Spirit AeroSystems Holdings, Inc.
Form 10-Q
October 31, 2018
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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 September 27, 2018
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

Delaware	20-2436320
(State 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	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 x

As of October 24, 2018, the registrant had 105,997,678 shares of class A common stock, $0.01 par value per share, outstanding.

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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		For the Nine Months Ended	
	September 27, 2018	September 28, 2017	September 27, 2018	September 28, 2017
	($ in millions, except per share data)			
Revenue	$1,813.7	$ 1,748.2	$5,386.7	$ 5,268.4
Operating costs and expenses				
Cost of sales	1,543.1	1,486.6	4,601.3	4,762.8
Selling, general and administrative	37.3	49.8	154.5	149.9
Impact of severe weather event	—	—	—	19.9
Research and development	10.8	9.5	31.3	21.2
Total operating costs and expenses	1,591.2	1,545.9	4,787.1	4,953.8
Operating income	222.5	202.3	599.6	314.6
Interest expense and financing fee amortization	(24.2)	(10.4)	(60.3)	(30.1)
Other income (expense), net	7.4	11.0	(0.8)	32.2
Income before income taxes and equity in net income of affiliate	205.7	202.9	538.5	316.7
Income tax provision	(36.9)	(55.9)	(99.7)	(84.9)
Income before equity in net income of affiliate	168.8	147.0	438.8	231.8
Equity in net income of affiliate	—	0.2	0.6	0.3
Net income	$168.8	$ 147.2	$439.4	$ 232.1
Earnings per share				
Basic	$1.61	$ 1.27	$4.02	$ 1.97
Diluted	$1.59	$ 1.26	$3.98	$ 1.95
Dividends declared per common share	$0.12	$ 0.10	$0.34	$ 0.30

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		For the Nine Months Ended	
	September 27, 2018	September 28, 2017	September 27, 2018	September 28, 2017
	($ in millions)			
Net income	$168.8	$ 147.2	$439.4	$ 232.1
Changes in other comprehensive income, net of tax:				
Pension, SERP, and Retiree medical adjustments, net of tax effect of $0.1 and $0.2 for the three months ended, respectively, and $0.5 and $1.2 for the nine months ended, respectively	(0.6)	(0.6)	(1.8)	(1.5)
Unrealized foreign exchange loss on intercompany loan, net of tax effect of zero and ($0.4) for three months ended, respectively, and $0.3 and ($1.0) for the nine months ended, respectively	—	1.3	(1.3)	3.9
Foreign currency translation adjustments	—	13.1	(13.4)	31.2
Total other comprehensive (loss) income	(0.6)	13.8	(16.5)	33.6
Total comprehensive income	$168.2	$ 161.0	$422.9	$ 265.7

See notes to condensed consolidated financial statements (unaudited)

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Spirit AeroSystems Holdings, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

	September 27, 2018	December 31, 2017
	($ in millions)	
Assets		
Cash and cash equivalents	$683.4	$ 423.3
Restricted cash	0.3	2.2
Accounts receivable, net	685.1	722.2
Contract assets, short-term	513.2	—
Inventory, net	931.0	1,449.9
Other current assets	35.4	53.5
Total current assets	2,848.4	2,651.1
Property, plant and equipment, net	2,123.0	2,105.3
Contract assets, long-term	53.5	—
Pension assets	372.3	347.1
Other assets	284.9	164.3
Total assets	$5,682.1	$ 5,267.8
Liabilities		
Accounts payable	$882.4	$ 693.1
Accrued expenses	354.0	269.3
Profit sharing	42.0	109.5
Current portion of long-term debt	25.0	31.1
Advance payments, short-term	112.7	100.0
Contract liabilities, short-term	153.5	—
Forward loss provision, short-term	147.3	—
Deferred revenue and other deferred credits, short-term	7.1	64.6
Deferred grant income liability - current	19.4	21.6
Other current liabilities	68.8	331.8
Total current liabilities	1,812.2	1,621.0
Long-term debt	1,869.7	1,119.9
Advance payments, long-term	146.4	231.7
Pension/OPEB obligation	38.4	40.8
Contract liabilities, long-term	353.8	—
Forward loss provision, long-term	72.6	—
Deferred revenue and other deferred credits	26.8	161.0
Deferred grant income liability - non-current	30.7	39.3
Other liabilities	215.1	252.6
Stockholders' 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, 106,493,926 and 114,447,605 shares issued and outstanding, respectively	1.1	1.1
Additional paid-in capital	983.4	1,086.9
Accumulated other comprehensive loss	(145.0)	(128.5)
Retained earnings	2,548.7	2,422.4
Treasury stock, at cost (39,624,996 and 31,467,709 shares, respectively)	(2,272.3)	(1,580.9)
Total stockholders' equity	1,115.9	1,801.0
Noncontrolling interest	0.5	0.5

Total equity	1,116.4	1,801.5
Total liabilities and equity	$5,682.1	$ 5,267.8

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	
	September 27, 2018	September 28, 2017
	($ in millions)	
Operating activities		
Net income	$439.4	$ 232.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	171.3	159.0
Amortization expense	0.4	0.2
Amortization of deferred financing fees	17.3	2.5
Accretion of customer supply agreement	3.0	1.5
Employee stock compensation expense	19.9	15.9
Loss from derivative instruments	3.4	1.1
Loss (gain) from foreign currency transactions	0.8	(5.9)
Loss on impairment and disposition of assets	1.7	7.9
Deferred taxes	(37.8)	29.0
Pension and other post-retirement benefits, net	(25.1)	(32.5)
Grant liability amortization	(15.9)	(13.9)
Equity in net income of affiliate	(0.6)	(0.3)
Forward loss provision	(134.0)	—
Changes in assets and liabilities		
Accounts receivable	(122.3)	(177.8)
Contract assets	(50.4)	—
Inventory, net	26.7	433.9
Accounts payable and accrued liabilities	279.9	212.8
Profit sharing/deferred compensation	(67.4)	(35.9)
Advance payments	(73.2)	(154.7)
Income taxes receivable/payable	(28.3)	(36.0)
Contract liabilities	188.0	—
Deferred revenue and other deferred credits	(1.1)	(222.8)
Other	(28.3)	208.5
Net cash provided by operating activities	567.4	624.6
Investing activities		
Purchase of property, plant and equipment	(170.9)	(138.7)
Other	2.8	0.4
Net cash used in investing activities	(168.1)	(138.3)
Financing activities		
Proceeds from the issuance of bonds	1,300.0	—
Principal payments of debt	(4.9)	(2.3)
Payments on term loan	(256.3)	(12.5)
Payments on bonds	(300.0)	—
Taxes paid related to net share settlement awards	(15.5)	(13.8)
Debt issuance and financing costs	(23.2)	(0.9)
Proceeds from financing under the New Markets Tax Credit Program	—	7.6
Purchase of treasury stock	(805.8)	(402.1)

Dividends Paid	(35.4)	(35.7)
Net cash used in financing activities	(141.1)	(459.7)
Effect of exchange rate changes on cash and cash equivalents	0.2	5.6
Net increase in cash, cash equivalents, and restricted cash for the period	258.4	32.2
Cash, cash equivalents, and restricted cash, beginning of period	445.5	717.6
Cash, cash equivalents, and restricted cash, end of period	$703.9	$ 749.8

See notes to condensed consolidated financial statements (unaudited)

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1. Organization and Basis of Interim Presentation

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

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. Since 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. All intercompany balances and transactions have been eliminated in consolidation.

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. The U.K. and Malaysian subsidiaries use the British pound as their functional currency. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments and elimination of intercompany balances and transactions) considered necessary to fairly present the results of operations for the interim period. The results of operations for the nine months ended September 27, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Certain reclassifications have been made to the prior year financial statements and notes to conform to the 2018 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 9, 2018 (the “2017 Form 10-K”).

2. Adoption of New Accounting Standards

Adoption of New Revenue Standard

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

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

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

a.Revenue from Contracts with Customers

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

b.Deferred Production Costs

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

c.Contract Assets and Contract Liabilities

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

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

d.Contract Costs

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

e. Practical expedients

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

The following tables summarize the impacts of adopting ASC Topic 606 on the Company’s consolidated financial statements for the three and nine month periods ended September 27, 2018.

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

	For the Three Months Ended			For the Nine Months Ended		
	As Reported	Impact of Adoption of	As Adjusted	As Reported	Impact of Adoption of	As Adjusted
	September 27, 2018	ASC Topic 606	September 27, 2018	September 27, 2018	ASC Topic 606	September 27, 2018
Revenue	$1,813.7	$ 15.9	$ 1,829.6	$5,386.7	$ 106.6	$5,493.3
Cost of sales	1,543.1	68.2	1,611.3	4,601.3	207.7	4,809.0
Income tax provision	(36.9)	10.6	(26.3)	(99.7)	20.9	(78.8)
Net income	168.8	(41.7)	127.1	439.4	(80.2)	359.2
Earnings per share						
Basic	$1.61	$ (0.40)	$ 1.21	$4.02	$ (0.73)	$3.29
Diluted	$1.59	$ (0.39)	$ 1.20	$3.98	$ (0.72)	$3.26

	As Reported	Impact of Adoption of	As Adjusted
	September 27, 2018	ASC Topic 606	September 27, 2018
Assets			
Accounts receivable, net	$ 685.1	$ 131.0	$ 816.1
Contract assets, short-term	513.2	(513.2)	—
Inventory, net	931.0	445.2	1,376.2
Other current assets	35.4	36.1	71.5
Contract assets, long-term	53.5	(53.5)	—
Other assets	284.9	(78.5)	206.4
Total assets	5,682.1	(32.9)	5,649.2
Liabilities			
Accrued expenses	354.0	(7.1)	346.9
Contract liabilities, short-term	153.5	(153.5)	—
Forward loss provision, short-term	147.3	(147.3)	—
Deferred revenue and other deferred credits, short-term	7.1	144.9	152.0
Other current liabilities	68.8	290.8	359.6
Contract liabilities, long-term	353.8	(353.8)	—
Forward loss provision, long-term	72.6	(72.6)	—
Deferred revenue and other deferred credits	26.8	71.5	98.3
Stockholders' Equity			
Accumulated other comprehensive loss	(145.0)	(2.2)	(147.2)
Retained earnings	2,548.7	196.4	2,745.1
Total liabilities and equity	5,682.1	(32.9)	5,649.2

Adoption of ASU 2017-07

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

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($ in millions other than per share amounts)

presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The Company adopted the requirements of ASU 2017-07 on January 1, 2018, using the retrospective transition method.

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

	For the Three Months Ended			For the Nine Months Ended		
	As Reported	Impact of Adoption of	As Adjusted	As Reported	Impact of Adoption of	As Adjusted
	September 28, 2017	ASU 2017-07	September 28, 2017	September 28, 2017	ASU 2017-07	September 28, 2017
Cost of sales	$1,478.5	$ 8.1	$ 1,486.6	$4,738.3	$ 24.5	$ 4,762.8
Selling, general and administrative	48.8	1.0	49.8	146.8	3.1	149.9
Other income, net	1.9	9.1	11.0	4.6	27.6	32.2

Adoption of ASU 2016-18

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

Reconciliation of Cash, Cash Equivalents, and Restricted Cash:

	For the Nine Months Ended	
	September 27, 2018	September 28, 2017
Cash and cash equivalents, beginning of the period	$423.3	$ 697.7
Restricted cash, short-term, beginning of the period	2.2	—
Restricted cash, long-term, beginning of the period	20.0	19.9
Cash, cash equivalents, and restricted cash, beginning of the period	$445.5	$ 717.6
Cash and cash equivalents, end of the period	$683.4	$ 726.6
Restricted cash, short-term, end of the period	0.3	3.2
Restricted cash, long-term, end of the period	20.2	20.0
Cash, cash equivalents, and restricted cash, end of the period	$703.9	$ 749.8

3. Summary of Significant Accounting Policies

Use of Estimates

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

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($ in millions other than per share amounts)

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

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

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

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

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

Revenues and Profit Recognition

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

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

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

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

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

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

Standalone selling price is the price at which the Company would sell a promised good or service separately to a customer. Standalone selling prices are established at contract inception and subsequent changes in transaction price are allocated on the same basis as at contract inception. Standalone selling prices for the Company’s products and services are generally not observable and the Company uses the “Expected Cost plus a Margin” approach to determine standalone selling price. Expected costs are typically derived from the available periodic forecast information. If a contract modification changes the overall transaction price of an existing contract, the Company allocates the new transaction price on the basis of the relative standalone selling prices of the performance obligations and cumulative adjustments, if any, are recorded in the current period.

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

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

($ in millions other than per share amounts)

Disaggregation of Revenue

The Company disaggregates revenue based on the method of measuring satisfaction of the performance obligation either over time or at a point in time, and determining whether the accounting contract is a short duration or long duration contract. Short duration contracts are those for which the performance obligations are expected to be fully satisfied within 12 months of contract origination. The number of units and the production schedule is used to make this assessment. Additionally, the Company disaggregates revenue based upon the location where products and services are transferred to the customer. The Company's principal operating segments and related revenue are noted in Note 22, Segment Information.

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

Revenue	For the Three Months Ended September 27, 2018	For the Nine Months Ended September 27, 2018
Contracts with performance obligations satisfied over time	$ 1,456.7	$ 4,212.6
Contracts with performance obligations satisfied at a point in time	357.0	1,174.1
Total Revenue	$ 1,813.7	$ 5,386.7

The following table disaggregates revenue by major customer:

Customer	For the Three Months Ended September 27, 2018	For the Nine Months Ended September 27, 2018
Boeing	$ 1,465.5	$ 4,262.2
Airbus	263.8	869.0
Other	84.4	255.5
Total Revenue	$ 1,813.7	$ 5,386.7

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

Location	For the Three Months Ended September 27, 2018	For the Nine Months Ended September 27, 2018
United States	$ 1,534.0	$ 4,460.8
International		
United Kingdom	184.4	574.1
Other	95.3	351.8
Total International	279.7	925.9
Total Revenue	$ 1,813.7	$ 5,386.7

Inventory

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Raw materials are stated at lower of cost (principally on an actual or average cost basis) or market. Production costs for contracts, including costs expected to be recovered on specific anticipated contracts (satisfaction of performance obligations that have commenced because the Company expects the customer to exercise options), are classified as work-in-process and include direct material, labor, overhead, and purchases. Revenue and related cost of sales are recognized as the performance obligations are satisfied. Typically, anticipated contracts materialize and the related performance obligations are satisfied within 6-12 months. These costs are evaluated for impairment periodically and capitalized costs for which anticipated contracts do not materialize are written off in the period in which it becomes known. Work-in-process includes $152.9 in costs incurred in anticipation of specific future contracts and no impairments were charged for the period ending September 27, 2018. See Note 9, Inventory.

4. New Accounting Pronouncements

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

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

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)(“ASU 2018-02”). The guidance in ASU 2018-02 allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 (the “TCJA”) from accumulated other comprehensive income into retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect to the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), which expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 as of January 1, 2018. The adoption of ASU 2017-12 did not have a material impact to the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). This update requires recognition of lease assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2018. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. The Company is progressing through its implementation plan and continue to evaluate the impact of the standard on its business processes, accounting systems, controls and financial statement disclosures, however the Company does not expect the adoption of this standard to have a material effect to the Company's consolidated financial statements.

5. Changes in Estimates

The Company has a periodic forecasting process in which management assesses the progress and performance of the Company's programs. This process requires management to review each program's progress by evaluating the program schedule, changes to identified risks and opportunities, changes to estimated revenues and costs for the accounting contracts (and options if applicable), and any outstanding contract matters. Risks and opportunities include but are not limited to management's judgment about the cost associated with the Company's ability to achieve the schedule, technical requirements (e.g., a newly-developed product versus a mature product), and any other program requirements. Due to the span of years it may take to completely satisfy the performance obligations for the accounting contracts (and options, if any) and the scope and nature of the work required to be performed on those contracts, the estimation of total revenue and costs is subject to many variables and, accordingly, is subject to change based upon judgment. When adjustments in estimated total consideration or estimated total cost are required, any changes from prior estimates for fully satisfied performance obligations are recognized in the current period as a cumulative catch-up adjustment for the inception-to-date effect of such changes. Cumulative catch-up adjustments are driven by several factors including production efficiencies, assumed rate of production, the rate of overhead absorption, changes to scope of work, and contract modifications. For 2017, the changes in estimates apply to contract blocks under legacy GAAP under the units of delivery method. For 2018, cumulative catch-up adjustments are primarily related to changes in measure of progress for contracts with performance obligations that are satisfied over time. For 2018, forward losses recorded relate primarily to the impact of the adoption of ASU 2017-07 related to pension, offset by favorable performance on cost initiatives.

($ in millions other than per share amounts)

Changes in estimates are summarized below:

Changes in Estimates	For the Three Months Ended September 27, 2018	For the Three Months Ended September 28, 2017	For the Nine Months Ended September 27, 2018	For the Nine Months Ended September 28, 2017
(Unfavorable) Favorable Cumulative Catch-up Adjustment by Segment				
Fuselage Systems	$(12.0)	$ (2.4)	$(3.0)	$ 5.3
Propulsion Systems	(2.4)	2.4	0.9	4.3
Wing Systems	1.4	(2.8)	0.9	19.1
Total (Unfavorable) Favorable Cumulative Catch-up Adjustment	$(13.0)	$ (2.8)	$(1.2)	$ 28.7
(Forward Loss) Changes in Estimate on Loss Programs by Segment				
Fuselage Systems	$—	$ (0.9)	$(1.5)	$ (238.5)
Propulsion Systems	(0.8)	1.3	—	(46.7)
Wing Systems	0.3	(2.4)	(0.2)	(74.4)
Total Forward Loss	$(0.5)	$ (2.0)	$(1.7)	$ (359.6)
Total Change in Estimate	$(13.5)	$ (4.8)	$(2.9)	$ (330.9)
EPS Impact (diluted per share based upon statutory rates)	$(0.10)	$ (0.03)	$(0.02)	$ (1.75)

6. Accounts Receivable, net

Accounts receivable represent the Company’s unconditional rights to consideration, subject to the payment terms of the contract, for which only the passage of time is required before payment. For balances as of September 27, 2018, amounts that are receivable or payable that are contingent upon, or related to, satisfied or to be satisfied performance obligations, are presented as contract assets or liabilities. The Company determines an allowance for doubtful accounts based on a review of outstanding receivables that are charged off against the allowance after the potential for recovery is considered remote.

Accounts receivable, net consists of the following:

	September 27, 2018	December 31, 2017
Trade receivables	$ 660.0	$ 710.5
Other	25.7	13.0

Less: allowance for doubtful accounts	(0.6)	(1.3)
Accounts receivable, net	$ 685.1	$ 722.2

In October 2017, the Company entered into an agreement (the “Receivable Sales Agreement”), to sell, on a revolving basis, certain trade accounts receivable balances to a third party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the balance sheet. The Receivable Sales Agreement provides for the continuing sale of certain receivables on a revolving basis until terminated by either party. The receivables under the Receivable Sales Agreement are sold without recourse to the third party financial institution. During 2018, $4,145.5 of accounts receivable were sold via this arrangement. The proceeds from these sales of receivables are included in cash from operating activities in the Consolidated Statement of Cash Flows. The recorded net loss on sale of receivables is $12.3 for the nine months ended September 27, 2018 and is included in Other income and expense. See Note 21, Other (Expense) Income, net.

($ in millions other than per share amounts)

7. Contract Assets and Contract Liabilities

Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract assets, current are those for which performance obligations are expected to be fully satisfied within 12 months of contract origination and contract assets, long-term are expected to be fully satisfied over periods greater than 12 months. No impairments to contract assets were recorded for the period ended September 27, 2018.

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

	January 1, 2018	September 27, 2018	Change
Contract assets	$517.8	$ 566.7	$48.9
Contract liabilities	(319.4)	(507.3)	(187.9)
Net contract asset	$198.4	$ 59.4	$(139.0)

The increase in contract assets reflects the net impact of additional revenue recognized in excess of billed revenues during the period. The increase in contract liabilities reflects the net impact of additional deferred revenues recorded in excess of revenue recognized during the period. For the period ended September 27, 2018, the Company recognized $40.1 of revenue that was included in the contract liability balance at the beginning of the period.

8. Performance Obligations

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

	Remaining in 2018	2019	2020	2021 and After
Unsatisfied performance obligations	$1,320.4	$6,302.7	$5,680.9	$1,648.3

9. Inventory

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

For 2017, deferred production includes costs for the excess of production costs over the estimated average cost per shipset, and credit balances for favorable variances on contracts between actual costs incurred and the estimated average cost per shipset for units delivered under the current production blocks. Recovery of excess-over-average deferred production costs is dependent on the number of shipsets ultimately sold and the ultimate selling prices and lower production costs associated with future production under these contract blocks. Forward loss reserves on contract blocks are recorded in the period in which they become evident and are included as a reduction to inventory with remaining amounts, if any, reflected in accrued deferred revenue. Inventories are summarized as follows:

($ in millions other than per share amounts)

	September 27, 2018	December 31, 2017
Raw materials	$ 251.3	$ 321.0
Work-in-process[(1)]	631.0	854.4
Finished goods	8.9	35.8
Product inventory	891.2	1,211.2
Capitalized pre-production[(2)]	39.8	78.9
Deferred production[(3)]	—	640.3
Forward loss provision[(4)]	—	(480.5)
Total inventory, net	$ 931.0	$ 1,449.9

(1) For the period ended September 27, 2018, work-in-process inventory includes direct labor, direct material, overhead and purchases on contracts for which revenue is recognized at a point in time as well as sub-assembly parts that have not been issued to production on contracts for which revenue is recognized using the input method. For the period ended December 31, 2017, work-in-process included direct labor, direct material, overhead and purchases on all contracts that were accounted for using the units of delivery method. For the period ended September 27, 2018, work-in-process inventory includes $152.9 of costs incurred in anticipation of specific contracts and no impairments were recorded in the period.

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

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

(4) For the period ended September 27, 2018, forward loss reserves of $219.9 have been classified as a liability in the condensed consolidated balance sheet. For the period ended December 31, 2017, the forward loss reserve for the B787 program exceeded the program's inventory balance. This excess was classified as a liability and reported in other current liabilities on the balance sheet in the amount of $254.5 as of December 31, 2017.

10. Property, Plant and Equipment, net

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

	September 27, 2018	December 31, 2017
Land	$ 15.5	$ 15.9
Buildings (including improvements)	813.3	764.1
Machinery and equipment	1,630.3	1,529.9
Tooling	1,027.2	1,013.9
Capitalized software	269.2	263.3
Construction-in-progress	212.5	213.4

Total	3,968.0	3,800.5
Less: accumulated depreciation	(1,845.0)	(1,695.2)
Property, plant and equipment, net	$ 2,123.0	$ 2,105.3

Repair and maintenance costs are expensed as incurred. The Company recognized repair and maintenance costs of $31.3 and $37.6 for the three months ended September 27, 2018 and September 28, 2017, respectively, and $99.0 and $88.9 for the nine months ended September 27, 2018 and September 28, 2017, respectively.

($ in millions other than per share amounts)

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 $4.1 and $4.5 for the three months ended September 27, 2018 and September 28, 2017, respectively, and $12.7 and $14.8 for the nine months ended September 27, 2018 and September 28, 2017, 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 for the period ended September 27, 2018.

11. Other Assets

Other assets are summarized as follows:

	September 27, 2018	December 31, 2017
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	(1.9)	(1.8)
Accumulated amortization - favorable leasehold interest	(4.8)	(4.6)
Intangible assets, net	1.5	1.8
Deferred financing		
Deferred financing costs	41.7	39.5
Less: Accumulated amortization - deferred financing costs	(35.3)	(33.7)
Deferred financing costs, net	6.4	5.8
Other		
Goodwill - Europe	2.4	2.5
Equity in net assets of affiliates	—	4.7
Supply agreements(1)	16.3	19.9
Restricted cash - collateral requirements	20.2	20.0
Deferred Tax Asset - non-current	194.9	72.5
Other	43.2	37.1
Total	$ 284.9	$ 164.3

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

12. Advance Payments

Advances on the B787 Program. Boeing has made advance payments to Spirit under the B787 Supply Agreement, that are required to be repaid to Boeing by way of offset against the purchase price for future shipset deliveries.

Advance repayments were scheduled to be spread evenly over the remainder of the first 1,000 B787 shipsets delivered to Boeing. On April 8, 2014, the Company signed a memorandum of agreement with Boeing that suspended advance repayments related to the B787 program for a period of twelve months beginning April 1, 2014. Repayment recommenced on April 1, 2015, and any repayments which otherwise would have become due during such twelve-month period will offset the purchase price for shipsets 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 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of $42.0 due on December 15th of each year until the advance payments have been fully recovered by Boeing. As of September 27, 2018, the amount of advance payments received by us from Boeing under the B787 Supply Agreement and not yet repaid was approximately $256.6.

($ in millions other than per share amounts)

13. Fair Value Measurements

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

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

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

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

At September 27, 2018 and December 31, 2017, the Company did not hold any cash within money market funds.

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

	September 27, 2018			December 31, 2017		
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
Senior unsecured term loan A (including current portion)	$204.9	$204.7	(2)	$460.7	$461.9	(2)
Senior unsecured notes due 2021	298.4	299.0	(1)	—	—	(1)
Senior unsecured notes due 2022	—	—	(1)	294.8	304.6	(1)
Senior unsecured notes due 2023	297.8	296.8	(1)	—	—	(1)

Senior unsecured notes due 2026	297.5	284.3 [(1)]	297.2	301.0 [(1)]
Senior unsecured notes due 2028	693.3	689.4 [(1)]	—	— [(1)]
Total	$1,791.9	$1,774.2	$1,052.7	$1,067.5

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

14. Derivative and Hedging Activities

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

($ in millions other than per share amounts)

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

Interest Rate Swaps

On March 15, 2017, the Company entered into an interest rate swap agreement, with an effective date of March 31, 2017. The swaps have a notional value of $250.0 and fix the variable portion of the Company's floating rate debt at 1.815%. The fair value of the interest rate swaps, using Level 2 inputs, was an asset of $3.5 and $0.9 as of September 27, 2018 and December 31, 2017, respectively. The Company recorded a net gain related to swap activity of $0.3 and $2.6, for the three and nine months ended September 27, 2018, respectively.

Foreign Currency Forward Contract

As described further in Note 23, Asco Acquisition, the Company and its wholly-owned subsidiary Spirit AeroSystems Belgium Holdings BVBA ("Spirit Belgium") entered into a definitive agreement (the "Purchase Agreement") with certain private sellers pursuant to which Spirit Belgium will purchase all of the issued and outstanding equity of S.R.I.F. N.V., the parent company of Asco Industries N.V. ("Asco") for $650.0 in cash, subject to certain customary closing adjustments, including foreign currency adjustments. As such, movements in the Euro exchange rates could cause the purchase price to fluctuate, affecting our cash flows.

To reduce the Company's exposure to currency exchange rate fluctuations, the Company entered into foreign currency forward contracts. The objective of these contracts is to minimize the impact of currency exchange rate movements on the Company's cash flows, however the Company has not designated these forward contracts as a hedge and has not applied hedge accounting to them. During the second quarter of 2018, to reduce the Euro exchange rate exposure of the purchase of Asco, the Company entered into a foreign currency forward contract in the amount of $580.0; this foreign currency forward contract was settled in the third quarter of 2018. Additionally, during the third quarter of 2018, to reduce the Euro exchange rate exposure of the purchase of Asco, the Company entered into a foreign currency forward contract in the amount of $568.3. The fair value of the foreign currency forward contract, using Level 2 inputs, was a liability of $6.0 as of September 27, 2018. The Company recorded a net gain related to foreign currency forward contract activity of $0.8 for the three months ended September 27, 2018 and a net loss of $20.7 for the nine months ended September 27, 2018.

15. Debt

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

	September 27, 2018		December 31, 2017	
	Current	Noncurrent	Current	Noncurrent
Senior unsecured term loan A	$17.1	$ 187.8	$24.9	$ 435.8
Senior notes due 2021	—	298.4	—	—
Senior notes due 2022	—	—	—	294.8
Senior notes due 2023	—	297.8	—	—

Senior notes due 2026	—	297.5	—	297.2
Senior notes due 2028	—	693.3	—	—
Present value of capital lease obligations	6.9	36.3	5.2	33.6
Other	1.0	58.6	1.0	58.5
Total	$25.0	$ 1,869.7	$31.1	$ 1,119.9

2018 Credit Agreement

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

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

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

The Delayed Draw Term Loan is available for Spirit to draw until January 12, 2019, at which date it may be extended for two additional three-month periods, in each instance subject to Spirit’s payment of a fee to the relevant lenders based on the undrawn Delayed Draw Term Loan commitment.

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

As a result of the extinguishment of the Company's prior credit agreement, the Company recognized a loss on extinguishment of $1.3, all of which is reflected within amortization of deferred financing fees on the Condensed Consolidated Statement of Cash Flows for the nine months ended September 27, 2018. As of September 27, 2018, the outstanding balance of the 2018 Term Loan was $206.3 and the carrying value was $204.9.

Senior Notes

2022 Notes

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

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

As a result of the extinguishment of the 2022 Notes, the Company recognized a loss on extinguishment of $13.2, all of which is reflected within amortization of deferred financing fees on the Condensed Consolidated Statement of Cash Flows for the nine months ended September 27, 2018.

Spirit AeroSystems Holdings, Inc.
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New Notes

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

The Floating Rate Notes bear interest at a rate per annum equal to three-month LIBOR, as determined in the case of the initial interest period, on May 25, 2018, and thereafter at the beginning of each quarterly period as described herein, plus 80 basis points and mature on June 15, 2021. Interest on the Floating Rate Notes is payable on March 15, June 15, September 15 and December 15 of each year, beginning on September 15, 2018. The 2023 Notes bear interest at a rate of 3.950% per annum and mature on June 15, 2023. The 2028 Notes bear interest at a rate of 4.600% per annum and mature on June 15, 2028. Interest on the 2023 Notes and 2028 Notes is payable on June 15 and December 15 of each year, beginning on December 15, 2018. The carrying value of the Floating Rate Notes, 2023 Notes, and 2028 Notes was $298.4, $297.8, and $693.3 as of September 27, 2018, respectively.

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

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

2026 Notes

In June 2016, the Company issued $300.0 in aggregate principal amount of 3.850% Senior Notes due June 15, 2026 (the "2026 Notes") with interest payable, in cash in arrears, on June 15 and December 15 of each year, beginning December 15, 2016. The carrying value of the 2026 Notes was $297.5 as of September 27, 2018.

16. 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	September 27, 2018	September 28, 2017	September 27, 2018	September 28, 2017
Service cost	$0.2	$ 0.2	$0.6	$ 0.7
Interest cost	9.2	9.4	27.4	28.3
Expected return on plan assets	(17.4)	(18.2)	(52.3)	(54.6)
Amortization of net loss	—	0.1	—	0.1
Net periodic pension income	$(8.0)	$ (8.5)	$(24.3)	$ (25.5)

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Components of Other Benefit Income	Other Benefits For the Three Months Ended September 27, 2018	September 28, 2017	For the Nine Months Ended September 27, 2018	September 28, 2017
Service cost	$ 0.3	$ 0.3	$ 0.8	$ 0.9
Interest cost	0.3	0.3	0.8	0.9
Amortization of prior service cost	(0.2)	(0.2)	(0.7)	(0.7)
Amortization of net gain	(0.6)	(0.5)	(1.7)	(1.6)
Net periodic other benefit income	$ (0.2)	$ (0.1)	$ (0.8)	$ (0.5)

Employer Contributions

The Company expects to contribute zero dollars to the U.S. qualified pension plan and a combined total of approximately $7.4 for the Supplemental Executive Retirement Plan (“SERP”) and post-retirement medical plans in 2018. The Company’s projected contributions to the U.K. pension plan for 2018 are $1.8. The entire amount contributed can vary based on exchange rate fluctuations.

17. Stock Compensation

The Company recognized a net total of $6.3 and $4.8 of stock compensation expense for the three months ended September 27, 2018 and September 28, 2017, respectively. The Company recognized a net total of $19.9 and $15.9 of stock compensation expense for the nine months ended September 27, 2018 and September 28, 2017, respectively.

During the nine months ended September 27, 2018, 242,419 shares, 92,375 shares, and 63,904 shares of class A common stock with aggregate grant date fair values of $21.5, $8.4 and $5.7 were granted under the service-based, market-based, and performance based portions of the Company’s LTIAs, respectively. Additionally, 460,028 shares of class A common stock with an aggregate grant date fair value of $24.2 that were LTIAs vested during the three months ended September 27, 2018.

18. 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 September 27, 2018, and December 31, 2017, was $194.5 and $72.2, respectively. The difference is primarily due to the creation of deductible temporary differences within the Transition Adjustment, and the creation of deductible temporary differences and utilization of taxable temporary differences within the current year.

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 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 may give rise to discrete recognition include excess tax benefits with respect to share-based compensation, finalizing amounts in income tax returns filed, finalizing audit examinations for open tax years and expiration of statutes of limitations and changes in tax law.

On December 22, 2017, President Trump signed into law legislation referred to as the "Tax Cuts and Jobs Act" (the "TCJA"). 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") which clarifies accounting for income taxes under 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.

The Company is substantially complete with its accounting for the one-time transition tax liability, enacted by the TCJA, during the third quarter of 2018. As a result, the Company decreased its December 31, 2017 provisional amount by $2.8, which is included as a component of income tax expense from continuing operations. To the extent that the U.S. Treasury issues additional guidance during the SAB 118 measurement period, the Company will promptly evaluate whether any additional adjustments are required.

The TCJA subjects a US stockholder to tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries for years ending after December 31, 2017. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense. At September 27, 2018, because the Company is still evaluating the effects of the GILTI provisions, an accounting policy on whether the Company will account for GILTI as a period expense or record deferred taxes for anticipated GILTI has not been made. The Company's accounting for the effects of the GILTI provision is incomplete, however the Company has included estimated GILTI tax related to current-year operations in the Company's annualized effective tax rate and has not provided additional GILTI on deferred items.

The TCJA also introduces base erosion and anti-abuse tax provisions (“BEAT”) for companies that meet certain thresholds by effectively excluding deductions on certain payments to foreign related entities. Although the Company's analysis of the tax effects of the BEAT provision is incomplete the Company does not expect to be subject to the tax.

In January 2018, the FASB issued ASU 2018-02, which gives entities the option to reclassify to retained earnings the tax effects resulting from the TCJA that are stranded in accumulated other comprehensive income (“AOCI”).

The new guidance may be applied retrospectively to each period in which the effect of the TCJA is recognized in the period of adoption. The Company must adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period the TCJA was enacted. The guidance, when adopted, will require new disclosures regarding a company’s accounting policy for releasing the tax effects in AOCI. The Company is currently evaluating how to apply the new guidance and has not determined whether it will elect to reclassify stranded amounts. The adoption of ASU 2018-02 is not expected to have a material effect on its consolidated financial statements.

The 18.5% effective tax rate for the nine months ended September 27, 2018 differs from the 26.8% effective tax rate for the same period of 2017 primarily due to the enactment of the TCJA, including the reduction in the U.S. corporate federal income tax rate from 35% to 21% and the elimination of the domestic manufacturing deduction, and unrelated to the TCJA, higher state income tax credits generated in 2018 offset by the proportional tax rate effects of lower pre-tax income in 2017.

The Company will continue to participate in the Internal Revenue Service's Compliance Assurance Process ("CAP") program for its 2018 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. There are no open audits in the Company's foreign jurisdictions. The Company expects no material change in its recorded unrecognized tax benefit liability in the next 12 months

19. Equity

Accelerated Share Repurchase Program

In May 2018, the Company entered into accelerated share repurchase agreements ("ASRs") with Morgan Stanley & Co. LLC and Goldman Sachs & Co. LLC (collectively, the "Dealers") to repurchase in total $725.0 of the Company's class A common stock. Under the ASRs, the Company delivered a total of $725.0 in cash to the Dealers and received a total of 7.3 million shares which represented approximately 85% of the total common shares expected to be repurchased under the ASRs based on the closing price on the day the Company entered into the ASRs. The final number of shares to be repurchased and the final average price per share under the ASRs will depend on the volume-weighted average price of the Company’s class A common stock, less a discount, during the term of the agreement. All purchases under the ASRs are expected to be completed in the fourth quarter of 2018.

($ in millions other than per share amounts)

For further information regarding the ASRs, refer to the Company's Current Report on Form 8-K filed with the SEC on May 30, 2018.

The Company accounts for the ASRs as two separate transactions: (i) as shares of reacquired common stock for the shares delivered to us upon effectiveness of the ASRs and (ii) as a forward contract indexed to the Company's own common stock for the undelivered shares. The initial delivery of shares is included in treasury stock at cost and results in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share. The forward contracts indexed to the Company's own common stock meet the criteria for equity classification, and these amounts are initially recorded in additional paid-in capital and reclassified to treasury stock upon completion of the ASRs.

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.

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders’ equity. As of September 27, 2018, no treasury shares have been reissued or retired.

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

	For the Three Months Ended					
	September 27, 2018			September 28, 2017		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						
Income available to common stockholders	$168.7	105.1	$ 1.61	$147.1	115.8	$ 1.27
Income allocated to participating securities	0.1	0.1		0.1	0.1	
Net income	$168.8			$147.2		
Diluted potential common shares		0.9			1.1	
Diluted EPS						
Net income	$168.8	106.1	$ 1.59	$147.2	117.0	$ 1.26

	For the Nine Months Ended					
	September 27, 2018			September 28, 2017		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS						

Income available to common shareholders	$439.1	109.3	$ 4.02	$231.9	117.8	$ 1.97
Income allocated to participating securities	0.3	0.1		0.2	0.1	
Net income	$439.4			$232.1		
Diluted potential common shares		0.9			1.1	
Diluted EPS						
Net income	$439.4	110.3	$ 3.98	$232.1	119.0	$ 1.95

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($ in millions other than per share amounts)

Included in the outstanding common shares were 1.4 million and 1.5 million of issued but unvested shares at September 27, 2018 and September 28, 2017, respectively, which are excluded from the basic EPS calculation.

For the impact of the transition adjustment due to the adoption ASC 606 on retained earnings, see Note 2, Adoption of New Accounting Standards.

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is summarized by component as follows:

	As of September 27, 2018	As of December 31, 2017
Pension	$ (76.0)	$ (75.9)
SERP/Retiree medical	16.0	17.7
Foreign currency impact on long term intercompany loan	(15.5)	(14.2)
Currency translation adjustment	(69.5)	(56.1)
Total accumulated other comprehensive loss	$ (145.0)	$ (128.5)

20. 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.

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. 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.

Pension Indemnification. On December 5, 2014, 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) (the "Complaint") seeking indemnification of approximately $139.0 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 ("UAW Arbitration"), which was brought on behalf of certain former Boeing employees in Tulsa and McAlester, Oklahoma, (b) claims that Boeing settled in Society of Professional Engineering Employees in Aerospace v. Boeing Co., Nos. 05-1251-MLB, 07-1043-MLB (D. Kan.) ("Harkness Class Action"), and (c) attorneys' fees Boeing alleges it expended to defend the UAW Arbitration and Harkness Class Action, as well as reasonable fees, costs and expenses Boeing expends litigating the case against Spirit. 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.

Spirit asserted a Counterclaim against Boeing, on the ground that the liabilities at issue were Boeing's responsibility under the APA. Spirit's Counterclaim alleges breach of contract and seeks a declaratory judgment regarding Spirit's right to indemnification from Boeing under the APA. Spirit's Counterclaim seeks to recover the amounts that Spirit spent litigating the Harkness Class Action, responding to Boeing's indemnification demands concerning the Harkness Class Action and UAW Arbitration, and also litigating the current lawsuit against Boeing.

On December 20, 2016, Boeing and Spirit moved for summary judgment. On June 27, 2017, the Delaware Superior Court (the “Superior Court”) issued an order denying Boeing’s Motion for Summary Judgment and granting Spirit’s Motion for Summary Judgment, finding that the liabilities at issue were excluded liabilities under the APA and holding that Spirit is entitled to recover reasonable attorneys' fees, costs and other expenses from Boeing. The Court granted Spirit’s motion as to fees, costs, and expenses incurred as a result of the litigation and underlying matters and denied the motion as to pre- and post-trial interest.

Boeing appealed the Superior Court’s decision to the Supreme Court of the State of Delaware (the “Supreme Court”). On July 12, 2018, a unanimous three judge panel of the Supreme Court ruled in favor of Spirit and on July 26, 2018, the Supreme Court denied Boeing’s Motion for Reargument and returned the case to the Superior Court. Spirit sought recovery of additional attorneys’ fees, costs, and other expenses incurred during the appellate process. On August 22, 2018, the Superior Court granted Spirit’s motion. Spirit has since recouped all amounts to which it was entitled by court order. This matter is now closed.

Contractual Terms Clarification. On July 6, 2018, Spirit filed a complaint in Washington Superior Court captioned Spirit AeroSystems, Inc. v. The Boeing Company (No. 18-2-16649-7 SEA). Spirit is seeking payment of money that Boeing owes Spirit for product ordered by Boeing and delivered by Spirit. As of the date of filing the complaint, Boeing has underpaid Spirit approximately $64.0. Boeing claims to be withholding money due to customer warranty claims, which are technical in nature and largely relate to designs that predate Spirit’s separation from Boeing in 2005. Spirit disputes its liability for those claims. Spirit is also asking the court to clarify the parties’ contractual obligations, including that Boeing has no right under the parties’ contracts to withhold money presently due based on disputed warranty claims on past orders. On September 5, 2018, Boeing moved to dismiss three of Spirit’s claims without prejudice and one claim with prejudice. The parties are currently briefing this motion, and the Court has scheduled oral argument for November 16, 2018. Discovery in the case is ongoing.

Customer and Vendor Claims

From time to time the Company receives, or is subject to, customer and vendor claims arising in the ordinary course of business, including, but not limited to, those related to product quality and late delivery. The Company accrues for matters when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of an unfavorable outcome, and the severity of any potential loss. Any accruals deemed necessary are reevaluated and updated as matters progress over time.

On October 1, 2018, the Company received notice of a claim related to factory disruptions. Claims are inherently uncertain as they typically include many unsubstantiated items and factual disputes. As such, the Company does not believe it is possible to develop an estimate of reasonably possible loss for this matter. The Company has requested further information and supporting documentation and will continue to re-evaluate the claim. The Company usually resolves claims received in the ordinary course of business in the context of its broad, long-term relationships.

While the final outcome of these types of matters cannot be predicted with certainty, considering, among other things, the factual and legal defenses available, it is the opinion of the Company that, when finally resolved, no current claims will have a material adverse effect on the Company’s long-term financial position or liquidity. However, it is possible that the Company’s results of operations in a period could be materially affected by one or more of these other matters.

Guarantees

Outstanding guarantees were $18.8 and $23.2 as of September 27, 2018, and December 31, 2017, respectively.

Restricted Cash - Collateral Requirements

The Company was required to maintain $20.2 and $20.0 of restricted cash as of September 27, 2018 and December 31, 2017, respectively, related to certain collateral requirements for obligations under its workers' compensation programs. The restricted cash is included in "Other assets" in the Company's Condensed Consolidated Balance Sheets.

Indemnification

($ in millions other than per share amounts)

The Company has entered into customary indemnification agreements with its non-employee directors, and certain 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.

The Company has agreed to indemnify parties for specified liabilities incurred, or that may be incurred, in connection with transactions they have entered into with the Company. The Company is unable to assess the potential number of future claims that may be asserted under these indemnities, nor the amounts thereof (if any). As a result, the Company cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded.

Service and Product Warranties and Extraordinary Rework

Provisions for estimated expenses related to service and product warranties and certain extraordinary rework are evaluated on a quarterly basis. These costs are accrued 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 rework is reported in current liabilities and other liabilities on the balance sheet.

The warranty balance presented in the table below includes unresolved warranty claims that are in dispute in regards to their value as well as their contractual liability. The Company estimated the total costs related to some of these claims, however, there is significant uncertainty surrounding the disposition of these disputed claims and as such, the ultimate determination of the provision's adequacy requires significant management judgment. The amount of the specific provisions recorded against disputed, reasonably possible warranty claims was $104.3 and $101.0 as of September 27, 2018, and December 31, 2017, respectively. These specific provisions represent the Company's best estimate of reasonably possible warranty claims. Should the Company incur higher than expected warranty costs and/or discover new or additional information related to these warranty provisions, the Company may incur additional charges that exceed these recorded provisions. The Company utilized available information to make appropriate assessments, however, the Company recognizes that data on actual claims experience is of limited duration and therefore, claims projections are subject to significant judgment. The amount of the warranty claims in excess of the disputed, reasonably possible specific warranty provision was $174.7 as of September 27, 2018, and $223.0 as of December 31, 2017.

The following is a roll forward of the service warranty and extraordinary rework balance at September 27, 2018:

Balance, December 31, 2017	$166.4
Charges to costs and expenses	7.2
Payouts	(3.7)
Exchange rate	(0.5)
Balance, September 27, 2018	$169.4

21. Other (Expense) Income, Net

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

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	For the Three Months Ended		For the Nine Months Ended	
	September 27, 2018	September 28, 2017	September 27, 2018	September 28, 2017
Kansas Development Finance Authority bond				