Spirit AeroSystems Holdings, Inc.
Form 10-Q
November 01, 2013
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2013

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

3801 South Oliver

Wichita, Kansas 67210

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code:

(316) 526-9000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

As of October 25, 2013, the registrant had outstanding 120,713,397 shares of class A common stock, $0.01 par value per share, and 23,953,341 shares of class B common stock, $0.01 par value per share.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. ***Financial Statements (unaudited)***

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 26, 2013	September 27, 2012	September 26, 2013	September 27, 2012
	($ in millions, except per share data)			
Net revenues	$ 1,503.7	$ 1,365.3	$ 4,466.6	$ 3,972.1
Operating costs and expenses				
Cost of sales	1,388.4	1,746.7	4,315.7	3,994.6
Selling, general and administrative	52.8	40.6	151.2	125.9
Impact from severe weather event	4.5	(218.8)	19.6	(164.3)
Research and development	7.5	7.3	23.6	21.6
Total operating costs and expenses	1,453.2	1,575.8	4,510.1	3,977.8
Operating income (loss)	50.5	(210.5)	(43.5)	(5.7)
Interest expense and financing fee amortization	(17.1)	(16.2)	(52.0)	(62.6)
Interest income	0.1		0.2	0.1
Other income (expense), net	7.4	4.1	(1.2)	3.4
Income (loss) before income taxes and equity in net loss of affiliates	40.9	(222.6)	(96.5)	(64.8)
Income tax benefit	53.0	88.3	62.3	39.4
Income (loss) before equity in net (loss) of affiliates	93.9	(134.3)	(34.2)	(25.4)
Equity in net (loss) of affiliates	(0.2)	(0.1)	(0.3)	(0.5)
Net income (loss)	$ 93.7	$ (134.4)	$ (34.5)	$ (25.9)
Earnings (loss) per share				
Basic	$ 0.66	$ (0.94)	$ (0.24)	$ (0.18)
Diluted	$ 0.65	$ (0.94)	$ (0.24)	$ (0.18)

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 26, 2013	September 27, 2012	September 26, 2013	September 27, 2012
	($ in millions)			
Net income	$ 93.7	$ (134.4)	$ (34.5)	$ (25.9)
Changes in other comprehensive income, net of tax:				
Unrealized (loss) on interest rate swaps, net of tax effect of zero for each of the three months ended and zero and $0.5 for each of the nine months ended, respectively				(0.9)
Less: reclassification adjustment for loss realized in net income, net of tax effect of zero for each of the three months ended and zero and $1.2 for each of the nine months ended, respectively				1.9
Net gain on interest rate swaps				1.0
Less: reclassification adjustment for loss realized in net income, net of tax effect of zero for each of the three months ended and zero for each of the nine months ended, respectively		0.1		0.1
Net (loss) on foreign currency hedge contracts		0.1		0.1
Pension, SERP, and Retiree medical adjustments, net of tax effect of $0.1 for each of the three months ended and $0.3 for each of the nine months ended, respectively	0.2	0.2	0.6	0.6
Unrealized foreign exchange (loss) on intercompany loan, net of tax effect of $0.9 and $0.7 for each of the three months ended and $0.2 and $0.7 for each of the nine months ended, respectively	2.4	2.2	(0.8)	2.2
Foreign currency translation adjustments	8.1	5.9	(1.8)	5.9
Total other comprehensive income (loss)	10.7	8.4	(2.0)	9.8
Total comprehensive income (loss)	$ 104.4	$ (126.0)	$ (36.5)	$ (16.1)

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

	September 26, 2013	December 31, 2012
	($ in millions)	
Current assets		
Cash and cash equivalents	$ 435.6	$ 440.7
Accounts receivable, net	623.7	420.7
Inventory, net	2,120.0	2,410.8
Deferred tax asset - current	68.8	57.1
Other current assets	19.3	26.1
Total current assets	3,267.4	3,355.4
Property, plant and equipment, net	1,767.0	1,698.5
Pension assets	99.2	78.4
Deferred tax asset - non-current, net	287.0	192.0
Other assets	91.9	91.0
Total assets	$ 5,512.5	$ 5,415.3
Current liabilities		
Accounts payable	$ 700.5	$ 659.0
Accrued expenses	249.7	216.3
Profit sharing	43.7	28.3
Current portion of long-term debt	16.6	10.3
Advance payments, short-term	124.6	70.7
Deferred revenue, short-term	23.1	18.4
Deferred grant income liability - current	8.2	6.9
Other current liabilities	84.2	57.1
Total current liabilities	1,250.6	1,067.0
Long-term debt	1,152.9	1,165.9
Advance payments, long-term	755.9	833.6
Pension/OPEB obligation	78.4	75.6
Deferred grant income liability - non-current	109.5	116.6
Deferred revenue and other deferred credits	33.5	30.8
Other liabilities	160.2	128.9
Equity		
Preferred stock, par value $0.01, 10,000,000 shares authorized, no shares issued		
Common stock, Class A par value $0.01, 200,000,000 shares authorized, 120,734,535 and 119,671,298 shares issued, respectively	1.2	1.2
Common stock, Class B par value $0.01, 150,000,000 shares authorized, 23,954,587 and 24,025,880 shares issued, respectively	0.2	0.2
Additional paid-in capital	1,023.3	1,012.3
Accumulated other comprehensive (loss)	(147.1)	(145.2)
Retained earnings	1,093.4	1,127.9
Total shareholders equity	1,971.0	1,996.4
Noncontrolling interest	0.5	0.5
Total equity	1,971.5	1,996.9
Total liabilities and equity	$ 5,512.5	$ 5,415.3

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 26, 2013	For the Nine Months Ended September 27, 2012
	($ in millions)	
Operating activities		
Net (loss)	$ (34.5)	$ (25.9)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation expense	117.4	113.6
Amortization expense	3.9	3.8
Amortization of deferred financing fees	4.8	13.1
Accretion of customer supply agreement	0.3	0.1
Employee stock compensation expense	15.7	12.0
Excess tax benefit of share-based payment arrangements	(0.5)	(1.2)
Loss from discontinued hedge accounting on interest rate swaps		2.2
(Gain) loss from the ineffectiveness of hedge contracts	(1.9)	0.2
Loss (gain) from foreign currency transactions	3.3	(5.9)
Loss on disposition of assets	0.2	5.8
Deferred taxes	(104.6)	(100.6)
Long-term tax provision	(2.5)	1.3
Pension and other post retirement benefits, net	(10.8)	(7.0)
Grant income	(5.3)	(4.1)
Equity in net loss of affiliates	0.3	0.5
Changes in assets and liabilities		
Accounts receivable	(206.5)	(242.5)
Inventory, net	331.4	272.6
Accounts payable and accrued liabilities	72.1	109.7
Profit sharing/deferred compensation	15.4	1.6
Advance payments	(23.8)	243.7
Income taxes receivable/payable	(8.3)	(38.3)
Deferred revenue and other deferred credits	9.5	(7.3)
Insurance receivable for severe weather related expenses		(129.9)
Insurance proceeds for investing purposes		(7.0)
Other	23.7	25.0
Net cash provided by operating activities	199.3	235.5
Investing activities		
Purchase of property, plant and equipment	(168.1)	(163.5)
Purchase of property, plant and equipment - severe weather event	(23.4)	(7.0)
Insurance proceeds for investing purposes - severe weather event		7.0
Proceeds from sale of assets	0.1	1.3
Other	(0.6)	(1.2)
Net cash (used in) investing activities	(192.0)	(163.4)
Financing activities		
Proceeds from revolving credit facility		170.0
Payments on revolving credit facility		(170.0)
Proceeds from issuance of debt		547.3
Principal payments of debt	(8.0)	(567.0)

Excess tax benefit of share-based payment arrangements		0.5		1.2
Debt issuance and financing costs		(4.1)		(11.3)
Net cash (used in) financing activities		(11.6)		(29.8)
Effect of exchange rate changes on cash and cash equivalents		(0.8)		1.6
Net (decrease) increase in cash and cash equivalents for the period		(5.1)		43.9
Cash and cash equivalents, beginning of period		440.7		177.8
Cash and cash equivalents, end of period	$	435.6	$	221.7

See notes to condensed consolidated financial statements (unaudited)

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

1. Organization and Basis of Interim Presentation

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

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

The Company participates in two joint ventures, Spirit-Progresstech LLC (Spirit-Progresstech) and Taikoo Spirit AeroSystems Composite Co. Ltd. (TSACCL), of which Spirit s ownership interest is 50.0% and 31.5%, respectively. Spirit-Progresstech provides aerospace engineering support services and TSACCL was formed to develop and implement a state-of-the-art composite and metal bond component repair station in the Asia-Pacific region. In September 2013, the Company exercised its contractual right to withdraw from the Spirit-Progresstech joint venture. The intended sale of the Company s ownership interest in Spirit-Progresstech to a related party of Progresstech Ltd. is expected to occur within the next quarter and is not expected to have a material impact on the Company.

The accompanying unaudited interim condensed consolidated financial statements include the Company s financial statements and the financial statements of its majority-owned subsidiaries and effectively-controlled joint ventures, and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the instructions to Form 10-Q and Article 10 of Regulation S-X. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Investments in business entities in which the Company does not have control, but has the ability to exercise influence over operating and financial policies, including Spirit-Progresstech and TSACCL, are accounted for under the equity method. KIESC is fully consolidated as the Company owns 77.8% of the entity s equity. All intercompany balances and transactions have been eliminated in consolidation. The Company s U.K. subsidiary uses local currency, the British pound, as its functional currency; the Malaysian subsidiary uses the British pound and the Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

As part of the monthly consolidation process, our international entities that have functional currencies other than the U.S. dollar are translated to U.S. dollars using the end-of-month translation rate for balance sheet accounts and average period currency translation rates for revenue and income accounts.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the nine months ended September 26, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2013 presentation. In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events through the date the financial statements were issued. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 1, 2013 (the 2012 Form 10-K).

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

2. New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (FASB ASU 2013-11). This update was issued to give explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The provisions of FASB ASU 2013-11 are effective for fiscal years and interim periods beginning after December 15, 2013. The adoption of the provisions of this update are not expected to have a material impact on the Company s consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (ASU 2013-10). The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendment is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of the provisions of ASU 2013-10 did not have a material impact on the Company s consolidated financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (FASB ASU 2013-02). The amendment in this update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. The provisions of FASB ASU 2013-02 are effective for annual and interim periods beginning after December 15, 2012. The adoption of the provisions of FASB ASU 2013-02 did not have a material impact on the Company s consolidated financial statements.

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

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

3. Change in Estimate

The Company s long-term contract estimates are based on estimated contract revenues and related costs over the Company s current contract blocks. Estimated contract revenues are generally not subject to significant revisions as most of the Company s contracts are fixed price and known at the inception of the contract; however, the contract cost elements of these estimates change frequently as the programs mature and that has historically been the primary driver of changes in our estimates. Contract costs are estimated based on actual costs incurred to date and an estimate of remaining costs over the current contract block, which can extend for multiple years. During the early phases of our development contracts, the future cost estimates are subject to significant variability and are based on numerous assumptions and judgments which require management to use its historical experience on similar programs until aircraft programs are type certified; low rate production is achieved; production processes mature; supply chain partners are contracted; and unit costs stabilize; which typically results in assumptions that costs will improve over the life of the contract block. This learning curve concept is typical in our industry; however, the level of design change and time spent in low rate production that was anticipated when we initially established these curves has been significantly exceeded as original delivery schedules have been delayed and engineering changes have continued. During the first nine months of 2013, a combination of events occurred that resulted

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

in significant changes in estimates on several development programs, resulting in forward losses being recorded on some of these programs. The following is a summary of those events.

Performance Issues A350 XWB

Our A350 XWB fuselage recurring program has experienced various production delays and performance-related issues mostly driven by engineering changes to the aircraft design. Airbus is assisting us as we work through these issues and has provided additional resources to work alongside our personnel. There continues to be risk of additional forward loss associated with the recurring contract as we work through production issues.

Non-Recurring Contract Agreements A350 XWB

In September and October of 2013 we agreed with Airbus on the work scope for the design and tooling related to the -1000 derivative of the A350 XWB fuselage and wing contracts. Based on current estimates, the agreement for the non-recurring phase of the -1000 derivative fuselage resulted in significant changes in estimates for the program, which has been recorded in the third quarter of 2013. There is a risk of additional forward loss if we do not successfully execute the design and engineering change process as projected.

Supply Chain Cost Reductions G280 and G650

At the time we recorded the forward loss charges on the Gulfstream G280 and G650 programs in the third quarter of 2012, we had included in the respective estimates at completion significant cost reductions primarily related to sourcing costs between 2015 and 2018. These amounts were based on the experience of the supply chain team and operational management. During the second quarter of 2013, it became apparent that a substantial portion of the total cost savings included in the contract estimates for each program would not be realized. This determination was based on a number of changing conditions and new developments including an assessment of our actual experience with our customers regarding their receptiveness to proposed changes, completion of our detailed part analyses during the second quarter of 2013 as part of our effort to project future sourcing costs and our inability to achieve estimated supplier price reductions via negotiations with suppliers.

Labor Estimates Tulsa Facility

The labor cost forecasts within the contract estimates for the G280, G650 and Boeing B787 are based on certain assumptions, including the level of disruption expected in the future. In our contract estimates through the first quarter of 2013, we assumed that certain disruptions to the manufacturing line caused by i) supplier quality issues and late deliveries, ii) customer inspections occurring in our facilities and iii) our own manufacturing quality issues would be resolved by the middle of 2013. During the second quarter of 2013, key performance dates were missed, and we extended the expected period of time during which these issues would be resolved in our assumptions for our contract estimates. As a result, we experienced higher actual costs as well as significant increases to forecasted costs, resulting in additional forward losses recognized on all of these programs in the second quarter of 2013.

Contractual Items G650

As we worked with Gulfstream to meet its production demand, we negotiated a temporary transfer of a portion of our work scope to Gulfstream for completion. In the second quarter of 2013, due to the effect of continued production challenges on our forecasted ability to achieve scheduled deliveries, we changed our assumptions to extend the duration of the work transfer and updated our estimates regarding this temporarily transferred work scope which is accounted for as a reduction in forecasted revenue. As described in more detail in Note 21, Commitments, Contingencies and Guarantees, we instituted a demand for arbitration against Gulfstream to resolve certain contractual disputes primarily related to engineering changes made by Gulfstream and the impact of those changes to weight and delivery schedules as well as for incomplete payments to Spirit. We continually assess these contractual items and adjust our estimates as appropriate each quarter. Changes in these particular estimates resulted in additional forward loss recognized on the G650 in the second quarter of 2013.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

New Program Summary Performance

Due primarily to the events described above regarding the third quarter of 2013, for the three months ended September 26, 2013, we recorded forward loss charges of $78.6 on the recurring A350 XWB Section 15, $32.7 on the non-recurring A350 XWB Section 15, $6.4 on the G280, $5.3 on the Boeing B747 fuselage and $0.8 on the Boeing B767 propulsion programs. Due primarily to the events described above regarding the second and third quarters of 2013, for the nine months ended September 26, 2013, we recorded forward loss charges of $78.6 on the recurring A350 XWB Section 15, $32.7 on the non-recurring A350 XWB Section 15, $197.9 on the G280, $234.2 on the G650, $37.3 on the B787, $10.3 on the Boeing B747 fuselage and $4.8 on the Boeing B767 propulsion programs. The change in estimates also resulted in a reduction of forward loss charges for the three months ended June 27, 2013 on the Rolls-Royce BR725 of $(8.4). These amounts were recorded within the Company s results of operations as part of cost of goods sold as well as on the condensed consolidated balance sheet as forward loss provisions within inventory to the extent each program s inventory balance was sufficient to absorb the charge. In the case that program inventory was not sufficient to absorb the full amount of a charge, the remainder was classified as a current liability.

Our consolidated net adjustments for costs related to the changes in estimates for the second and third quarters of 2013 decreased operating profit, before income taxes, by approximately $123.8 and $572.1 for the three and nine months ended September 26, 2013, respectively. These adjustments decreased net earnings by approximately $77.9 ($0.54 per share) and $359.9 ($2.55 per share) for the three and nine months ended September 26, 2013, respectively.

4. Impact from Severe Weather Event

On April 14, 2012, during a severe weather event, the Company s Wichita, Kansas facility, which includes its headquarters and manufacturing facilities for all Boeing models as well as operations for maintenance, repair and overhaul support and services (MRO), was hit by a tornado which caused significant damage to many buildings, disrupted utilities and resulted in complete suspension of production for eight days. The Company s work-in-process and production equipment generally remained intact, and the Company resumed production on April 23, 2012, although some inefficiencies continued thereafter as a result of the damage and repair efforts.

For the three months ended September 27, 2012, the Company recorded a net gain of $218.8 under severe weather event, which represents the settlement amount of $234.9 less period charges of $16.1.

For the nine months ended September 27, 2012, the Company recorded a net gain of $164.3 under severe weather event, which represents the final insurance settlement amount of $234.9 less cumulative charges of $70.6.

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

For the three and nine months ended September 26, 2013, the Company recorded charges of $4.5 and $19.6, respectively, under severe weather event, which represents continuing incremental freight, warehousing and other costs which are recorded as incurred.

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

5. Accounts Receivable, net

Accounts receivable, net consists of the following:

	September 26, 2013	December 31, 2012
Trade receivables (1)(2)	$ 614.6	$ 415.9
Other	9.3	9.1
Less: allowance for doubtful accounts	(0.2)	(4.3)
Accounts receivable, net	$ 623.7	$ 420.7

(1) Includes unbilled receivables of $34.1 and $25.6 at September 26, 2013 and December 31, 2012, respectively.

(2) Includes $135.1 and $102.0 held in retainage by customers at September 26, 2013 and December 31, 2012, respectively.

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

Also included in accounts receivable are amounts held in retainage which, as of September 26, 2013, is all related to Gulfstream and represent amounts due on G650 deliveries from 2010 through the present. As production rates on this program increase, this amount may grow significantly if not resolved with Gulfstream in a timely manner. As described in more detail in Note 21, Commitments, Contingencies and Guarantees, in August 2013, Spirit instituted a demand for arbitration against Gulfstream, seeking damages from Gulfstream for incomplete payments, as well as other damages and relief. Gulfstream counterclaimed against Spirit in the arbitration, seeking liquidated damages for delayed deliveries of wings, as well as other damages and relief. While the Company believes that the short-paid amount is collectible, if the Company is unable to collect this amount or if it becomes part of an overall settlement or arbitration award, recognition of additional forward losses on the G650 program could be required and the future cash flows of the Company could be significantly impacted.

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

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

6. Inventory

Inventories are summarized as follows:

	September 26, 2013(1)	December 31, 2012(2)
Raw materials	$ 219.0	$ 250.3
Work-in-process	1,011.8	1,033.6
Finished goods	53.7	35.9
Product inventory	1,284.5	1,319.8
Capitalized pre-production	505.2	524.6
Deferred production	1,484.5	1,173.8
Forward loss provision	(1,154.2)	(607.4)
Total inventory, net	$ 2,120.0	$ 2,410.8

(1) Reclassified $9.4 from work-in-process to deferred production related to A350 XWB in the third quarter of 2013.

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

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

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

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

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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Inventories are summarized by platform and costs below:

	September 26, 2013					
	Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision(1) (2)	Total Inventory, net September 26, 2013
B747(3)	$ 91.0	$	$ 4.9	$ (0.2)	$ (10.3)	$ 85.4
B787	253.1	11.0	167.4	613.8	(221.3)	824.0
Boeing - All other platforms(4)	403.7	17.8	7.1	(36.6)	(12.8)	379.2
A350(5)	149.0	78.7	77.0	291.6	(112.8)	483.5
Airbus - All other platforms	83.4			11.6		95.0
G280(6)	75.0		5.2	194.3	(274.5)	
G650	49.8		198.5	344.1	(396.7)	195.7
Rolls-Royce(7)	15.4		45.1	65.3	(125.8)	
Sikorsky		0.7				0.7
Bombardier C-Series	6.9			0.6		7.5
Aftermarket	61.6					61.6
Other platforms(8)	(14.1)	1.5				(12.6)
Total	$ 1,174.8	$ 109.7	$ 505.2	$ 1,484.5	$ (1,154.2)	$ 2,120.0

	December 31, 2012					
	Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision(1)	Total Inventory, net December 31, 2012
B747	$ 83.6	$ (0.7)	$ 7.2	$ 3.6	$ (11.5)	$ 82.2
B787	225.2	26.6	189.5	595.1	(184.0)	852.4
Boeing - All other platforms(4)	392.3	31.6	5.8	(67.6)	(6.5)	355.6
A350	133.2	51.3	56.8	177.4	(8.9)	409.8
Airbus - All other platforms	88.2			18.2		106.4
G280	83.3		5.5	98.3	(118.8)	68.3
G650	36.7		208.4	297.3	(162.5)	379.9
Rolls-Royce(7)	12.6		51.4	51.2	(115.2)	
Sikorsky		4.7				4.7
Bombardier C-Series	3.9			0.3		4.2

Aftermarket	45.0					45.0
Other platforms(8)	98.3	4.0				102.3
Total	$ 1,202.3	$ 117.5	$ 524.6	$ 1,173.8	$ (607.4)	$ 2,410.8

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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(1) Forward loss charges taken since January 1, 2012 on open blocks.

(2) Forward loss charges taken through December 31, 2011 were reflected within capitalized pre-production and inventory for the respective programs and are therefore not reflected as part of the Forward Loss Provision figure presented. The cumulative forward loss charges, net of contract liabilities, through September 26, 2013 on open blocks are $115.8, $452.1 and $29.0 for the A350 XWB, G280 and Sikorsky programs, respectively.

(3) Due to contract block closure in the second quarter of 2013, $5.1 of forward loss provision related to wing was closed out against deferred production.

(4) Forward loss provision of $8.0 recorded on the B767 program in the fourth quarter of 2012 exceeded the total inventory balance. The excess of the charge over program inventory was classified as a contract liability of $1.5 as of December 31, 2012 and was reduced to zero as additional inventory was generated in 2013.

(5) Forward loss provision of $32.7 recorded on the non-recurring fuselage portion of the A350-1000 XWB program in the third quarter of 2013 exceeded the total inventory balance. The excess of the charge over the program inventory is classified as a contract liability of $7.7, which will be reduced as additional contract costs are incurred. This liability is reported in other current liabilities and will flow back into the forward loss category of inventory as inventory on the non-recurring portion of the program increases.

(6) Forward loss provision of $191.5 recorded in the second quarter of 2013 exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability. The total contract liability as of September 26, 2013 has been reduced to $42.2 as additional contract costs have been incurred. This contract liability is reported in other current liabilities. This liability will flow back into the forward loss category of inventory as inventory on the program increases.

(7) Forward loss provision of $151.0 recorded in the third quarter of 2012 exceeded the total inventory balance. In the second quarter of 2013, due to changes in estimates on the Rolls-Royce BR725 program, the forward loss provision was reduced by $8.4, to a total of $142.6. The excess of the charge over program inventory is classified as a contract liability. The total contract liability at December 31, 2012 has been reduced to $16.8 as of September 26, 2013 as additional contract costs have been incurred. This contract liability is reported in other current liabilities. This liability will flow back into the forward loss category of inventory as inventory on the program increases.

(8) Includes over-applied and under-applied overhead.

The following is a roll forward of the capitalized pre-production costs included in the inventory balance at September 26, 2013:

Balance, December 31, 2012	$	524.6
Charges to costs and expenses		(45.1)
Capitalized costs		25.7
Balance, September 26, 2013	$	505.2

The following is a roll forward of the deferred production costs included in the inventory balance at September 26, 2013:

Balance, December 31, 2012	$	1,173.8
Charges to costs and expenses		(230.7)
Capitalized costs		541.7
Exchange rate		(0.3)
Balance, September 26, 2013	$	1,484.5

Table of Contents

Spirit AeroSystems Holdings, Inc.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

Model	Contract Block Quantity	Orders(1)
B787	500	890
A350 XWB	400	725
G280	250	85
G650	350	146
Rolls-Royce	350	140

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

Current block deliveries are as follows:

Model	Current Block Deliveries
B787	145
A350 XWB	7
Business/Regional Jets	186

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

7. Property, Plant and Equipment, net

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

	September 26, 2013	December 31, 2012
Land	$ 17.5	$ 17.7
Buildings (including improvements)	533.0	504.7