Spirit AeroSystems Holdings, Inc.
Form 10-K
February 09, 2018
Table of Contents

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, 2017
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 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 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	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 29, 2017, as reported on the New York Stock Exchange was approximately $6,733,804,971.

As of February 2, 2018, the registrant had outstanding 114,489,203 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 2018 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.

Table of Contents

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	26
Item 4.	Mine Safety Disclosures	26
	Executive Officers of the Registrant	26
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
Item 6.	Selected Financial Data	32
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	47
Item 8.	Financial Statements and Supplementary Data	49
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	108
Item 9A.	Controls and Procedures	108
Item 9B.	Other Information	110
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	111
Item 11.	Executive Compensation	111
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	111
Item 13.	Certain Relationships and Related Transactions and Director Independence	111
Item 14.	Principal Accountant Fees and Services	111
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	112
Signatures		119

Table of Contents

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,” “fore “goal,” “intend,” “may,” “might,” “objective,” “plan,” “predict,” “project,” “should,” “target,” “will,” “would,” and other simil phrases, or the negative thereof, unless the context requires otherwise. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown, including, but not limited to, those described in the “Risk Factors” section. Our actual results may vary materially from those anticipated in forward-looking statements. We caution investors not to place undue reliance on any forward-looking statements.

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

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

Table of Contents

- the effect of changes in tax law, such as the effect of the Tax Cuts and Jobs Act (the ‘TCJA”) 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;
- our ability to effectively assess, manage, and integrate acquisitions that we pursue;
- our ability to continue selling certain of our receivables through our supplier financing program;
- any reduction in our credit ratings;
- our dependence on our suppliers, as well as the cost and availability of raw materials and purchased components;
- our ability to recruit and retain a critical mass of highly-skilled employees and our relationships with the unions representing many of our employees;
- spending by the U.S. and other governments on defense;
- the possibility that our cash flows and our credit facility may not be adequate for our additional capital needs or for payment of interest on and principal of our indebtedness;
- our exposure under our revolver to higher interest payments should interest rates increase substantially;
- the risks of doing business internationally, including fluctuations in foreign current exchange rates, impositions of tariffs or embargoes, compliance with foreign laws, and domestic and foreign government policies, among other things;
- the effectiveness of any interest rate hedging programs;
- the effectiveness of our internal control over financial reporting;
- the outcome or impact of ongoing or future litigation, claims, and regulatory actions; and
- our exposure to potential product liability and warranty claims.

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

Table of Contents

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 designer and manufacturer 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. 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, 2017, we generated net revenues of $6,983.0 million and had net income of $354.9 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, 2017	Locations	Commercial Programs	Non-Classified Defense Programs
Fuselage Systems	53%	Wichita, KS; Kinston, NC; St.-Nazaire, France	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, Bombardier CSeries	
Wing Systems	23%	Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Subang, Malaysia and 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 $3,730.8 million, $3,498.8 million, and $3,447.0 million in 2017, 2016, and 2015, respectively.

Table of Contents

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 $1,666.2 million, $1,777.3 million, and $1,750.7 million in 2017, 2016, and 2015, 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 $1,578.8 million, $1,508.7 million, and $1,437.7 million in 2017, 2016, and 2015, respectively.
For financial information by business segment and geographic area see Note 22 to the Consolidated Financial Statements, Segment and Geographical Information.

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 one 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 comparable 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 and 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.

4

Table of Contents

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, 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, which 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 Development Program, 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 from machining, skin and sheet metal fabrication, and chemical processing. These capabilities are utilized for both internal and external sourcing and include the following:

5

Table of Contents

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 December 31, 2017, approximately 79% (down from 81% in 2016) and 16% (up from 15% in 2016) 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, A330, and A340 families, 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 customers include Northrop Grumman, Sikorsky, Rolls-Royce, Bombardier, 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 $1,260.1 million, $1,142.8 million, and $934.9 million in sales to international customers for the twelve months ended December 31, 2017, 2016, and 2015, 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. For financial information by business segment and geographic area see Note 22 to the Consolidated Financial Statements, Segment and Geographical Information.

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." 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, 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. The Sustaining Agreement is further summarized as follows:

Pricing. The initial pricing terms for recurring products under the Sustaining Agreement expired in May 2013. Under these terms, prices were adjusted each year based on a quantity-based price adjustment formula described in the Sustaining Agreement whereby average per-unit prices are higher at lower volumes and lower at higher volumes.

In April 2014, we entered into a Memorandum of Agreement with Boeing that established pricing terms for Sustaining Programs for the period commencing on April 1, 2014 and ending on December 31, 2015 (this agreement excluded the B737 MAX). The parties were unable to agree upon pricing on the Sustaining Programs for the periods beyond 2015; therefore, an interim payment mechanism was triggered commencing January 1, 2016. This interim payment mechanism was based upon existing prices, adjusted using a quantity-based price adjustment formula and specified annual escalation.

Interim pricing arrangements in effect during 2016 and prior periods were resolved on September 22, 2017, when Boeing and Spirit entered into Amendment No. 30 to the Sustaining SBP ("Sustaining Amendment #30"). Sustaining Amendment #30 generally establishes pricing terms for the Sustaining Program models (excluding the B777x) through December 31, 2022 (with certain limited exceptions). Sustaining Amendment #30 further provides that Boeing and Spirit will negotiate follow-on pricing for periods beyond January 1, 2023 beginning 24 months prior to January 1, 2023. If Boeing and Spirit are unable to reach an agreement with respect to follow-on pricing prior to January 1, 2023, Sustaining Amendment #30 provides a mechanism to establish interim pricing that takes into account escalation and reduces certain rate-based discounts. In addition, Sustaining Amendment #30 provides that the parties will make certain investments for rate increases on the B737 program and implements industry standard payment terms.

Tooling. Boeing owns all tooling used in production or inspection of products covered by the Sustaining Agreement. Spirit is responsible for providing all new tooling required for manufacturing and delivering products under the Sustaining Agreement, and Boeing acquires title to such tooling upon completion of the manufacturing of the tools and payment by Boeing. Although Boeing owns the tooling, Spirit has the limited right to use this tooling without any additional charge to perform its obligations to Boeing under the Sustaining Agreement. Spirit is responsible for maintaining and insuring the tooling. Spirit's rights to use the tooling are subject to the termination provisions of the Sustaining Agreement.

Changes. Upon written notification to Spirit, Boeing has the right to make changes within the general scope of work performed by Spirit under the Sustaining Agreement. If any such change increases or decreases the cost or time required to perform, Boeing and Spirit must negotiate an equitable adjustment (based on rates, factors, and methodology set forth in the Sustaining Agreement) to the price or schedule to reflect the change, except that Spirit will be responsible for absorbing the cost of certain changes.

Additional Spirit Costs. In the event that Boeing rejects a product manufactured by Spirit, Boeing is entitled to repair or rework such product, and Spirit is required to pay all reasonable costs and expenses incurred by Boeing related thereto. In addition, Spirit is required to reimburse Boeing for costs expended in providing Spirit and/or Spirit's contractors the technical or manufacturing assistance with respect to Spirit nonperformance issues.

Termination for Convenience. Subject to the restrictions prohibiting Boeing from manufacturing certain products supplied by Spirit or purchasing such products from any other supplier, Boeing may, at any time, terminate all or part of any order under the

Table of Contents

Sustaining Agreement by written notice to Spirit. If Boeing terminates all or part of an order, Spirit is entitled to compensation for certain costs.

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 therefor, 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. It is an “event of default” under the Sustaining Agreement if Spirit:

(1) fails to deliver products;
(2) fails to provide certain “assurances of performance”;
(3) breaches the provisions of the Sustaining Agreement relating to intellectual property and proprietary information;
(4) participates in the sale, purchase, or manufacture of airplane parts without the required approval of the Federal Aviation Administration (“FAA”) or appropriate foreign regulatory agency;
(5) fails to maintain the required system of quality assurance;
(6) fails to comply with other obligations under the Sustaining Agreement (which breach continues for more than 10 days after notice is received from Boeing);
(7) is unable to pay its debts as they become due, dissolves, or declares bankruptcy; or
(8) breaches the assignment provisions of the Sustaining Agreement (which breach continues for more than 10 days after notice is received from Boeing).

If an event of default occurs, Boeing has the right to exercise various remedies, including the right to manufacture or to otherwise obtain substitute products, cancel any or all outstanding orders, and/or terminate the Sustaining Agreement. Boeing is limited, however, in its ability to cancel orders or terminate the Sustaining Agreement for the defaults described in items (1), (2) and (6) above. In such cases, Boeing may not cancel orders unless the event of default is material and has an operational or financial impact on Boeing and may not terminate the Sustaining Agreement unless there are repeated, material events of default and certain other criteria are satisfied. Boeing may only terminate the Sustaining Agreement with respect to the aircraft program affected by the event of default. If two or more programs are affected by the event of default, Boeing may terminate the entire Sustaining Agreement. Upon termination, Boeing may also require Spirit to transfer tooling, raw material, work-in-process, and other inventory and certain intellectual property to Boeing in return for reasonable compensation.

Assignment. Spirit may not assign its rights under the Sustaining Agreement other than with Boeing’s consent, which Boeing may not unreasonably withhold unless the assignment is to a disqualified person. A disqualified person is one: (1) whose principal business is as an OEM of commercial aircraft, space vehicles, satellites, or defense systems; (2) that Boeing reasonably believes will not be able to perform its obligations under the Sustaining Agreement; (3) that, after giving effect to the transaction, would be a supplier of more than 40% by value of the major structural components of any Boeing program then in production; or (4) who is, or is an affiliate of, a commercial airplane operator or is one of five named corporate groups. Sale of majority voting power or of all or substantially all of Spirit’s assets to a disqualified person is considered an assignment.

B787 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), the “B787 Agreement”), which sets forth other general contractual provisions, including provisions relating to termination, events of default, assignment, ordering 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 moveable leading wing edges, engine pylons, and related tooling for the B787.

Pricing. The B787 Agreement provided pricing for the B787-8 model through 2021, with prices decreasing as cumulative volume levels were met over the life of B787 Program. Initial prices for the B787-9 and B787-10 models were to be determined by a procedure set out in the B787 Agreement and documented by amendment. Spirit and

Boeing entered into a memorandum of agreement in November 2014 (the “November 2014 MOA”) that established interim prices for certain B787 shipsets, and the parties agreed to negotiate future rate increases, recurring prices, and other issues across multiple programs during 2015. On September 22, 2017, the parties resolved prior interim pricing, and established go-forward pricing by executing Amendment #25 to the B787 Agreement (the “787 Amendment #25,” and, together with Sustaining Amendment #30, the “Definitive Documentation”). 787 Amendment #25 establishes pricing terms for the B787-8, -9, and -10 models through line unit 1405. 787 Amendment #25 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.

Table of Contents

With respect to future pricing, 787 Amendment #25 provides that the parties will negotiate pricing for B787 line units 1406 and beyond beginning 24 months prior to the scheduled delivery date for line unit 1405. If the currently announced B787 Program production rates do not change, we anticipate that line unit 1405 will be delivered in approximately 2022.

In the second quarter of 2017, the Company formally extended the then-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 million.

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.

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, 2017, the amount of advance payments received by us from Boeing not yet repaid was $331.6 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. It is an “event of default” under the B787 Agreement if Spirit:

(1) fails to deliver products;

(2) breaches the provisions of the B787 Agreement relating to intellectual property and proprietary information;

(3) participates in the sale, purchase, or manufacture of airplane parts without the required approval of the FAA or appropriate foreign regulatory agency;

(4) fails to maintain the required system of quality assurance;

(5) fails to comply with other obligations under the B787 Agreement (which breach continues for more than 15 days after notice is received from Boeing);

(6) is unable to pay its debts as they become due, dissolves, or declares bankruptcy;

(7) fails to comply with U.S. export control laws; or

(8) breaches the assignment provisions of the B787 Agreement.

If an event of default occurs, Boeing has the right to exercise various remedies set forth in the B787 Agreement, including the right to manufacture or to otherwise obtain substitute products, cancel any or all outstanding orders under the B787 Agreement, and/or terminate the B787 Agreement. Before terminating any order or the B787 Agreement, Boeing is required to work with Spirit to attempt to agree on a satisfactory recovery plan. Boeing may also require Spirit to transfer tooling, raw material, work-in-process and other inventory, and certain intellectual property to Boeing in return for reasonable compensation.

Assignment. Spirit may not assign its rights under the B787 Agreement or any related order other than with Boeing's consent, which Boeing may not unreasonably withhold unless the assignment is to a disqualified person. The definition of disqualified person under the B787 Agreement is consistent with the definition in the Sustaining Agreement. Sale of majority voting power or of all or substantially all of Spirit's assets to a disqualified person is considered an assignment.

The foregoing descriptions of Sustaining Agreement, Sustaining Amendment #30, the B787 Agreement, and 787 Amendment #25 do not purport to be complete and are qualified in their entirety by reference to the full text of each agreement , each of which are filed as referenced in the exhibit list hereto. See Note 3 to the Consolidated Financial Statements, Changes in Estimates, Note 8 to the Consolidated Financial Statements, Advance Payments and Deferred Revenue/Credits, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for additional discussion of the Definitive Documentation.

Table of Contents

License of Intellectual Property

Sustaining Agreement. 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.

Except as Boeing otherwise agrees, Spirit may only use Boeing proprietary information and materials (such as tangible and intangible confidential, proprietary, and/or trade secret information, and tooling) in the performance of its obligations under the Sustaining Agreement. Spirit is prohibited from selling products manufactured using Boeing proprietary information and materials to any person other than Boeing without Boeing's authorization.

Spirit has granted to Boeing a license to Spirit proprietary information and materials and software and related products for use in connection with the testing, certification, use, sale, or support of a product covered by the Sustaining Agreement, or the manufacture, testing, certification, use, sale, or support of any aircraft including and/or utilizing a product covered by the Sustaining Agreement. Spirit has also granted to Boeing a license to use Spirit intellectual property to the extent such intellectual property interferes with Boeing's use of products or intellectual property belonging to Boeing under the Sustaining Agreement.

To protect Boeing against Spirit's default, Spirit has granted to Boeing a license, exercisable on such default to practice and/or use, and license for others to practice and/or use on Boeing's behalf, Spirit's intellectual property and tooling related to the development, production, maintenance, or repair of products in connection with making, using, and selling products. As a part of the foregoing license, Spirit must, at the written request of and at no additional cost to Boeing, promptly deliver to Boeing any such licensed property considered by Boeing to be necessary to exercise Boeing's rights under the license.

B787 Agreement. The B787 Agreement establishes 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. Spirit may also not unreasonably withhold consent to the license of such intellectual property to third parties for work on other Boeing programs, provided that it may require a reasonable royalty to be paid and, with respect to commercial airplane programs, that Spirit has been offered an opportunity, to the extent commercially feasible, to work on such programs.

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. If either party wishes to license Joint IP to a third party for work on a Boeing program other than the B787 Program, then the other party may require a reasonable royalty, but may not unreasonably withhold its consent, as long as (if the program in question is another Boeing commercial airplane program) Spirit has been offered an opportunity, to the extent commercially feasible, to perform work for the particular program.

Spirit is entitled to use Boeing IP for the B787 Program, and may require Boeing to license it to subcontractors for the same purpose.

Additional License from Boeing. Boeing has licensed certain intellectual property rights to Spirit under a Hardware Material Services General Terms Agreement ("HMSGTA"), and Supplemental License Agreements ("SLA") under the HMSGTA. The HMSGTA and SLAs grant Spirit licenses to use Boeing intellectual property to perform MRO of aircraft and aircraft components for customers other than Boeing. These agreements also permit Spirit to use knowledge obtained by Spirit personnel prior to the closing of the Boeing Acquisition. Spirit also may obtain additional SLAs from Boeing and those SLAs will also supersede the restrictions on Spirit's use of Boeing's proprietary information and materials described above. Spirit pays Boeing royalties for the use of these licenses.

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

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.

Table of Contents

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 by internal divisions of 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 aerostructures suppliers are Aernnova, Aircelle S.A., Fuji Heavy Industries, Ltd., GKN Aerospace, Kawasaki Heavy Industries, Inc., Mitsubishi Heavy Industries, Nordam, Sonaca, Triumph Group, Inc., Latecoere S.A., and Nexcelle.

Expected Backlog

As of December 31, 2017, our expected backlog associated with large commercial aircraft, business and regional jet, and military equipment deliveries through 2023, calculated based on contractual and historical product prices and expected delivery volumes, was approximately $47.5 billion. This is an increase of $400 million from our corresponding estimate as of the end of 2016. 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, 2017 may not necessarily represent the actual amount of deliveries or sales for any future period. Approximately 15% of our backlog as of December 31, 2017 is expected to be converted into sales in 2018.

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 which 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 which we currently produce in-house or vice versa.

We have long-standing relationships with thousands 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 from North America to 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 $31.2 million for the year ended December 31, 2017, $23.8 million for the year ended December 31, 2016, and $27.8 million for the year ended December 31, 2015. Through our research, we strive to develop unique intellectual property and technologies that will improve our OEM 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 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,

Table of Contents

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 level, 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, 2017, we had approximately 15,500 employees: 13,700 located in our four U.S. facilities, 900 located at our U.K. facility, 800 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, 2017:

Union	Percent of our U.S. Employees Represented	Status of the Agreements with Major Union
The International Association of Machinists and Aerospace Workers (IAM)	58%	We have two major agreements - one expires in June 2020 and one expires in December 2024.
	19%	

The Society of Professional Engineering Employees in Aerospace (SPEEA)		We have two major agreements - one expires in December 2018 and one expires in January 2021.
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.

Table of Contents

Approximately 67% 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 Securities and Exchange Commission ("SEC"). Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethics and 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.

Our filed Annual and Quarterly Reports, Current Reports, Proxy Statement and other reports previously filed with the SEC are also available to the public through the SEC's website at http://www.sec.gov. Materials we file with the SEC may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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.

Risk Factors Related to Our Company

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, 2017, approximately 79% (down from 81% in 2016) and 16% (up from 15% in 2016) of our net revenues were generated from sales to Boeing and Airbus, respectively. Although our strategy, in part, is 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 which 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 decrease in requirements for the products which 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, 2017, approximately 49% 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.

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. Boeing is updating the B777 with a next-generation twin-engine aircraft program currently named the B777X. If the changes to the aircraft are later deemed significant enough to disqualify it as a commercial derivative of the B777 under the Sustaining Agreement, or Boeing successfully establishes it is not capable of being FAA certificated by amendment to an existing Type Certification through addition of a new minor model or by a Supplemental Type Certificate, there is a risk that we may not be engaged by Boeing on the B777X to generally the same extent of Spirit's involvement on the B777, or at all. If we are unable to obtain significant aerostructures supply business for the B777X or any other aircraft program for which we provide significant content, our business, financial condition, and results of operations could be materially adversely affected.

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, 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 contract blocks. Changes in our estimates could adversely affect our future financial performance.

The Company recognizes revenue under the contract method of accounting and estimates revenue and cost for contract blocks that span a period of multiple years. The contract method of accounting requires judgment on a number of underlying assumptions to develop our estimates. Due to the significant length of time over which revenue streams are generated, the variability of future period estimated revenue and cost may be adversely affected if circumstances or underlying assumptions change. 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.

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.

Our fixed-price contracts and price negotiations under existing contracts may commit us to unfavorable terms that may require us to declare forward losses in the future.

We provide most of our products and services through long-term contracts in which the pricing terms are fixed on the date we enter into the contract. Many of these contracts incorporate cost curves that allow for the pricing to decrease as the program matures. These cost curves are based on various assumptions, 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. 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.

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. If such negotiations result in costs that exceed our revenue under a fixed-price contract, we may need to recognize a forward loss on the affected program, which could have a material adverse effect on our results of operations.

If we agree on future pricing that provides us with operating margins that are lower than our current margins, or if we are unable to agree on future pricing terms and the default pricing terms remain in effect for an extended period of time, we may need to record a forward loss on one or more programs, which 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 Agreement. Advance payments are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries. Advance repayments were scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing, except that 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. 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 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, 2017, the amount of advance payments received by us from Boeing under the B787 Agreement were approximately $331.6 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.

Table of Contents

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 of 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 which 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 when applying contract accounting. 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

Table of Contents

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;
- 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.

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 which 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.

Future commitments to our customers to increase production rates depend on our ability to expand production at our manufacturing facilities.

Boeing and Airbus, our two largest customers, have both announced planned production rate increases for several of their major programs. 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.

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 $31.2 million on research and development during the twelve months ended December 31, 2017. 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 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, 2017, direct sales to our non-U.S. customers accounted for approximately 18% 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;
- uncertainties and restrictions concerning the availability of funding credit or guarantees;
- imposition of tariffs and embargos, export controls, and other trade restrictions;
- 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.

Table of Contents

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.

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.

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.

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.

Table of Contents

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.

Risk Factors Related to Our Industry

Our commercial business is cyclical and sensitive to commercial airlines’ profitability. The business of commercial airlines is, in turn, affected by global economic conditions and geo-political considerations.

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.

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.

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 TCJA).

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.

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’ business, 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.

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.

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.

Table of Contents

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 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.

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 may 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 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.

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.

Table of Contents

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. 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;
- 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;
- contractual amendments and disputes with our suppliers; and
- 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, 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 operations could be negatively impacted by service interruptions, data corruption, 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.

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.

Risk Factors Related to Our Capital Structure

Table of Contents

Our substantial debt could adversely affect our financial condition and our ability to operate our business. The terms of the indentures governing our long-term bonds and our senior credit facility impose significant operating and financial restrictions on our company and our subsidiaries, 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, 2017, we had total debt of $1,151.0 million, including $460.7 million of borrowings under our senior credit facility, $592.0 million of long-term bonds, and $98.3 million of capital lease and other obligations. In addition to our debt, as of December 31, 2017, we had $23.2 million of letters of guarantee outstanding.
The terms of the indentures governing our long-term bonds and our senior credit facility impose significant operating and financial restrictions on us, which limit our ability to incur liens, sell assets, 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, 2017, 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 would require us to pledge collateral under our senior credit facility including substantially all property, plant, and equipment. In addition, a downgrade in our fixed or revolving long-term debt rating could result in an increase in borrowing costs under our credit facility and could trigger a prepayment obligation based on the excess cash flow prepayment provision under our term loan depending on our total leverage ratio. Any downgrade in our credit ratings could thus have a material adverse effect on our business or financial condition.
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 which 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:

- 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.

Table of Contents

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, 2017 are set forth below:

Location	Primary Use	Approximate Square Footage	Owned/Leased
United States			
Wichita, Kansas(1)	Primary Manufacturing Facility/Offices/Warehouse	11.9 million	Owned/Leased
Tulsa, Oklahoma	Manufacturing Facility	1.8 million	Leased
McAlester, Oklahoma	Manufacturing Facility	139,600	Owned
Kinston, North Carolina	Primary Manufacturing/Office/Warehouse	840,000	Leased
United Kingdom			
Prestwick, Scotland	Manufacturing Facility	976,000	Owned
Malaysia			
Subang, Malaysia	Manufacturing	325,000	Owned/Leased
France			
Saint-Nazaire, France	Primary Manufacturing/Office	58,800	Leased

(1) 91% of the Wichita facility is owned.

Our physical assets consist of 15.9 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 and Saint Nazaire, France 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, 7.6 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 512,000 square feet are currently vacant, with much of that space planned to support increases in rate across programs and the expansion of fabrication and assembly work. The Wichita site has access to transportation by rail, road, and air. For air cargo, the Wichita site has access to the runways of McConnell Air Force Base.

Table of Contents

The Tulsa facility consists of 1.8 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 Group, Inc. 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 138,000 square feet of building space on 89 acres.
The Prestwick facility consists of 986,000 square feet of building space, comprised of 444,000 square feet of manufacturing space, 255,000 square feet of office space, and 287,000 square feet of warehouse/support space. This facility is set on 100 acres. 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. We lease a portion of our Prestwick facility 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 323,000 square foot leased facility is set on 45 acres and is centrally located with easy access to Kuala Lumpur, Malaysia's capital city, as well as nearby ports and airports. The facility assembles composite panels for wing components.
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 96% 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 840,000 square feet. In addition to the primary manufacturing facility, this includes three additional buildings leased from the NC 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.
The Saint-Nazaire, France site was built on 6.25 acres and totals 59,000 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 18 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, 53. 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 his appointment with the Company, 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, 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 also studied International Relations at the London School of Economics.

William (Bill) Brown, 55. Mr. Brown, Senior Vice President and General Manager, Oklahoma Operations, Business/Regional Jets and Global Customer Support was promoted to the Executive Leadership Team in February 2017. Mr. Brown assumed responsibility of Oklahoma Operations in December 2014 and responsibility of Business/Regional Jets in September 2017. Mr. Brown joined Spirit in May 2014 as Senior Vice President, Global Customer Support and Services. 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 holds a Master’s degree in Business Administration from Colorado State University. He also holds an A&P license and is a commercial instrument pilot.

Stacy Cozad, 47. 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, 59. Mr. Hawkins became Senior Vice President and General Manager of Boeing, Defense, Business/Regional Jet Programs and Global Customer Support in September 2017. Previously Mr. Hawkins served as Senior Vice President and General Manager of Boeing and Defense Programs since July 2015. 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, Lean 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 an MBA from Regis University.

Sanjay Kapoor, 57. Mr. Kapoor became Executive Vice President and Chief Financial Officer in August 2016. From September 2013 to July 2016, Mr. Kapoor served as Senior Vice President and Chief Financial Officer. Mr. Kapoor joined Spirit from Raytheon where he most recently served as Vice President of Integrated Air & Missile Defense for Raytheon Integrated Defense Systems ("IDS"). Prior to this role, Mr. Kapoor was IDS Vice President of Finance and Chief Financial Officer from 2004 to 2008. Mr. Kapoor also served as CFO at United Technologies' Pratt and Whitney Power Systems Division. His tenure at Pratt and Whitney also included roles as Director of Aftermarket Services for the Power Systems Business, controller for the Turbine Module Center and business manager for new commercial programs. Mr. Kapoor received his bachelor's degree in technology from the Indian Institute of Technology and a dual Masters of Business Administration degree in finance and entrepreneurial management from The Wharton School at the University of Pennsylvania.

Krisstie Kondrotis, 52. Ms. Kondrotis become Senior Vice President of Defense Programs and Business Development in September 2017. Previously Ms. Kondrotis served as Senior Vice President - Business Development and Business & Regional Jets since August 2016. From December 2014 to July 2016, Ms. Kondrotis served as Senior Vice President- Business Development. Prior to joining Spirit, she served as Sector Vice President for Business Development at Northrop Grumman Corporation from 2013 to December 2014, Executive Vice President for Business Development and Strategy at CACI, International from 2011 to 2013, Vice President for Business Development and Strategy at General Dynamics Information Technology - Intelligence Solutions Division from 2007 to 2011 and Director of F-22 Business Development at Lockheed Martin Corporation from 2005 to 2007. She is a Syracuse University National Security Studies fellow, and is a graduate of the Lockheed Martin Program Management Institute at Carnegie Mellon University. She holds a Masters of Business Administration in Operations Management from Regis University, Denver, Colorado, and a Bachelor of Science in Finance from University of Northern Colorado, Greeley.

Michelle J. Lohmeier, 55. Ms. Lohmeier became Senior Vice President and General Manager of Airbus Programs in June 2015. Ms. Lohmeier has extensive aerospace experience from several positions at Raytheon Company, most recently as Vice President of the Land Warfare Systems product line at Raytheon Missile Systems. In that position, Ms. Lohmeier had responsibility for the development and production of all Army and U.S. Marine Corps ("USMC") missile programs. Previously, Ms. Lohmeier was the program director for the design, development and production implementation of the Standard Missile-6 weapon system for the U.S. Navy. Ms. Lohmeier also served as the production chief engineer for the AMRAAM Program. In addition, Ms. Lohmeier directed Software Engineering, where she was responsible for software development, software quality and configuration management for all Missile Systems programs. She began her career with Hughes Aircraft Company in 1985 as a system test engineer. Ms. Lohmeier earned a bachelor's degree and a master's degree in systems engineering from the University of Arizona.

Samantha J. Marnick, 47. Ms. Marnick became Executive Vice President - Chief Administration Officer in August 2016. 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 & Workforce Strategy responsible for labor relations, 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's degree from the University of Salford in Corporate Communication Strategy and Management.

John Pilla, 58. 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's degree in Aerospace Engineering from Kansas University, and a master's degree in Aerospace Structures Engineering and a Masters of Business Administration degree from Wichita State University.

Ron Rabe, 52. Mr. Rabe became Senior Vice President, Fabrication and Supply Chain Management in September 2017. From June 2015 to September 2017, Mr. Rabe served as 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 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 Ross School of Business at University of Michigan in Ann Arbor.

Table of Contents

Part II

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

Our class A common stock has been quoted on the NYSE under the symbol "SPR" since November 21, 2006. As of February 2, 2018, there were approximately 800 holders of record of class A common stock and, in addition, there were approximately 68,200 stockholders with shares in street name or nominee accounts. The closing price on February 2, 2018 was $93.87 per share as reported by the NYSE.

The high and low closing sales price for our class A common stock as reported on the NYSE and the dividends paid per common share are set forth below.

	2017			2016		
Fiscal Quarter	High	Low	Dividends Paid per Common Share	High	Low	Dividends Paid per Common Share
1st	$61.69	$54.44	$ 0.10	$50.70	$40.50	$ —
2nd	$58.11	$52.80	$ 0.10	$48.98	$41.74	$ —
3rd	$78.90	$57.86	$ 0.10	$46.13	$41.61	$ —
4th	$87.25	$77.67	$ 0.10	$61.26	$44.54	$ —

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents restricted shares outstanding under the Omnibus Incentive Plan as of December 31, 2017.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Restricted Stock Awards				
Equity compensation plans approved by security holders[1][2]	381,602	(3)	N/A	6,118,273
Equity compensation plans not approved by security holders[2]	—		—	—
Total	381,602	(3)	$ —	6,118,273

(1) On April 30, 2014, the Company's Board of Directors approved an Omnibus Incentive Plan (the "Omnibus Plan"), which replaced the previous long-term incentive plan (the "Prior Plan"). The Omnibus Plan was approved by the Company's stockholders at the Company's 2014 annual stockholder's meeting. No new awards will be granted under the Prior Plan. Our equity compensation plan provides for the issuance of incentive awards to officers, directors, employees, and consultants in the form of stock appreciation rights, restricted stock, restricted stock units and

deferred stock, 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.

Table of Contents

Stock Performance

The following graph shows a comparison from December 31, 2012 through December 31, 2017 of cumulative total return of our class A 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 class A common stock during the year ended December 31, 2017.

	INDEXED RETURNS					
	Years Ending					
Company/Index	Base Period 12/31/12	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Spirit AeroSystems Holdings, Inc.	100	200.83	253.62	295.05	344.43	518.06
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
S&P 500 Aerospace & Defense Index	100	154.92	172.63	182.01	216.42	305.97

Issuer Purchases of Equity Securities

The following table provides information about our repurchases during the three months ended December 31, 2017 of our class A common stock that is registered pursuant to Section 12 of the Exchange Act.

ISSUER PURCHASES OF EQUITY SECURITIES

Table of Contents

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 29, 2017 - November 2, 2017	—	—	—	$597.9
November 3, 2017 - November 30, 2017	487,916	$81.8287	487,916	$558.0
December 1, 2017 - December 31, 2017	705,960	$85.1299	705,960	$497.9
Total	1,193,876	$83.7807	1,193,876	$497.9

(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 2, 2017 was the last day of our October 2017 fiscal month.

(2) 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 class A common stock. On July 25, 2017, the Company increased the existing share repurchase program by up to an additional $400.0 million of our class A common stock. On January 24, 2018, the Board of Directors approved an increase to the program of approximately $500 million. As a result, the total amount remaining in the authorization is approximately $1.0 billion.

Table of Contents

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, 2017, December 31, 2016, and December 31, 2015 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, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
	(Dollars in millions, except per share data)				
Statement of Income Data:					
Net revenues	$6,983.0	$ 6,792.9	$ 6,643.9	$ 6,799.2	$ 5,961.0
Cost of sales(1)	6,162.5	5,803.6	5,532.3	5,711.0	6,059.5
Selling, general and administrative expenses(2)	200.3	228.3	220.8	233.8	200.8
Impact of severe weather events	19.9	12.1	—	—	30.3
Research and development	31.2	23.8	27.8	29.3	34.7
Loss on divestiture of programs(3)	—	—	—	471.1	—
Operating income (loss)	569.1	725.1	863.0	354.0	(364.3)
Interest expense and financing fee amortization	(41.7)	(57.3)	(52.7)	(88.1)	(70.1)
Other (expense) income, net	7.2	(7.3)	(2.2)	(3.5)	3.6
Income (loss) before income taxes and equity in net income (loss) of affiliates	534.6	660.5	808.1	262.4	(430.8)
Income tax (provision) benefit	(180.0)	(192.1)	(20.6)	95.9	(191.1)
Equity in net income (loss) of affiliates	0.3	1.3	1.2	0.5	0.5
Net income (loss)	$354.9	$ 469.7	$ 788.7	$ 358.8	$ (621.4)
Net income (loss) per share, basic	$3.04	$ 3.72	$ 5.69	$ 2.55	$ (4.40)
Shares used in per share calculation, basic	116.8	126.1	138.4	140.0	141.3
Net income (loss) per share, diluted	$3.01	$ 3.70	$ 5.66	$ 2.53	$ (4.40)
Shares used in per share calculation, diluted	117.9	127.0	139.4	141.6	141.3
Dividends declared per common share	$0.40	$ 0.10	$ —	$ —	$ —

Table of Contents

	Spirit Holdings Twelve Months Ended December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
	(Dollars in millions)				
Other Financial Data:					
Cash flow provided by operating activities	$573.7	$ 716.9	$ 1,289.7	$ 361.6	$ 260.6
Cash flow used in investing activities	$(272.8)	$ (253.4)	$ (357.4)	$ (239.6)	$ (268.2)
Cash flow used in financing activities	$(580.9)	$ (718.7)	$ (351.1)	$ (164.2)	$ (13.9)
Capital expenditures	$(273.1)	$ (254.0)	$ (360.1)	$ (220.2)	$ (234.2)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$423.3	$ 697.7	$ 957.3	$ 377.9	$ 420.7
Accounts receivable, net	$722.2	$ 660.5	$ 537.0	$ 605.6	$ 550.8
Inventories, net	$1,449.9	$ 1,515.3	$ 1,774.4	$ 1,753.0	$ 1,842.6
Property, plant & equipment, net	$2,105.3	$ 1,991.6	$ 1,950.7	$ 1,783.6	$ 1,803.3
Total assets	$5,267.8	$ 5,405.2	$ 5,764.5	$ 5,162.7	$ 5,107.2
Total debt	$1,151.0	$ 1,086.7	$ 1,120.2	$ 1,153.5	$ 1,167.3
Long-term debt	$1,119.9	$ 1,060.0	$ 1,085.3	$ 1,144.1	$ 1,150.5
Total equity	$1,801.5	$ 1,928.8	$ 2,120.0	$ 1,622.0	$ 1,481.0

---

(1) 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 costs of sales are net favorable changes in estimates on loss programs totaling $26.1 million. Included in 2013 cost of sales are forward loss charges of $1,133.3 million. Includes cumulative catch-up adjustments of $31.2 million, $36.6 million, $41.6 million, $60.4 million, and $95.5 million for periods prior to the twelve months ended December 31, 2017, 2016, 2015, 2014, and 2013, respectively.

(2) Includes non-cash stock compensation expenses of $22.1 million, $42.5 million, $26.0 million, $16.4 million, and $19.6 million for the respective periods starting with the twelve months ended December 31, 2017.

(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"), 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. 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.

Table of Contents

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

The Company's focus is on ensuring that our quality, operational and cost performance are world class. As part of our efforts to position the Company for future success, we completed several key initiatives in 2017, including executing the Sustaining Amendment #30 and the 787 Amendment #25 with Boeing (referred to herein collectively as the "Definitive Documentation"), which secured pricing terms on our recurring Boeing programs into 2022. In addition, we focused on investments in technology and automation to reduce our internal costs, prepared for increasing production rates, and generated cash with disciplined cash deployment.

As we continue to position the Company for future success, our focus in 2018 will revolve around our operational execution with a focus on safety and quality while working to meet our customers' requirements for production rate changes. Additionally, we will focus on positioning ourselves for organic and inorganic growth within the commercial, defense, and fabrication markets. Considering the strong demand for commercial aircraft and the expected continued need for defense aircraft for the foreseeable future, both markets offer possibilities for growth. To help support our work on production rate increases and market growth, we will continue to focus on attracting, developing, and retaining a world-class team at our sites and remaining a trusted partner to our customers and suppliers.

Programs

A350 XWB

We continue to support the A350 XWB program through two contracts we have with Airbus, a fuselage contract and a wing contract, both of which are segmented into a non-recurring design engineering phase and a recurring production phase. In addition, we support the development of the work scope for the design and tooling related to the -1000 derivative of the A350 XWB fuselage and wing contracts.

The Company has recorded several forward losses on the A350 XWB fuselage recurring program. In earlier stages of production, forward losses were driven by production inefficiencies, engineering changes to the aircraft design, and higher test and transportation costs. In 2016, the Company experienced various disruption and production inefficiencies that exceeded previous estimates, which resulted in forward loss charges. During 2017, the Company recorded an additional forward loss on the A350XWB program of $19.4 million 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.

B787 Program

As we continue on our second contract block on the B787 program, our performance for this program depends on our continued ability to achieve cost reductions in our manufacturing and support labor and supply chain. We have had several changes in estimates on the B787 program. Most recently, in 2017, Boeing and Spirit executed the 787 Amendment, which established pricing terms for the B787-8, -9, and -10 derivative models between line unit 501 and line unit 1405 and required the parties to negotiate pricing for B787 line units 1406 and beyond beginning 24 months prior to the scheduled delivery date for line unit 1405.

As a result of the expected completion of the 787 Amendment, which caused the Company to extend the current contract block ending at line unit 1003 to line unit 1405, the Company recorded a second quarter 2017 reach-forward loss $352.8 million on the 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 million.

Going forward, the B787 program has expected price step downs, which will require Spirit to substantially reduce its operational costs. If Spirit is unable to reduce its costs on the B787 program while successfully executing future rate increases, Spirit may record additional forward losses on the program.

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

Table of Contents

judgments which 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 2 to the Consolidated Financial Statements, Summary of Significant Accounting Policies.

Revenues and Profit Recognition under Long-Term Contracts

The Company recognizes revenue under the contract method of accounting and records sales and profits on each contract in accordance with the percentage-of-completion method of accounting, as further described in Note 2 to the Consolidated Financial Statements, Summary of Significant Accounting Policies. In determining our profits and losses in accordance with this method, we are required to make significant assumptions regarding our future costs and revenues, as well as the estimated number of units to be manufactured under the contract 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, such as a reduction in the estimated number of units to be produced under the contract (which could be caused by emerging market trends or other factors), an increase in future production costs, or a change in the recoverability of increased design or production costs, 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 Accounting Standards Codification ("ASC") Topic 606 on revenues and profit recognition, see Note 2 to the Consolidated Financial Statements, Summary of Significant Accounting Policies, under the sub-heading "New Accounting Pronouncements."

Income Taxes

Our effective tax rate is impacted by, among other things, changes in U.S. and non-U.S. tax laws in the countries in which we operate, and changes in the mix of our earnings among countries with differing statutory tax rates.

On December 22, 2017, President Trump signed into law legislation referred to as the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the Internal Revenue Code of 1986, as amended (the "Code"), including amendments which significantly change the taxation of business entities.

Some of the more significant changes that impact our Company included in the TCJA are reductions in the corporate federal income tax rate from 35% to 21%, the elimination of the domestic manufacturing deduction, the ability to immediately expense certain property for specific tax years, the requirement for companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and new taxes on certain foreign sourced earnings as the U.S. transitions to a territorial tax system.

The staff of the SEC has recognized the complexity of reflecting the impacts of the TCJA, and, on December 22, 2017, issued guidance in Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 clarifies accounting for income taxes under ASC Topic 740, Income Taxes ("ASC 740"), if information is not yet available or complete and provides for up to a one-year period in which to complete the required analyses and accounting (the measurement period). SAB 118 describes three scenarios (or "buckets") associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply ASC 740, based on the provisions of the tax laws that were in effect immediately prior to the TCJA being enacted.

At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the TCJA; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. In other cases, we have not been able to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740 and the provisions of the tax laws that were in effect immediately prior to enactment of the TCJA. For the items for which we were able to determine a reasonable estimate, we recognized a provisional amount of $28.7 million, which is included as a component of income tax expense from continuing operations.

Provisional amounts

Deferred tax assets and liabilities: We re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. However, we are still analyzing certain aspects of the TCJA and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Included within our net deferred tax assets and liabilities are state income tax credits, which are recorded net of federal tax expense. With a lower federal income tax rate of 21%, the net value of these credits has increased. The provisional amount recorded related to the re-measurement of our net deferred tax asset balance was a tax benefit recorded as a component of income tax from continuing operations of $16.2 million.

Foreign tax effects: The one-time transition tax is based on our total post-1986 earnings and profits ("E&P") that we previously deferred from U.S. income taxes. We recorded a provisional amount for our one-time transition tax liability for all of our foreign operating subsidiaries, resulting in an increase in income tax expense of $44.9 million, including the anticipated state income tax effect. For federal income tax purposes, we will elect to pay this over a period of eight years as provided for in the TCJA. We have analyzed and calculated a provisional estimate for the cumulative post-1986 E&P for these foreign operating subsidiaries, the impact of certain expense allocations, the potential impact of any recapture of an Overall Foreign Loss balance and an assessment of potential foreign tax credits. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets.

We continue to maintain that earnings of all foreign operating subsidiaries are indefinitely invested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings to fund working capital requirements, service existing obligations, and invest in efforts to secure future business. As a result, no additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities. We have completed analysis regarding potential withholding tax related to potential future dividends and anticipate that any associated withholding taxes would be immaterial based upon current law. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practicable at this time.

The TCJA introduces a tax on global intangible low-taxed income ("GILTI") for years ending after December 31, 2017. Our analysis and accounting for the effects of the GILTI provision is incomplete and an accounting policy on whether we will account for GILTI as a period expense or record deferred taxes for anticipated GILTI has not been made.

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 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:

Table of Contents

	Twelve Months Ended		
	December 31, 2017[(1)]	December 31, 2016[(1)(2)]	December 31, 2015[(2)]
	($ in millions)		
Net revenues	$6,983.0	$6,792.9	$6,643.9
Cost of sales	6,162.5	5,803.6	5,532.3
Gross profit	820.5	989.3	1,111.6
Selling, general and administrative expenses	200.3	228.3	220.8
Impact of severe weather event	19.9	12.1	—
Research and development	31.2	23.8	27.8
Operating income	569.1	725.1	863.0
Interest expense and financing fee amortization	(41.7)	(57.3)	(52.7)
Other income (expense), net	7.2	(7.3)	(2.2)
Income before income taxes and equity in net income of affiliate	534.6	660.5	808.1
Income tax provision	(180.0)	(192.1)	(20.6)
Income before equity in net income of affiliate	354.6	468.4	787.5
Equity in net income of affiliate	0.3	1.3	1.2
Net income	$354.9	$469.7	$788.7

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

(2) See “Twelve Months Ended December 31, 2016 as Compared to Twelve Months Ended December 31, 2015” for detailed discussion of operating data.

Comparative shipset deliveries by model are as follows:

Model	Twelve Months Ended December 31, 2017	December 31, 2016	December 31, 2015
B737	532	500	502
B747	6	8	15
B767	28	25	18
B777	70	96	102
B787	136	127	126
Total Boeing	772	756	763
A320 Family	608	574	494
A330/340	80	74	77
A350	90	69	37
A380	13	22	24
Total Airbus	791	739	632
Business/Regional Jets	88	88	62
Total	1,651	1,583	1,457

For purposes of measuring production or shipset deliveries for Boeing aircraft in a given period, the term “shipset” refers to sets of structural fuselage components produced or delivered for one aircraft in such period. For purposes of measuring production or shipset deliveries for Airbus and Business/Regional Jet aircraft in a given period, the term “shipset” refers to all structural aircraft components produced or delivered for one aircraft in such period. For the purposes of measuring wing shipset deliveries, the term “shipset” refers to all wing components produced or delivered for one aircraft in such period. Other components which are part of the same aircraft shipsets could be produced or shipped in earlier or later accounting periods than the components used

Table of Contents

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, 2017	December 31, 2016	December 31, 2015
	($ in millions)		
Boeing	$5,527.5	$ 5,502.6	$ 5,596.6
Airbus	1,123.5	992.7	760.5
Other	332.0	297.6	286.8
Total net revenues	$6,983.0	$ 6,792.9	$ 6,643.9

Changes in Estimates

During the twelve months ended December 31, 2017, we recognized total changes in estimates of ($296.1) million which includes net forward loss charges of ($327.3) million and favorable cumulative catch-up adjustments related to periods prior to 2017 of $31.2 million. The net forward loss charges were primarily driven by the Boeing pricing negotiations including the effect of executing the Collective Resolution Memorandum of Understanding with Boeing (the “MOU”) 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, which includes 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 risk on maturing programs, and favorable pricing negotiations on a maturing program.

During the twelve months ended December 31, 2015, we recognized total changes in estimates of $52.4 million, which includes favorable cumulative catch-up adjustments related to periods prior to 2015 of $41.6 million and favorable changes in estimates on loss programs of $10.8 million, which is net of forward loss charges of ($6.9) million. Favorable cumulative catch-up adjustments for the periods prior to 2015 and changes in estimates on loss programs were primarily driven by productivity and efficiency improvements, favorable cost performance, mitigation of risk, benefits from increased production rates related to the absorption of fixed costs, and favorable pricing negotiations on a maturing program. Forward loss charges were due to a production rate decrease on a mature 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, 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.

Table of Contents

Production deliveries of business/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 $820.5 million for the twelve months ended December 31, 2017, as compared to $989.3 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 $28.0 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 $569.1 million, which was $156.0 million lower than operating income of $725.1 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 credit facility and redemption of our senior notes due in 2020 using proceeds from the issuance of our senior notes due in 2026.
Other (Expense) Income, net. Other income for the twelve months ended December 31, 2017 was $7.2 million, compared to other expense of $7.3 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.
Segments. The following table shows segment revenues and operating income for the twelve months ended December 31, 2017, 2016, and 2015:

Table of Contents

	Twelve Months Ended December 31, 2017	December 31, 2016	December 31, 2015
	($ in millions)		
Segment Revenues			
Fuselage Systems	$3,730.8	$ 3,498.8	$ 3,447.0
Propulsion Systems	1,666.2	1,777.3	1,750.7
Wing Systems	1,578.8	1,508.7	1,437.7
All Other	7.2	8.1	8.5
	$6,983.0	$ 6,792.9	$ 6,643.9
Segment Operating Income(1)			
Fuselage Systems	$347.7	$ 468.6	$ 607.3
Propulsion Systems	275.1	325.9	378.2
Wing Systems	212.4	223.6	178.5
All Other	2.0	1.6	1.3
	837.2	1,019.7	1,165.3
Corporate SG&A	(200.3)	(228.3)	(220.8)
Unallocated impact of severe weather event(2)	(19.9)	(12.1)	—
Research and development	(31.2)	(23.8)	(27.8)
Unallocated cost of sales(3)	(16.7)	(30.4)	(53.7)
Total operating income	$569.1	$ 725.1	$ 863.0

(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, 2017, 2016, and 2015 are further detailed in the segment discussions below and in Note 3 to the Consolidated Financial Statements, Changes in Estimates.

(2) See Note 25 to the Consolidated Financial Statements, Impact of Severe Weather Event.

(3) 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. For 2015, includes charges of $40.7 million, $0.8 million, and $6.4 million related to warranty reserve, reduction in workforce, and unallocated inventory write-offs, respectively.

Fuselage Systems, Propulsion Systems, Wing Systems, and All Other represented approximately 53%, 24%, 23%, and less than 1%, respectively, of our net revenues for the twelve months ended December 31, 2017.

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 fuselage program. In 2017, the segment recorded favorable cumulative catch-up adjustments of $4.0 million, as well as ($223.2) million of net forward loss charges. 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 losses.

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 17% for the twelve months ended December 31, 2017, compared to 18% for the same period in the prior year. This decrease was primarily driven by 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 program 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 recorded 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 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, 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.

Twelve Months Ended December 31, 2016 as Compared to Twelve Months Ended December 31, 2015

Net Revenues. Net revenues for the twelve months ended December 31, 2016 were $6,792.9 million, an increase of $149.0 million, or 2%, compared with net revenues of $6,643.9 million for the prior year. The increase was primarily due to higher production deliveries on the A350 XWB and B767, higher revenues recognized on certain nonrecurring Boeing programs and one-time claim settlements with customers, partially offset by lower production deliveries on the B747 and B777 and lower revenue recognized on the B787 program in accordance with pricing terms under the B787 Agreement, all of which net to a $141.4 million increase in revenue. Approximately 96% of Spirit’s net revenues in 2016 came from our two largest customers, Boeing and Airbus.

Deliveries to Boeing decreased to 756 shipsets during 2016, compared to 763 shipsets delivered in the prior year, as decreased production deliveries on the B747 and B777 offset increased production deliveries on the B767 and B787. Deliveries to Airbus increased by 17% to 739 shipsets during 2016, compared to 632 shipsets delivered in the prior year, primarily driven by higher production of the A320 and A350 XWB programs. Production deliveries of business/regional jet wing and wing components increased to 88 shipsets during 2016, compared to 62 shipsets delivered in the prior year. In total, shipset deliveries increased 9% to 1,583 shipsets in 2016 compared to 1,457 shipsets in 2015.

Gross Profit. Gross profit was $989.3 million for the twelve months ended December 31, 2016, as compared to $1,111.6 million for the same period in the prior year. The decrease in gross profit was primarily driven by the recognition of forward loss charges on the A350 XWB fuselage program during 2016.

SG&A and Research and Development. SG&A expense was $7.5 million higher for the twelve months ended December 31, 2016, as compared to the same period in the prior year, primarily due to expenses related to executive retirements and severance including stock compensation. Research and development expense for the twelve months ended December 31, 2016 was $4.0 million lower, as compared to the same period in the prior year, due to fewer internal projects underway.

Impact of Severe Weather Event. During the fourth quarter of 2016, the Company recorded a $12.1 million charge against operating income related to the aftermath of Hurricane Matthew, which caused the Company’s Kinston, North Carolina site operations to temporarily shut down.

Operating Income. Operating income for the twelve months ended December 31, 2016 was $725.1 million, which was $137.9 million lower than operating income of $863.0 million for the prior year. The decrease in operating income was primarily the result of net forward loss charges recognized during the second quarter of 2016.

Interest Expense and Financing Fee Amortization. Interest expense and financing fee amortization for the twelve months ended December 31, 2016 includes $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, compared to $45.8 million of interest and fees paid or accrued in connection with long-term debt and $6.9 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 senior credit agreement and redemption of our senior notes due in 2020 using proceeds from the issuance of our senior notes due in 2026. In March 2015, we entered into

Amendment No. 5 to our prior credit agreement which resulted in a loss on extinguishment of debt charge of $3.6 million. Additionally, interest expense for 2016 reflects lower average interest rates on our term loan and bonds compared to the prior year.

Other Expense, net. Other expense, net for the twelve months ended December 31, 2016 was $7.3 million, compared to $2.2 million for the same period in the prior year. Other expense, net 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, 2016, was $192.1 million compared to $20.6 million for the prior year. The 2016 effective tax rate was 29.1% as compared to 2.6% for 2015. The difference in the effective tax rate recorded for 2016 as compared to 2015 is primarily related to the release of the valuation allowance on U.S. federal deferred tax assets in 2015. The decrease from the U.S. statutory tax rate is attributable primarily to the inclusion of the tax effects of the U.S. qualified domestic production activities deduction, foreign rates less than the U.S. rate, the generation of state income tax credits, excess tax benefits in respect of share-based compensation in the income tax provision and federal research tax credits.

Fuselage Systems. Fuselage Systems segment net revenues for the twelve months ended December 31, 2016 were $3,498.8 million, an increase of $51.8 million, or 2%, compared to the same period in the prior year. The increase in net revenues was primarily due to higher production deliveries on the A350 XWB and B767 and the absence of charges related to historical non-conformance claims, partially offset by lower net revenues recognized on the B787 program in accordance with pricing terms under the B787 Agreement and lower production deliveries on the B747 and B777. Fuselage Systems segment operating margins were 13% for the twelve months ended December 31, 2016, compared to 18% for the same period in the prior year, with the decrease primarily driven by the net forward loss charges recorded on the A350 XWB fuselage program. In 2016, the segment recorded favorable cumulative catch-up adjustments of $13.6 million driven by productivity and efficiency improvements on mature programs, as well as ($133.4) million of net forward losses. In comparison, during 2015, the segment recorded favorable cumulative catch-up adjustments of $16.1 million driven by productivity and efficiency improvements on mature programs, as well as $8.7 million of favorable changes in estimates on loss programs.

Propulsion Systems. Propulsion Systems segment net revenues for the twelve months ended December 31, 2016 were $1,777.3 million, an increase of $26.6 million, or 2%, compared to the same period in the prior year. The increase was primarily due to higher revenue recognized on certain nonrecurring Boeing programs and increased production deliveries on the B767, partially offset by fewer production deliveries on the B747 and B777 and lower net revenues recognized on the B787 program in accordance with pricing terms under the B787 Agreement. Propulsion Systems segment operating margins were 18% for the twelve months ended December 31, 2016, compared to 22% for the same period in the prior year. This decrease was primarily driven by lower production deliveries on the B747, the favorable cumulative catch-up adjustments recorded during 2015, increased revenue from lower-margin programs and the absence of nonrecurring customer incentive payments recorded during 2015. In 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. In comparison, during 2015, the segment recorded favorable cumulative catch-up adjustments of $22.8 million driven by productivity and efficiency improvements on mature programs, as well as $2.4 million of favorable changes in estimates on loss programs.

Wing Systems. Wing Systems segment net revenues for the twelve months ended December 31, 2016 were $1,508.7 million, an increase of $71.0 million, or 5%, compared to the same period in the prior year. The increase was primarily due to higher production deliveries on the A350 XWB and one-time claim settlements with customers, partially offset by lower B777 wing related activity and fewer production deliveries on the B747. Wing Systems segment operating margins were 15% for the twelve months ended December 31, 2016, compared to 12% for the same period in the prior year, primarily driven by favorable labor and material cost performance. In 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. In comparison, during 2015, the segment recorded favorable cumulative catch-up adjustments of $2.7 million, partially offset by net forward loss charges of ($0.3) 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, 2016, All Other segment net revenues were $8.1 million, a decrease of $0.4 million compared to the same period in the prior year. The All Other segment recorded 20% operating margins for the twelve months ended December 31, 2016.

Liquidity and Capital Resources

The primary sources of our liquidity include