Spirit AeroSystems Holdings, Inc.
Form 10-Q
October 30, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended October 1, 2015

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3801 South Oliver
Wichita, Kansas 67210
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:
(316) 526-9000

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

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

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

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

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

As of October 23, 2015, the registrant had outstanding 140,382,990 shares of class A common stock, $0.01 par value per share, and 121 shares of class B common stock, $0.01 par value per share.

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PART I — FINANCIAL INFORMATION

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended October 1, 2015	October 2, 2014	For the Nine Months Ended October 1, 2015	October 2, 2014
	($ in millions, except per share data)			
Net revenues	$1,593.6	$1,693.0	$5,034.5	$5,224.8
Operating costs and expenses				
Cost of sales	1,341.0	1,418.0	4,197.2	4,411.2
Selling, general and administrative	54.5	50.0	159.9	164.9
Research and development	6.5	8.7	20.2	21.8
Total operating costs and expenses	1,402.0	1,476.7	4,377.3	4,597.9
Operating income	191.6	216.3	657.2	626.9
Interest expense and financing fee amortization	(11.7)	(16.0)	(41.7)	(72.2)
Other expense, net	(2.5)	(8.4)	(0.8)	(1.2)
Income before income taxes and equity in net income of affiliate	177.4	191.9	614.7	553.5
Income tax benefit (provision)	135.9	(23.9)	34.8	(88.9)
Income before equity in net income of affiliate	313.3	168.0	649.5	464.6
Equity in net income of affiliate	0.3	—	0.9	0.4
Net income	$313.6	$168.0	$650.4	$465.0
Earnings per share				
Basic	$2.25	$1.21	$4.67	$3.30
Diluted	$2.24	$1.20	$4.64	$3.27

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	For the Three Months Ended October 1, 2015	October 2, 2014	For the Nine Months Ended October 1, 2015	October 2, 2014
	($ in millions)			
Net income	$313.6	$168.0	$650.4	$465.0
Changes in other comprehensive income, net of tax:				
Settlement of swap, net of tax effect of zero for each of the three and nine months ended, respectively	—	—	1.1	—
Unrealized loss on interest rate swaps, net of tax effect of zero for each of the three months and nine months ended, respectively	—	(0.5)	—	(0.5)
Pension, SERP and Retiree medical adjustments, net of tax effect of zero for each of the three and nine months ended, respectively	(0.6)	—	(2.5)	—
Unrealized foreign exchange loss on intercompany loan, net of tax effect of $0.4 and $0.9 for the three months ended and $0.4 and $0.5 for the nine months ended, respectively	(1.5)	(3.1)	(1.4)	(1.6)
Foreign currency translation adjustments	(9.3)	(15.9)	(8.2)	(7.2)
Total other comprehensive loss	(11.4)	(19.5)	(11.0)	(9.3)
Total comprehensive income	$302.2	$148.5	$639.4	$455.7

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.

Condensed Consolidated Balance Sheets
(unaudited)

	October 1, 2015	December 31, 2014
	($ in millions)	
Current assets		
Cash and cash equivalents	$1,042.7	$377.9
Accounts receivable, net	575.8	605.6
Inventory, net	1,791.5	1,753.0
Deferred tax asset - current	80.6	53.2
Other current assets	98.7	262.4
Total current assets	3,589.3	3,052.1
Property, plant and equipment, net	1,874.9	1,783.6
Pension assets	223.1	203.4
Other assets	250.4	123.6
Total assets	$5,937.7	$5,162.7
Current liabilities		
Accounts payable	$677.0	$611.2
Accrued expenses	276.8	329.1
Profit sharing	62.9	111.8
Current portion of long-term debt	35.7	9.4
Advance payments, short-term	172.2	118.6
Deferred revenue, short-term	196.2	23.4
Deferred grant income liability - current	11.5	10.2
Other current liabilities	71.7	45.1
Total current liabilities	1,504.0	1,258.8
Long-term debt	1,105.0	1,144.1
Advance payments, long-term	551.8	680.4
Pension/OPEB obligation	76.4	73.0
Deferred revenue and other deferred credits	142.8	27.5
Deferred grant income liability - non-current	86.3	96.1
Other liabilities	247.0	260.8
Equity		
Preferred stock, par value $0.01, 10,000,000 shares authorized, no shares issued	—	—
Common stock, Class A par value $0.01, 200,000,000 shares authorized, 140,383,915 and 141,084,378 shares issued, respectively	1.4	1.4
Common stock, Class B par value $0.01, 150,000,000 shares authorized, 121 and 4,745 shares issued, respectively	—	—
Additional paid-in capital	1,044.5	1,035.6
Accumulated other comprehensive loss	(164.8)	(153.8)
Retained earnings	1,517.9	867.5
Treasury stock, at cost (4,924,000 and 4,000,000 shares, respectively)	(175.1)	(129.2)
Total shareholders’ equity	2,223.9	1,621.5
Noncontrolling interest	0.5	0.5
Total equity	2,224.4	1,622.0
Total liabilities and equity	$5,937.7	$5,162.7

See notes to condensed consolidated financial statements (unaudited)

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

	For the Nine Months Ended October 1, 2015	October 2, 2014
	($ in millions)	
Operating activities		
Net income	$650.4	$465.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	133.4	126.3
Amortization expense	0.6	5.7
Amortization of deferred financing fees	6.0	21.0
Accretion of customer supply agreement	1.6	0.8
Employee stock compensation expense	19.0	12.7
Excess tax benefit of share-based payment arrangements	(10.7)	(2.4)
Loss from interest rate swaps	—	0.1
Loss (gain) from hedge contracts	1.6	(1.4)
Loss from foreign currency transactions	6.3	4.3
Loss on disposition of assets	3.0	0.3
Deferred taxes	(200.7)	2.1
Long-term tax provision	—	(1.2)
Pension and other post retirement benefits, net	(19.7)	(19.2)
Grant income	(7.5)	(6.3)
Equity in net income of affiliate	(0.9)	(0.4)
Changes in assets and liabilities		
Accounts receivable	24.4	(264.2)
Inventory, net	(53.9)	(122.5)
Accounts payable and accrued liabilities	11.2	21.6
Profit sharing/deferred compensation	(48.8)	39.7
Advance payments	(75.0)	(46.0)
Income taxes receivable/payable	179.6	37.2
Deferred revenue and other deferred credits	290.3	0.9
Other	59.2	54.2
Net cash provided by operating activities	969.4	328.3
Investing activities		
Purchase of property, plant and equipment	(216.5)	(134.0)
Proceeds from sale of assets	1.8	0.4
Net cash used in investing activities	(214.7)	(133.6)
Financing activities		
Proceeds from issuance of debt	535.0	—
Proceeds from issuance of bonds	—	300.0
Principal payments of debt	(29.2)	(14.6)
Payments on term loan	(534.9)	—
Payments on bonds	—	(300.0)
Taxes paid related to net share settlement awards	(20.7)	—
Excess tax benefit of share-based payment arrangements	10.7	2.4
Debt issuance and financing costs	(4.7)	(20.8)

Purchase of treasury stock	(45.9)	(129.2)
Net cash used in financing activities	(89.7)	(162.2)
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(0.4)
Net increase in cash and cash equivalents for the period	664.8	32.1
Cash and cash equivalents, beginning of period	377.9	420.7
Cash and cash equivalents, end of period	$1,042.7	$452.8

See notes to condensed consolidated financial statements (unaudited)

1. Organization and Basis of Interim Presentation

Spirit AeroSystems Holdings, Inc. ("Holdings" or the "Company") was incorporated in the state of Delaware on February 7, 2005, and commenced operations on June 17, 2005 through the acquisition of Boeing's operations in Wichita, Kansas; Tulsa, Oklahoma; and McAlester, Oklahoma (the "Boeing Acquisition") by an investor group led by Onex Partners LP and Onex Corporation (together with its affiliates, "Onex"). Holdings provides manufacturing and design expertise in a wide range of fuselage, propulsion and wing products and services for aircraft original equipment manufacturers ("OEM") and operators through its subsidiary, Spirit AeroSystems, Inc. ("Spirit"). The Company has its headquarters in Wichita, Kansas, with manufacturing facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Wichita, Kansas; Kinston, North Carolina and Subang, Malaysia. The Company has assembly facilities in Saint-Nazaire, France, and Chanute, Kansas.

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

The Company participates in a joint venture, Taikoo Spirit AeroSystems Composite Co. Ltd. ("TSACCL"), of which Spirit's ownership interest is 31.5%. TSACCL was formed to develop and implement a state of the art composite and metal bond component repair station in the Asia-Pacific region.

In August 2014, Onex sold its remaining investment in the Company in a secondary offering of the Company's class A common stock.

In December 2014, Spirit divested its 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 Aerostructures - Tulsa, LLC, a wholly-owned subsidiary of Triumph Group Inc. ("Triumph").

The accompanying unaudited interim condensed consolidated financial statements include the Company's financial statements and the financial statements of its majority-owned or controlled subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the instructions to Form 10-Q and Article 10 of Regulation S-X. The Company's fiscal quarters are 13 weeks in length. Because the Company's fiscal year ends on December 31, the number of days in the Company's first and fourth quarters varies slightly from year to year. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. The Company's investment in TSACCL, in which the Company does not have a controlling interest, is accounted for under the equity method. KIESC is fully consolidated as the Company owns 77.8% of the entity's equity. All intercompany balances and transactions have been eliminated in consolidation. The Company's U.K. subsidiary uses local currency, the British pound, as its functional currency; the Malaysian subsidiary uses the British pound and the Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

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

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the nine months ended October 1, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2015 presentation.

In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events through the date the financial statements were issued. The interim financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company's 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 13, 2015 and subsequently amended on Form 10-K/A filed with the SEC on March 6, 2015 (the "2014 Form 10-K").

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

2. New Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-11, Inventory, Simplifying the Measurement of Inventory (FASB ASU 2015-11). ASU 2015-11 affects reporting entities that measure inventory using first-in, first-out or average cost. FASB ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. FASB ASU 2015-11 is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The adoption of FASB ASU 2015-11 is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest, (FASB ASU 2015-03) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in this update. FASB ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and requires the Company to apply the new guidance on a retrospective basis upon adoption. In August 2015, the FASB issued ASU 2015-15 which amends ASU 2015-03 to clarify presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The adoption of FASB ASU 2015-03 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis (FASB ASU 2015-02). FASB ASU 2015-02 amended the process that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. FASB ASU 2015-02 is effective for the annual period ending after December 15, 2015, and for annual periods and interim periods thereafter. The Company has elected, as permitted by the standard, to adopt FASB ASU 2015-02 early, to be effective for the second quarter ended July 2, 2015. The adoption of FASB ASU 2015-02 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (FASB ASU 2014-09). This update is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB ASU 2014-09 is effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. Early application is not permitted for public entities. In July 2015, the FASB affirmed its proposal to defer the effective date of the ASU 2014-09 for all entities by one year. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. The Company is currently evaluating the new guidance to determine the impact it may have to its consolidated financial statements.

3. Changes in Estimates

The Company has a Company-wide quarterly Estimate at Completion (EAC) process in which management assesses the progress and performance of the Company's contracts. This process requires management to review each program’s progress towards completion by evaluating the program schedule, changes to identified risks and opportunities, changes to estimated contract revenues and estimated contract costs over the current contract block and any outstanding contract matters. Risks and opportunities include management's judgment about the cost associated with a program’s ability to achieve the schedule, technical requirements (e.g., a newly-developed product versus a mature product) and any other contract requirements. The majority of the Company's fixed priced contracts are life of aircraft program contracts. Due to the span of years it may take to complete a contract block and the scope and nature of the work required to be performed on those contracts, the estimation of total revenue and costs at completion is complicated and subject to many variables and, accordingly, is subject to change. When adjustments in estimated total contract block revenue or estimated total cost are required, any changes from prior estimates for delivered units are recognized in the current period as a cumulative catch-up adjustment for the inception-to-date effect of such changes. Cumulative catch-up adjustments are driven by several factors including improved production efficiencies, assumed rate of production, the rate of overhead absorption, changes to scope of work and contract modifications. When estimates of total costs to be incurred on a contract block exceed estimates of total revenue to be earned, a provision for the entire loss on the contract block is recorded in the period in which the loss is determined. Changes in estimates are summarized below:

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Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

Changes in Estimates	For the Three Months Ended October 1, 2015	For the Three Months Ended October 2, 2014	For the Nine Months Ended October 1, 2015	For the Nine Months Ended October 2, 2014
Favorable Cumulative Catch-up Adjustment by Segment				
Fuselage	$7.8	$9.7	$15.4	$10.2
Propulsion	8.4	8.2	19.8	11.2
Wing	2.8	14.8	1.2	24.4
Total Favorable Cumulative Catch-up Adjustment	$19.0	$32.7	$36.4	$45.8
Changes in Estimates on Loss Programs and (Forward Loss)				
Fuselage				
Boeing - All other platforms	$—	$—	$6.4	$—
Other Platforms	—	—	—	(0.9)
Total Fuselage Forward Loss	$—	$—	$6.4	$(0.9)
Propulsion				
Boeing - All other platforms	$—	$—	$(1.3)	$—
Total Propulsion Forward Loss	$—	$—	$(1.3)	$—
Wing				
Other Platforms	$—	$—	$—	$(0.3)
Total Wing Forward Loss	$—	$—	$—	$(0.3)
Total Change in Estimate on Loss Programs and (Forward Loss), net	$—	$—	$5.1	$(1.2)
Total Change in Estimate	$19.0	$32.7	$41.5	$44.6
EPS Impact (diluted per share based upon statutory rates)	$0.09	$0.15	$0.19	$0.20

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

4. Accounts Receivable, net

Accounts receivable, net consists of the following:

	October 1, 2015	December 31, 2014
Trade receivables[(1)(2)]	$541.4	$598.4
Other	34.7	7.7
Less: allowance for doubtful accounts	(0.3)	(0.5)
Accounts receivable, net	$575.8	$605.6

(1) Includes unbilled receivables of $28.5 and $26.0 as of October 1, 2015 and December 31, 2014, respectively.
(2) Includes $135.1 held in retainage by a customer at December 31, 2014.

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

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

5. Inventory

Inventories are summarized as follows:

	October 1, 2015	December 31, 2014
Raw materials	$257.9	$254.5
Work-in-process	863.5	885.7
Finished goods	68.4	46.7
Product inventory	1,189.8	1,186.9
Capitalized pre-production	187.7	223.4
Deferred production	1,308.7	1,244.3
Forward loss provision	(894.7)	(901.6)
Total inventory, net	$1,791.5	$1,753.0

Capitalized pre-production costs include certain contract costs, including applicable overhead, incurred before a product is manufactured on a recurring basis. Significant statement of work changes considered not reimbursable by the customer can also cause pre-production costs to be incurred. These costs are typically amortized over a certain number of shipset deliveries.

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

Provisions for anticipated losses on contract blocks are recorded in the period in which they become evident ("forward losses") and included in inventory with any remaining amount reflected in accrued contract liabilities.

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

Inventories are summarized by platform and costs below:

	October 1, 2015					
	Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision	Total Inventory, net October 1, 2015
B787	208.0	—	56.5	567.0	(606.0)	225.5

Boeing - All other platforms[1]	481.5	26.6	5.8	(18.8)	(25.5)	469.6
A350 XWB	167.4	54.0	96.4	662.1	(119.8)	860.1
Airbus - All other platforms	96.0	—	—	4.1	—	100.1
Rolls-Royce BR725[2]	23.7	—	29.0	90.7	(143.4)	—
Aftermarket	54.9	—	—	—	—	54.9
Other platforms	75.0	2.7	—	3.6	—	81.3
Total	$ 1,106.5	$ 83.3	$ 187.7	$ 1,308.7	$ (894.7)	$ 1,791.5

Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

	December 31, 2014					
	Product Inventory					
	Inventory	Non-Recurring	Capitalized Pre-Production	Deferred Production	Forward Loss Provision	Total Inventory, net December 31, 2014
B787	227.9	—	102.7	551.6	(606.0)	276.2
Boeing - All other platforms(1)	497.4	7.7	7.4	(8.9)	(38.8)	464.8
A350 XWB	148.7	35.6	76.4	607.6	(120.1)	748.2
Airbus - All other platforms	82.1	—	—	5.6	—	87.7
Rolls-Royce BR725(2)	17.5	—	35.4	83.8	(136.7)	—
Aftermarket	45.2	0.2	—	—	—	45.4
Other platforms	113.5	11.1	1.5	4.6	—	130.7
Total	$1,132.3	$ 54.6	$223.4	$1,244.3	$(901.6)	$ 1,753.0

(1) Forward loss charges recorded in prior periods on a program within Boeing - All other platforms exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability and reported in other current liabilities on the Condensed Consolidated Balance Sheet. The total contract liability was zero and $2.1 as of October 1, 2015 and December 31, 2014, respectively.

(2) Forward loss charges recorded in prior periods on the Rolls-Royce BR725 program exceeded the total inventory balance. The excess of the charge over program inventory is classified as a contract liability and reported in other current liabilities on the Condensed Consolidated Balance Sheet. The total contract liability was $5.5 and $12.2 as of October 1, 2015 and December 31, 2014, respectively.

The following is a roll forward of the capitalized pre-production costs included in the inventory balance at October 1, 2015:

Balance, December 31, 2014	$223.4
Charges to costs and expenses	(59.8)
Capitalized costs	24.1
Balance, October 1, 2015	$187.7

The following is a roll forward of the deferred production costs included in the inventory balance at October 1, 2015:

Balance, December 31, 2014	$1,244.3
Charges to costs and expenses	(752.5)
Capitalized costs	822.4
Exchange rate	(5.5)
Balance, October 1, 2015	$1,308.7

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

Model	Contract Block Quantity	Orders(1)

B787	500	768
A350 XWB	400	777
Rolls-Royce BR725	350	196

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

(1) Orders are from the published firm-order backlogs of Airbus and Boeing. For Rolls-Royce BR725, orders represent purchase orders received from OEMs and are not reflective of OEM sales backlog; orders reported are total block orders, including delivered units.

Current block deliveries are as follows:

Model	Current Block Deliveries
B787	379
A350 XWB	50
Rolls-Royce BR725	173

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

6. Property, Plant and Equipment, net

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

	October 1, 2015	December 31, 2014
Land	$16.7	$17.1
Buildings (including improvements)	581.5	572.9
Machinery and equipment	1,183.7	1,125.5
Tooling	906.7	841.2
Capitalized software	218.9	208.3
Construction-in-progress	216.4	138.3
Total	3,123.9	2,903.3
Less: accumulated depreciation	(1,249.0)	(1,119.7)
Property, plant and equipment, net	$1,874.9	$1,783.6

Interest costs associated with construction-in-progress are capitalized until the assets are completed and ready for use. Capitalized interest was $1.4 and $1.0 for the three months ended October 1, 2015 and October 2, 2014, respectively, and $3.8 and $2.8 for the nine months ended October 1, 2015 and October 2, 2014, respectively. Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs of $33.6 and $22.9 for the three months ended October 1, 2015 and October 2, 2014, respectively, and $96.6 and $74.0 for the nine months ended October 1, 2015 and October 2, 2014, respectively.

The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or to create and implement internal-use computer software. Depreciation expense related to capitalized software was

$4.2 and $4.9 for the three months ended October 1, 2015 and October 2, 2014, respectively, and $12.7 and $13.4 for the nine months ended October 1, 2015 and October 2, 2014, respectively.

The Company reviews capital and amortizing intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluated its long-lived assets at its locations and determined no impairment was necessary as of October 1, 2015.

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

7. Other Assets

Other assets are summarized as follows:

	October 1, 2015	December 31, 2014
Intangible assets		
Patents	$1.9	$1.9
Favorable leasehold interests	6.3	6.3
Total intangible assets	8.2	8.2
Less: Accumulated amortization - patents	(1.6)	(1.5)
Accumulated amortization - favorable leasehold interest	(3.7)	(3.5)
Intangible assets, net	2.9	3.2
Deferred financing		
Deferred financing costs	105.8	101.2
Less: Accumulated amortization - deferred financing costs(1)	(85.4)	(79.5)
Deferred financing costs, net	20.4	21.7
Other		
Goodwill - Europe	2.8	2.9
Equity in net assets of affiliates	2.8	1.9
Customer supply agreement(2)	31.8	34.3
Restricted Cash	19.9	19.9
Deferred Tax Asset - non-current(3)	128.2	—
Other	41.6	39.7
Total	$250.4	$123.6

(1) Includes charges related to debt extinguishment of $3.1 and $15.1 for the periods ended October 1, 2015 and December 31, 2014, respectively.

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

(3) For further detail see Note 15, Income Taxes.

8. Advance Payments and Deferred Revenue/Credits

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

On April 8, 2014, the Company signed a memorandum of agreement with Boeing which suspended advance repayments related to the B787 program for a period of twelve months beginning April 1, 2014. Repayment recommenced on April 1, 2015 and any repayments which otherwise would have become due during such twelve-month period will be offset against the purchase price for shipset 1,001 and beyond.

Deferred revenue/credits. Deferred revenue/credits generally consist of nonrefundable amounts received in advance of revenue being earned for specific contractual deliverables or amounts that could be required to be refunded if certain performance obligations or conditions are not met. These payments are classified as deferred revenue/credits on the Company's Condensed Consolidated Balance Sheet when received and recognized as revenue as the production units are delivered or performance obligations or conditions are met.

Spirit AeroSystems Holdings, Inc.
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Advance payments and deferred revenue/credits are summarized by platform as follows:

	October 1, 2015	December 31, 2014
B787	$828.2	$581.1
Boeing — All other platforms	14.4	16.4
A350 XWB	200.3	224.3
Airbus — All other platforms	3.2	4.1
Other	16.9	24.0
Total advance payments and deferred revenue/credits	$1,063.0	$849.9

9. Government Grants

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

Deferred grant income liability, net consists of the following:

Balance, December 31, 2014	$106.3
Grant liability amortized	(1.3)
Grant income recognized	(6.2)
Exchange rate	(1.0)
Total liability related to deferred grant income, October 1, 2015	$97.8

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

Balance, December 31, 2014	$113.2
Amortization	(3.7)
Exchange rate	(0.9)
Total asset value related to deferred grant income, October 1, 2015	$108.6

10. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements October 1, 2015			At October 1, 2015 using		
Description	Total Carrying Amount in Balance Sheet	Assets Measured at Fair Value	Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	$100.1	$100.1	$ —	$100.1	$—	$ —

	Fair Value Measurements December 31, 2014			At December 31, 2014 using		
Description	Total Carrying Amount in Balance Sheet	Assets Measured at Fair Value	Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	$88.3	$88.3	$ —	$88.3	$—	$ —
Interest Rate Swaps	$(1.1)	$—	$ (1.1)	$—	$(1.1)	$ —

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

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

	October 1, 2015			December 31, 2014		
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
Senior secured term loan A (including current portion)	$514.9	$510.4	(2)	$—	$—	
Senior secured term loan B (including current portion)	—	—	(1)	534.4	527.1	(1)
Senior unsecured notes due 2020	300.0	312.8	(1)	300.0	320.3	(1)
Senior unsecured notes due 2022	299.5	304.0	(1)	299.5	304.7	(1)
Malaysian loan	3.7	3.2	(2)	6.7	5.8	(2)
Total	$1,118.1	$1,130.4		$1,140.6	$1,157.9	

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

11. Derivative and Hedging Activities

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

The Company has historically entered into derivative instruments covered by master netting arrangements whereby, in the event of a default as defined by the senior secured credit facility or termination event, the non-defaulting party has the right to offset any amounts payable against any obligation of the defaulting party under the same counterparty agreement. See Note 12, Debt for discussion of the Company's senior secured credit facilities.

Interest Rate Swaps

During the first quarter of 2015, as a result of Amendment No. 5 to its Credit Agreement, the Company unwound its interest rate swap agreements which had a notional amount of $250.0. The company recognized a loss of $0.4 as a result of settling these interest rate swaps. This loss on derivatives not designated as hedging instruments is included in Other Expense on the Consolidated Statement of Operations for the nine months ended October 1, 2015. In total, the Company paid $2.0 as a result of the settlement of the interest rate swap agreements.

As of October 1, 2015, the Company had no outstanding interest rate swap agreements. At December 31, 2014, the fair value of interest rate swaps designated as hedging instruments was a liability of $1.1.

The impact on earnings from interest rate swaps that were no longer effective was a loss of $1.6 and $0.1 for the nine months ended October 1, 2015 and October 2, 2014, respectively. The amount reclassified from accumulated other comprehensive income into income from interest rate swaps that were effective was a loss of $0.5 and $0.1 for the nine months ended October 1, 2015 and October 2, 2014, respectively. There were no gains or losses recognized in income from interest rate swaps during the third quarter of 2015 or 2014.

12. Debt

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

	October 1, 2015		December 31, 2014	
	Current	Noncurrent	Current	Noncurrent
Senior secured term loan A	$26.8	$488.1	$—	$—
Senior secured term loan B	—	—	5.5	528.9
Senior notes due 2020	—	300.0	—	300.0

Senior notes due 2022	—	299.5	—	299.5
Malaysian term loan	2.1	1.6	3.0	3.7
Present value of capital lease obligations	0.7	8.8	0.9	12.0
Other	6.1	7.0	—	—
Total	$35.7	$1,105.0	$9.4	$1,144.1

Senior Secured Credit Facilities

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

Substantially all of Spirit's assets, including inventory and property, plant and equipment, continue to be pledged as collateral for both the Term Loan and the revolving credit facility. As of October 1, 2015, the outstanding balance of the Term Loan was $514.9. As a result of extinguishment of the Term Loan B during the first quarter of 2015, the Company recognized a loss on extinguishment of debt of $3.6. Of this total charge, $3.1 is reflected within amortization of deferred financing fees and $0.5 is reflected within amortization expense on the Condensed Consolidated Statement of Cash Flows for the nine months ended October 1, 2015.

Senior Notes

In November 2010, the Company issued $300.0 in aggregate principal amount of 6.75% Senior Notes due December 15, 2020 (the “2020 Notes”), with interest payable, in cash in arrears, on June 15 and December 15 of each year, beginning June 15, 2011. The 2020 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the Company and Spirit’s existing and future domestic subsidiaries that guarantee Spirit’s obligations under Spirit’s senior secured credit facility. The carrying value of the 2020 Notes was $300.0 as of October 1, 2015.

In March 2014, the Company issued $300.0 in aggregate principal amount of 5.25% Senior Notes due March 15, 2022 (the "2022 Notes") with interest payable, in cash in arrears, on March 15 and September 15 of each year, beginning September 15, 2014. The 2022 Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by the Company and its existing and future domestic subsidiaries that guarantee Spirit's obligations under its amended senior secured credit facility. The carrying value of the 2022 Notes was $299.5 as of October 1, 2015.

Malaysian Facility Agreement

The Company’s wholly-owned subsidiary, Spirit AeroSystems Malaysia SDN BHD is party to a Facility Agreement for a term loan facility with the Malaysian Export-Import Bank for Ringgit Malaysia (“RM”) 69.2 (approximately USD $20.0 equivalent) (the “Malaysia Facility”). The Malaysia Facility requires quarterly principal repayments of RM3.3

(approximately USD $1.0 equivalent) from September 2011 through May 2017 and quarterly interest payments payable at a fixed interest rate of 3.50% per annum. As of October 1, 2015, the Malaysia Facility loan balance was $3.7.

French Factory Capital Lease Agreement

The Company's indirect wholly-owned subsidiary, Spirit AeroSystems France SARL is party to a capital lease agreement for €9.0 (approximately USD $13.1 equivalent) with a subsidiary of BNP Paribas Bank. Lease payments under the capital lease agreement are variable, subject to the three-month Euribor rate plus 2.20%. Lease payments are due quarterly through April 2025. As of October 1, 2015, the Saint-Nazaire capital lease balance was $7.6.

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

Nashville Design Center Capital Lease Agreement

During the second quarter of 2015, the Company terminated its capital lease agreement for a portion of an office building in Nashville, Tennessee resulting in the capital lease balance at October 1, 2015 of zero.

13. Pension and Other Post-Retirement Benefits

	Defined Benefit Plans			
	For the Three Months Ended		For the Nine Months Ended	
Components of Net Periodic Pension Income	October 1, 2015	October 2, 2014	October 1, 2015	October 2, 2014
Service cost	$0.2	$—	$0.7	$—
Interest cost	12.0	12.4	35.8	37.2
Expected return on plan assets	(20.7)	(20.4)	(62.2)	(61.4)
Amortization of net loss	0.8	—	2.7	—
Net periodic pension income	$(7.7)	$(8.0)	$(23.0)	$(24.2)

	Other Benefits			
	For the Three Months Ended		For the Nine Months Ended	
Components of Other Benefit Expense	October 1, 2015	October 2, 2014	October 1, 2015	October 2, 2014
Service cost	$0.6	$0.6	$1.7	$1.7
Interest cost	0.5	0.6	1.6	2.0
Special termination benefits	—	0.4	—	1.3
Net periodic other benefit expense	$1.1	$1.6	$3.3	$5.0

Employer Contributions

The Company expects to contribute zero dollars to the U.S. qualified pension plan and a combined total of approximately $5.7 for the Supplemental Executive Retirement Plan (SERP) and post-retirement medical plans in 2015. The Company's projected contributions to the U.K. pension plan for 2015 are zero. The entire amount contributed can vary based on exchange rate fluctuations.

14. Stock Compensation

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

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

The Omnibus Plan provides for a Long-Term Incentive Award ("LTIA") for the 2014 plan year and forward. The LTIAs provide both time and performance based incentives.

- 75% of the LTIA is service-based restricted stock that will vest in equal installments over a three-year period.
- 25% of the LTIA is performance-based restricted stock that will vest in the third year contingent upon total shareholder return ("TSR") compared to the Company’s peers.

For the three months ended October 1, 2015, the Company recognized a net total of $7.0 of stock compensation expense, which is net of stock forfeitures, and includes expense for the Prior Plans and the LTIA under the Omnibus Plan. For the three months ended October 2, 2014, the Company recognized $4.7 of stock compensation expense, net of forfeitures. The entire stock compensation expense of $7.0 and $4.7, for the three months ended October 1, 2015 and October 2, 2014, respectively, was recorded as selling, general and administrative.

For the nine months ended October 1, 2015, the Company recognized a net total of $19.0 of stock compensation expense, which is net of stock forfeitures, and includes expense for the Prior Plans and the LTIA under the Omnibus Plan. For the nine months ended October 2, 2014, the Company recognized $12.7 of stock compensation expense, net of forfeitures. The entire stock compensation expense of $19.0 and $12.7, for the nine months ended October 1, 2015 and October 2, 2014, respectively, was recorded as selling, general and administrative.

During the third quarter ended October 1, 2015, 37,655 shares of class A common stock with an aggregate grant date fair value of $2.1 were granted under the service-based portion of the Company's LTIA under the Omnibus Plan. In addition, 1,435 shares of class A common stock with an aggregate grant date fair value of $0.1 were granted under the performance-based portion of the Company's LTIA under the Omnibus Plan and such shares are eligible to vest on the three-year anniversary of the grant date depending on total shareholder return compared to the Company's peers. Additionally, 19,751 shares of class A common stock with an aggregate grant date fair value of $0.6 awarded under the Company's LTIP vested during the quarter ended October 1, 2015.

During the nine months ended October 1, 2015, 532,819 shares of class A common stock with an aggregate grant date fair value of $26.5 were granted under the service-based portion of the Company's LTIA under the Omnibus Plan. In addition, 96,423 shares of class A common stock with an aggregate grant date fair value of $6.2 were granted under the performance-based portion of the Company's LTIA under the Omnibus Plan and such shares are eligible to vest on the three-year anniversary of the grant date depending on total shareholder return compared to the Company's peers. Additionally, 878,706 shares of class A common stock with an aggregate grant date fair value of $21.6 awarded under the Company's LTIP vested during the nine months ended October 1, 2015.

In the third quarter ended October 1, 2015, 2,987 shares of class A common stock with an aggregate grant date fair value of $0.2 were granted as nonemployee director awards under the Omnibus Plan and such shares will vest on the one-year anniversary of the grant date.

In the nine months ended October 1, 2015, 20,940 shares of class A common stock with an aggregate grant date fair value of $1.1 were granted as nonemployee director awards under the Omnibus Plan and such shares will vest on the one-year anniversary of the grant date. Additionally, 22,383 shares of class A common stock with an aggregate grant date fair value of $0.7 awarded under the Director Stock Plan vested during the nine months ended October 1, 2015.

15. Income Taxes

The process for calculating the Company's income tax expense involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes that are recorded as deferred tax assets and liabilities. Deferred tax assets are periodically evaluated to determine their recoverability. The total net deferred tax asset at October 1, 2015 and December 31, 2014 was $196.8 and ($5.0), respectively. The difference is primarily due to the net deferred tax asset valuation allowance decrease.

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

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

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, management assesses all available positive and negative evidence. This evidence includes, but is not limited to, prior earnings history, expected future earnings, carry-back and carry-forward periods and the feasibility of ongoing tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. The weight given to the positive and negative evidence is commensurate with the extent the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses.

Based on an evaluation of both the positive and negative evidence available that could impact the future realization of deferred tax assets, management determined that it was appropriate to release nearly all of the remaining valuation allowance against its net U.S. deferred tax assets that remained from 2013 as of October 1, 2015.

The net valuation deferred tax asset allowance was decreased by $233.5 for the nine months ended October 1, 2015. The reduction reflects the realization of certain deferred tax assets within the Company’s annualized method of accounting for the portion of deferred tax assets realized through the nine months ended October 1, 2015 with the remainder reflected as a discrete adjustment to the company’s income tax expense.

The Company's income tax expense for 2015 does not reflect any benefit of the U.S. Federal Research Tax Credit attributable to 2015 as the legislation has not been extended beyond December, 2014. Should the legislation be extended during the year, the Company may record additional tax benefits for 2015 Research Tax Credit.

The (5.7%) effective tax rate for the nine months ended October 1, 2015 differs from the 16.1% effective tax rate for the same period of 2014 primarily due to the U.S. net deferred tax asset valuation allowance decrease in 2015.

The Company is participating in the Internal Revenue Service’s Compliance Assurance Process (“CAP”) program for its 2014 tax year. Additionally, the Company has been selected for the Compliance Maintenance phase of the CAP program for its 2015 tax year. The CAP program’s objective is to resolve issues in a timely, contemporaneous manner and eliminate the need for a lengthy post-filing examination. The HM Revenue & Customs completed its examination of the Company's 2009-2011 U.K. income tax returns and the statute of limitations has lapsed on the 2012 tax return. The Directorate General of Public Finance is currently examining the Company's 2011-2013 France income tax returns. While a change could result from the ongoing examinations, the Company expects no material change in its recorded unrecognized tax liability in the next 12 months.

The Company had $78.5 and $248.9 of income tax receivable as of October 1, 2015 and December 31, 2014, respectively, which is reflected within other current assets on the Consolidated Balance Sheet.

16. Equity

Earnings per Share Calculation

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

Subject to preferences that may apply to shares of preferred stock outstanding at the time, holders of the Company’s outstanding common stock are entitled to any dividend declared by the Board of Directors out of funds legally available for this purpose. The Company did not pay any cash dividends in the nine months ended October 1, 2015. The Company's dividend policy is dependent on the requirements of financing agreements to which the Company is party to. Any future determination to pay dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other factors, the Company's results of operations, financial condition, capital requirements and contractual restrictions. The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders’ equity. As of October 1, 2015, no treasury shares have been reissued or retired.

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

	For the Three Months Ended					
	October 1, 2015			October 2, 2014		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Income available to common shareholders	$313.3	139.3	$2.25	$167.5	138.6	$1.21
Income allocated to participating securities	0.3	0.1		0.5	0.4	
Net income	$313.6			$168.0		
Diluted potential common shares		0.8			1.0	
Diluted EPS						
Net income	$313.6	140.2	$2.24	$168.0	140.0	$1.20

	For the Nine Months Ended					
	October 1, 2015			October 2, 2014		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Income available to common shareholders	$649.8	139.1	$4.67	$462.5	140.4	$3.30
Income allocated to participating securities	0.6	0.2		2.5	0.8	
Net income	$650.4			$465.0		
Diluted potential common shares		0.8			1.0	
Diluted EPS						
Net income	$650.4	140.1	$4.64	$465.0	142.2	$3.27

The balance of outstanding common shares presented in the Condensed Consolidated Balance Sheets was 141.2 million at both October 1, 2015 and October 2, 2014. Included in the outstanding common shares were 1.8 million and 2.4 million of issued but unvested shares at October 1, 2015 and October 2, 2014, respectively, which are excluded from the basic EPS calculation.

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is summarized by component as follows:

	As of October 1, 2015	As of December 31, 2014
Pension	$(132.5)	$(130.0)
Interest rate swaps	—	(1.1)
SERP/Retiree medical	2.1	2.1
Foreign currency impact on long term intercompany loan	(7.1)	(5.7)
Currency translation adjustment	(27.3)	(19.1)
Total accumulated other comprehensive loss	$(164.8)	$(153.8)

Noncontrolling Interest

The balance of noncontrolling interest presented in the consolidated balance sheet as of October 1, 2015 remained unchanged from December 31, 2014 at $0.5.

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Repurchases of Common Stock

In July 2015, our Board of Directors authorized a share repurchase program for the purchase of up to $350.0 of the Company's common stock. Repurchases may be made intermittently through December 31, 2017.

During the nine months ended October 1, 2015, the Company repurchased 0.9 million shares of its class A common stock for $45.9. The Company had remaining authorization from the Board of Directors for a total of $304.1 in future common share repurchases under its share repurchase program as of October 1, 2015.

17. Related Party Transactions

In August 2014, in a secondary offering of the Company's class A common stock, Onex sold its remaining shares of the Company's common stock and no longer holds any investment in the Company. For the three and nine months ended October 2, 2014, when Onex was a related party, the Company paid zero and $0.3, respectively, to a subsidiary of Onex for services rendered.

In December 2014, Onex acquired approximately 40.0% interest in Advanced Integration Technologies ("AIT"), a provider of automation and tooling, maintenance services and aircraft components to the aerospace industry and a supplier to the Company. For the three and nine months ended October 1, 2015, sales from AIT to the Company and its subsidiaries were $2.1 and $12.5, respectively. The amounts owed to AIT and recorded as accrued liabilities were $2.3 and $3.9 as of October 1, 2015 and December 31, 2014, respectively. Tawfiq Popatia, a former director of Spirit Holdings, is a Managing Director of Onex Corporation.

18. Commitments, Contingencies and Guarantees

Litigation

From time to time the Company is subject to, and is presently involved in, litigation or other legal proceedings arising in the ordinary course of business. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the meritorious legal defenses available, it is the opinion of the Company that none of these items, when finally resolved, will have a material adverse effect on the Company's long-term financial position or liquidity. The Company had outstanding obligations in respect of litigation or other legal proceedings of $74.2 and $96.3 as of October 1, 2015 and December 31, 2014, respectively. However, an unexpected adverse resolution of one or more of these items could have a material adverse effect on the results of operations and cash flows in a particular quarter or fiscal year.

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

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

$90.0, subject to an appeals period scheduled to expire on October 28, 2015. In addition to the amounts related to the UAW Arbitration and Harkness Class Action, Boeing seeks indemnification for more than $10.0 in attorneys' fees it alleges it expended to defend the UAW Arbitration and Harkness Class Action. On December 24, 2014, the parties filed a joint stipulation extending Spirit's deadline to move, answer or otherwise respond to Boeing's complaint until February 12, 2015. Spirit timely answered the complaint. Spirit intends to defend vigorously against the allegations in this lawsuit. Management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

On June 3, 2013, a putative class action lawsuit was commenced against the Company, Jeffrey L. Turner, and Philip D. Anderson in the U.S. District Court for the District of Kansas. The court-appointed lead plaintiffs - two pension funds that claim to represent a class of investors in the Company's stock - filed an amended complaint on April 7, 2014, naming as additional defendants Spirit's Vice President of the B787 Program Terry J. George and former Senior Vice President of Oklahoma Operations Alexander K. Kummant. The amended complaint alleges that defendants engaged in a scheme to artificially inflate the market price of the Company's stock by making false statements and omissions about certain programs' performance and costs. It contends that the alleged scheme was revealed by the Company's accrual of $590.0 in forward loss charges on October 25, 2012. The lead plaintiffs seek certification of a class of all persons other than defendants who purchased Holdings securities between May 5, 2011 and October 24, 2012, and seek an unspecified amount of damages on behalf of the putative class. In June 2014, the defendants filed a motion to dismiss the claims set forth in the amended complaint. On May 14, 2015, the District Court granted Spirit's motion to dismiss and dismissed the matter with prejudice. The plaintiffs filed a notice of appeal on June 11, 2015, which is pending. The Company intends to vigorously defend against these allegations, and management believes the resolution of this matter will not materially affect the Company's financial position, results of operations or liquidity.

Guarantees

Outstanding guarantees were $20.5 and $21.6 at October 1, 2015 and December 31, 2014, respectively.

Restricted Cash

The Company was required to maintain $19.9 of restricted cash as of both October 1, 2015 and December 31, 2014 related to certain collateral requirements for obligations under its workers' compensation programs. These collateral requirements were previously supported by letters of credit that were replaced in October 2014. Restricted cash is included in "Other assets" in the Company's Condensed Consolidated Balance Sheets.

Indemnification

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

Service and Product Warranties and Extraordinary Rework

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

The following is a roll forward of the service warranty and extraordinary rework balance at October 1, 2015:

Balance, December 31, 2014	$119.9
Charges to costs and expenses	35.4
Payouts	(4.9)
Exchange rate	2.7
Balance, October 1, 2015	$153.1

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

19. Other Expense, Net

Other expense, net is summarized as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2015	October 2, 2014	October 1, 2015	October 2, 2014
KDFA bond	$0.8	$0.7	$2.9	$2.5
Rental and miscellaneous (expense) income[(1)]	(0.2)	0.3	(2.1)	0.4
Interest income	0.7	0.2	1.4	0.4
Foreign currency loss	(3.8)	(9.6)	(3.0)	(4.5)
Total	$(2.5)	$(8.4)	$(0.8)	$(1.2)

(1) Includes $2.0 of losses for the nine months ended October 1, 2015 related to the settlement of interest rate swap agreements as further detailed in Note 11, Derivative and Hedging Activities.

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

20. Segment Information

The Company operates in three principal segments: Fuselage Systems, Propulsion Systems and Wing Systems. Substantially all revenues in the three principal segments are from Boeing, with the exception of Wing Systems, which includes revenues from Airbus and other customers. Approximately 95% of the Company’s net revenues for the nine months ended October 1, 2015 came from the Company's two largest customers, Boeing and Airbus. All other activities fall within the All Other segment, principally made up of sundry sales of miscellaneous services, tooling contracts and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita, Kansas. The Company's primary profitability measure to review a segment’s operating performance is segment operating income before corporate selling, general and administrative expenses, research and development and unallocated cost of sales.

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

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

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

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

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

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

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

The following table shows segment revenues and operating income for the three and nine months ended October 1, 2015 and October 2, 2014:

	Three Months Ended		Nine Months Ended	
	October 1, 2015	October 2, 2014	October 1, 2015	October 2, 2014
Segment Revenues				
Fuselage Systems	$819.8	$804.0	$2,624.2	$2,567.3
Propulsion Systems	429.5	441.8	1,316.0	1,352.5
Wing Systems(1)	341.2	446.2	1,085.4	1,298.7
All Other	3.1	1.0	8.9	6.3
	$1,593.6	$1,693.0	$5,034.5	$5,224.8
Segment Operating Income (Loss)				
Fuselage Systems	$130.7	$142.4	$463.2	$416.6
Propulsion Systems	95.1	81.8	279.0	248.2
Wing Systems	45.6	63.1	140.9	184.1
All Other	0.2	(0.3)	1.3	—
	271.6	287.0	884.4	848.9
Corporate SG&A	(54.5)	(50.0)	(159.9)	(164.9)
Research and development	(6.5)	(8.7)	(20.2)	(21.8)
Unallocated cost of sales (2)	(19.0)	(12.0)	(47.1)	(35.3)
Total operating income	$191.6	$216.3	$657.2	$626.9

(1) In December 2014, Spirit divested the Gulfstream G280 and G650 wing work packages to Triumph.
(2) Includes $11.8 of warranty reserve for each of the three month periods ended October 1, 2015 and October 2, 2014, and $34.2 and $34.4 for the nine months ended October 1, 2015 and October 2, 2014, respectively.

21. Condensed Consolidating Financial Information

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

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

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

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

Condensed Consolidating Statements of Operations
For the Three Months Ended October 1, 2015

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net revenues	$—	$1,457.7	$63.0	$ 175.1	$ (102.2)	$1,593.6
Operating costs and expenses						
Cost of sales	—	1,227.7	60.3	155.2	(102.2)	1,341.0
Selling, general and administrative	1.3	47.8	0.7	4.7	—	54.5
Research and development	—	6.0	—	0.5	—	6.5
Total operating costs and expenses	1.3	1,281.5	61.0	160.4	(102.2)	1,402.0
Operating (loss) income	(1.3)	176.2	2.0	14.7	—	191.6
Interest expense and financing fee amortization	—	(11.6)	—	(1.8)	1.7	(11.7)
Other income (expense), net	—	2.8	—	(3.6)	(1.7)	(2.5)
(Loss) income before income taxes and equity in net income of affiliate and subsidiaries	(1.3)	167.4	2.0	9.3	—	177.4
Income tax (provision) benefit	(1.5)	139.9	(0.8)	(1.7)	—	135.9
(Loss) income before equity in net income of affiliate and subsidiaries	(2.8)	307.3	1.2	7.6	—	313.3
Equity in net income of affiliate	0.3	—	—	0.3	(0.3)	0.3
Equity in net income of subsidiaries	316.1	8.7	—	—	(324.8)	—
Net income	313.6	316.0	1.2	7.9	(325.1)	313.6
Other comprehensive loss	(11.4)	(11.4)	—	(10.7)	22.1	(11.4)
Comprehensive income (loss)	$302.2	$304.6	$1.2	$ (2.8)	$ (303.0)	$302.2

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Spirit AeroSystems Holdings, Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)
($, €, and RM in millions other than per share amounts)

Condensed Consolidating Statements of Operations
For the Three Months Ended October 2, 2014

	Holdings	Spirit	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net revenues	$—	$1,539.2	$76.6	$ 213.2	$(136.0)	$1,693.0
Operating costs and expenses						
Cost of sales	—	1,296.7	74.3	183.0	(136.0)	1,418.0
Selling, general and administrative	1.3	44.1	0.5	4.1	—	50.0
Research and development	—	8.0	—	0.7	—	8.7
Total operating costs and expenses	1.3	1,348.8	74.8	187.8		