

Spirit AeroSystems Holdings, Inc.

Form 10-K

February 22, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-K

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010
- Or**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-33160

Spirit AeroSystems Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

20-2436320
(I.R.S. Employer Identification Number)

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

Registrant's telephone number, including area code:

(316) 526-9000

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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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 ☒ No ☐

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of the class A common stock on July 1, 2010, as reported on the New York Stock Exchange was approximately \$2,022,363,097.

As of February 16, 2011, the registrant had outstanding 107,376,743 shares of class A common stock, \$0.01 par value per share, and 34,781,526 shares of class B common stock, \$0.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Report are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that may involve many risks and uncertainties. Forward-looking statements reflect our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, should, expect, anticipate, intend, estimate, believe, project, continue, plan, forecast, or other similar words, or the negative thereof, unless the context requires otherwise. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties, both known and unknown. Our actual results may vary materially from those anticipated in forward-looking statements. We caution investors not to place undue reliance on any forward-looking statements.

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

our ability to continue to grow our business and execute our growth strategy, including the timing and execution of new programs;

our ability to perform our obligations and manage costs related to our new commercial and business aircraft development programs and the related recurring production;

potential reduction in the build rates of certain Boeing aircraft including, but not limited to, the B737 program, the B747 program, the B767 program, the B777 program and the B787 program, and build rates of the Airbus A320, A350 and A380 programs, which could be negatively impacted by continuing weakness in the global economy and economic challenges facing commercial airlines, and by a lack of business and consumer confidence and the impact of continuing instability in the global financial and credit markets, including, but not limited to, sovereign debt concerns in Europe;

our ability to reach a final settlement agreement with Boeing related to non-recurring and recurring costs on the B787 program;

declining business jet manufacturing rates and customer cancellations or deferrals as a result of the weakened global economy;

the success and timely execution of key milestones such as certification and delivery of Boeing's new B787 and Airbus' new A350 XWB (Xtra Wide-Body) aircraft programs, including receipt of necessary regulatory approvals and customer adherence to their announced schedules;

our ability to enter into supply arrangements with additional customers and the ability of all parties to satisfy their performance requirements under existing supply contracts with Boeing and Airbus, our two major customers, and other customers and the risk of nonpayment by such customers;

any adverse impact on Boeing's and Airbus' production of aircraft resulting from cancellations, deferrals or reduced orders by their customers or from labor disputes or acts of terrorism;

any adverse impact on the demand for air travel or our operations from the outbreak of diseases or epidemic or pandemic outbreaks;

returns on pension plan assets and the impact of future discount rate changes on pension obligations;

our leverage, including variable rate debt, and our ability to borrow additional funds or refinance debt;

competition from original equipment manufacturers and other aerostructures suppliers;

the effect of governmental laws, such as U.S. export control laws, the Foreign Corrupt Practices Act, environmental laws and agency regulations, both in the U.S. and abroad;

the cost and availability of raw materials and purchased components;

our ability to successfully extend or renegotiate our primary collective bargaining contracts with our labor unions;

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our ability to recruit and retain highly skilled employees and our relationships with the unions representing many of our employees;

spending by the U.S. and other governments on defense;

the possibility that our cash flows and borrowing facilities may not be adequate for our additional capital needs or for payment of interest on and principal of our indebtedness;

our exposure under our existing senior secured revolving credit facility to higher interest payments should interest rates increase substantially;

the effectiveness of our interest and foreign currency hedging programs;

the outcome or impact of ongoing or future litigation and regulatory actions; and

our exposure to potential product liability and warranty claims.

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

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PART I

Item 1. *Business*

Our Company

Unless the context otherwise indicates or requires, as used in this Annual Report, references to *we*, *us*, *our* or the *Company* refer to Spirit AeroSystems Holdings, Inc., its subsidiaries and predecessors. References to *Spirit* refer only to our subsidiary, Spirit AeroSystems, Inc., and references to *Spirit Holdings* or *Holdings* refer only to Spirit AeroSystems Holdings, Inc. References to *Boeing* refer to The Boeing Company and references to *Airbus* refer to Airbus S.A.S., a division of European Aeronautic Defense & Space NV (*Airbus*).

We are one of the largest independent non-OEM (original equipment manufacturer) aircraft parts designers and manufacturers of commercial aerostructures in the world, based on annual revenues, as well as the largest independent supplier of aerostructures to Boeing. In addition, we are one of the largest independent suppliers of aerostructures to Airbus. Boeing and Airbus are the two largest aircraft OEMs in the world. Aerostructures are structural components such as fuselages, propulsion systems and wing systems for commercial and military aircraft. For the twelve months ended December 31, 2010, we generated net revenues of \$4,172.4 million, and had net income of \$218.9 million.

Spirit Holdings was formed in February 2005 as a holding company for Spirit. Spirit's operations commenced on June 17, 2005, following the acquisition by an investor group led by Onex Partners LP and Onex Corporation (*Onex*), of Boeing's commercial aerostructures manufacturing operations in Wichita, Kansas and Tulsa and McAlester, Oklahoma, referred to in this Report as *Boeing Wichita*. The acquisition of Boeing Wichita is referred to in this Report as the *Boeing Acquisition*. Although Spirit began operations as a stand-alone company in 2005, its predecessor, Boeing Wichita (the *Predecessor*), had 75 years of operating history and expertise in the commercial and military aerostructures industry. Spirit Holdings, Spirit's parent company, has had publicly traded shares on the New York Stock Exchange under the ticker *SPR* since November 2006. Onex continues to hold approximately 93% of the class B shares, which represents approximately 74% of total Spirit Holdings stockholder voting power.

On April 1, 2006, we became a supplier to Airbus through our acquisition of the aerostructures division of BAE Systems (Operations) Limited, referred to in this Report as *BAE Systems*. The acquired division of BAE Systems is referred to as *BAE Aerostructures*, and the acquisition of BAE Aerostructures is referred to as the *BAE Acquisition*.

We manufacture aerostructures for every Boeing commercial aircraft currently in production, including the majority of the airframe content for the Boeing B737, the most popular major commercial aircraft in history. As a result of our unique capabilities both in process design and composite materials, we were awarded a contract that makes us the largest aerostructures content supplier on the Boeing B787, Boeing's next generation twin aisle aircraft. In addition, we are one of the largest content suppliers of wing systems for the Airbus A320 family, and we are a significant supplier for the Airbus A380, and will be a significant supplier for the new Airbus A350 XWB after the development stage of the program. Sales related to the large commercial aircraft market, some of which may be used in military applications, represented approximately 94% of our net revenues for the twelve-month period ended December 31, 2010.

We derive our revenues primarily through long-term supply agreements with Boeing and Airbus. For the twelve months ended December 31, 2010, approximately 83% and 11% of our net revenues were generated from sales to Boeing and Airbus, respectively. We are currently the sole-source supplier of 96% of the products we sell to Boeing and Airbus, as measured by the dollar value of products sold. We are a critical partner to our customers due to the

broad range of products we currently supply to them and our leading design and manufacturing capabilities using both metallic and composite materials. Under our supply agreements with Boeing and Airbus, we supply products for the life of the aircraft program (other than the A350 XWB and A380), including commercial derivative models. For the A350 XWB and A380, we have long-term requirements contracts with Airbus that cover a fixed number of product units at established prices.

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Our History

In December 2004 and February 2005, an investor group led by Onex formed Spirit and Spirit Holdings, respectively, for the purpose of acquiring Boeing Wichita. The Boeing Acquisition was completed on June 16, 2005. Prior to the acquisition, Boeing Wichita functioned as an internal supplier of parts and assemblies for Boeing's airplane programs and had very few sales to third parties.

In connection with the Boeing Acquisition, we entered into a long-term supply agreement under which we are Boeing's exclusive supplier for substantially all of the products and services provided by Boeing Wichita to Boeing prior to the Boeing Acquisition. The supply agreement is a requirements contract covering certain products such as fuselages, struts/pylons and wing components for Boeing B737, B747, B767 and B777 commercial aircraft programs for the life of these programs, including any commercial derivative models. Pricing for existing products on in-production models is contractually set through May 2013, with average prices decreasing at higher volume levels and increasing at lower volume levels. We also entered into a long-term supply agreement for Boeing's new B787 aircraft covering the life of this aircraft program, including commercial derivatives. Under this contract we are Boeing's exclusive supplier for the forward fuselage, fixed and moveable leading wing edges and engine pylons for the B787. Pricing for the initial configuration of the B787-8 model is generally set through 2021, with prices decreasing as cumulative production volume levels are achieved. Prices are subject to adjustment for abnormal inflation (above a specified level in any year) and for certain production, schedule and other specific changes, including design changes from the contract configuration baseline. We have negotiated with Boeing an amendment to the B787 Supply Agreement on work statement and pricing for changes relating to future commercial derivatives, such as the B787-9.

On April 1, 2006, through our wholly-owned subsidiary, Spirit Europe, we acquired BAE Aerostructures. Spirit Europe manufactures leading and trailing wing edges and other wing components for commercial aircraft programs for Airbus and Boeing. The BAE Acquisition provides us with a foundation to increase future sales to Airbus, as Spirit Europe is a key supplier of wing and flight control surfaces for the A320 platform, Airbus' core single-aisle program, and of wing components for the A380 platform, one of Airbus' most important new programs and the world's largest commercial passenger aircraft. In July 2008, Spirit Europe was awarded a contract with Airbus to design and assemble a major wing structure for the A350 XWB program. Under our supply agreements with Airbus, we supply most of our products for the life of the aircraft program (other than the A350 XWB and A380), including commercial derivative models, with pricing determined through 2015. For the A380 and A350 XWB, we have long-term requirements contracts with Airbus that cover a fixed number of units.

In November 2006, we issued and sold 10,416,667 shares of our class A common stock and certain selling stockholders sold 52,929,167 shares of our class A common stock at a price of \$26.00 per share in our initial public offering. In May 2007, certain selling stockholders sold 34,340,484 shares of our class A common stock at a price of \$33.50 per share in a secondary offering of our class A common stock.

Our Relationship with Boeing

Supply Agreement with Boeing for B737, B747, B767 and B777 Platforms

Overview. In connection with the Boeing Acquisition, Spirit entered into long-term supply agreements under which we are Boeing's exclusive supplier for substantially all of the products and services provided by Boeing Wichita to Boeing prior to the closing of the Boeing Acquisition. The main supply contract is primarily comprised of two separate agreements: (1) the Special Business Provisions, or Sustaining SBP, which sets forth the specific terms of the supply arrangement with regard to Boeing's B737, B747, B767 and B777 aircraft and (2) the General Terms Agreement, or GTA, which sets forth other general contractual provisions relating to our various supply arrangements with Boeing, including provisions relating to termination, events of default, assignment, ordering procedures,

inspections and quality controls. The summary below describes provisions contained in both the Sustaining SBP and the GTA as both agreements govern the main supply arrangement. We refer to the Sustaining SBP, the GTA and any related purchase order or contract collectively as the Supply Agreement. The Supply Agreement is a requirements contract which covers certain products, including fuselages, struts/pylons and nacelles (including thrust reversers), wings and wing components, as well as tooling, for Boeing B737, B747, B767 and B777 commercial aircraft programs for the life of these programs, including any commercial derivative models.

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During the term of the Supply Agreement and absent default by Spirit, Boeing is obligated to purchase from Spirit all of its requirements for products covered by the Sustaining SBP and is prohibited from manufacturing such products itself. Although Boeing is not required to maintain a minimum production rate, Boeing is subject to a maximum production rate above which it must negotiate with us regarding responsibility for non-recurring expenditures related to a capacity increase.

Pricing. The Supply Agreement sets forth established prices for recurring products through May 2013. Prices are adjusted each year based on a quantity-based price adjustment formula described in the Supply Agreement whereby average per-unit prices are higher at lower volumes and lower at higher volumes. Prices are subject to adjustment for abnormal inflation (above a specified level in any year) and for certain production, schedule and other changes. See Changes below.

Two years prior to the expiration of the established pricing terms, Spirit will propose pricing for the following ten years or another period to be agreed upon by the parties. Boeing and Spirit are required to negotiate the pricing for such additional period in good faith based on then-prevailing U.S. market conditions for forward fuselages, B737 fuselages and B737/B777 struts and nacelles and based on then-prevailing global market conditions for all other products. If the parties are unable to agree upon pricing, then, until such dispute is resolved, pricing will be determined according to the price as of the expiration of the initial eight-year period, adjusted using the then-existing quantity-based price adjustment formula and annual escalation until such time as future pricing is agreed.

Prices for commercial derivative models are to be negotiated in good faith by the parties based on then-prevailing market conditions. If the parties cannot agree on price, then they must engage in dispute resolution pursuant to agreed-upon procedures.

Tooling. Under the Supply Agreement, Boeing owns all tooling used in production or inspection of products covered by the Sustaining SBP. Spirit is responsible for providing all new tooling required for manufacturing and delivering products under the Supply Agreement, and Boeing acquires title to such tooling upon completion of the manufacturing of the tools and payment by Boeing. Because Boeing owns this tooling, Spirit may not sell, lease, dispose of or encumber any of it. Spirit does, however, have the option to procure certain limited tooling needed to manufacture and deliver both Boeing and non-Boeing parts.

Although Boeing owns the tooling, Spirit has the limited right to use this tooling without any additional charge to perform its obligations to Boeing under the Supply Agreement and also to provide aftermarket services in accordance with the rights granted to Spirit under other related agreements, including royalty-bearing license agreements. Boeing is entitled to use the tooling only under limited circumstances. Spirit is responsible for maintaining and insuring the tooling. Spirit's rights to use the tooling are subject to the termination provisions of the Supply Agreement.

Changes. Upon written notification to Spirit, Boeing has the right to make changes within the general scope of work performed by Spirit under the Supply Agreement. If any such change increases or decreases the cost or time required to perform, Boeing and Spirit must negotiate an equitable adjustment (based on rates, factors and methodology set forth in the Supply Agreement) to the price or schedule to reflect the change, except that Spirit will be responsible for absorbing the cost of certain changes. The Supply Agreement also provides for equitable adjustments to product prices if there are order accelerations or decelerations, depending on lead times identified in the Supply Agreement. In addition, the Supply Agreement provides for equitable adjustments to recurring part prices as well as the price of non-recurring work upon the satisfaction of certain conditions and upon certain minimum dollar thresholds being met.

Raw Materials. Spirit is required to procure from Boeing (or its designated service provider) certain raw materials used in producing Boeing products, except that Spirit has the right to procure such raw materials from other sources if it reasonably believes that Boeing or its designated service provider cannot support its requirements. Revisions to the

raw material pricing terms set forth in the Supply Agreement may entitle Spirit to a price adjustment.

Third-Party Pricing. Spirit may be permitted to purchase supplies or subparts directly from Boeing's subcontractors under the terms of Boeing's subcontracts. If Spirit does so, a majority of any savings achieved as a

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result of purchasing through the subcontracts will be applied towards price reductions on the applicable Boeing products.

Non-recurring Work Transfer. Following an event of default as described below or Boeing's termination of an airplane program, the Supply Agreement's expiration, or the parties' mutual agreement to terminate the existing Supply Agreement, Spirit must transfer to Boeing all tooling and other non-recurring work relating to the affected program. If the entire Supply Agreement expires or is cancelled, then all tooling and other non-recurring work covered by the Supply Agreement must be transferred to Boeing.

Additional Spirit Costs. If Boeing rejects a product manufactured by Spirit, Boeing is entitled to repair or rework the product, and Spirit is required to pay all reasonable costs and expenses incurred by Boeing related thereto. Spirit is also required to reimburse Boeing for costs expended in providing Spirit and/or its contractors with technical or manufacturing assistance on Spirit nonperformance issues.

Termination for Convenience. Subject to the restrictions prohibiting Boeing from manufacturing certain products supplied by Spirit or purchasing such products from any other supplier, Boeing may, at any time, terminate all or part of any order under the Supply Agreement by written notice to Spirit. If Boeing terminates all or part of an order, Spirit is entitled to compensation for certain costs.

Termination of Airplane Program. If Boeing decides not to initiate or continue production of a Boeing commercial aircraft model B737, B747, B767 or B777 or commercial derivative because it determines there is insufficient business basis for proceeding, Boeing may terminate such model or derivative, including any order therefore, by written notice to Spirit. In the event of such a termination, Boeing will be liable to Spirit for any orders issued prior to the date of the termination notice and may also be liable for certain termination costs.

Events of Default and Remedies. It is an event of default under the Supply Agreement if Spirit:

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

If an event of default occurs, Boeing has the right to exercise various remedies set forth in the Supply Agreement, including the right to manufacture or to otherwise obtain substitute products, cancel any or all outstanding orders

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

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Wrongful Termination. If Boeing wrongfully terminates an order, Spirit is entitled to recover lost profits, in addition to any amount Spirit would be entitled to recover for a Termination for Convenience, as described above. If Boeing wrongfully cancels or terminates the Sustaining SBP with respect to a model or program, then Spirit is entitled to all remedies available at law or in equity, with monetary damages not to exceed an agreed limit.

Excusable Delay. If delivery of any product is delayed by circumstances beyond Spirit's reasonable control, and without Spirit's or its suppliers' or subcontractors' error or negligence (including, without limitation, acts of God, war, terrorist acts, fires, floods, epidemics, strikes, unusually severe weather, riots and acts of government), or by any material act or failure to act by Boeing, each being an excusable delay, then, subject to certain exceptions, Spirit's delivery obligations will be extended. If delivery of any product is delayed by an excusable delay for more than three months, Boeing may cancel all or part of any order for the delayed products.

If delivery of any product constituting more than 25% of the ship set value for one or more models of program airplanes is delayed by an excusable delay for more than five months, Boeing may cancel the Sustaining SBP as it applies to such models of program airplanes, and neither party will have any liability to the other, other than as described in the above paragraph under the heading Events of Default and Remedies.

Suspension of Work. Boeing may at any time require Spirit to stop work on any order for up to 120 days. During that time, Boeing may either direct Spirit to resume work or cancel the work covered by the stop-work order. If Boeing directs Spirit to resume work or the 120-day period expires, Spirit must resume work, the delivery schedule affected by the stop-work order will be extended and Boeing must compensate Spirit for its reasonable direct costs incurred as a result of the stop-work order.

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

B787 Supply Agreement with Boeing

Overview. Spirit and Boeing also entered into a long-term supply agreement for Boeing's new B787 program, or the B787 Supply Agreement, which covers the life of the program and commercial derivatives. The B787 Supply Agreement is a requirements contract pursuant to which Spirit is Boeing's exclusive supplier for the forward fuselage, fixed and moveable leading wing edges, engine pylons and related tooling for the B787. While the B787 Supply Agreement does not provide for a minimum or maximum production rate, the agreement acknowledges that Spirit will equip itself for a maximum rate of seven aircraft per month and will negotiate with Boeing regarding an equitable price adjustment if additional expenditures are required to increase the production rate above that level. Pursuant to the settlement described below, Spirit has agreed to proceed with the necessary capital and equipment investments required to produce ten ship sets per month. Additional capital expenditures would be needed for tooling and equipment to support a production rate above seven airplanes per month. Under the B787 Supply Agreement, Spirit also provides certain support, development and redesign engineering services to Boeing at an agreed hourly rate.

Pricing. Pricing for the initial configuration of the B787-8 base model that is currently in production is generally established through 2021, with prices decreasing as cumulative volume levels are met over the life of the program. Prices are subject to adjustment for abnormal inflation (above a specified level in any year) and for certain production,

schedule and other specific changes, including design changes from the contract configuration baseline. We are currently in negotiations with Boeing on pricing for certain changes. The parties have agreed to negotiate in good faith the prices for future commercial derivatives such as the B787-9, based on principles consistent with the B787 Supply Agreement terms as they relate to the B787-8 model.

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Advance Payments/Deferred Revenue. We are required to repay Boeing a 2007 interest free cash advance of \$700.0 million, in the amount of a \$1.4 million offset against the purchase price of each of the first five hundred B787 ship sets delivered to Boeing. If Boeing does not take delivery of five hundred B787 ship sets prior to any termination of the aircraft program, any advances not then repaid will first be applied against any outstanding B787 payments then due by Boeing to us, with any remaining balance to be repaid at the rate of \$84.0 million per year beginning in the year in which we deliver our final B787 production ship set to Boeing, prorated for the remaining portion of the year in which we make our final delivery.

On March 26, 2008, Boeing and Spirit amended their existing B787 Supply Agreement to, among other things, require Boeing to make additional advance payments to Spirit in 2008 in the amount of \$396.0 million for production articles. The additional advances will be applied against the full purchase price of the ship sets delivered (net of the \$1.4 million per ship set applied against the initial \$700.0 million of advances described above) until fully repaid, which is expected to occur before the delivery of the 50th ship set. In the event that Boeing does not take delivery of a sufficient number of ship sets to repay the additional advances by the end of the aircraft program, any additional advances not then repaid will first be applied against any outstanding B787 payments then due by Boeing to us, with any remaining balance repaid beginning the year in which we deliver our final B787 production ship set to Boeing, with the full amount to be repaid no later than the end of the subsequent year.

On June 23, 2009, Boeing and Spirit further amended their existing B787 Supply Agreement to, among other things, require Boeing to make additional advances to Spirit for certain non-recurring derivatives and mission improvement (D/MI) work. These additional advances will be paid to Spirit quarterly for non-recurring work, in amounts determined pursuant to pricing provisions set forth in the agreement, and will be recovered over future units. If Boeing does not take delivery of a sufficient number of ship sets to recover these additional advances by the end of 2021, Spirit would be required to repay any outstanding balance in six equal annual installments. The first D/MI advance payment was made to Spirit in August 2009, with subsequent payments each quarter thereafter.

Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our consolidated balance sheet.

In December 2010, Spirit and Boeing entered into a memorandum of agreement and a settlement agreement in connection with the B787 Program. As part of these agreements, Spirit received a payment in December which has been recorded as *deferred revenue (short-term)* within the consolidated balance sheet pending finalization of a contract amendment which would contain the final settlement terms for claims under the B787 contract between Spirit and Boeing. If the final contract amendment is not agreed to by the second quarter of 2011, Boeing may require reimbursement or set-off of the payment value over a short or long-term period of time. This final amendment may contain provisions that alter the current structure of repayment for the advances described in the section captioned *Risk Factors* in this Annual Report.

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

Events of Default and Remedies. It is an event of default under the B787 Supply Agreement if Spirit:

- (1) fails to deliver products as required by the B787 Supply Agreement;

- (2) breaches the provisions of the B787 Supply Agreement relating to intellectual property and proprietary information;
- (3) participates in the sale, purchase or manufacture of airplane parts without the required approval of the FAA or appropriate foreign regulatory agency;
- (4) fails under certain requirements to maintain a system of quality assurance;

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- (5) fails to comply with other obligations under the B787 Supply Agreement (which breach continues for more than 15 days after notice is received from Boeing);
- (6) is unable to pay its debts as they become due, dissolves or declares bankruptcy;
- (7) fails to comply with U.S. export control laws; or
- (8) breaches the assignment provisions of the B787 Supply Agreement.

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

Assignment. Spirit may not assign its rights under the B787 Supply Agreement or any related order other than with Boeing's consent, which Boeing may not unreasonably withhold unless the assignment is to a disqualified person. A disqualified person is one: (1) whose principal business is as an OEM of commercial aircraft, space vehicles, satellites or defense systems; (2) that Boeing reasonably believes will not be able to perform its obligations under the B787 Supply Agreement; (3) that, after giving effect to the transaction, would be a supplier of more than 40% by value of the major structural components of any Boeing program then in production; or (4) who is, or is an affiliate of, a commercial airplane operator or is one of five named corporate groups. Sale of majority voting power or of all or substantially all of Spirit's assets to a disqualified person is considered an assignment.

License of Intellectual Property

Supply Agreement. All technical work product and works of authorship produced by or for Spirit with respect to any work performed by or for Spirit pursuant to the Supply Agreement are the exclusive property of Boeing. All inventions conceived by or for Spirit with respect to any work performed by or for Spirit pursuant to the Supply Agreement and any patents claiming such inventions are the exclusive property of Spirit, except that Boeing will own any such inventions that Boeing reasonably believes are applicable to the B787 platform, and Boeing may seek patent protection for such B787 inventions or hold them as trade secrets, provided that, if Boeing does not seek patent protection, Spirit may do so.

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

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

To protect Boeing against Spirit's default, Spirit has granted to Boeing a license, exercisable on such default to practice and/or use, and license for others to practice and/or use on Boeing's behalf, Spirit's intellectual property and tooling

related to the development, production, maintenance or repair of products in connection with making, using and selling products. As a part of the foregoing license, Spirit must, at the written request of and at no additional cost to Boeing, promptly deliver to Boeing any such licensed property considered by Boeing to be necessary to exercise Boeing's rights under the license.

B787 Supply Agreement. The B787 Supply Agreement establishes three classifications for patented invention and proprietary information: (1) intellectual property developed by Spirit during activity under the B787 Supply Agreement, or Spirit IP; (2) intellectual property developed jointly by Boeing and Spirit during that activity,

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or Joint IP; and (3) all other intellectual property developed during activity under the B787 Supply Agreement, or Boeing IP.

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

Each party is free to use Joint IP in connection with work on the B787 and other Boeing programs, but each must obtain the consent of the other to use it for other purposes. If either party wishes to license Joint IP to a third party for work on a Boeing program other than the B787, then the other party may require a reasonable royalty, but may not unreasonably withhold its consent, as long as (if the program in question is another Boeing commercial airplane program) Spirit has been offered an opportunity, to the extent commercially feasible, to perform work for the particular program.

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

Additional License From Boeing. Boeing has licensed certain intellectual property rights to Spirit under a Hardware Material Services General Terms Agreement, or HMSGTA, and four initial Supplemental License Agreements, or SLAs, under the HMSGTA. The HMSGTA and the initial SLAs grant Spirit licenses to use Boeing intellectual property to manufacture listed parts for the aftermarket and to perform maintenance, repair and overhaul, or MRO, of aircraft and aircraft components for customers other than Boeing. These agreements also permit Spirit to use knowledge obtained by Spirit personnel prior to the closing of the Boeing Acquisition. Spirit also may obtain additional SLAs from Boeing and those SLAs will also supersede the restrictions on Spirit's use of Boeing's proprietary information and materials described above.

Intellectual Property

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

Our Products

We are organized into three principal reporting segments: (1) Fuselage Systems, which includes forward, mid and rear fuselage sections; (2) Propulsion Systems, which includes nacelles, struts/pylons and engine structural components; and (3) Wing Systems, which includes wing systems and components, flight control surfaces and other miscellaneous structural parts. The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas and Kinston, North Carolina, the Propulsion Systems segment manufactures products at our facilities in Wichita, Kansas, and the Wing Systems segment manufactures products at our facilities in Tulsa and McAlester, Oklahoma, Prestwick, Scotland, Subang, Malaysia and Kinston, North Carolina. We also recently constructed a fuselage assembly plant for the A350 XWB aircraft in Saint-Nazaire, France which is expected to begin operations in 2011, which will receive and assemble center fuselage frame sections designed and manufactured in our Kinston, North Carolina facility, and transport the assembled sections to Airbus. Fuselage Systems, Propulsion Systems and Wing Systems represented approximately 49%, 25%, and 26%, of our net revenues for the twelve months ended December 31, 2010. All other activities fall within the All Other segment, representing less than 1% of our net revenues for the twelve months ended

December 31, 2010, principally made up of sundry sales of miscellaneous services, tooling contracts, and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita.

Table of Contents***Commercial Aircraft Structures***

We principally design, engineer and manufacture commercial aircraft structures such as fuselages, nacelles (including thrust reversers), struts/pylons, wings and wing assemblies and flight control surfaces. We are the largest independent supplier of aerostructures to Boeing and one of the largest independent suppliers of aerostructures to Airbus. Sales related to the commercial aircraft structures market, some of which may be used in military applications, represented approximately 98% of our net revenues for the year ended December 31, 2010.

Our structural components, in particular the forward fuselage and nacelles, are among the most complex and highly engineered structural components and represent a significant percentage of the costs of each aircraft. We are currently the sole-source supplier of 96% of the products we sell to Boeing and Airbus, as measured by dollar value of products sold. We typically sell a package of aerostructure components, referred to as a ship set, to our customers.

The following table summarizes the major commercial (including derivatives, regional and announced business jets) programs that we currently have under long-term contract by product and aircraft platform.

Product	Description	Aircraft Platform
Fuselage Systems		
Forward Fuselage	Forward section of fuselage which houses flight deck, passenger cabin and cargo area	B737, B747, B767, B777, B787
Other Fuselage Sections	Mid-section and other sections of the fuselage and certain other structural components, including floor beams	B737, B747, B777, A350 XWB
Propulsion Systems		
Nacelles (including Thrust Reversers)	Aerodynamic structure surrounding engines	B737, B747, B767, B777, Rolls Royce BR725 Engine (for Gulfstream G650)
Struts/Pylons	Structure that connects engine to the wing	B737, B747, B767, B777, B787, Mitsubishi Regional Jet, Bombardier CSeries
Wing Systems		
Flight Control Surfaces	Flaps and slats	B737, B777, A320 family
Empennages	Empennage horizontal stabilizer and vertical fin and spar assemblies	B737, Hawker Beechcraft 800 series
Wing Structures	Wing framework which consists mainly of spars, ribs, fixed leading edge, stringers, trailing edges and flap track beams	B737, B747, B767, B777, B787, A320 family, A330, A340, A350 XWB, A380, Gulfstream G650, Gulfstream G250

Military Equipment

In addition to providing aerostructures for commercial aircraft, we also design, engineer and manufacture structural components for military aircraft. We have been awarded a significant amount of work for the 737 P-8A and 737 C40. The 737 P-8A and 737 C40 are commercial aircraft modified for military use. Other military programs for which we provide products are AWACS (E-6), the development of the Sikorsky CH-53K, and various other programs.

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The following table summarizes the major military programs that we currently have under long-term contract by product and military platform. Rotorcraft is part of the Fuselage Systems segment and low observables, radome and other military are part of the Wing Systems segment.

Product	Description	Military Platform
Low Observables	Radar absorbent and translucent materials	Various
Rotorcraft	Forward cockpit and cabin	Sikorsky- CH-53K Development Program
Radome	Radome new builds & refurbishment	Airborne Warning and Control System (AWACS)
Other Military	Fabrication, bonding, assembly, testing, tooling, processing, engineering analysis, and training	Various

Aftermarket

We continue to broaden our base for aftermarket support of the products we design and build. We have developed our global sales and marketing channel for spare parts, with sales offices in Singapore, Ireland, China, and the U.S. Our Spirit catalog has over 14,000 parts that we are selling directly to the marketplace by virtue of having obtained parts manufacturing approvals from the FAA. In the area of MRO we have repair stations in Wichita, Kansas, with FAA and European Aviation Safety Agency (EASA) certifications, and Prestwick, Scotland, which is EASA-certified with FAA certification pending. In addition, in late 2009, we opened an MRO repair station through a joint venture in Jinjiang, China, Taikoo Spirit AeroSystems Composite Company, Ltd., which holds Civil Aviation Administration of China certification and FAA approval.

The following table summarizes our aftermarket products and services.

Product	Description	Aircraft Platform
Spares	Provides replacement parts and components support for: In production aircraft	B737NG, B747, B767, B777, B787, Gulfstream 250 and 650, Hawker Beechcraft 850XP, A320 family, A330, A340, A380
Maintenance, Repair and Overhaul	Out of production aircraft Certified repair stations that provide complete on-site nacelle repair and overhaul; maintains global partnerships to support MRO services	B707, B727, B737 Classic, B757 B737, B747, B757, B767, B777
Rotable Assets	Maintain a pool of rotatable assets for exchange and/or lease	B737, B747, B767, B777

Segment Information

We operate in three principal segments: Fuselage Systems, Propulsion Systems and Wing Systems. Substantially all revenues in the three principal segments are with Boeing, with the exception of Wing Systems, which includes revenues from Airbus and other customers. We serve customers in addition to Boeing and Airbus across our three principal segments; however, these customers currently do not represent a significant portion of our revenues, and are not expected to in the near future. All other activities fall within the All Other segment, principally made up of sundry sales of miscellaneous services, tooling contracts, and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita, Kansas. Our primary profitability measure to review a segment's operating performance is segment operating income before unallocated corporate selling, general and administrative expenses, unallocated research and development, and unallocated cost of sales.

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Unallocated corporate selling, general and administrative expenses include centralized functions such as accounting, treasury and human resources. Unallocated research and development includes research and development efforts that benefit the company as a whole and are not unique to a specific segment. Unallocated cost of sales is related to the grant of shares to employees represented by the International Association of Machinists and Aerospace Workers (IAM) in connection with the ratification of a new ten-year labor contract on June 25, 2010, early retirement incentives for represented members of the IAM who made elections to retire in 2010, and grant of shares to employees represented by the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW) in connection with the ratification of a new ten-year labor contract on December 18, 2010. All of these unallocated items are not specifically related to our operating segments and are not allocated in measuring the operating segments' profitability and performance and operating margins.

The Fuselage Systems segment includes development, production and marketing of forward, mid and rear fuselage sections and systems, primarily to aircraft OEMs (OEM refers to aircraft original equipment manufacturer), as well as related spares and maintenance, repairs and overhaul (MRO). The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas and Kinston, North Carolina.

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

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

Our segments are consistent with the organization and responsibilities of management reporting to the chief operating decision-maker for the purpose of assessing performance. Our definition of segment operating income differs from operating income as presented in the financial statements and a reconciliation of the segment and consolidated results is provided in the table set forth below. Most selling, general and administrative expenses, and all interest expense or income, related financing costs and income tax amounts, are not allocated to the operating segments.

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

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The following table shows segment information (dollars in millions):

	December 31, 2010	For the Year Ended December 31, 2009	December 31, 2008
Segment Net Revenues			
Fuselage Systems	\$ 2,035.1	\$ 2,003.6	\$ 1,758.4
Propulsion Systems	1,061.8	1,030.0	1,031.7
Wing Systems	1,067.4	1,024.4	955.6
All Other	8.1	20.5	26.1
	\$ 4,172.4	\$ 4,078.5	\$ 3,771.8
Segment Operating Income			
Fuselage Systems	\$ 292.3	\$ 287.6	\$ 287.6
Propulsion Systems	137.5	122.6	162.2
Wing Systems	101.0	20.7	99.7
All Other	(1.8)	(1.4)	0.3
Business Segment Operating Income	529.0	429.5	549.8
Unallocated corporate SG&A	(139.7)	(122.7)	(141.7)
Unallocated research and development	(3.6)	(3.5)	(2.4)
Unallocated cost of sales(1)	(28.7)		
Total operating income	\$ 357.0	\$ 303.3	\$ 405.7

- (1) Unallocated cost of sales for the twelve months ended December 31, 2010 includes charges related to the grant of shares to employees represented by the IAM in connection with the ratification of a new ten-year labor contract on June 25, 2010, early retirement incentives for members represented by IAM who made elections to retire in 2010, and grants of shares to employees represented by the UAW in connection with the ratification of a new ten-year labor contract on December 18, 2010.

Sales and Marketing

Our established sales and marketing infrastructure supports our efforts to expand our business with new and existing customers in three sectors of the aerostructures industry: (1) large commercial airplanes, (2) business and regional jets and (3) military/helicopter. The sales directors establish and maintain relationships with individual customers and are supported in their campaigns by sales teams within specific product specialties and a market research team performing various analyses related to those products and customers. The comprehensive sales and marketing teams work closely to ensure a consistent, single message approach with customers.

Although we have long-term contracts with Boeing and Airbus on programs such as the B737, B787, A320, A350 XWB and A380, and OEMs generally desire to minimize costs by retaining established aerostructure suppliers, our sales and marketing team continues to maintain strong relationships with the OEMs to position us for future business opportunities. Our marketing team continues to research and analyze trends in our industry and in new product

development, and our sales team maintains regular contact with key Boeing and Airbus decision-makers to prepare for new business opportunities from both companies.

We maintain a customer contact database to maximize our interactions with existing and potential customers. In the time that Spirit has existed as an independent company, we have been successful in building a positive identity and name recognition for the Company brand through advertising, trade shows, sponsorships and Spirit customer events. In order to diversify and win new customers, we market our expertise in the design and manufacture of major aerostructures and advanced manufacturing capabilities with both composites and traditional metals processes.

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Customers

Our primary customers are aircraft OEMs. Boeing and Airbus are our two largest customers. We are the largest independent aerostructures supplier to Boeing and one of the largest independent suppliers to Airbus. We entered into long-term supply agreements with our customers to provide aerostructure products to aircraft programs. As of December 31, 2010, virtually all of the products we sell are under long-term contracts and 96% of those products, as measured by dollar value of products sold, are supplied by us on a sole-sourced basis.

We have good relationships with our customers due to our diverse product offerings, leading design and manufacturing capabilities using both metallic and composite materials, and competitive pricing.

Boeing. For the twelve months ended December 31, 2010, approximately 83% of our revenues were from sales to Boeing. We have a strong relationship with Boeing given our predecessor's 75+ year history as a Boeing division. Many members of our senior management team are former Boeing executives or managers who have longstanding relationships with Boeing and continue to work closely with Boeing. As part of the Boeing Acquisition, we entered into a long-term supply agreement under which we are Boeing's exclusive supplier for substantially all of the products and services provided by Boeing Wichita prior to the Boeing Acquisition for the life of the programs. In addition, Boeing selected us to be the design leader for the Boeing B787 forward fuselage based in part on our expertise with composite technologies.

We believe our relationship with Boeing is unmatched in the industry and will allow us to continue to be an integral partner with Boeing in the designing, engineering and manufacturing of complex aerostructures.

Airbus. For the twelve months ended December 31, 2010, approximately 11% of our revenues were from sales to Airbus. As a result of the BAE Acquisition, we became one of the largest independent aerostructures suppliers to Airbus, and we have expanded our relationship through new business wins. Under our supply agreement with Airbus, we supply products for the life of the aircraft program, including commercial derivative models, with pricing determined through 2015. For the A350 XWB and A380 programs, we have long-term requirements contracts with Airbus that cover a fixed number of units. We believe we can leverage our relationship with Airbus and our history of delivering high-quality products to further increase our sales to Airbus and continue to partner with Airbus on new programs going forward.

In May 2008, Spirit announced that it had signed a contract with Airbus to design and manufacture major composite fuselage structures for the A350 XWB program. To accommodate this and other work, Spirit announced plans to expand its operations with a new facility in Kinston, North Carolina. Construction of the new facility began in the fall of 2008 and operations commenced in the second quarter of 2010. Additionally, in the fall of 2009, we began construction on a new facility in Saint-Nazaire, France which will receive and assemble center fuselage frame sections designed and manufactured in our Kinston, North Carolina facility, and transport the assembled sections to Airbus. Construction on the France facility was completed in 2010, with operations to begin in 2011.

In July 2008, Spirit Europe announced that it had signed a contract with Airbus to design and manufacture a major wing structure for the A350 XWB program. Spirit Europe will design and assemble the wing leading edge structure primarily at its facility in Prestwick, Scotland. The composite front spar will be built at the new facility in Kinston, North Carolina with sub-assemblies being manufactured at the Spirit AeroSystems Malaysia facility in Subang, Malaysia.

Although most of our revenues are obtained from sales inside the U.S., we generated \$498.4 million, \$575.9 million, and \$465.4 million in sales to international customers for the twelve months ended December 31, 2010, December 31, 2009, and December 31, 2008, respectively, primarily to Airbus.

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The following chart illustrates the split between domestic and foreign revenues (dollars in millions):

Revenue Source(1)	Year Ended December 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Net Revenues	Percent of Total Net Revenues	Net Revenues	Percent of Total Net Revenues	Net Revenues	Percent of Total Net Revenues
United States	\$ 3,674.0	88%	\$ 3,502.6	86%	\$ 3,306.4	88%
International						
United Kingdom	400.4	10	385.7	9	413.3	11
Other	98.0	2	190.2	5	52.1	1
Total International	498.4	12	575.9	14	465.4	12
Total Revenues	\$ 4,172.4	100%	\$ 4,078.5	100%	\$ 3,771.8	100%

(1) Revenues are attributable to countries based on the destination where goods are delivered.

The international revenue is included primarily in the Wing Systems segment. All other segment revenues are primarily from U.S. sales. Approximately 7% of our total assets based on book value are located in the United Kingdom as part of Spirit Europe with approximately another 2% of our total assets located in countries outside the United States and the United Kingdom.

Expected Backlog

As of December 31, 2010, our expected backlog associated with large commercial aircraft, regional jet, business jet, and military equipment deliveries through 2016, calculated based on contractual product prices and expected delivery volumes, was approximately \$28.3 billion. This is an increase of \$0.3 billion from our corresponding estimate as of the end of 2009 reflecting the fact that Airbus and Boeing new orders exceeded deliveries in 2010. Backlog is calculated based on the number of units Spirit is under contract to produce on our fixed quantity contracts, and Boeing and Airbus announced backlog on our supply agreements. The number of units may be subject to cancellation or delay by the customer prior to shipment, depending on contract terms. The level of unfilled orders at any given date during the year may be materially affected by the timing of our receipt of firm orders and additional airplane orders, and the speed with which those orders are filled. Accordingly, our expected backlog as of December 31, 2010, may not necessarily represent the actual amount of deliveries or sales for any future period.

Manufacturing and Engineering***Manufacturing***

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

Our core manufacturing competencies include:

composites design and manufacturing processes;

leading mechanized and automated assembly and fastening techniques;

large-scale skin fabrication using both metallic and composite materials;

chemical etching and metal bonding expertise;

monolithic structures technology; and

precision metal forming producing complex contoured shapes in sheet metal and extruded aluminum.

Our manufacturing expertise is supported by our state-of-the-art equipment. We have over 20,000 major pieces of equipment installed in our customized manufacturing facilities. For example, for the manufacture of the B787

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composite forward fuselage, we installed a 30-foot diameter by 70-foot long autoclave, which is one of the largest autoclaves in the world. An autoclave is an enclosure device that generates controlled internal heat and pressure conditions used to cure and bond certain resins and is used in the manufacture of composite structures. We installed a comparable autoclave as well as other specialized machines in Kinston, North Carolina to support our work on the A350 XWB. We intend to continue to make the appropriate investments in our facilities to support and maintain our industry-leading manufacturing expertise.

Engineering

We have approximately 1,700 engineers and technical employees, including over 70 contract engineers. In addition, we currently contract the work of more than 610 engineers from engineering services firms worldwide, including 55 engineers through Spirit-Progresstech LLC, a joint venture we entered into with Progresstech LTD of Moscow, Russia in November 2007. We also employ 24 technical fellows, who are experts in engineering and keep the Company current with new technology by producing technical solutions for new and existing products and processes; 12 FAA designated engineering representatives (DER), experienced engineers appointed by the FAA to approve engineering data used for certification; and 10 authorized representatives, who possess the same qualifications and perform the same certification functions as DERs, but with authority from the Boeing Certification and Compliance Organization. The primary purpose of the engineering organization is to provide continuous support for ongoing design, production and process improvements. We possess a broad base of engineering skills in metal and composite fabrication and assembly, chemical processing and finishing, tooling design and development, and quality and precision measurement technology, systems and controls.

Our engineering organization is composed of four primary groups, including: (1) Structures Design and Drafting, which focuses on production support, customer introductions, design-for-manufacturing and major product derivatives; (2) Structures Technology, which focuses on overall structural integrity over the lifecycle of the airframe through stress and durability analysis, damage tolerance analysis and vibration testing; (3) Manufacturing Engineering, responsible for applying lean manufacturing techniques, interpreting design drawings and providing manufacturing sequence work plans; and (4) Liaison, Lab and Materials, Processes and Standards, which conducts research into defects discovered by quality assurance through analytical chemistry, metallurgical, static and dynamic testing and full-scale testing.

We believe our leading engineering capabilities are a key strategic factor differentiating us from some of our competitors.

Research and Development

We believe that world-class research and development helps to maintain our position as an advanced partner to our OEM customers' new product development teams. As a result, we spend significant capital and financial resources on our research and development, including approximately \$51.5 million during the year ended December 31, 2010, approximately \$56.7 million during the year ended December 31, 2009, and approximately \$48.4 million during the year ended December 31, 2008. Through our research, we strive to develop unique intellectual property and technologies that will improve our OEM customers' products and, at the same time, position us to win work on new products. Our development effort, which is an ongoing process that helps us reduce production costs and streamline manufacturing, is currently focused on preparing for initial production of new products and improving manufacturing processes on our current work.

Our research and development is geared toward the architectural design of our principal products: fuselage systems, propulsion systems and wing systems. We are currently focused on research in areas such as advanced metallic joining, low-cost composites, acoustic attenuation, efficient structures, systems integration, advanced design and

analysis methods, and new material systems. Other items that are expensed relate to research and development that is not funded by the customer. We collaborate with universities, research facilities and technology partners in our research and development.

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Suppliers and Materials

The principal raw materials used in our manufacturing operations are aluminum, titanium and materials such as carbon fiber used to manufacture composites. We also use purchased products such as machined parts, sheet metal parts, non-metallic parts and assemblies. In addition, we purchase assemblies and subassemblies from various manufacturers which are used in the final aerostructure assembly.

Currently we have approximately 1,507 active suppliers with no one supplier representing more than 4% of our cost of goods sold. Our strategy is to enter into long-term supply contracts with our largest suppliers to secure competitive pricing. Our exposure to rising raw material prices is somewhat limited due to raw materials purchase contracts which are either based on fixed pricing or priced at reduced rates through Boeing's or Airbus' high-volume purchase contracts for such raw materials.

Although we believe our material costs are competitive, we continue to seek ways to further reduce these costs. We have global sourcing initiatives that increase the amount of material sourced from low-cost countries in Asia and Central Europe. Historically, Boeing Wichita and BAE Aerostructures purchased certain parts from other Boeing or BAE Systems facilities, respectively, since they operated as divisions of Boeing and BAE Systems, respectively. We continue to achieve cost savings by reducing the amount of parts that we purchase from Boeing and BAE Systems. Following the Boeing divestiture and BAE Systems acquisition, we have been free to contract with third parties for, or to produce internally, the parts that Boeing and BAE Systems historically supplied. We have successfully implemented the process of moving to internal production with the opening of our facility in Malaysia enabling further cost reductions in 2010.

Environmental Matters

Our operations and facilities are subject to various environmental, health and safety laws and regulations, including federal, state, local and foreign government requirements, governing, among other matters, the emission, discharge, handling and disposal of regulated materials, the investigation and remediation of contaminated sites, and permits required in connection with our operations. Our operations are designed, maintained and operated to promote protection of human health and the environment. Although we believe that our operations and facilities are in material compliance with applicable environmental and worker protection laws and regulations, management cannot provide assurance that future changes in such laws or their enforcement, or the nature of our operations will not require us to make significant additional expenditures to ensure continued compliance. Further, we could incur substantial costs, including costs to reduce air emissions, clean-up costs, fines and sanctions, and third-party property damage or personal injury claims as a result of violations of or liabilities under environmental laws, relevant common law or the environmental permits required for our operations.

In March 2009, we received a Notice of Violation from the federal Environmental Protection Agency (the "EPA") alleging violations of the Resource Conservation and Recovery Act at our Wichita facility based on an inspection in 2006, including an allegation of operating a hazardous waste storage facility without a permit. The alleged violations have been corrected. After informal settlement discussions with the EPA concluded without a settlement, the EPA filed a formal complaint to initiate the administrative adjudication process. Spirit answered the complaint and the parties are pursuing a mediation opportunity afforded as part of the process. The total proposed penalty is approximately \$240,000.

New regulations or more stringent enforcement of existing requirements could also result in additional compliance costs. For example, various governments have enacted or are considering enactment of laws to reduce emissions of carbon dioxide and other so-called greenhouse gases ("GHG"). In particular, the U.S. EPA has promulgated new regulations that require certain Spirit facilities to report annual GHG emissions and will require new operating permits

to be issued for those facilities. In the absence of a national price for carbon-based air pollutant emissions, new legislation from Congress, or information relative to additional regulation from the EPA we are not in a position at this time to estimate the costs which may result from these or similar actions.

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United States

Under some environmental laws in the United States, a current or previous owner or operator of a contaminated site may be held liable for the entire cost of investigation, removal or remediation of regulated materials at such property, whether or not the owner or operator knew of, or was responsible for, the presence of such regulated materials. Persons who arrange for disposal or treatment of hazardous materials also may be liable for the costs of investigation, removal or remediation of those substances at a disposal or treatment site, regardless of whether the affected site is owned or operated by them. Because we own and/or operate a number of facilities that have a history of industrial or commercial use and because we arrange for the disposal of regulated materials at many disposal sites, we may and do incur costs for investigation, removal and remediation.

The Asset Purchase Agreement for the Boeing Acquisition, referred to herein as the *Asset Purchase Agreement*, provides, with limited exceptions, that Boeing is responsible for environmental liabilities relating to conditions existing at the Wichita, Kansas and Tulsa and McAlester, Oklahoma facilities as of the Boeing Acquisition date. For example, Boeing is subject to an administrative consent order issued by the Kansas Department of Health and Environment, or KDHE, to contain and clean up contaminated groundwater, which underlies a majority of the Wichita site. Pursuant to the KDHE order, Boeing has a long-term remediation plan in place, and containment and remediation efforts are underway. We are responsible for any environmental conditions that we cause at these facilities following the Boeing Acquisition.

United Kingdom

In the United Kingdom, remediation of contaminated land may be compelled by the government in certain situations. If a property is to be redeveloped, in its planning role, the local authority may require remediation as a condition to issuing a permit. In addition, in situations in which the contamination is causing harm to human health or polluting the environment, the local authority may use its environmental legislative powers to force remediation so that the impacted areas are suitable for use. If contamination is polluting the property of a third party or causing loss, injury or damage, the third party may file an action against the owner or operator of the source in common law based on negligence or nuisance to recover the value of the loss, injury or damage sustained.

Prestwick Facility. BAE Systems indemnified us, subject to certain contractual limitations and conditions, for any clean-up costs and other losses, liabilities, expenses and claims related to existing pollution at the Prestwick facility, existing pollution that migrates from the Prestwick facility to a third party's property and any pollution that migrates to the Prestwick facility from the property retained by BAE Systems. Subject to certain exceptions, the indemnity has an aggregate liability cap of £40.0 million. As of December 31, 2010, we do not anticipate reaching the liability cap.

Other International Sites

Spirit's interests in other international sites are subject to foreign government environmental laws and regulations. It is our policy and practice to comply with all requirements, both domestic and international. We believe that our procedures are properly designed to prevent unreasonable risk of environmental damage and resulting financial liability in connection with our business.

Competition

Although we are one of the largest independent non-OEM aerostructures suppliers, based on annual revenues, with an estimated 16% share of the global aerostructures market, this market remains highly competitive and fragmented. Our primary competition currently comes from either work performed by internal divisions of OEMs or third-party aerostructures suppliers, but direct competition continues to grow.

Our principal competitors among OEMs may include Airbus, Boeing, Dassault Aviation, Embraer Brazilian Aviation Co., Gulfstream Aerospace Co., Hawker Beechcraft Corporation, United Technologies, and Textron Inc. These OEMs may choose not to outsource production of aerostructures due to their own direct labor and overhead considerations and capacity utilization at their own facilities. Consequently, traditional factors affecting competition, such as price and quality of service, may not be significant determinants when OEMs decide whether to

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produce parts in-house or to outsource them. It is also true that offset requirements from customers of OEMs may drive some decisions relative to their business model for production.

Our principal competitors among non-OEM aerostructures suppliers are Aircelle S.A., Alenia Aeronautica, Fuji Heavy Industries, Ltd., GKN Aerospace, The Goodrich Corporation, Kawasaki Heavy Industries, Inc., Mitsubishi Heavy Industries, Saab AB, Snecma, Triumph Group, Inc., Latecoere S.A., Aerolia SAS, Premium Aerotech GmbH and Nexcelle. Our ability to compete for new aerostructures contracts depends upon (1) our design, engineering and manufacturing capabilities, (2) our underlying cost and pricing structure, (3) our business relationship with OEMs, and (4) our available manufacturing capacity.

Employees

As of December 31, 2010, we had approximately 12,589 employees and approximately 185 contract labor personnel, located in our four U.S. facilities. Approximately 83% of our U.S. employees are represented by five unions. Our largest union is the IAM, which represents approximately 5,704 employees, or 45%, of the U.S. workforce. We successfully negotiated a new long-term ten-year contract with this union in 2010, which is in effect through June 25, 2020. The Society of Professional Engineering Employees in Aerospace – Wichita Technical and Professional Unit (SPEEA WTPU) represents approximately 2,302 employees, or 18%, of the U.S. workforce. This union contract is in effect through July 11, 2011. The UAW represents approximately 1,449 employees, or 12%, of the U.S. workforce. This union contract is in effect through November 30, 2020. The Society of Professional Engineering Employees in Aerospace – Wichita Engineering Unit (SPEEA WEU) represents approximately 804 employees, or 6%, of the U.S. workforce. We successfully negotiated a new contract with this union in 2009, which is in effect through December 1, 2012. The International Brotherhood of Electrical Workers, or IBEW, represents approximately 175 employees, or 1%, of the U.S. workforce. This union contract is in effect through September 18, 2020.

As of December 31, 2010, we had approximately 919 employees and approximately 49 contract labor personnel located in our two U.K. facilities. Approximately 655, or 71%, of our U.K. employees are represented by one union, Unite (Amicus Section). We have entered into a three year labor agreement with Unite, the terms of which are generally negotiated on an annual basis. Wages are typically the primary subject of our negotiations, while other contract terms generally remain the same from year to year until both parties agree to change them (either separately or in the aggregate). This labor agreement expires January 1, 2012.

As of December 31, 2010, we had approximately 410 employees and approximately 6 contract labor personnel in our Malaysia facility. None of our Malaysia employees are represented by a union.

We consider our relationships with our employees to be satisfactory.

Government Contracts

Companies engaged in supplying defense-related equipment and services to U.S. Government agencies, either directly or by subcontract, are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally: (1) suspend or debar us from receiving new prime contracts or subcontracts; (2) terminate existing contracts; (3) reduce the value of existing contracts; (4) audit our contract-related costs and fees, including allocated indirect costs; and (5) control and potentially prohibit the export of our products.

Most U.S. Government contracts for which we subcontract can be terminated by the U.S. Government either for its convenience or if the prime contractor defaults by failing to perform under the contract. In addition, the prime contractor typically has the right to terminate our subcontract for its convenience or if we default by failing to perform under the subcontract. Termination for convenience provisions generally provide only for our recovery of costs

incurred or committed, settlement expenses and profit on the work completed prior to termination. Termination for default provisions generally provide for the subcontractor to be liable for excess costs incurred by the prime contractor in procuring undelivered items from another source.

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Foreign Ownership, Control or Influence (FOCI)

Due to the fact that more than 50% of our voting power is effectively controlled by a non-U.S. entity (Onex) we are required to operate in accordance with the terms and requirements of a Special Security Agreement, or SSA, with the Department of Defense (DOD). Under the DOD National Industrial Security Program Operating Manual (NISPOM), the U.S. Government will not award contracts to companies determined to be under FOCI, where a DoD Facility Security Clearance, or FCL, is required, unless certain mitigation measures are put in place. The purpose of the FOCI mitigation measures is to protect cleared U.S. defense contractors against improper FOCI.

We have been cleared to the Secret level under an SSA, which is one of the recognized FOCI mitigation measures under the NISPOM. As a cleared entity, we must comply with the requirements of our SSA, the NISPOM and any other applicable U.S. Government industrial security regulations. Failure to follow the requirements of the SSA, the NISPOM or any other applicable U.S. Government industrial security regulations could, among other things, result in termination of our FCL, which in turn would preclude us from being awarded classified contracts or, under certain circumstances, performing on our existing classified contracts.

Governmental Regulations

The commercial aircraft component industry is highly regulated by both the FAA in the United States, the Joint Aviation Authority, or JAA, in Europe and other agencies throughout the world. The military aircraft component industry is governed by military quality specifications. We, and the components we manufacture, are required to be certified by one or more of these entities or agencies, and, in some cases, by individual OEMs, to engineer and service parts and components used in specific aircraft models.

We must also satisfy the requirements of our customers, including OEMs and airlines that are subject to FAA regulations, and provide these customers with products and services that comply with the government regulations applicable to commercial flight operations. In addition, the FAA requires that various maintenance routines be performed on aircraft components. We believe that we currently satisfy or exceed these maintenance standards in our repair and overhaul services. We also maintain several FAA-approved repair stations.

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

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

Available Information

Our Internet address is www.spiritaero.com. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Annual Report.

We make available through our Internet website under the heading Investor Relations, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports after we electronically file them with the Securities and Exchange Commission (SEC). Copies of our key corporate governance documents, including its Corporate Governance Guidelines, Code of Ethics and Business

Conduct, and charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are also available on our website.

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

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Item 1A. Risk Factors

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

Risk Factors Related to Our Business and Industry

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

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

Near-term challenges to our customers include sovereign debt default, economic weakness in the airline industry and the continuing volatility in global credit markets (which contributed to widespread economic slowdown, restricted discretionary spending, inability to finance airplane purchases, and a slowdown in air traffic). Possible exogenous shocks such as expanding conflicts or political unrest in the Middle East or Asia, renewed terrorist attacks against the industry, or pandemic health crises have the potential to cause precipitous declines in air traffic. Any protracted economic slump, continued adverse credit market conditions, future terrorist attacks, war or health concerns could cause airlines to cancel or delay the purchase of additional new aircraft which could result in a deterioration of commercial airplane backlogs. If demand for new aircraft decreases, there would likely be a decrease in demand for our commercial aircraft products, and our business, financial condition and results of operations could be materially adversely affected.

Our business could be materially adversely affected if one of our components causes an aircraft accident.

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured or serviced by us or our suppliers. While we believe that our liability insurance is adequate to protect us from future product liability claims, it may not be adequate. Also, we may not be able to maintain insurance coverage in the future at an acceptable cost. Any such liability not covered by insurance or for which third-party indemnification is not available could require us to dedicate a substantial portion of our cash flows to make payments on such liability, which could have a material adverse effect on our business, financial condition and results of operations.

An accident caused by one of our components could also damage our reputation for quality products. We believe our customers consider safety and reliability as key criteria in selecting a provider of aerostructures. If an accident were to be caused by one of our components, or if we were to otherwise fail to maintain a satisfactory record of safety and reliability, our ability to retain and attract customers could be materially adversely affected.

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

Our operations expose us to potential liability for warranty claims made by customers or third parties with respect to aircraft components that have been designed, manufactured, or serviced by us or our suppliers. Material product warranty obligations could have a material adverse effect on our business, financial condition and results of operations.

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

Currently, Boeing is our largest customer and Airbus is our second-largest customer. For the twelve months ended December 31, 2010, approximately 83% and 11% of our net revenues were generated from sales to Boeing and Airbus, respectively. Although our strategy, in part, is to diversify our customer base by entering into supply arrangements with additional customers, we cannot give any assurance that we will be successful in doing so. Even if we are successful in obtaining and retaining new customers, we expect that Boeing and, to a lesser extent, Airbus, will continue to account for a substantial portion of our sales for the foreseeable future. Although we are a party to various supply contracts with Boeing and Airbus which obligate Boeing and Airbus to purchase all of their requirements for certain products from us, those agreements generally do not require specific minimum purchase volumes. In addition, if we breach certain obligations under these supply agreements and Boeing or Airbus exercises its right to terminate such agreements, our business will be materially adversely affected. Boeing and Airbus have the contractual right to cancel their supply agreements with us for convenience, which could include the termination of one or more aircraft models or programs for which we supply products. Although Boeing and Airbus would be required to reimburse us for certain expenses, there can be no assurance these payments would adequately cover our expenses or lost profits resulting from the termination. In addition, we have agreed to a limitation on recoverable damages if Boeing wrongfully terminates our main supply agreement with respect to any model or program. If this occurs, we may not be able to recover the full amount of our actual damages. Furthermore, if Boeing or Airbus (1) experiences a decrease in requirements for the products which we supply to it; (2) experiences a major disruption in its business, such as a strike, work stoppage or slowdown, a supply-chain problem or a decrease in orders from its customers; or (3) files for bankruptcy protection; our business, financial condition and results of operations could be materially adversely affected.

Our largest customer, Boeing, operates in a very competitive business environment.

Boeing operates in a highly competitive industry. Competition from Airbus, Boeing's main competitor, as well as from regional jet makers, has intensified as these competitors expand aircraft model offerings and competitively price their products. As a result of this competitive environment, Boeing continues to face pressure on product offerings and sale prices. While we do have supply agreements with Airbus, we currently have substantially more business with Boeing and thus any adverse effect on Boeing's production of aircraft resulting from this competitive environment may have a material adverse effect on our business, financial condition and results of operations.

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

For the twelve months ended December 31, 2010, approximately 54% of our net revenues were generated from sales of components to Boeing for the B737 aircraft. While we have entered into long-term supply agreements with Boeing to continue to provide components for the B737 for the life of the aircraft program, including commercial and the military P-8A Poseidon derivatives, Boeing does not have any obligation to purchase components from us for any replacement for the B737 that is not a commercial derivative model. Boeing has publicly announced its intention to develop a next-generation single-aisle aircraft program to replace the B787. If Boeing develops a next-generation aircraft program to replace the B737 which is not a commercial derivative, we may not have the next-generation technology, engineering and manufacturing capability necessary to obtain significant aerostructures supply business for the replacement program, may not be able to provide components for the replacement program at competitive prices or, for other reasons, may not be engaged by Boeing to the extent of our involvement in the B737 or at all. If we were unable to obtain significant aerostructures supply business for any B737 replacement program, our business, financial condition and results of operations could be materially adversely affected.

The profitability of the B787 program depends significantly on the assumptions surrounding a satisfactory settlement of assertions.

Due to the nature of the work performed related to the B787, we regularly commence work or incorporate customer requested changes prior to negotiating pricing terms for the engineering work or the product which has been modified. We have the legal right to negotiate pricing for customer directed changes. We assert to our

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customers our contractual rights to obtain the additional revenue or cost reimbursement we expect to receive upon finalizing pricing terms. An expected recovery value of these assertions is incorporated into our contract profitability estimates when applying contract accounting. Our inability to recover these expected values, among other factors, could result in the recognition of a forward loss on the B787 program and could have a material adverse effect on our results of operations.

Our business depends, in part, on the success of a new model aircraft, the B787.

The success of our business will depend, in part, on the success of Boeing's new B787 program. We have entered into supply agreements with Boeing pursuant to which we are a Tier 1 supplier to the B787 program. We have made and will continue to make a significant investment in this program before the first commercial delivery of a B787 jetliner. Following program delays, on December 15, 2009, Boeing completed the first flight of the B787 jetliner. This was followed by the completion of initial airworthiness testing on January 15, 2010. On November 11, 2010, Boeing announced the postponement of further flight test activities on the B787, following the occurrence of an onboard electrical fire on a November 10, 2010 test flight. Boeing developed software system and other upgrades in response to that occurrence. We anticipate, based on public announcements by Boeing, that Boeing will commence commercial deliveries on the B787 in approximately the third quarter of 2011. We are in the process of evaluating the impact of the revised schedule on our business. We have temporarily shifted employees from the B787 program to work on other programs. Amounts capitalized into inventory represent our primary working capital exposure to the B787 delays. Given the low margins we currently project in our first contract accounting block, if Boeing is unable to meet currently anticipated production levels or if we are not able to achieve the cost reductions we expect, successfully implement customer driven engineering changes, or successfully complete contract negotiations, including assertions, we could eventually need to recognize a forward loss in our current contract accounting block. Any additional delays in the B787 program, including delays in negotiations of certain contractual matters with Boeing, could further impact our cash flows from operations and could materially adversely affect our business, financial condition and results of operations.

We may be required to repay Boeing up to approximately \$1,023.3 million of advance payments and deferred revenue made to us by Boeing related to the B787 Supply Agreement. The advances may be repaid in the event that Boeing does not take delivery of a sufficient number of ship sets prior to the termination of the aircraft program. The deferred revenue may be repaid if a final contract amendment is not reached during the first half of 2011.

We are required to repay Boeing a 2007 interest free cash advance of \$700 million, in the amount of a \$1.4 million offset against the purchase price of each of the first five hundred B787 ship sets delivered to Boeing. In the event that Boeing does not take delivery of five hundred B787 ship sets by the end of the aircraft program, any advances not then repaid will first be applied against any outstanding B787 payments then due by Boeing to us, with any remaining balance to be repaid at the rate of \$84.0 million per year beginning in the year in which we deliver our final B787 production ship set to Boeing, prorated for the remaining portion of the year in which we make our final delivery.

On March 26, 2008, Boeing and Spirit amended their existing B787 Supply Agreement to, among other things, require Boeing to make additional advance payments to Spirit in 2008 in the amount of \$396.0 million for production articles. The additional advances will be applied against the full purchase price of the ship sets delivered (net of the \$1.4 million per ship set applied against the initial \$700.0 million of advances described above) until fully repaid, which is expected to occur before the delivery of the 50th ship set. In the event that Boeing does not take delivery of a sufficient number of ship sets to repay the additional advances by the end of the aircraft program, any additional advances not then repaid will first be applied against any outstanding B787 payments then due by Boeing to us, with any remaining balance repaid beginning in the year in which we deliver our final B787 production ship set to Boeing, with the full amount to be repaid no later than the end of the subsequent year.

On June 23, 2009, Boeing and Spirit further amended their existing B787 Supply Agreement to, among other things, require Boeing to make additional advances to Spirit. These additional advances are paid to Spirit quarterly, in amounts determined pursuant to pricing provisions set forth in the agreement, and will be recovered over future units. In the event that Boeing does not take delivery of a sufficient number of ship sets to recover these additional

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advances by the end of 2021, Spirit would be required to repay any outstanding balance in six equal annual installments. The advance payments have been made to Spirit quarterly since August 2009.

In December 2010, Spirit and Boeing entered into a memorandum of agreement and a settlement agreement. As part of these agreements, Spirit received a payment in December which has been recorded as *deferred revenue (short-term)* within the consolidated balance sheet pending finalization of a contract amendment which would contain the final settlement terms for claims under the B787 contract between Spirit and Boeing. If the final contract amendment is not agreed to by the second quarter of 2011, Boeing may require reimbursement or set-off of the payment over a short or long-term period of time. This final amendment may contain provisions that alter the current structure of repayment for the advances described in this risk factor.

Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our consolidated balance sheet. As of December 31, 2010, the amount of advance payments and deferred revenue made to us by Boeing under the B787 Supply Agreement and not yet repaid or recognized as revenue was approximately \$1,023.3 million.

We incur risk associated with new programs.

New programs with new technologies typically carry risks associated with design responsibility, development of new production tools, hiring and training of qualified personnel, increased capital and funding commitments, ability to meet customer specifications, delivery schedules and unique contractual requirements, supplier performance, ability of the customer to meet its contractual obligations to us, and our ability to accurately estimate costs associated with such programs. In addition, any new aircraft program may not generate sufficient demand or may experience technological problems or significant delays in the regulatory certification or manufacturing and delivery schedule. If we were unable to perform our obligations under new programs to the customer's satisfaction, if we were unable to manufac