition in 2019.

One of the closing conditions is receipt of clearance from the European Commission (the "Commission"). During the scope of the Commission's Phase 1 review, the Commission identified issues that it required to be addressed regarding the transaction. Consequently, on October 26, 2018, we withdrew our notification of the transaction from the Commission in order to address those issues. The withdrawal interrupted the Commission's review of the transaction. After several months of addressing the issues, the Company refiled its application with the Commission on January 30, 219, and the Commission is proceeding with a Phase 1 review of the transaction. There can be no assurances that we will receive the clearance of the Commission.

Critical Accounting Policies

The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP") requires management to use estimates and assumptions. The results of these estimates form the basis for making judgments that may affect the reported amounts of assets and liabilities, including the impacts of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to inventory, income taxes, financing obligations, warranties, pensions and other post-retirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management believes that the quality and reasonableness of our most critical accounting policies enable the fair presentation of our financial position and results of operations. However, the sensitivity of financial statements to these methods, assumptions, and estimates could create materially different results under different conditions or using different assumptions. We believe application of these policies requires difficult, subjective, and complex judgments to estimate the effect of inherent uncertainties. This section should be read in conjunction with Note 3 to the Consolidated Financial Statements, Summary of Significant Accounting Policies.

Revenues and Profit Recognition under Long-Term Contracts

Beginning January 1, 2018, the Company recognized revenue using the principles of Accounting Standards Codification Topic 606 (“ASC 606”), Revenue from contracts with customers. Revenue is recognized when, or as, control of promised products or services transfers to a customer, and the amount recognized reflects the consideration that the Company expected to receive in exchange for those products or services. See Note 3 to the Consolidated Financial Statements, Summary of Significant Accounting Policies, for a further description of revenue recognition under ASC 606, and a description of the legacy GAAP revenue and profit recognition presented for prior comparative periods. In determining our profits and losses in accordance with this method, we are required to make significant judgments regarding our future costs, variable elements of revenue, the standalone selling price, and other variables. We continually review and update our assumptions based on market trends and our most recent experience. If we make material changes to our assumptions, we may experience negative cumulative catch-up adjustments related to revenues previously recognized. In some cases, we may recognize forward loss amounts. For a broader description of the various types of risks we face related to new and maturing programs, see “Risk Factors”. For discussion of the impacts of the adoption of ASC 606 on revenues and profit recognition, see Note 2 to the Consolidated Financial Statements, Adoption of New Accounting Standards.

Income Taxes

Income taxes are accounted for in accordance with Financial Accounting Standards Board (“FASB”) authoritative guidance on accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts for existing assets and liabilities and their respective tax bases. Tax rate changes impacting these assets and liabilities are recognized in the period during which the rate change occurs.

A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. When determining the amount of net deferred tax assets that are more likely than not to be realized, we assess all available positive and negative evidence. The weight given to the positive and negative evidence is commensurate with the extent the evidence may be objectively verified.

We record an income tax expense or benefit based on the net income earned or net loss incurred in each tax jurisdiction and the tax rate applicable to that income or loss. In the ordinary course of business, there are transactions for which the ultimate tax outcome is uncertain. These uncertainties are accounted for in accordance with FASB authoritative guidance on accounting for the uncertainty in income taxes. The final tax outcome for these matters may be different than management's original estimates made in determining the income tax provision. A change to these estimates could impact the effective tax rate and net income or loss in subsequent periods. We use the flow-through accounting method for tax credits. Under this method, tax credits reduce income tax expense.

Results of Operations

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

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	Twelve Months Ended		
	December 31, 2018[1]	December 31, 2017[1][2]	December 31, 2016[2]
	($ in millions)		
Net revenues	$7,222.0	$6,983.0	$6,792.9
Cost of sales	6,135.9	6,195.3	5,800.3
Gross profit	1,086.1	787.7	992.6
Selling, general and administrative expenses	210.4	204.7	230.9
Impact of severe weather event	(10.0)	19.9	12.1
Research and development	42.5	31.2	23.8
Operating income	843.2	531.9	725.8
Interest expense and financing fee amortization	(80.0)	(41.7)	(57.3)
Other (expense) income, net	(7.0)	44.4	(8.0)
Income before income taxes and equity in net income of affiliate	756.2	534.6	660.5
Income tax provision	(139.8)	(180.0)	(192.1)
Income before equity in net income of affiliate	616.4	354.6	468.4
Equity in net income of affiliate	0.6	0.3	1.3
Net income	$617.0	$354.9	$469.7

(1) See “Twelve Months Ended December 31, 2018 as Compared to Twelve Months Ended December 31, 2017” for detailed discussion of operating data.
(2) See “Twelve Months Ended December 31, 2017 as Compared to Twelve Months Ended December 31, 2016” for detailed discussion of operating data.

Comparative shipset deliveries by model are as follows:

	Twelve Months Ended		
Model	December 31, 2018	December 31, 2017	December 31, 2016
B737	605	532	500
B747	6	6	8
B767	30	28	25
B777	44	70	96
B787	143	136	127
Total Boeing	828	772	756
A220 [1]	12	—	—
A320 Family	657	608	574
A330	62	80	74
A350	98	90	69
A380	6	13	22
Total Airbus	835	791	739
Business and Regional Jets [1]	71	88	88
Total	1,734	1,651	1,583

(1) Airbus acquired majority ownership in the C-Series program (subsequently renamed as the A220 program) in July 2018; all C-Series deliveries prior to the third quarter of 2018 are included in Business and Regional Jets and all

A220 deliveries subsequent to the acquisition are included in A220.

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

Net revenues by prime customer are as follows:

Prime Customer	Twelve Months Ended December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions)		
Boeing	$5,677.7	$ 5,527.5	$ 5,502.6
Airbus	1,180.8	1,123.5	992.7
Other	363.5	332.0	297.6
Total net revenues	$7,222.0	$ 6,983.0	$ 6,792.9

Changes in Estimates

During the twelve months ended December 31, 2018, we recognized total changes in estimates of $0.1 million that included favorable changes in estimates on forward loss programs of $3.9 million and unfavorable cumulative catch-up adjustments related to periods prior to 2018 of ($3.8) million. The net forward loss charges were primarily driven by favorable performance on cost initiatives, partially offset by the impact from the adoption of ASU 2017-02. Unfavorable cumulative catch-up adjustments for the periods prior to 2018 were primarily driven by unfavorable cost performance.

During the twelve months ended December 31, 2017, we recognized total changes in estimates of ($296.1) million that included net forward loss charges of ($327.3) million and favorable cumulative catch-up adjustments related to periods prior to 2017 of $31.2 million. Net forward loss charges were primarily driven by Boeing pricing negotiations, including the effect of executing the 2017 MOU (the precursor agreement to Sustaining Amendment #30 and 787 Amendment #25) with Boeing and extending the current B787 contract block in the second quarter. Favorable cumulative catch-up adjustments for the periods prior to 2017 were primarily driven by productivity and efficiency improvements and favorable cost performance.

During the twelve months ended December 31, 2016, we recognized total changes in estimates of ($81.6) million that included net forward loss charges of ($118.2) million and favorable cumulative catch-up adjustments related to periods prior to 2016 of $36.6 million. Net forward loss charges were primarily driven by various disruption and production inefficiencies related to achieving production rate increases on the A350 XWB fuselage program. Favorable cumulative catch-up adjustments for the periods prior to 2016 were primarily driven by productivity and efficiency improvements, favorable cost performance, mitigation of risks on maturing programs, and favorable pricing negotiations on a maturing program.

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

Twelve Months Ended December 31, 2018 as Compared to Twelve Months Ended December 31, 2017

Net Revenues.   Net revenues for the twelve months ended December 31, 2018 were $7,222.0 million, an increase of $239 million, or 3%, compared with net revenues of $6,983.0 million for the prior year. The increase was primarily due to higher production on the B737, B787, A320, and A350 XWB programs and increased defense related activity, partially offset by lower production on the B777, lower revenue recognized on the B787 program due to the adoption of ASC 606, and lower revenue recognized on the A350 XWB program in accordance with pricing terms. Approximately 95% of Spirit's net revenues in 2018 came from our two largest customers, Boeing and Airbus.

Deliveries to Boeing increased to 828 shipsets during 2018, compared to 772 shipsets delivered in the prior year, driven by production increases on the B737 and B787 programs, partially offset by a decrease on the B777 program. Deliveries to Airbus increased to 835 shipsets during 2018, compared to 791 shipsets delivered in the prior year, primarily driven by higher production of the A320 and A350 XWB programs and the transfer of the A220 program to total Airbus deliveries in the third quarter of 2018, partially offset by decreased production on the A330 and A380 programs. Production deliveries of business/regional jet wing and wing components decreased to 71 shipsets during 2018, compared to 88 shipsets delivered in the prior year, driven by the transfer of the A220 program to total Airbus deliveries in the third quarter of 2018. In total, shipset deliveries increased 5% to 1,734 shipsets in 2018 compared to 1,651 shipsets in 2017.

Gross Profit. Gross profit was $1,086.1 million for the twelve months ended December 31, 2018, as compared to $787.7 million for the same period in the prior year, an increase of $298.4 million. The increase in gross profit was primarily driven by the absence of the $352.8 million net forward loss charges recognized on the B787 program in the second quarter of 2017 and increased margins recognized on the A350 XWB program due to the adoption of ASC 606, partially offset by decreased production on the B777 program and lower margins recognized on the B737 and B777 programs.

SG&A and Research and Development. SG&A expense was $5.7 million higher for the twelve months ended December 31, 2018, as compared to the same period in the prior year, primarily due to costs incurred related to the anticipated purchase of Asco, partially offset by the recovery of legal fees related to a court decision in 2018. Research and development expense for the twelve months ended December 31, 2018 was $11.3 million higher as compared to the same period in the prior year, due to more internal projects underway.

Impact of Severe Weather Event. During the twelve months ended December 31, 2018, the Company recorded a gain of $10.0 million from an insurance settlement related to costs incurred from the aftermath of Hurricane Matthew, compared to expenses of $19.9 million for the same period in the prior year for Hurricane Matthew. The impact of Hurricane Matthew caused the Company's Kinston, North Carolina site operations to temporarily shut down during the fourth quarter of 2016 with carryover effects into 2017.

Operating Income. Operating income for the twelve months ended December 31, 2018 was $843.2 million, which was $311.3 million higher than operating income of $531.9 million for the prior year. The increase in operating income was primarily due to the absence of the B787 net forward loss charges recognized during the second quarter of 2017, partially offset by costs incurred related to the anticipated purchase of Asco.

Interest Expense and Financing Fee Amortization. Interest expense and financing fee amortization for the twelve months ended December 31, 2018 includes $55.7 million of interest and fees paid or accrued in connection with long-term debt and $18.3 million in amortization of deferred financing costs and original issue discount, compared to $36.3 million of interest and fees paid or accrued in connection with long-term debt and $3.5 million in amortization of deferred financing costs and original issue discount for the prior year. The increase in interest expense is primarily a result of additional debt taken on in 2018 in anticipation of our ASRs and the planned purchase of Asco. During 2018, we extinguished our 2022 Notes (as defined below) through a tender offer and redemption and we replaced our prior credit agreement with the 2018 Credit Agreement. As a result, we recognized a loss on extinguishment of existing debt of $14.4 million included in $18.3 million of deferred financing costs above.

Other (Expense) Income, net. Other expense for the twelve months ended December 31, 2018 was $7.0 million, compared to other income of $44.4 million for the same period in the prior year. Other expense during 2018 was primarily driven by losses on foreign currency forward contracts as the U.S. Dollar strengthened against the Euro, as well as net losses on the sale of receivables, partially offset by pension income.

Provision for Income Taxes. The income tax provision for the twelve months ended December 31, 2018, was $139.8 million compared to $180.0 million for the prior year. The 2018 effective tax rate was 18.5% as compared to 33.7% for 2017. The difference in the effective tax rate recorded for 2018 as compared to 2017 is primarily related to the enactment of the TCJA, including the reduction in the U.S. corporate federal income tax rate from 35% to 21%, the elimination of the domestic manufacturing deduction, and the inclusion of provisional tax impacts of our one-time transition tax liability and re-measurement of our net deferred tax asset balance in 2017. Unrelated to the TCJA, the difference in the effective tax rate is primarily related to higher state income and federal research tax credits generated in 2018 and the proportional tax rate effects of lower pre-tax income in 2017. The decrease from the U.S. statutory tax rate is attributable primarily to generation of state income tax and federal research tax credits, foreign rates less than the U.S. rate, and share based compensation excess tax benefit, offset by estimated state income tax. For additional information on the TCJA, please see Note 19 to the Consolidated Financial Statements, Income Taxes.

Segments. The following table shows segment revenues and operating income for the twelve months ended December 31, 2018, 2017, and 2016:

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	Twelve Months Ended December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions)		
Segment Revenues			
Fuselage Systems	$4,000.8	$ 3,730.8	$ 3,498.8
Propulsion Systems	1,702.5	1,666.2	1,777.3
Wing Systems	1,513.0	1,578.8	1,508.7
All Other	5.7	7.2	8.1
	$7,222.0	$ 6,983.0	$ 6,792.9
Segment Operating Income[1, 2]			
Fuselage Systems	$576.1	$ 329.6	$ 470.4
Propulsion Systems	283.5	267.7	326.7
Wing Systems	226.4	205.1	224.3
All Other	0.3	2.0	1.6
	1,086.3	804.4	1,023.0
Corporate SG&A[2]	(210.4)	(204.7)	(230.9)
Unallocated impact of severe weather event	10.0	(19.9)	(12.1)
Research and development	(42.5)	(31.2)	(23.8)
Unallocated cost of sales[3]	(0.2)	(16.7)	(30.4)
Total operating income	$843.2	$ 531.9	$ 725.8

(1) Inclusive of forward losses, changes in estimates on loss programs, and cumulative catch-up adjustments. These changes in estimates for the periods ended December 31, 2018, 2017, and 2016 are further detailed in the segment discussions below and in Note 5 to the Consolidated Financial Statements, Changes in Estimates.

(2) Prior period information has been reclassified as a result of the Company's adoption of ASU 2017-07 on a retrospective basis in 2018. In accordance with the adoption of this guidance, prior year amounts related to the components of net periodic pension and postretirement benefit cost other than service costs have been reclassified from cost of sales and selling, general, and administrative expense to other income (expense) within the consolidated statement of operation for all periods presented. Accordingly, expenses of $18.1 million, $7.4 million, and $7.3 million attributable to the Fuselage Systems segment, Propulsion Systems segment, and Wing Systems segment, respectively, were reclassified into segment operating income for the twelve months ended December 31, 2017, and expenses of $1.8 million, $0.8 million, and $0.7 million attributable to the Fuselage Systems segment, Propulsion Systems segment, and Wing Systems segment, respectively, were reclassified out of segment operating income for the twelve months ended December 31, 2016.

(3) For 2018, includes charges of $1.1 million related to warranty reserves. For 2017, includes charges of $1.8 million and $12.7 million related to warranty reserve and charges for excess purchases and purchase commitments, respectively. For 2016, includes charges of $13.8 million and $23.6 related to warranty reserve and early retirement incentives, respectively, offset by $7.9 million for the settlement of historical claims with suppliers.

Fuselage Systems, Propulsion Systems, Wing Systems, and All Other segments represented approximately 55%, 24%, 21%, and less than 1%, respectively, of our net revenues for the twelve months ended December 31, 2018.

Fuselage Systems. Fuselage Systems segment net revenues for the twelve months ended December 31, 2018 were $4,000.8 million, an increase of $270.0 million, or 7%, compared to the same period in the prior year. The increase in net revenues was primarily due to higher production on the B737 and A350 XWB programs and increased defense related work, partially offset by lower production on the B777 program and lower revenue recognized on the B787 program due to the adoption of ASC 606. Fuselage Systems segment operating margins were 14% for the twelve months ended December 31, 2018, compared to 9% for the same period in the prior year, with the increase primarily driven by the absence of the net forward loss charges recorded on the B787 fuselage program during the second quarter of 2017 and increased margins recognized on the A350 XWB program due to the adoption of ASC 606, partially offset by lower margins recognized on the B737 and B777 programs. In 2018, the segment recorded unfavorable cumulative catch-up adjustments of ($5.3) million, as well as $3.4 million of favorable changes in estimates on loss programs. In comparison, during 2017, the segment recorded favorable cumulative catch-up adjustments of $4.0 million as well as ($223.2) million of net forward loss charges.

Propulsion Systems. Propulsion Systems segment net revenues for the twelve months ended December 31, 2018 were $1,702.5 million, an increase of $36.3 million, or 2%, compared to the same period in the prior year. The increase was primarily due to higher production on the B737 program, partially offset by lower production on the B777 program, lower revenue recognized on certain non-recurring Boeing programs, and lower net revenues recognized on the B787 program due to the adoption of ASC 606. Propulsion Systems segment operating margins were 17% for the twelve months ended December 31, 2018, compared to 16% for the same period in the prior year. This increase was primarily driven by the absence of net forward loss charges recorded on the B787 program during the second quarter of 2017, partially offset by lower margins recognized on the B777 program. In 2018, the segment recorded unfavorable cumulative catch-up adjustments of ($0.2) million and net forward loss charges of ($0.7) million. In comparison, during 2017, the segment recorded favorable cumulative catch-up adjustments of $3.8 million and net forward loss charges of ($40.2) million.

Wing Systems. Wing Systems segment net revenues for the twelve months ended December 31, 2018 were $1,513.0 million, a decrease of $65.8 million, or 4%, compared to the same period in the prior year. The decrease was primarily due to decreased production on the B777 program, lower revenues recognized on the B787 program due to the adoption of ASC 606, and lower revenue recognized on the A350 XWB program in accordance with pricing terms, partially offset by increased production on the B737 and A320 programs. Wing Systems segment operating margins were 15% for the twelve months ended December 31, 2018, compared to 13% for the same period in the prior year, primarily driven by the absence of net forward loss charges recorded on the B787 program in the second quarter of 2017 and increased margin recognized on the A350 XWB program due to the adoption of ASC 606, partially offset by lower margins recognized on the B737 and B777 programs. In 2018, the segment recorded favorable cumulative catch-up adjustments of $1.7 million and favorable changes in estimates on loss programs of $1.2 million. In comparison, during 2017, the segment recorded favorable cumulative catch-up adjustments of $23.4 million and net forward loss charges of ($63.9) million.

All Other. All Other segment net revenues consist of sundry sales of miscellaneous services, tooling contracts, and natural gas revenues from the Kansas Industrial Energy Supply Company ("KIESC"), a tenancy in common with other Wichita companies established to purchase natural gas where the Company is a major participant. In the twelve months ended December 31, 2018, All Other segment net revenues were $5.7 million, a decrease of $1.5 million compared to the same period in the prior year. The All Other segment recorded 5% operating margins for the twelve months ended December 31, 2018.

Twelve Months Ended December 31, 2017 as Compared to Twelve Months Ended December 31, 2016

Net Revenues. Net revenues for the twelve months ended December 31, 2017 were $6,983.0 million, an increase of $190.1 million, or 3%, compared with net revenues of $6,792.9 million for the prior year. The increase was primarily due to higher production deliveries on the B737, B787, A320, and A350 XWB programs, increased defense related activity, and higher revenues recognized on certain non-recurring Boeing programs, partially offset by lower production deliveries on the B747 and B777, decreased GCS&S activity, lower revenue recognized on the B787 Program in accordance with pricing terms under the B787 Agreement, and the absence of a one-time customer claim settlement recorded in the first half of 2016. Approximately 95% of Spirit's net revenues in 2017 came from our two largest customers, Boeing and Airbus.

Deliveries to Boeing increased to 772 shipsets during 2017, compared to 756 shipsets delivered in the prior year, driven by production increases on the B737, B767, and B787 programs, partially offset by decreases on the B747 and B777 programs. Deliveries to Airbus increased to 791 shipsets during 2017, compared to 739 shipsets delivered in the prior year, primarily driven by higher production of the A320 and A350 XWB programs, partially offset by decreased production on the A380 program. Production deliveries of business and regional jet wing and wing components remained flat at 88 shipsets during both 2017 and 2016. In total, shipset deliveries increased 4% to 1,651 shipsets in 2017 compared to 1,583 shipsets in 2016.

Gross Profit. Gross profit was $787.7 million for the twelve months ended December 31, 2017, as compared to $992.6 million for the same period in the prior year. The decrease in gross profit was primarily driven by net forward loss charges recognized for the B787 Program in the second quarter of 2017, partially offset by the absence of forward loss charges recognized on the A350 XWB fuselage program during 2016.

SG&A and Research and Development. SG&A expense was $26.2 million lower for the twelve months ended December 31, 2017, as compared to the same period in the prior year, primarily due to expenses related to executive retirements and severance including stock compensation recognized in 2016. Research and development expense for the twelve months ended December 31, 2017 was $7.4 million higher as compared to the same period in the prior year, due to more internal projects underway.

Impact of Severe Weather Event. During the twelve months ended December 31, 2017, the Company recorded a $19.9 million charge related to the aftermath of Hurricane Matthew, compared to $12.1 million recorded in the prior year. The impact of Hurricane Matthew caused the Company's Kinston, North Carolina site operations to temporarily shut down during the fourth quarter of 2016 with carryover effects into 2017.

Operating Income. Operating income for the twelve months ended December 31, 2017 was $531.9 million, which was $193.9 million lower than operating income of $725.8 million for the prior year. The decrease in operating income was primarily the result of the B787 net forward loss charges recognized during the second quarter of 2017.

Interest Expense and Financing Fee Amortization. Interest expense and financing fee amortization for the twelve months ended December 31, 2017 includes $36.3 million of interest and fees paid or accrued in connection with long-term debt and $3.5 million in amortization of deferred financing costs and original issue discount, compared to $38.0 million of interest and fees paid or accrued in connection with long-term debt and $19.3 million in amortization of deferred financing costs and original issue discount for the prior year. During 2016, we recognized $15.8 million in interest expense for the write-down of deferred financing costs, original issue discount and third party fees, and a call premium resulting from the financing activities that occurred during the second quarter of 2016, which included the amendment and restatement of our existing credit facility and redemption of our 2020 Notes (as defined below) using proceeds from the issuance of the 2026 Notes (as defined below).

Other (Expense) Income, net. Other income for the twelve months ended December 31, 2017 was $44.4 million, compared to other expense of $8.0 million for the same period in the prior year. Other expense during 2016 was primarily driven by foreign exchange rate losses as the British Pound value weakened against the U.S. Dollar.

Provision for Income Taxes. The income tax provision for the twelve months ended December 31, 2017, was $180.0 million compared to $192.1 million for the prior year. The 2017 effective tax rate was 33.7% as compared to 29.1% for 2016. The difference in the effective tax rate recorded for 2017 as compared to 2016 is primarily related to higher benefit from foreign rates less than the U.S. rate and incremental federal research tax credits in 2017, offset by the provisional tax impacts recorded in 2017 due to the signing of the TCJA in December 2017. The provisional amounts include the one-time transition tax for all of our operating foreign subsidiaries and the re-measurement of our net deferred tax asset balance. The decrease from the U.S. statutory tax rate is attributable primarily to the inclusion of the tax effects of foreign rates less than the U.S. rate, the re-measurement of our net U.S. deferred tax asset balance, the U.S. qualified domestic production activities deduction, and the generation of state income tax credits offset by the one-time transition tax for all of our operating foreign subsidiaries.

Fuselage Systems. Fuselage Systems segment net revenues for the twelve months ended December 31, 2017 were $3,730.8 million, an increase of $232.0 million, or 7%, compared to the same period in the prior year. The increase in net revenues was primarily due to higher production deliveries on the B737 and A350 XWB programs, increased revenue on certain non-recurring Boeing programs, and increased defense related work, partially offset by lower production deliveries on the B777 program and decreased GCS&S activity. Fuselage Systems segment operating margins were 9% for the twelve months ended December 31, 2017, compared to 13% for the same period in the prior year, with the decrease primarily driven by the net forward loss charges recorded on the B787 program. In 2017, the segment recorded favorable cumulative catch-up adjustments of $4.0 million, as well as ($223.2) million of net forward losses. In comparison, during 2016, the segment recorded favorable cumulative catch-up adjustments of $13.6 million driven by productivity and efficiency improvements, as well as ($133.4) million of net forward loss charges.

Propulsion Systems. Propulsion Systems segment net revenues for the twelve months ended December 31, 2017 were $1,666.2 million, a decrease of $111.1 million, or 6%, compared to the same period in the prior year. The decrease was primarily due to lower production deliveries on the B777 and B747 programs, decreased GCS&S activity, and lower net revenues recognized on the B787 program in accordance with pricing terms under the B787 Agreement, partially offset by higher deliveries on the B737 program and increased revenue on a non-recurring Boeing program. Propulsion Systems segment operating margins were 16% for the twelve months ended December 31, 2017, compared to 18% for the same period in the prior year. This decrease was primarily driven the net forward loss charges recorded on the B787 program. In 2017, the segment recorded favorable cumulative catch-up adjustments of $3.8 million and net forward loss charges of ($40.2) million. In comparison, during 2016, the segment recorded unfavorable cumulative catch-up adjustments of ($0.4) million and favorable changes in estimates on loss programs of $10.1 million.

Wing Systems.   Wing Systems segment net revenues for the twelve months ended December 31, 2017 were $1,578.8 million, an increase of $70.1 million, or 5%, compared to the same period in the prior year. The increase was primarily due to higher production deliveries on the B737, B787, A320, and A350 XWB programs and higher net revenues recognized on the B787 programs in accordance with pricing terms under the B787 Agreement, partially offset by lower production deliveries on the B777, B747, and A380 programs and the absence of a one-time claim settlement with a customer. Wing Systems segment operating margins were 13% for the twelve months ended December 31, 2017, compared to 15% for the same period in the prior year, primarily driven by the net forward loss charges on the B787 program. In 2017, the segment recorded favorable cumulative catch-up adjustments of $23.4 million and net forward loss charges of $(63.9) million. In comparison, during 2016, the segment recorded

favorable cumulative catch-up adjustments of $23.4 million driven by claim settlements with customers and productivity and efficiency improvements, as well as favorable changes in estimates on loss programs of $5.1 million.
All Other. All Other segment net revenues consist of sundry sales of miscellaneous services, tooling contracts and natural gas revenues from KIESC. In the twelve months ended December 31, 2017, All Other segment net revenues were $7.2 million, a decrease of $0.9 million compared to the same period in the prior year. The All Other segment recorded 28% operating margins for the twelve months ended December 31, 2017.

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 made available by our 2018 Credit Agreement (as defined below):

2018 Credit Agreement

On July 12, 2018, the Company entered into a $1,260.0 million senior unsecured Second Amended and Restated Credit Agreement among Spirit, the Company, as parent guarantor, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other agents named therein (the “2018 Credit Agreement”), consisting of an $800.0 million revolving credit facility (the “2018 Revolver”), a $206.0 million term loan A facility (the “2018 Term Loan”) and a $250.0 million delayed draw term loan facility (the “Delayed Draw Term Loan”).

Each of the 2018 Revolver, the 2018 Term Loan and the Delayed Draw Term Loan matures July 12, 2023, and bears interest, at Spirit’s option, at either LIBOR plus 1.375% or a defined “base rate” plus 0.375%, subject to adjustment to between LIBOR plus 1.125% and LIBOR plus 1.875% (or between base rate plus 0.125% and base rate plus 0.875%, as applicable) based on changes to Spirit’s senior unsecured debt rating provided by Standard & Poor’s Financial Services LLC and/or Moody’s Investors Service, Inc. The principal obligations under the 2018 Term Loan are to be repaid in equal quarterly installments of $2.6 million, commencing with the fiscal quarter ending March 31, 2019, and with the balance due at maturity of the 2018 Term Loan. The principal obligations under the Delayed Draw Term Loan are to be repaid in equal quarterly installments of 1.25% of the outstanding principal amount of the Delayed Draw Term Loan as of March 31, 2019, subject to adjustments for any extension of the availability period of the Delayed Draw Term Loan, with the balance due at maturity of the Delayed Draw Term Loan.

The Delayed Draw Term Loan was available for Spirit to draw until January 12, 2019. On January 7, 2019, Spirit extended the availability period under the Delayed Draw until April 12, 2019. It may be extended for one additional three-month period, in each instance subject to Spirit’s payment of a fee to the relevant lenders based on the undrawn Delayed Draw Term Loan commitment.

The 2018 Credit Agreement also contains an accordion feature that provides Spirit with the option to increase the 2018 Revolver commitments and/or institute one or more additional term loans by an amount not to exceed $750.0 in the aggregate, subject to the satisfaction of certain conditions and the participation of the lenders. The 2018 Credit Agreement contains customary affirmative and negative covenants, including certain financial covenants that are tested on a quarterly basis. Spirit’s obligations under the 2018 Credit Agreement may be accelerated upon an event of default, which includes non-payment of principal or interest, material breach of a representation or warranty, material breach of a covenant, cross-default to material indebtedness, material judgments, ERISA events, change in control, bankruptcy and invalidity of the guarantee of Spirit’s obligations under the 2018 Credit Agreement made by the Company.

As of December 31, 2018, the outstanding balance of the 2018 Term Loan was $206.3 million and the carrying value was $204.7 million.

Senior Notes

2026 Notes. In June 2016, the Company issued $300.0 million in aggregate principal amount of 3.850% Senior Notes due June 15, 2026 (the “2026 Notes”) with interest payable, in cash in arrears, on June 15 and December 15 of each year, beginning December 15, 2016. As of December 31, 2018, the outstanding balance of the 2026 Notes was $300.0 million and the carrying value was $297.5 million. The indenture for the 2026 Notes contains covenants that limit Spirit’s, the Company’s and certain of the Company’s subsidiaries’ ability, subject to certain exceptions and qualifications, to create liens without granting equal and ratable liens to the holders of the 2026 Notes and enter into sale and leaseback transactions. These covenants are subject to a number of qualifications and limitations. In addition, the indenture provides for customary events of default.

2022 Notes. On May 22, 2018, the Company commenced an offer to purchase for cash (the “Tender Offer”) any and all of the $300.0 million outstanding principal amount of our 5 1/4% Senior Notes due 2022 (the “2022 Notes”). The Tender Offer was made pursuant to an Offer to Purchase dated May 22, 2018, and a related Letter of Transmittal and Notice of Guaranteed Delivery, which set forth the terms and conditions of the Tender Offer in full detail. Under the terms of the Tender Offer, holders of 2022 Notes who validly tendered their notes at or prior to May 29, 2018 received, in whole dollars, $1,028.50 per $1,000 principal amount of Notes tendered. Tendering holders also received accrued and unpaid interest from the last applicable interest payment date to, but not including, the settlement date of the Tender Offer.

On May 30, 2018, Spirit repurchased $202.6 million aggregate principal amount of its 2022 Notes pursuant to the Tender Offer. In addition, on June 29, 2018, Spirit redeemed the remaining $97.4 million aggregate principal amount of the 2022 Notes outstanding. The redemption price of the 2022 Notes was 102.85% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date of June 29, 2018. Following the redemption on June 29, 2018, none of the 2022 Notes remain outstanding.

New Notes. On May 30, 2018, Spirit entered into an Indenture (the "Indenture") by and among Spirit, the Company and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as trustee in connection with Spirit's offering of $300.0 million aggregate principal amount of its Senior Floating Rate Notes due 2021 (the "Floating Rate Notes"), $300.0 million aggregate principal amount of its 3.950% Senior Notes due 2023 (the "2023 Notes") and $700.0 million aggregate principal amount of its 4.600% Senior Notes due 2028 (the "2028 Notes" and, together with the Floating Rate Notes and the 2023 Notes, the "New Notes"). The Company guaranteed Spirit's obligations under the Notes on a senior unsecured basis (the "Guarantees").

The Floating Rate Notes bear interest at a rate per annum equal to three-month LIBOR, as determined in the case of the initial interest period, on May 25, 2018, and thereafter at the beginning of each quarterly period as described herein, plus 80 basis points and mature on June 15, 2021. Interest on the Floating Rate Notes is payable on March 15, June 15, September 15 and December 15 of each year, beginning on September 15, 2018. The 2023 Notes bear interest at a rate of 3.950% per annum and mature on June 15, 2023. The 2028 Notes bear interest at a rate of 4.600% per annum and mature on June 15, 2028. Interest on the 2023 Notes and 2028 Notes is payable on June 15 and December 15 of each year, beginning on December 15, 2018. The outstanding balance of the Floating Rate Notes, 2023 Notes, and 2028 Notes was $300.0 million, $300.0 million, and $700.0 million as of December 31, 2018, respectively. The carrying value of the Floating Rate Notes, 2023 Notes, and 2028 Notes was $298.5 million, $297.9 million, and $693.5 million as of December 31, 2018, respectively.

The Notes and the Guarantees have been registered under the Securities Act of 1933, as amended (the "Act"), pursuant to a Registration Statement on Form S-3 (No. 333-211423) previously filed with the SEC under the Act.

The Indenture contains covenants that limit Spirit's, the Company's and certain of the Company's subsidiaries' ability, subject to certain exceptions and qualifications, to create liens without granting equal and ratable liens to the holders of the New Notes and enter into sale and leaseback transactions. These covenants are subject to a number of qualifications and limitations. In addition, the Indenture provides for customary events of default.

Proceeds of the New Notes were used to repurchase the 2022 Notes, partially repay $250 million on our then-existing term loan facility, fund the ASRs, and pay for financing and acquisition related costs.

For additional information on our outstanding debt, please see Note 15 to the Consolidated Financial Statements, Debt.

Other

Additionally, we may receive proceeds from asset sales and may seek to access the credit markets, if needed. In October 2017, the Company entered into an agreement (the "Receivable Sales Agreement") to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Company's balance sheet. For additional information on the sale of receivables, please see Note 6 to the Consolidated Financial Statements, Accounts Receivable, net.

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

As of December 31, 2018, we had $773.6 million of cash and cash equivalents on the balance sheet. Based on our planned levels of operations and our strong liquidity position, we currently expect that our cash on hand, cash flow from operations, and borrowings available under our 2018 Credit Agreement will be sufficient to fund our operations, dividend payments, share repurchases, 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 twelve months ended December 31, 2018, 2017, and 2016:

	For the Twelve Months Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions)		
Net income	$617.0	$ 354.9	$ 469.7
Adjustments to reconcile net income	2.6	241.3	283.7
Changes in working capital	150.3	(22.5)	(36.5)
Net cash provided by operating activities	769.9	573.7	716.9
Net cash used in investing activities	(267.8)	(272.8)	(253.4)
Net cash used in financing activities	(153.5)	(578.7)	(718.7)
Effect of exchange rate change on cash and cash equivalents	—	5.6	(4.4)
Net increase (decrease) in cash, cash equivalents, and restricted cash for the period	348.6	(272.2)	(259.6)
Cash, cash equivalents, and restricted cash, beginning of period	445.5	717.7	977.3
Cash, cash equivalents, and restricted cash, end of period	$794.1	$ 445.5	$ 717.7

Twelve Months Ended December 31, 2018 as Compared to Twelve Months Ended December 31, 2017

Operating Activities. For the twelve months ended December 31, 2018, we had a net cash inflow of $769.9 million from operating activities, an increase of $196.2 million, compared to a net cash inflow of $573.7 million for the prior year. The increase in net cash provided by operating activities was primarily due to the absence of a repayment of $236.0 million in accordance with the B787 Amendment #25 in 2017, partially offset by higher net tax payments in 2018. Net tax payments made during 2018 were $202.3 million compared to net tax payments of $101.9 million during the prior year, primarily due to recognition of underlying taxable temporary differences and the absence of a material forward loss.

Investing Activities. For the twelve months ended December 31, 2018, we had a net cash outflow of $267.8 million from investing activities, compared to a net cash outflow of $272.8 million for the prior year.

Financing Activities. For the twelve months ended December 31, 2018, we had a net cash outflow of $153.5 million for financing activities, a decrease in outflow of $425.2 million as compared to a net cash outflow of $578.7 million for the same period in the prior year. The decrease in net cash outflow is primarily due to the issuance of the New Notes during the second quarter of 2018, which resulted in $1,300.0 million proceeds from the issuance of debt, partially offset by $586.2 million repayments on debt and debt issuance and financing costs. During 2018, the Company repurchased 9.3 million shares of its Common Stock for $800.0 million, compared to the repurchase of 7.5 million shares of Common Stock for $496.3 million in 2017. During 2018, the Company paid cash dividends totaling $48.0 million to its stockholders of record, compared to $47.1 million in 2017.

Twelve Months Ended December 31, 2017 as Compared to Twelve Months Ended December 31, 2016

Operating Activities. For the twelve months ended December 31, 2017, we had a net cash inflow of $573.7 million from operating activities, a decrease of $143.2 million, compared to a net cash inflow of $716.9 million for the prior year. The decrease in net cash provided by operating activities was primarily due to the repayment under B787 Amendment #25 of $236.0 million less certain adjustments to Boeing as a retroactive adjustment for payments that were based on interim pricing, partially offset by lower net tax payments in 2017. Net tax payments made during 2017 were $101.9 million, resulting in an increase in net cash of $89.5 million, compared to net tax payments of $191.4 million during the prior year.

Investing Activities. For the twelve months ended December 31, 2017, we had a net cash outflow of $272.8 million from investing activities, an increase in outflow of $19.4 million, compared to a net cash outflow of $253.4 million for the prior year. The increase in cash outflow was driven by higher investment in capital during 2017 to support increasing production rates.

Financing Activities. For the twelve months ended December 31, 2017, we had a net cash outflow of $578.7 million for financing activities, a decrease in outflow of $140.0 million as compared to a net cash outflow of $718.7 million for the same period in the prior year. During 2017, the Company repurchased 7.5 million shares of its Common Stock for $496.3 million, compared to the repurchase of 14.2 million shares of Common Stock for $649.6 million in 2016. During 2017, the Company paid cash dividends totaling $47.1 million to its stockholders of record. Additionally, during 2016, we entered into a prior credit agreement and issued the 2026 Notes using the proceeds along with cash on hand to repurchase $300.0 million of our senior notes due in 2020 pursuant to a tender offer and redemption.

Future Cash Needs and Capital Spending

Our primary future cash needs will consist of working capital, research and development, capital expenditures, debt service, and merger and acquisition. We expend significant capital as we undertake new programs, which begin in the non-recurring investment phase of our business model. In addition, we expend significant capital to meet increased production rates on certain mature and maturing programs, including the B737, B787, A320, and A350 XWB programs. In response to announced customer production rate increases, we are evaluating various plans to relieve capacity constraints. We also require capital to develop new technologies for the next generation of aircraft, which may not be funded by our customers. Capital expenditures for the twelve months ended December 31, 2018 totaled $271.2 million, as compared to $273.1 million for the same period in 2017.

On November 1, 2016, the Company announced that our Board of Directors authorized a new share repurchase program for the purchase of up to $600.0 million of our Common Stock. On July 25, 2017, the Company increased the existing share repurchase program by up to an additional $400.0 million of our Common Stock, resulting in a total program authorization of $1.0 billion. On January 24, 2018, the Board of Directors approved an increase to the program of approximately $500 million. After repurchases made under the ASRs, the Company had approximately $200 million remaining in its share repurchase program. On October 24, 2018, the Board of Directors approved an increase to its existing share repurchase authorization of approximately $800 million, resulting in a total authorization of $1.0 billion. As a result, the total amount remaining in the authorization is approximately $1.0 billion.

The Company continues to pay quarterly cash dividends in the amount of $0.12 per share. The most recent dividend was declared by the Board on January 23, 2019, to be paid on April 8, 2019, to stockholders of record as of March 18, 2019.

Asco. We expect to fund the Asco acquisition through cash on hand and borrowings available under our 2018 Credit Agreement. For additional information on our pending purchase of Asco, please see Note 27 to the Consolidated Financial Statements, Asco Acquisition.

Furthermore, in connection with the Asco acquisition and to reduce the Company's exposure to currency exchange rate fluctuations due to a significant portion of purchase price being payable in Euros, the Company entered into foreign currency forward contracts. To reduce the Company's exposure to currency exchange rate fluctuations, the Company entered into foreign currency forward contracts. The objective of these contracts is to minimize the impact of currency exchange rate movements on the Company's cash flows, however the Company has not designated these forward contracts as a hedge and has not applied hedge accounting to them. During the second quarter of 2018, to reduce the Euro exchange rate exposure of the purchase of Asco, the Company entered into a foreign currency forward contract in the amount of $580.0; this foreign currency forward contract was net settled in the third quarter of 2018 and a new contract was entered during the fourth quarter in the amount of $568.3; this contract was net settled and a third contract was entered into with a settlement date in the first quarter of 2019 in the amount of $547.7. The fair value of the foreign currency forward contract, using Level 2 inputs, was an asset of $5.8 as of December 31, 2018. The Company recorded a net loss related to foreign currency forward contract activity of $35.3 for the twelve months ended December 31, 2018 to Other (expense) income, net in the Consolidated Statement of Operations.

Contractual Obligations:

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The following table summarizes our contractual cash obligations as of December 31, 2018:

Contractual Obligations(1)(2)	2019	2020	2021	2022	2023	2024	2025 and After	Total
	($ in millions)							
Principal payments on term loan	$22.8	$22.8	$22.8	$22.8	$365.0	$—	$—	$456.2
Interest on debt(3)	21.3	23.3	22.1	20.7	12.1	4.0	33.5	137.0
Long-term bonds	—	—	300.0	—	300.0	—	1,000.0	1,600.0
Interest on long-term bonds	66.3	66.3	61.0	55.6	49.7	43.8	173.8	516.5
Non-cancelable capital lease payments	8.1	8.5	8.8	9.0	8.4	4.8	51.7	99.3
Non-cancelable operating lease payments	8.9	8.0	7.4	7.0	5.9	5.4	31.3	73.9
Other	2.2	2.1	2.1	1.6	0.8	—	3.7	12.5
Purchase obligations(4)	107.2	6.8	0.8	0.1	—	—	—	114.9
Total	$236.8	$137.8	$425.0	$116.8	$741.9	$58.0	$1,294.0	$3,010.3

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(1) Does not include repayment of $233.9 million of B787 advances or deferred revenue credits to Boeing. See Note 12 to the Consolidated Financial Statements, Advance Payments.

(2) The $7.2 million of unrecognized tax benefit liability for uncertain tax positions has been excluded from this table due to uncertainty involving the ultimate settlement period. See Note 19 to the Consolidated Financial Statements, Income Taxes.

(3) Interest on our Term Loan was calculated for all years using the three-month LIBOR yield curve as of December 31, 2018 plus applicable margin.

(4) Purchase obligations represent computing, tooling, and property, plant and equipment commitments as of December 31, 2018.

Off-Balance Sheet Arrangements

Other than operating leases disclosed in the notes to our financial statements included in this Annual Report, we have not entered into any off-balance sheet arrangements as of December 31, 2018.

Foreign Operations

We engage in business in various non-U.S. markets. As of December 31, 2018, we have facilities in the U.K., France, and Malaysia, a worldwide supplier base, and a repair center for the European and Middle-Eastern regions. We purchase certain components, assemblies, and materials that we use in our products from foreign suppliers and a portion of our products will be sold directly to foreign customers, including Airbus, or resold to foreign end-users (e.g., foreign airlines and militaries). In addition, we operate an assembly facility in Saint-Nazaire, France to receive and assemble center fuselage frame sections for the A350 XWB commercial aircraft from the facility in Kinston, North Carolina before they are shipped to Airbus.

Currency fluctuations, tariffs and similar import limitations, price controls, tax reform, and labor regulations can affect our foreign operations. Other potential limitations on our foreign operations include expropriation, nationalization, restrictions on foreign investments or their transfers, and additional political and economic risks. In addition, the transfer of funds from foreign operations could be impaired by any restrictive regulations that foreign governments could enact.

Sales to foreign customers are subject to numerous additional risks, including the impact of foreign government regulations, political uncertainties, and differences in business practices. There can be no assurance that foreign governments will not adopt regulations or take other actions that would have a direct or indirect adverse impact on our business or market opportunities with such governments' countries. Furthermore, the political, cultural, and economic climate outside the U.S. may be unfavorable to our operations and growth strategy.

For the twelve months ended December 31, 2018, our net revenues from direct sales to non-U.S. customers were approximately $1,254.9 million, or 17% of total net revenues for the same period. For the twelve months ended

December 31, 2017, our net revenues from direct sales to non-U.S. customers were approximately $1,260.1 million, or 18% of total net revenues for the same

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period. For the twelve months ended December 31, 2016, our net revenues from direct sales to non-U.S. customers were approximately $1,142.8 million, or 17% of total net revenues for the same period.

Inflation

A majority of our sales are conducted pursuant to long-term contracts that set fixed unit prices. Certain, but not all, of these contracts provide for price adjustments for inflation or abnormal escalation. Although we have attempted to minimize the effect of inflation on our business through contractual protections, the presence of longer pricing periods within our contracts increases the likelihood that there will be sustained or higher than anticipated increases in costs of labor or materials. Furthermore, if one of the raw materials on which we are dependent (e.g. aluminum, titanium, steel, or raw composite material) were to experience an isolated price increase without inflationary impacts on the broader economy, we may not be entitled to inflation protection under certain of our contracts. If our contractual protections do not adequately protect us in the context of substantial cost increases, it could have a material adverse effect on our results of operations.

Spirit's contracts with suppliers currently provide for fixed pricing in U.S. dollars, while contracts with respect to our U.K. operations are denominated in U.S. dollars, British pounds sterling or Euros. In some cases, our supplier arrangements contain inflationary adjustment provisions based on accepted industry indices, and we typically include an inflation component in estimating our supply costs. In addition, Spirit has long-term supply agreements for raw materials with most of its suppliers and for certain raw materials, Spirit is party to collective raw material sourcing contracts arranged through Boeing and Airbus (see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk - Commodity Price and Availability Risks" below). With these strategies, Spirit expects pricing for raw materials to be stable in the near term. We will continue to focus our strategic cost reduction plans on mitigating the effects of potential cost increases on our operations.

Item 7A. 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 credit risks, commodity price and availability risks, interest rate risks, and foreign exchange risks.

Credit Risks

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash investments, the funds in which our pension assets are invested, and trade accounts receivable.

Accounts receivable include amounts billed and currently due from customers, particular estimated contract changes, claims in negotiation that are probable of recovery, and amounts retained by the customer pending dispute resolution. For the twelve months ended December 31, 2018, approximately 79% of our net revenues were from sales to Boeing. We continuously monitor collections and payments from customers and maintain a provision for estimated credit losses as deemed appropriate based upon historical experience and any specific customer collection issues that have been identified. While we cannot guarantee that we will continue to experience the same credit loss rates in the future, such credit losses have historically not been material. For this reason, we believe that our exposure to this credit risk is not material.

We maintain cash and cash equivalents with various financial institutions and perform periodic evaluations of the relative credit standing of those financial institutions and, from time to time, we invest excess cash in liquid short-term money market funds. We have not experienced any losses in such accounts and believe that we are not exposed to any significant credit risk on cash and cash equivalents. Additionally, we monitor our defined benefit pension plan asset investments on a quarterly basis and we believe that we are not exposed to any significant credit risk in these investments. Therefore, exposure to credit risk for these items is not believed to be material.

Commodity Price and Availability Risks

In our business we use various raw materials, including aluminum, titanium, steel, and composites, all of which can experience price fluctuations depending on market conditions. Substantial price increases could reduce our profitability. Although our supply agreements with our customers allow us to pass on certain abnormal increases in component and raw material costs in limited situations, we may not be fully compensated for such increased costs. To mitigate these risks, we use our strategic sourcing initiatives, and are parties to collective raw material sourcing contracts arranged through certain customers that allow us to obtain raw materials at pre-negotiated rates and help insulate us from market volatility across the industry for certain specialized metallic and composite raw materials used in the aerospace industry. In addition, we also have long-term supply agreements with a number of our major parts suppliers. We generally do not employ forward contracts or other financial instruments to hedge commodity price risk, although we continue to review a full range of business options focused on strategic risk management for all raw material commodities. We do not expect our exposure to commodity price and availability risks to be material.

If one or more of our suppliers or subcontractors experiences delivery delays or other performance problems, we may be unable to meet commitments to our customers or incur additional costs. Any failure by our suppliers to provide acceptable raw materials, components, kits, or subassemblies could adversely affect our production schedules and contract profitability. We do not anticipate material risk in this area, as we assess qualification of suppliers and continually monitor them to control risk associated with such supply base reliance.

To a lesser extent, we also are exposed to fluctuations in the prices of certain utilities and services, such as electricity, natural gas, chemicals and freight. We do not believe there is a material exposure, as we utilize a range of long-term agreements to minimize procurement expense and supply risk in these areas.

Interest Rate Risks

As of December 31, 2018, under our 2018 Credit Agreement, we had $204.7 million of variable rate debt outstanding as compared to $460.7 million of variable rate debt outstanding as of December 31, 2017 under the Company's prior credit agreement. Borrowings under our 2018 Credit Agreement bear interest that varies with LIBOR. As of December 31, 2018, we had $298.5 million of Floating Rate Notes bearing interest at a rate per annum equal to three-month LIBOR, as determined in the case of the initial interest period, on May 25, 2018, and thereafter at the beginning of each quarterly period as described herein, plus 80 basis points and mature on June 15, 2021. Interest on the Floating Rate Notes is payable on March 15, June 15, September 15 and December 15 of each year, beginning on September 15, 2018. Interest rate changes generally do not affect the market value of such debt, but do impact the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. Assuming other variables remain constant, including levels of indebtedness, a 1% increase in interest rates on our variable debt would have an estimated impact on pre-tax earnings and cash flows for the next twelve months of approximately $5.1 million.

On March 15, 2017, the Company entered into an interest rate swap agreement, with an effective date of March 31, 2017. The swaps have a notional value of $250.0 million and fix the variable portion of the Company’s floating rate debt at 1.815%. The fair value of the interest rate swaps, using Level 2 inputs, was an asset of $2.2 million as of December 31, 2018. For the twelve months ended December 31, 2018, the Company recorded a gain related to swap activity of $1.4 million. Exposure to interest rate risk is not believed to be material on the interest rate swap agreements.

Foreign Exchange Risks

We have certain sales, expenses, assets, and liabilities that are denominated in British pounds sterling. Our functional currency for our U.K. operations is the British pound sterling. However, sales made to Boeing and some procurement costs are denominated in U.S. dollars and Euros. As a consequence, movements in exchange rates could cause our net sales and expenses to fluctuate, affecting our profitability and cash flows. We do not believe that this risk to profitability and cash flows is material, as the impact of fluctuations within sales and expenses are expected to be largely offsetting.

Even when revenues and expenses are matched, we must translate British pound sterling denominated results of operations, assets, and liabilities for our foreign subsidiaries to U.S. dollars in our consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar as compared to the British pound sterling will affect our reported results of operations and the value of our assets and liabilities on our balance sheet, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These transactions could affect the comparability of our results between financial periods and/or result in significant changes to the carrying value of our assets, liabilities and shareholders’ equity. We do not believe this exposure to foreign currency exchange risk is material.

In accordance with FASB authoritative guidance, the intercompany revolving credit facility with our U.K. subsidiary is exposed to fluctuations in foreign exchange rates. The fluctuation in rates for 2018 resulted in a loss of $1.9 million reflected in other income/expense. We do not believe that the exposure to foreign currency risk is material for the intercompany revolving credit facility.

In advance of the planned purchase of Asco, we entered into a foreign currency forward contract during the second and third quarter of 2018. The objective of these contracts is to minimize the impact of currency exchange rate movements on the Company's cash flows, however the Company has not designated these forward contracts as a hedge and has not applied hedge accounting to them. During the second quarter of 2018, the Company entered into a foreign currency forward contract in the amount of $580.0 million; this foreign currency forward contract was net settled in the third quarter of 2018 and a new contract was entered during the fourth quarter in the amount of $568.3; this contract was net settled and a third contract was entered into with a settlement date in the first quarter of 2019 in the amount of $547.7. The fair value of the foreign currency forward contract was an asset of $5.8 million as of December 31, 2018. The Company recorded a net loss related to this activity of $35.3 million for the twelve months ended December 31, 2018. Assuming all other variables remained constant at December 31, 2018, a 1% change in the exchange rate between the U.S. dollar and the Euro would have decreased or increased the loss by $5.5 million.

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Item 8. Financial Statements and Supplementary Data
SPIRIT AEROSYSTEMS HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Spirit AeroSystems Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Spirit AeroSystems Holdings, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 8, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition in 2018 due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2014.

Wichita, Kansas

February 8, 2019

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Spirit AeroSystems Holdings, Inc.
Consolidated Statements of Operations

	For the Twelve Months Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions, except per share data)		
Net Revenues	$7,222.0	$ 6,983.0	$ 6,792.9
Operating costs and expenses			
Cost of sales	6,135.9	6,195.3	5,800.3
Selling, general and administrative	210.4	204.7	230.9
Impact of severe weather event	(10.0)	19.9	12.1
Research and development	42.5	31.2	23.8
Total operating costs and expenses	6,378.8	6,451.1	6,067.1
Operating income	843.2	531.9	725.8
Interest expense and financing fee amortization	(80.0)	(41.7)	(57.3)
Other income (expense), net	(7.0)	44.4	(8.0)
Income before income taxes and equity in net income of affiliates	756.2	534.6	660.5
Income tax provision	(139.8)	(180.0)	(192.1)
Income before equity in net income of affiliates	616.4	354.6	468.4
Equity in net income of affiliates	0.6	0.3	1.3
Net income	$617.0	$ 354.9	$ 469.7
Earnings per share			
Basic	$5.71	$ 3.04	$ 3.72
Diluted	$5.65	$ 3.01	$ 3.70
Dividends declared per common share	$0.46	$ 0.40	$ 0.10

See notes to consolidated financial statements

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Spirit AeroSystems Holdings, Inc.
Consolidated Statements of Comprehensive Income

	For the Twelve Months Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions)		
Net income	$617.0	$ 354.9	$ 469.7
Other comprehensive (loss) income, net of tax:			
Pension, SERP, and Retiree medical adjustments, net of tax effect of $12.7, ($6.0), and ($20.8), respectively	(41.0)	19.8	36.9
Unrealized foreign exchange income (loss) on intercompany loan, net of tax effect of $0.8, ($1.2), and $2.5, respectively	(3.2)	4.9	(9.9)
Foreign currency translation adjustments	(23.9)	33.7	(53.4)
Total other comprehensive income (loss)	(68.1)	58.4	(26.4)
Total comprehensive income	$548.9	$ 413.3	$ 443.3

See notes to consolidated financial statements

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Spirit AeroSystems Holdings, Inc.
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
	($ in millions)	
Assets		
Cash and cash equivalents	$773.6	$ 423.3
Restricted cash	0.3	2.2
Accounts receivable, net	545.1	722.2
Contract assets, short-term	469.4	—
Inventory, net	1,012.6	1,449.9
Other current assets	48.3	53.5
Total current assets	2,849.3	2,651.1
Property, plant and equipment, net	2,167.6	2,105.3
Contract assets, long-term	54.1	—
Pension assets	326.7	347.1
Other assets	288.2	164.3
Total assets	$5,685.9	$ 5,267.8
Liabilities		
Accounts payable	$902.6	$ 693.1
Accrued expenses	313.1	269.3
Profit sharing	68.3	109.5
Current portion of long-term debt	31.4	31.1
Advance payments, short-term	2.2	100.0
Contract liabilities, short-term	157.9	—
Forward loss provision, short-term	12.4	—
Deferred revenue and other deferred credits, short-term	20.0	64.6
Deferred grant income liability — current	16.0	21.6
Other current liabilities	58.2	331.8
Total current liabilities	1,582.1	1,621.0
Long-term debt	1,864.0	1,119.9
Advance payments, long-term	231.9	231.7
Pension/OPEB obligation	34.6	40.8
Contract Liabilities, long-term	369.8	—
Forward loss provision, long-term	170.6	—
Deferred revenue and other deferred credits	31.2	161.0
Deferred grant income liability — non-current	28.0	39.3
Other liabilities	135.6	252.6
Stockholders' Equity		
Preferred stock, par value $0.01, 10,000,000 shares authorized, no shares issued	—	—
Common Stock, par value $0.01, 200,000,000 shares authorized, 105,461,817 and 114,447,605 shares issued and outstanding, respectively	1.1	1.1
Additional paid-in capital	1,100.9	1,086.9
Accumulated other comprehensive loss	(196.6)	(128.5)
Retained earnings	2,713.2	2,422.4
Treasury stock, at cost (40,719,438 and 31,467,709 shares, respectively)	(2,381.0)	(1,580.9)
Total stockholders' equity	1,237.6	1,801.0
Noncontrolling interest	0.5	0.5

Total equity	1,238.1	1,801.5
Total liabilities and equity	$5,685.9	$ 5,267.8

See notes to consolidated financial statements

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Spirit AeroSystems Holdings, Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount					
	($ in millions, except share data)						
Balance — December 31, 2015	135,617,710	$ 1.4	$ 1,051.6	$ (429.2)	$ (160.5)	$ 1,656.2	$ 2,119.5
Net income	—	—	—	—	—	469.7	469.7
Dividends Declared	—	—	—	—	—	(12.0)	(12.0)
Employee equity awards	856,232	—	42.5	—	—	—	42.5
Stock forfeitures	(280,349)	—	—	—	—	—	—
Net shares settled	(335,436)	—	(15.2)	—	—	—	(15.2)
Excess tax benefits from share-based payment arrangements	—	—	(0.2)	—	—	—	(0.2)
SERP shares issued	28,626	—	—	—	—	—	—
Treasury shares	(14,244,227)	(0.2)	0.2	(649.6)	—	—	(649.6)
Other comprehensive loss	—	—	—	—	(26.4)	—	(26.4)
Balance — December 31, 2016	121,642,556	$ 1.2	$ 1,078.9	$ (1,078.8)	$ (186.9)	$ 2,113.9	$ 1,928.3
Net income	—	—	—	—	—	354.9	354.9
Dividends Declared	—	—	—	—	—	(46.4)	(46.4)
Employee equity awards	667,845	—	22.1	—	—	—	22.1
Stock forfeitures	(92,482)	—	—	—	—	—	—
Net shares settled	(250,066)	—	(14.2)	—	—	—	(14.2)
SERP shares issued	11,369	—	—	—	—	—	—
Treasury shares	(7,531,617)	(0.1)	0.1	(502.1)	—	—	(502.1)
Other comprehensive loss	—	—	—	—	58.4	—	58.4
Balance — December 31, 2017	114,447,605	$ 1.1	$ 1,086.9	$ (1,580.9)	$ (128.5)	$ 2,422.4	$ 1,801.0
Net income	—	—	—	—	—	617.0	617.0
Adoption of ASC 606	—	—	—	—	—	(277.0)	(277.0)
Dividends Declared	—	—	—	—	—	(49.2)	(49.2)
Employee equity awards	466,719	—	27.4	—	—	—	27.4
Stock forfeitures	(47,962)	—	—	—	—	—	—
Net shares settled	(177,812)	—	(15.6)	—	—	—	(15.6)
ESPP shares issued	24,996	—	2.1	—	—	—	2.1
Treasury shares	(9,251,729)	—	0.1	(800.1)	—	—	(800.0)
Other comprehensive income	—	—	—	—	(68.1)	—	(68.1)
Balance — December 31, 2018	105,461,817	$ 1.1	$ 1,100.9	$ (2,381.0)	$ (196.6)	$ 2,713.2	$ 1,237.6

See notes to consolidated financial statements

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Spirit AeroSystems Holdings, Inc.
Consolidated Statements of Cash Flows

	For the Twelve Months Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
	($ in millions)		
Operating activities			
Net income	$617.0	$ 354.9	$ 469.7
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation expense	230.6	214.1	208.6
Amortization expense	0.4	0.2	0.2
Amortization of deferred financing fees	17.9	3.4	19.3
Accretion of customer supply agreement	4.1	2.6	4.9
Employee stock compensation expense	27.4	22.1	42.5
Excess tax benefit of share-based payment arrangements	—	—	0.1
(Gain) from derivative instruments	(7.2)	(0.9)	—
(Gain) loss from foreign currency transactions	(0.3)	(8.1)	17.4
Loss on impairment and disposition of assets	1.8	9.5	0.4
Deferred taxes	(38.0)	52.4	0.9
Pension and other post retirement benefits, net	(33.4)	(34.7)	3.5
Grant liability amortization	(21.6)	(19.0)	(11.9)
Equity in net income of affiliates	(0.6)	(0.3)	(1.3)
Forward loss provision	(170.9)	—	—
Changes in assets and liabilities			
Accounts receivable, net	(47.9)	(48.5)	(139.1)
Inventory, net	(61.3)	319.6	207.8
Contract asset	(8.5)	—	—
Contract liability	208.3	—	—
Accounts payable and accrued liabilities	244.5	160.3	(34.3)
Profit sharing/deferred compensation	(40.9)	7.6	40.5
Advance payments	(98.3)	(209.6)	(144.4)
Income taxes receivable/payable	(28.4)	25.7	(3.3)
Deferred revenue and other deferred credits	16.9	(231.2)	12.4
Other	(41.7)	(46.4)	23.0
Net cash provided by operating activities	769.9	573.7	716.9
Investing activities			
Purchase of property, plant and equipment	(271.2)	(273.1)	(254.0)
Proceeds from sale of assets	3.4	0.4	0.6
Other	—	(0.1)	—
Net cash used in investing activities	(267.8)	(272.8)	(253.4)
Financing activities			
Proceeds from issuance of bonds	1,300.0	—	299.8
Principal payments of debt	(6.7)	(2.8)	(36.4)
Payments on term loan	(256.3)	(25.0)	—
Payments on bonds	(300.0)	—	(300.0)
Taxes paid related to net share settlement awards	(15.6)	(14.2)	(15.2)
Proceeds from issuance of ESPP stock	2.1	—	—

Excess tax benefit of share-based payment arrangements	—	—	(0.1)
Debt issuance and financing costs	(23.2)	(0.9)	(17.2)
Proceeds from financing under the New Markets Tax Credit Program	—	7.6	—
Purchase of treasury stock	(805.8)	(496.3)	(649.6)
Dividends paid	(48.0)	(47.1)	—
Net cash used in financing activities	(153.5)	(578.7)	(718.7)
Effect of exchange rate changes on cash and cash equivalents	—	5.6	(4.4)
Net increase (decrease) in cash, cash equivalents, and restricted cash for the period	348.6	(272.2)	(259.6)
Cash, cash equivalents, and restricted cash, beginning of period	445.5	717.7	977.3
Cash, cash equivalents, and restricted cash, end of period	$794.1	$ 445.5	$ 717.7
Supplemental information			
Interest paid	$70.4	$ 43.6	$ 45.2
Income taxes paid	$202.3	$ 101.9	$ 191.4
Property acquired through capital leases	$26.8	$ 29.3	$ 1.8

See notes to consolidated financial statements

1. Nature of Business

Spirit AeroSystems Holdings, Inc. (“Holdings” or the “Company”) provides manufacturing and design expertise in a wide range of fuselage, propulsion, and wing products and services for aircraft original equipment manufacturers (“OEM”) and operators through its subsidiaries, including Spirit AeroSystems, Inc. (“Spirit”). The Company's headquarters are in Wichita, Kansas, with manufacturing and assembly facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Wichita, Kansas; Kinston, North Carolina; Subang, Malaysia; and Saint-Nazaire, France.

2. Adoption of New Accounting Standards

Adoption of New Revenue Standard

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) that supersedes ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts (“legacy GAAP”). Subsequently, the FASB issued several updates to ASU 2014-09, which are pending content or otherwise codified in Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”). ASC 606 also includes new guidance on costs related to a contract, which is codified in ASC Subtopic 340-40 (“ASC 340-40”). The Company adopted ASC 606 using the modified retrospective method (“method”) effective as of January 1, 2018 (“date of initial application”). Under this method, the cumulative effect of the adoption of ASC 606 is recognized as an adjustment to retained earnings on the date of initial application (“Transition Adjustment”), and the comparative financial statements for prior periods are not adjusted and continue to be reported under legacy GAAP. The Transition Adjustment was an after tax decrease to retained earnings of approximately $277.0. Financial information for 2018 and 2017 is presented under ASC 606 and under legacy GAAP, respectively. The tables below reflect adjusted 2018 financial statement amounts as if the Company had been reporting under legacy GAAP for items that are materially different.

The adoption of ASC 606 does not impact the Company's cash flows or the underlying economics of the Company's contracts with customers. However, the pattern and timing of revenue and profit recognition, as well as financial statement presentation and disclosures, has changed.

The significant changes and the qualitative and quantitative impact of the adoption of ASC 606 are noted below:

a.Revenue from Contracts with Customers

The Company no longer uses the units-of-delivery method, and the historical use of contract blocks to define contracts for accounting purposes has been replaced by accounting contracts as identified under ASC 606. The Company's accounting contracts under ASC 606 are for the specific number of units for which orders have been received, which is typically for fewer units than what was used to define contract blocks under legacy GAAP. In most of the Company's contracts, the customer has options or requirements to purchase additional products and services.

b.Deferred Production Costs

Under legacy GAAP, certain production costs were deferred over the life of the contract block, which is not permitted under ASC 606. Accordingly, deferred production costs of $640.3 (pretax), net of previously recognized forward loss reserves of $364.0 (pretax), were eliminated, resulting in a decrease to retained earnings in the Transition Adjustment.

c.Contract Assets and Contract Liabilities

Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract assets in the amount of $342.0 were established in the Transition Adjustment.

Contract liabilities primarily represent cash received that is in excess of revenues recognized and is contingent upon the satisfaction of performance obligations. For certain contracts, the allocation of consideration to the performance obligations results in a deferral of revenue that was previously recognized under legacy GAAP. Contract liabilities in the amount of $113.0 were established in the Transition Adjustment, which reflects consideration received prior to the date of initial application that is in excess of the standalone selling price. This liability includes an allocation of consideration to future units, including those under options that the Company believes are likely to be exercised, with prices that are lower than standalone selling price. This liability will be recognized earlier if the options are not fully exercised, or immediately if the contract is terminated prior to the options being fully exercised.

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

d.Contract Costs

The Company's accounting for preproduction, tooling, and certain other costs has not changed since these costs generally do not fall within the scope of ASC 340-40. Incurred production costs for anticipated contracts (satisfaction of performance obligations, which have commenced because the Company expects the customer to exercise options) continue to be classified as inventory.

e. Practical expedients

The Company has adopted ASC 606 only for contracts that were not substantially completed under legacy GAAP on the date of initial application. For these contracts, the Company has reflected the aggregate effect of all modifications executed prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, for determining the transaction price and for allocating the transaction price.

The following tables summarize the impacts of adopting ASC Topic 606 on the Company's consolidated financial statements for the twelve months ended December 31, 2018.

	For the Twelve Months Ended		
	As Reported	Impact of Adoption of	As Adjusted
	December 31, 2018	ASC Topic 606	December 31, 2018
Revenue	$7,222.0	133.8	$7,355.8
Cost of sales	6,135.9	277.5	6,413.4
Income tax provision	(139.8)	32.3	(107.5)
Net income	617.0	(111.5)	505.5
Earnings per share			
Basic	$5.71	$ (1.03)	$4.68
Diluted	$5.65	$ (1.02)	$4.63

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	As Reported December 31, 2018	Impact of Adoption of ASC Topic 606	As Adjusted December 31, 2018
Assets			
Accounts receivable, net	$ 545.1	$ 102.8	$ 647.9
Contract assets, short-term	469.4	(469.4)	—
Inventory, net	1,012.6	378.9	1,391.5
Other current assets	48.3	41.7	90.0
Contract assets, long-term	54.1	(54.1)	—
Other assets	288.2	(70.5)	217.7
Total assets	5,685.9	(70.6)	5,615.3
Liabilities			
Accrued expenses	313.1	(5.8)	307.3
Contract liabilities, short-term	157.9	(157.9)	—
Forward loss provision, short-term	12.4	(12.4)	—
Deferred revenue and other deferred credits, short-term	20.0	130.3	150.3
Other current liabilities	58.2	259.8	318.0
Contract liabilities, long-term	369.8	(369.8)	—
Forward loss provision, long-term	170.6	(170.6)	—
Deferred revenue and other deferred credits	31.2	93.6	124.8
Stockholders' Equity			
Accumulated other comprehensive loss	(196.6)	(3.4)	(200.0)
Retained earnings	2,713.2	165.5	2,878.7
Total liabilities and equity	5,685.9	(70.6)	5,615.3

Adoption of ASU 2017-07

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). ASU 2017-07 requires entities to report the service cost component of net periodic pension and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Further, ASU 2017-07 requires the other components of net periodic pension and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The Company adopted the requirements of ASU 2017-07 on January 1, 2018, using the retrospective transition method.

Prior period information has been reclassified as a result of the Company's adoption of ASU 2017-07 on a retrospective basis in 2018. In accordance with the adoption of this guidance, prior year amounts related to the components of net periodic pension and postretirement benefit cost other than service costs have been reclassified from cost of sales and selling, general and administrative expense to other income (expense) within the consolidated statement of operations for all periods presented. The reclassifications are as follows:

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Spirit AeroSystems Holdings, Inc.
Notes to the Consolidated Financial Statements — (Continued)
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	For the Twelve Months Ended			For the Twelve Months Ended		
	As Reported	Impact of Adoption of	As Adjusted	As Reported	Impact of Adoption of	As Adjusted
	December 31, 2017	ASU 2017-07	December 31, 2017	December 31, 2016	ASU 2017-07	December 31, 2016
Cost of sales	$6,162.5	$ 32.8	$6,195.3	$5,803.6	$ (3.3)	$5,800.3
Selling, general and administrative	200.3	4.4	204.7	228.3	2.6	230.9
Other income, net	7.2	37.2	44.4	(7.3)	(0.7)	(8.0)

Adoption of ASU 2016-18

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) (“ASU 2016-18”), which addresses classification and presentation of changes in restricted cash on the statement of cash flows. The standard requires a reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. The ASU does not define restricted cash or restricted cash equivalents, but an entity will need to disclose the nature of the restrictions. The Company adopted ASU 2016-18 on January 1, 2018. Below is a reconciliation of cash, cash equivalents, and restricted cash. Long-term restricted cash is included in Other Assets on the Company's condensed consolidated balance sheet.

Reconciliation of Cash, Cash Equivalents, and Restricted Cash:

	For the Twelve Months Ended	
	December 31, 2018	December 31, 2017
Cash and cash equivalents, beginning of the period	$423.3	$ 697.7
Restricted cash, short-term, beginning of the period	2.2	—
Restricted cash, long-term, beginning of the period	20.0	20.0
Cash, cash equivalents, and restricted cash, beginning of the period	$445.5	$ 717.7
Cash and cash equivalents, end of the period	$773.6	$ 423.3
Restricted cash, short-term, end of the period	0.3	2.2
Restricted cash, long-term, end of the period	20.2	20.0
Cash, cash equivalents, and restricted cash, end of the period	$794.1	$ 445.5

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company’s financial statements and the financial statements of its majority owned or controlled subsidiaries and have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) and Regulation S-X. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year financial statements

and notes to conform to the 2018 presentation, as discussed in Note 2, Adoption of New Accounting Standards.
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. KIESC is fully consolidated as the Company owns 77.8% of the entity’s equity.
All intercompany balances and transactions have been eliminated in consolidation. The Company’s U.K. subsidiary uses local currency, the British pound, as its functional currency; the Malaysian subsidiary uses the British pound and the Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency. As part of

the monthly consolidation process, the functional currencies of the Company’s international subsidiaries are translated to U.S. dollars using the end-of-month translation rate for balance sheet accounts and average period currency translation rates for revenue and income accounts.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to use estimates and assumptions. The results of these estimates form the basis for making judgments that may affect the reported amounts of assets and liabilities, including the impacts of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period.

Management may make significant judgments when assessing estimated amounts of variable consideration and related constraints, the number of options likely to be exercised, and the standalone selling prices of the Company’s products and services. The Company also estimates the cost of satisfying the performance obligations in its contracts and options that may extend over many years. Cost estimates reflect currently available information and the impact of any changes to cost estimates, based upon the facts and circumstances, are recorded in the period in which they become known.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. The Company’s contracts with customers are typically for products and services to be provided at fixed stated prices but may also include variable consideration. Variable consideration may include, but is not limited to, unpriced contract modifications, cost sharing provisions, incentives and awards, non-warranty claims and assertions, provisions for non-conformance and rights to return, or other payments to, or receipts from, customers and suppliers. The Company estimates the variable consideration using the expected value or the most likely amount based upon the facts and circumstances, available data and trends and the history of resolving variability with specific customers and suppliers.

The Company regularly commences work and incorporates customer-directed changes prior to negotiating pricing terms for engineering work, product modifications, and other statements of work. The Company's contractual terms typically provide for price negotiations after certain customer-directed changes have been accepted by the Company. Prices are estimated until they are contractually agreed upon with the customer. When a contract is modified, the Company evaluates whether additional distinct products and services have been promised and whether allocation of consideration is necessary. If not, the modification is treated as a change to the performance obligations within the existing contract, or otherwise accounted for as a new contract prospectively.

The Company allocates the consideration for a contract to the performance obligations on the basis of their relative standalone selling price. The Company estimates the likelihood of the amount of options that the customer is going to exercise when assessing the existence of performance obligations with respect to this allocation or for assessing the impact of loss contracts.

The Company typically provides warranties on all the Company's products and services. Generally, warranties are not priced separately because customers cannot purchase them independently of the products or services under contract so they do not create performance obligations. Spirit warranties generally provide assurance to the Company's customers that the products or services meet the specifications in the contract. In the event that there is a warranty claim because of a covered design, material or workmanship issue, the Company may be required to redesign or modify the product, offer concessions, and/or pay the customer for repairs or perform the repair. Provisions for estimated expenses related to design, service, and product warranties and certain extraordinary rework are made at the time products are sold. These costs are accrued at the time of the sale and are recorded as unallocated cost of sales. These estimates are established using historical information on the nature, frequency, and the cost experience of warranty claims, including the experience of industry peers. In the case of new development products or new customers, Spirit also considers factors including the warranty experience of other entities in the same business, management judgment, and the type and nature of the new product or new customer, among others.

Actual results could differ from those estimates and assumptions.

Revenues and Profit Recognition

Substantially all of the Company’s revenues are from long-term supply agreements with Boeing, Airbus, and other aerospace manufacturers. The Company participates in its customers’ programs by providing design, development, manufacturing, fabrication, and support services for major aerostructures in the fuselage, propulsion, and wing segments. During the early stages of a program, this frequently involves nonrecurring design and development services, including tooling. As the program matures, the Company provides recurring manufacturing of products in accordance with customer design and schedule requirements. Many contracts include clauses that provide sole supplier status to the Company for the duration of the program’s life (including derivatives). The Company's long-term supply agreements typically include fixed price volume-based terms and require the satisfaction of performance obligations for the duration of the program’s life.

The identification of an accounting contract with a customer and the related promises require an assessment of each party’s rights and obligations regarding the products or services to be transferred, including an evaluation of termination clauses and presently enforceable rights and obligations. In general, these long-term supply agreements are legally governed by master supply agreements (or general terms agreements) together with special business provisions (or work package agreements), which define specific program requirements. Purchase orders (or authorizations to proceed) are issued under these agreements to reflect presently enforceable rights and obligations for the units of products and services being purchased. The units for accounting purposes (“accounting contract”) are typically determined by the purchase orders. Revenue is recognized when the Company has a contract with presently enforceable rights and obligations, including an enforceable right to payment for work performed. These agreements may lead to continuing sales for more than twenty years. Customers generally contract with the Company for requirements in a segment relating to a specific program, and the Company’s performance obligations consist of a wide range of engineering design services and manufactured structural components, as well as spare parts and repairs for OEMs. A single program may result in multiple contracts for accounting purposes, and within the respective contracts, non-recurring work elements and recurring work elements may result in multiple performance obligations. The Company generally contracts directly with its customers and is the principal in all current contracts.

Management considers a number of factors when determining the existence of an accounting contract and the related performance obligations that include, but are not limited to, the nature and substance of the business exchange, the contractual terms and conditions, the promised products and services, the termination provisions in the contract, including the presently enforceable rights and obligations of the parties to the contract, the nature and execution of the customer’s ordering process and how the Company is authorized to perform work, whether the promised products and services are distinct or capable of being distinct within the context of the contract, as well as how and when products and services are transferred to the customer.

Revenue is recognized when, or as, control of promised products or services transfers to a customer and is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. Revenue is recognized over time as work progresses when the Company is entitled to the reimbursement of costs plus a reasonable profit for work performed for which the Company has no alternate use. For these performance obligations that are satisfied over time, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress towards satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort.

Revenue for performance obligations that are not recognized over time are recognized at the point in time when control transfers to the customer (which is generally upon delivery). For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of, and obtain the benefits from, the products and services. Shipping and handling costs are not considered performance obligations and are included in cost of sales as incurred.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. The Company’s current contracts do not include any significant financing components because the timing of the transfer of the underlying products and services under contract are at the customers’ discretion. The Company's contracts with customers generally require payment under normal commercial terms after delivery. Payment terms are typically within 30 to 120 days of delivery. The total transaction price is allocated to each of the identified performance obligations using the relative standalone selling price to reflect the amount the Company expects to be entitled for transferring the promised products and services to the customer. A majority of the Company’s agreements with customers include options for future purchases. For the purposes of allocating transaction price, the Company assesses, based upon the facts and circumstances of the business arrangement, the amount and likelihood of options to be exercised that may result in deferral of revenue to future contracts and options. Deferred revenues are recognized as, or when, the underlying future performance obligations are satisfied.

Standalone selling price is the price at which the Company would sell a promised good or service separately to a customer. Standalone selling prices are established at contract inception and subsequent changes in transaction price are allocated on the same basis as at contract inception. Standalone selling prices for the Company’s products and services are generally not observable

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and the Company uses the "Expected Cost plus a Margin" approach to determine standalone selling price. Expected costs are typically derived from the available periodic forecast information. If a contract modification changes the overall transaction price of an existing contract, the Company allocates the new transaction price on the basis of the relative standalone selling prices of the performance obligations and cumulative adjustments, if any, are recorded in the current period.

The Company also identifies and estimates variable consideration for contractual provisions such as unpriced contract modifications, cost sharing provisions, incentives and awards, non-warranty claims and assertions, provisions for non-conformance and rights to return, or other payments to, or receipts from, customers and suppliers. The timing of satisfaction of performance obligations and actual receipt of payment from a customer may differ and affects the balances of the contract assets and liabilities.

For contracts that are deemed to be loss contracts, the Company establishes forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known. These reserves are based on estimates for accounting contracts, plus options that the Company believes are likely to be exercised. The Company records forward loss reserves for all performance obligations in the aggregate for the accounting contract.

The Company adopted ASC 606 using the modified retrospective method effective as of January 1, 2018. Accordingly, for comparative periods prior to 2018, revenue was recognized under the contract method of accounting and sales and profits were recorded on each contract block using the percentage-of-completion method of accounting, primarily using unit-of-delivery. Under the units-of-delivery method, revenue is recognized based upon the number of units delivered during a period and the contract price and expenditures are recognized as cost allocable to the delivered units. For more description on the adoption of ASC 606 and the impacts of adoption on the financial statements for the period ended December 31, 2018, please see Note 2, Adoption of New Accounting Standards.

Disaggregation of Revenue

The Company disaggregates revenue based on the method of measuring satisfaction of the performance obligation either over time or at a point in time. Additionally, the Company disaggregates revenue based upon the location where products and services are transferred to the customer, and based upon major customer. The Company's principal operating segments and related revenue are noted in Note 22, Segment Information.

The following table disaggregates revenues by the method of performance obligation satisfaction:

Revenue	For the Twelve Months Ended December 31, 2018
Contracts with performance obligations satisfied over time	$ 5,628.5
Contracts with performance obligations satisfied at a point in time	1,593.5
Total Revenue	$ 7,222.0

The following table disaggregates revenue by major customer:

For the
Twelve

Customer	Months Ended December 31, 2018
Boeing	$ 5,677.7
Airbus	1,180.8
Other	363.5
Total net revenues	$ 7,222.0

Spirit AeroSystems Holdings, Inc.
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($, €, and RM in millions other than per share amounts)

The following table disaggregates revenue based upon the location where control of products are transferred to the customer:

Location	For the Twelve Months Ended December 31, 2018
United States	$ 5,967.1
International	
United Kingdom	763.3
Other	491.6
Total International	1,254.9
Total Revenue	$ 7,222.0

Research and Development

Research and development includes costs incurred for experimentation, design, and testing that are expensed as incurred.

Cash and Cash Equivalents

Cash and cash equivalents represent all highly liquid investments with original maturities of three months or less.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. For 2018, unbilled receivables were recorded on the balance sheet as contract assets, as per ASC 606 guidance. For 2017 and prior periods, consistent with industry practice, the Company classified unbilled receivables related to contracts accounted for under the long-term contract method of accounting as current. The Company determines an allowance for doubtful accounts based on a review of outstanding receivables. Account balances are charged off against the allowance after the potential for recovery is considered remote. The Company's allowance for doubtful accounts was approximately $0.7 and $1.3 at December 31, 2018 and December 31, 2017, respectively.

In October 2017, the Company entered into an agreement (the "Receivable Sales Agreement"), to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the balance sheet. The Receivable Sales Agreement provides for the continuing sale of certain receivables on a revolving basis until terminated by either party. The receivables under the Receivable Sales Agreement are sold without recourse to the third party financial institution. See Note 6, Accounts Receivable, net, for further discussion.

Inventory

Raw materials are stated at lower of cost (principally on an actual or average cost basis) or market. Production costs for contracts, including costs expected to be recovered on specific anticipated contracts (work that has commenced because the Company expects the customer to exercise options), are classified as work-in-process and include direct material, labor, overhead, and purchases. Typically, anticipated contracts materialize and the related performance obligations are satisfied within 6-12 months. Revenue and related cost of sales are recognized as the performance obligations are satisfied. These costs are evaluated for impairment periodically and capitalized costs for which anticipated contracts do not materialize are written off in the period in which it becomes known. Valuation reserves for excess, obsolete, and slow-moving inventory are estimated by evaluating inventory of individual raw materials and parts against both historical usage rates and forecasted production requirements. Work-in-process includes $151.6 in costs incurred in anticipation of specific future contracts and no impairments were charged for the period ending

December 31, 2018. See Note 9, Inventory.

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Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is applied using a straight-line method over the useful lives of the respective assets as described in the following table:

	Estimated Useful Life
Land improvements	20 years
Buildings	45 years
Machinery and equipment	3-20 years
Tooling — Airplane program — B787, Rolls-Royce	5-20 years
Tooling — Airplane program — all others	2-10 years
Capitalized software	3-7 years

The Company capitalizes certain costs, such as software coding, installation, and testing, that are incurred to purchase or to create and implement internal-use computer software. The Company's capitalization policy includes specifications that the software must have a service life greater than one year, is legally and substantially owned by Spirit, and has an acquisition cost of greater than $0.1.

Where the Company is involved in build-to-suit leasing arrangements, the Company is deemed the owner of the asset for accounting purposes during the construction period of the asset. The Company records the related assets and liabilities for construction costs incurred under these build-to-suit leasing arrangements during the construction period. Upon completion of the asset, the Company considers whether the assets and liabilities qualify for derecognition under the sale-leaseback accounting guidance.

Impairment or Disposal of Long-Lived Assets and Goodwill

Spirit reviews capital and amortization of intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the recorded amount may not be recoverable. Under the standard, assets must be classified as either held-for-use or available-for-sale. An impairment loss is recognized when the recorded amount of an asset that is held for use exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the recorded amount of the asset exceeds its fair value, which is measured by discounted cash flows when quoted market prices are not available. For assets available-for-sale, an impairment loss is recognized when the recorded amount exceeds the fair value less cost to sell. The Company performs an annual impairment test for goodwill in the fourth quarter of each year, or more frequently, if an event occurs or circumstances change that would more likely than not reduce fair value below current value.

Deferred Financing Costs

Costs relating to long-term debt are deferred and included in other long-term assets. These costs are amortized over the term of the related debt or debt facilities and are included as a component of interest expense.

Derivative Instruments and Hedging Activity

The Company uses derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates and interest rates. Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Changes in fair value of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedge transaction, and if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item or when the hedge is no longer effective. Cash flows associated with the Company's derivatives are presented as a component of the operating section of the statement of cash flows. The use of derivatives has generally been limited to interest rate swaps and foreign currency forward contracts. The Company enters into foreign currency forward 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.

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Fair Value of Financial Instruments
Financial instruments are measured in accordance with FASB authoritative guidance related to fair value measurements. This guidance clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. See Note 13, Fair Value Measurements.
Income Taxes
Income taxes are accounted for in accordance with FASB authoritative guidance on accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts for existing assets and liabilities and their respective tax bases. Tax rate changes impacting these assets and liabilities are recognized in the period during which the rate change occurs.
A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. When determining the amount of net deferred tax assets that are more likely than not to be realized, we assess all available positive and negative evidence. The weight given to the positive and negative evidence is commensurate with the extent the evidence may be objectively verified.
We record an income tax expense or benefit based on the income earned or loss incurred in each tax jurisdiction and the tax rate applicable to that income or loss. In the ordinary course of business, there are transactions for which the ultimate tax outcome is uncertain. These uncertainties are accounted for in accordance with FASB authoritative guidance on accounting for the uncertainty in income taxes. The final tax outcome for these matters may be different than management's original estimates made in determining the income tax provision. A change to these estimates could impact the effective tax rate and net income or loss in subsequent periods. We use the flow-through accounting method for tax credits. Under this method, tax credits reduce income tax expense. See Note 19, Income Taxes, for further discussion.
Stock-Based Compensation and Other Share-Based Payments
Many of the Company’s employees are participants in various stock compensation plans. The expense attributable to the Company’s employees is recognized over the period the amounts are earned and vested, as described in Note 18, Stock Compensation.

4. New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans (“ASU 2018-14”), which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. Certain disclosures in ASU 2018-13 are required to be applied on a retrospective basis and others on a prospective basis. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) (“ASU 2018-02”). The guidance in ASU 2018-02 allows an entity to elect to reclassify the stranded tax effects related to the TCJA from accumulated other comprehensive income into retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2018-02 may be applied retrospectively to each period in which the effect of the TCJA is recognized or in the period of adoption. The guidance will require a new disclosure regarding a company’s accounting policy for releasing the tax effects in AOCI. The Company is currently evaluating how to apply the new guidance and has not determined whether it will elect to reclassify stranded amounts. The adoption of ASU 2018-02 is not expected to have a material effect on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), which expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 as of January 1, 2018. The adoption of ASU 2017-12 did not have a material impact to the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit losses (Topic 326) (“ASU 2016-13”), which requires the immediate recognition of management's estimates of current expected credit losses. ASU 2016-13 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2019. Early adoption is permitted after fiscal years beginning December 15, 2018. The Company is currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This update requires recognition of all lease assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2018. Early adoption is permitted. ASU 2016-02 allows for the modified retrospective transition approach and provides certain optional transition relief. The Company adopted the requirements of ASU 2016-02 on January 1, 2019 using the modified retrospective transition approach, with the cumulative effect of the initial application recognized at the date of adoption.

The Company has reviewed all of its current active leases and has implemented the necessary processes and systems to comply with the requirements of ASU 2016-02. Upon adoption of ASU 2016-02, the Company recognized a Right Of Use ("ROU") asset on its books for the net present value of all of its active leases with terms greater than 12 months, with an offsetting lease liability. The ROU asset and corresponding lease liability will be amortized over the course of the lease term, which includes all options that Company expects it will exercise.

Based on currently available information, the Company estimates the Transition Adjustment will have an impact of $50.0 - $60.0 increase to the assets and liabilities on the Consolidated Balance Sheet. The Company does not expect the adoption of ASU 2016-02 to have any material impact to Net Income or Cash Flows.

5. Changes in Estimates

The Company has a periodic forecasting process in which management assesses the progress and performance of the Company’s programs. This process requires management to review each program’s progress by evaluating the program schedule, changes to identified risks and opportunities, changes to estimated revenues and costs for the accounting contracts (and options if applicable), and any outstanding contract matters. Risks and opportunities include but are not limited to management’s judgment about the cost associated with the Company’s ability to achieve the schedule, technical requirements (e.g., a newly-developed product versus a mature product), and any other program requirements. Due to the span of years it may take to completely satisfy the performance obligations for the accounting contracts (and options, if any) and the scope and nature of the work required to be performed on those contracts, the estimation of total revenue and costs is subject to many variables and, accordingly, is subject to change based upon judgment. When adjustments in estimated total consideration or estimated total cost are required, any changes from prior estimates for fully satisfied performance obligations are recognized in the current period as a cumulative catch-up adjustment for the inception-to-date effect of such changes. Cumulative catch-up adjustments are driven by several factors including production efficiencies, assumed rate of production, the rate of overhead absorption, changes to scope of work, and contract modifications. For 2017, the changes in estimates apply to contract blocks under legacy GAAP under the units-of-delivery method. For 2018, cumulative catch-up adjustments are primarily related to changes in measure of progress for contracts with performance obligations that are satisfied over time.

Changes in estimates are summarized below:

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Changes in Estimates	December 31, 2018	December 31, 2017	December 31, 2016
(Unfavorable) Favorable Cumulative Catch-up Adjustments by Segment			
Fuselage	(5.3)	4.0	13.6
Propulsion	(0.2)	3.8	(0.4)
Wing	1.7	23.4	23.4
Total (Unfavorable) Favorable Cumulative Catch-up Adjustment	(3.8)	31.2	36.6
(Forward Loss) and Changes in Estimates on Loss Programs by Segment			
Fuselage	3.4	(223.2)	(133.4)
Propulsion	(0.7)	(40.2)	10.1
Wing	1.2	(63.9)	5.1
Total (Forward Loss) and Change in Estimate on Loss Program	3.9	(327.3)	(118.2)
Total Change in Estimate	0.1	(296.1)	(81.6)
EPS Impact (diluted per share based on statutory rates)	0.00	(1.58)	(0.40)

2018 Changes in Estimates

Favorable changes in estimates on loss programs were primarily driven by favorable performance on cost initiatives and mitigation of risks, partially offset by forward loss charges due to the adoption of ASU 2017-07 on the B787 program. Total unfavorable cumulative catch-up adjustments were driven by increased production costs incurred due to factory disruption challenges on the B737 program.

2017 Changes in Estimates

On August 1, 2017, Boeing and the Company through its subsidiary, Spirit, entered into a Collective Resolution Memorandum of Understanding (the "2017 MOU"), which required Boeing and Spirit to negotiate and execute definitive documentation implementing the agreements set forth in the 2017 MOU by September 29, 2017.

On September 22, 2017, Boeing and Spirit completed their negotiation of such definitive documentation and entered into Amendment No. 30 to the long-term supply agreement covering products for Boeing's B737, B747, B767, and B777 commercial aircraft programs ("Sustaining Amendment #30") and Amendment No. 25 to the long-term supply agreement covering products for Boeing's B787 commercial aircraft program (the "787 Amendment #25" and, together with the Sustaining Amendment #30, the "Definitive Documentation") generally established pricing terms for the B737, B747, B767, and B777 models (excluding the B777x) through December 31, 2022 (with certain limited exceptions), and for the B787-8, -9, and -10 models through line unit 1405.

In the second quarter of 2017, in connection with the 2017 MOU, the Company formally extended the current contract block ending at line unit 1003 to line unit 1300 and established a planning block from line units 1301 to 1405. Based on cost updates, contract block extension, and planning block addition, the Company updated its estimated contract costs and revenue for the B787 program. As a result, the Company recorded a second quarter 2017 reach-forward loss of $352.8 on its B787 program. In the fourth quarter of 2017, favorable cost initiatives and benefits from absorption of fixed costs due to announced rate increases, resulted in a favorable change in estimate on the B787 program of $41.1.

During 2017, the Company recorded a forward loss on the A350XWB program of $19.4, primarily related to unfavorable exchange rate impacts on labor and non-labor costs and supplier claims.

The Company could record additional forward loss charges if there are further changes to revenue and cost estimates and/or if risks are not mitigated.

2016 Changes in Estimates

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

Favorable cumulative catch-up adjustments for the periods prior to 2016 were primarily driven by productivity and efficiency improvements, favorable cost performance, mitigation of risk on maturing programs and favorable pricing negotiations on a maturing program.

During the second quarter of 2016, Spirit signed a memorandum of agreement with Airbus (the "Airbus 2016 MOA") that, in part, materially reset the pricing for 800 units on the A350 XWB Fuselage and Wing requirements contracts. The Airbus 2016 MOA was negotiated to economically compensate Spirit for significant engineering changes to aircraft design. The new pricing provided the Company with a higher degree of certainty of revenue that will be realized over the 800 unit contracts. Further, the Company analyzed A350 XWB market demand using third party publications as well as Airbus firm orders, which indicated that the sustained demand for the A350 XWB program was in excess of 800 units. The Company determined that due to the higher degree of precision of the A350 XWB revenue along with the strong, sustained market demand, it was appropriate to extend the accounting block quantity to 800 units in the second quarter of 2016. The contract block quantity change was made in accordance with applicable accounting guidance as well as the Company's accounting policies and past practices. As a result of the Airbus 2016 MOA, the Company updated its estimated revenues that will be realized over the 800 unit A350 XWB Fuselage and Wing contract accounting blocks.

While the Company continued to make progress on the A350 XWB Fuselage program, the Company experienced various disruption and production inefficiencies that exceeded estimates made in previous quarters primarily related to achieving production rate increases. As a result of these disruptions and inefficiencies, cost estimates were updated in the second quarter of 2016 to account for increased labor costs in fabrication and assembly and expedited shipping costs to meet current and future customer production rate increases. The Company also updated its estimates in the second quarter of 2016 due to uncertainty of supply chain cost reductions and achievement of cost affordability projects. The changes in revenue and cost estimates during the second quarter of 2016 resulted in a net forward loss charge of ($135.7) on the A350 XWB program. Increased scrap and rework as well as increased production labor costs resulted in an additional net forward loss charge of ($6.1) recorded on the A350 XWB program during the fourth quarter of 2016.

For the twelve months ended December 31, 2016, the changes in revenue and cost estimates during the second and fourth quarters of 2016 (as described above) resulted in a net forward loss charge of ($141.8) on the A350 XWB program.

6. Accounts Receivable, net

Accounts receivable, net consists of the following:

	December 31, 2018	December 31, 2017
Trade receivables	$ 527.9	$ 710.5
Other	17.9	13.0
Less: allowance for doubtful accounts	(0.7)	(1.3)
Accounts receivable, net	$ 545.1	$ 722.2

For 2017, accounts receivable, net includes unbilled receivables on long-term aerospace contracts, comprised principally of revenue recognized on contracts for which amounts were earned but not contractually billable as of the balance sheet date, or amounts earned for which the recovery will occur over the term of the contract, which could exceed one year. For 2018, unbilled receivables are reflected under contract assets on the consolidated balance sheet. As discussed previously, in October 2017, the Company entered into the Receivable Sales Agreement. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the balance sheet. The Receivable Sales Agreement provides for the continuing sale of certain receivables on a revolving basis until terminated by either party. The receivables under the Receivable Sales Agreement are sold without recourse to the third party financial institution. During 2018, $5,590.2 of accounts receivable have been sold via this arrangement. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is $16.5 for the year ended December 31, 2018 and is included in Other income and expense. See Note 22, Other Income (Expense), net.

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

7. Contract Assets and Contract Liabilities

Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract assets, current are those for which performance obligations have been fully satisfied and billing is expected within 12 months of contract origination and contract assets, long-term are fully satisfied obligations that are expected to be billed in more than 12 months. No impairments to contract assets were recorded for the period ended December 31, 2018.

Contract liabilities are established for cash received that is in excess of revenues recognized and are contingent upon the satisfaction of performance obligations. Contract liabilities primarily consist of cash received on contracts for which revenue has been deferred since the receipts are in excess of transaction price resulting from the allocation of consideration based on relative standalone selling price to future units (including those under option that the Company believes are likely to be exercised) with prices that are lower than standalone selling price. These contract liabilities will be recognized earlier if the options are not fully exercised, or immediately, if the contract is terminated prior to the options being fully exercised.

	January 1, 2018	December 31, 2018	Change
Contract assets	$517.8	$ 523.5	$5.7
Contract liabilities	(319.4)	(527.7)	(208.3)
Net contract assets (liabilities)	$198.4	$ (4.2)	$(202.6)

The increase in contract assets reflects the net impact of additional revenue recognized in excess of billed revenues during the period. The increase in contract liabilities reflects the net impact of additional deferred revenues recorded in excess of revenue recognized during the period. For the period ended December 31, 2018, the Company recognized $53.2 of revenue that was included in the contract liability balance at the beginning of the period.

8. Performance Obligations

Unsatisfied, or partially unsatisfied, performance obligations currently under contract that are expected to be recognized to revenue in the future are noted in the table below. The Company expects options to be exercised in addition to the amounts presented below.

	2019	2020	2021	2022 and After
Unsatisfied performance obligations	$6,640.1	$6,398.3	$1,319.1	$596.3

9. Inventory

Inventory consists of raw materials used in the production process, work-in-process, which is direct material, direct labor, overhead and purchases, and capitalized preproduction costs. Raw materials are stated at lower of cost (principally on an actual or average cost basis) or market. Capitalized pre-production costs include certain contract costs, including applicable overhead, incurred before a product is manufactured on a recurring basis. These costs are typically amortized over a period that is consistent with the satisfaction of the underlying performance obligations to which these relate. See Note 3, Summary of Significant Accounting Policies - Inventory.

For 2017, deferred production includes costs for the excess of production costs over the estimated average cost per shipset, and credit balances for favorable variances on contracts between actual costs incurred and the estimated average cost per shipset for units delivered under the current production blocks. Recovery of excess-over-average deferred production costs is dependent on the number of shipsets ultimately sold and the ultimate selling prices and lower production costs associated with future production under these contract blocks. Forward loss reserves on contract blocks are recorded in the period in which they become evident

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and are included as a reduction to inventory with remaining amounts, if any, reflected in accrued deferred revenue. Inventories are summarized as follows:

	December 31, 2018	December 31, 2017
Raw materials	$ 240.4	$ 321.0
Work-in-process(1)	727.8	854.4
Finished goods	7.1	35.8
Product inventory	975.3	1,211.2
Capitalized pre-production(2)	37.3	78.9
Deferred production(3)	—	640.3
Forward loss provision(4)	—	(480.5)
Total inventory, net	$ 1,012.6	$ 1,449.9

Product inventory, summarized in the table above, is shown net of valuation reserves of $55.2 and $51.6 as of December 31, 2018 and December 31, 2017, respectively. For contract blocks that have not closed, the following non-product inventory amounts were included in the summarized inventory table above:

(1) For the period ended December 31, 2018, work-in-process inventory includes direct labor, direct material, overhead, and purchases on contracts for which revenue is recognized at a point in time, as well as sub-assembly parts that have not been issued to production on contracts for which revenue is recognized using the input method. For the period ended December 31, 2017, work-in-process included direct labor, direct material, overhead, and purchases on all contracts that were accounted for using the units-of-delivery method. For the period ended December 31, 2018, work-in-process inventory includes $151.6 of costs incurred in anticipation of specific contracts and no impairments were recorded in the period.

(2) As part of the Transition Adjustment, $43.0 (pretax) of pre-production costs on the A350 XWB were eliminated.

(3) As part of the Transition Adjustment, $640.3 (pretax) of deferred production was eliminated. For the period ended December 31, 2017, the balance contained $632.8 and $129.3 on the A350 XWB and Rolls-Royce BR725 programs, respectively.

(4) For the period ended December 31, 2018, forward loss reserves of $183.0 have been classified as a liability on the consolidated balance sheet. For the period ended December 31, 2017, the forward loss reserve for the B787 program exceeded the program's inventory balance. This excess was classified as a liability and reported in other current liabilities on the balance sheet in the amount of $254.5 as of December 31, 2017.

10. Property, Plant and Equipment, net

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

	December 31, 2018	December 31, 2017
Land	$ 15.0	$ 15.9
Buildings (including improvements)	822.7	764.1
Machinery and equipment	1,697.0	1,529.9
Tooling	1,032.3	1,013.9
Capitalized software	269.2	263.3
Construction-in-progress	227.8	213.4

Total	4,064.0	3,800.5
Less: accumulated depreciation	(1,896.4)	(1,695.2)
Property, plant and equipment, net	$ 2,167.6	$ 2,105.3

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

Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs of $136.2, $130.0, and $123.1 for the twelve months ended December 31, 2018, 2017 and 2016, respectively.
The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or to create and implement internal use computer software. Depreciation expense related to capitalized software was $16.7, $19.2, and $18.6 for the twelve months ended December 31, 2018, 2017, and 2016, respectively.
The Company reviews capital and amortizing intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company reviews capital and amortizing intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluated its long-lived assets at its locations and determined that an impairment of $1.9 primarily related to unused machinery and $8.2 primarily related to abandoned construction-in-progress, was necessary for the twelve months ended December 31, 2018 and 2017, respectively. The Company records impairments related to property, plant and equipment to costs of sales on the statement of operations.

11. Other Assets

Other assets are summarized as follows:

	December 31, 2018	December 31, 2017
Intangible assets		
Patents	$ 2.0	$ 1.9
Favorable leasehold interests	6.2	6.3
Total intangible assets	8.2	8.2
Less: Accumulated amortization-patents	(1.9)	(1.8)
Accumulated amortization-favorable leasehold interest	(4.9)	(4.6)
Intangible assets, net	1.4	1.8
Deferred financing		
Deferred financing costs	41.7	39.5
Less: Accumulated amortization-deferred financing costs	(35.6)	(33.7)
Deferred financing costs, net	6.1	5.8
Other		
Goodwill — Europe	2.4	2.5
Equity in net assets of affiliates	—	4.7
Supply agreement[(1)]	14.6	19.9
Restricted Cash	20.2	20.0
Deferred Tax Asset - non-current	205.0	72.5
Other	38.5	37.1
Total	$ 288.2	$ 164.3

(1) Under two agreements, certain payments accounted for as consideration paid by the Company to a customer and a supplier are being amortized as reductions to net revenues.

12. Advance Payments

Advances on the B787 Program. Boeing has made advance payments to Spirit under the B787 Supply Agreement, that are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries. Advance repayments were originally scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing. On April 8, 2014, the Company signed a memorandum of agreement with Boeing that suspended advance repayments related to the B787 program for a period of twelve months beginning April 1, 2014. Repayment recommenced on April 1, 2015, and any repayments that otherwise would have become due during such twelve-month period were to offset the purchase price for shipsets 1001 through 1120. On December 21, 2018, the Company signed the 2018 MOA with Boeing that again suspended the advance repayments beginning with line unit 818. The advance repayments will resume at a lower rate of $450,319 per shipset at line number 1135 and continue through line number 1605. As a result of this deferral of repayments, the Company reclassified $108.3 of customer advances from short term to long term as of December 31, 2018. For additional information on the 2018 MOA, see Note 28, Boeing Collective Resolution.

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

In the event Boeing does not take delivery of a sufficient number of shipsets to repay the full amount of advances prior to the termination of the B787 program or the B787 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of $42.0 due on December 15th of each year until the advance payments have been fully recovered by Boeing. As of December 31, 2018, the amount of advance payments received by us from Boeing and not yet repaid was approximately $233.9.

13. Fair Value Measurements

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

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and 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.

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

	December 31, 2018	December 31, 2017

	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
Senior secured term loan A (including current portion)	$204.7	$197.8	(2)	$460.7	$461.9	(2)
Senior unsecured notes due 2021	298.5	292.9	(1)	—	—	
Senior unsecured notes due 2022	—	—		294.8	304.6	(1)
Senior unsecured notes due 2023	297.9	297.5	(1)	—	—	
Senior unsecured notes due 2026	297.5	274.5	(1)	297.2	301.0	(1)
Senior unsecured notes due 2028	693.5	663.0	(1)	—	—	
Total	$1,792.1	$1,725.7		$1,052.7	$1,067.5	

(1) Level 1 Fair Value hierarchy
(2) Level 2 Fair Value hierarchy

14. Derivative and Hedging Activities

The Company has historically entered into interest rate swap agreements to reduce its exposure to the variable rate portion of its long-term debt. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values.

The Company has historically entered into derivative instruments covered by master netting arrangements whereby, in the event of a default as defined by the 2018 Credit Agreement (as defined below) or termination event, the non-defaulting party has the right to offset any amounts payable against any obligation of the defaulting party under the same counterparty agreement. See Note 15, Debt, for more information.

Interest Rate Swaps

On March 15, 2017, the Company entered into an interest rate swap agreement, with an effective date of March 31, 2017. The swaps have a notional value of $250.0 and fix the variable portion of the Company's floating rate debt at 1.815%. The fair value of the interest rate swaps, using Level 2 inputs, was an asset of $2.2 as of December 31, 2018. For the twelve months ended December 31, 2018, the Company recorded a gain related to swap activity of $1.4 to Other (expense) income, net in the Consolidated Statement of Operations.

Foreign Currency Forward Contract

As described further in Note 27, Asco Acquisition, the Company and its wholly-owned subsidiary Spirit AeroSystems Belgium Holdings BVBA ("Spirit Belgium") entered into a definitive agreement (the "Purchase Agreement") with certain private sellers pursuant to which Spirit Belgium will purchase all of the issued and outstanding equity of S.R.I.F. N.V., the parent company of Asco Industries N.V. ("Asco") for $650.0 in cash, subject to certain customary closing adjustments, including foreign currency adjustments. As such, movements in the Euro exchange rates could cause the purchase price to fluctuate, affecting our cash flows.

To reduce the Company's exposure to currency exchange rate fluctuations, the Company entered into foreign currency forward contracts. The objective of these contracts is to minimize the impact of currency exchange rate movements on the Company's cash flows, however the Company has not designated these forward contracts as a hedge and has not applied hedge accounting to them. During the second quarter of 2018, to reduce the Euro exchange rate exposure of the purchase of Asco, the Company entered into a foreign currency forward contract in the amount of $580.0; this foreign currency forward contract was net settled in the third quarter of 2018 and a new contract was entered during the fourth quarter in the amount of $568.3; this contract was net settled and a third contract was entered into with a settlement date in the first quarter of 2019 in the amount of $547.7. The fair value of the foreign currency forward contract, using Level 2 inputs, was an asset of $5.8 as of December 31, 2018. The Company recorded a net loss related to foreign currency forward contract activity of $35.3 for the twelve months ended December 31, 2018 to Other (expense) income, net in the Consolidated Statement of Operations.

15. Debt

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

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Spirit AeroSystems Holdings, Inc.
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($, €, and RM in millions other than per share amounts)

	December 31, 2018		December 31, 2017	
	Current	Noncurrent	Current	Noncurrent
Senior unsecured term loan A	$22.7	$ 182.0	$24.9	$ 435.8
Senior notes due 2021	—	298.5	—	—
Senior notes due 2022	—	—	—	294.8
Senior notes due 2023	—	297.9	—	—
Senior notes due 2026	—	297.5	—	297.2
Senior notes due 2028	—	693.5	—	—
Present value of capital lease obligations	7.1	35.3	5.2	33.6
Other	1.6	59.3	1.0	58.5
Total	$31.4	$ 1,864.0	$31.1	