

Spirit AeroSystems Holdings, Inc.
Form 10-K
February 19, 2014

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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, 2013

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
Class A Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered
New York Stock Exchange

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

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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

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
(Do not check if a smaller reporting company)

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 June 27, 2013, as reported on the New York Stock Exchange was approximately \$2,643,834,149.

As of February 12, 2014, the registrant had outstanding 120,991,868 shares of class A common stock, \$0.01 par value per share, and 23,817,017 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 2014 Annual Meeting of Stockholders to be filed not later than 120 day after the end of the fiscal year covered by this Report are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains certain "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, execution, and profitability of new and maturing programs;

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

margin pressures and the potential for additional forward losses on new and maturing programs;

our ability to accommodate, and the cost of accommodating, announced increases in the build rates of certain aircraft;

the effect on business and commercial aircraft demand and build rates of the following factors: changing customer preferences for business aircraft, including the effect of global economic conditions on the business aircraft market, expanding conflicts or political unrest in the Middle East or Asia and the impact of continuing instability in global financial and credit markets, including, but not limited to, any failure to avert a sovereign debt crisis in Europe;

customer cancellations or deferrals as a result of global economic uncertainty;

the success and timely execution of key milestones such as certification and first delivery of Airbus' A350 XWB aircraft program, receipt of necessary regulatory approvals and customer adherence to their announced schedules;

our ability to successfully negotiate new pricing under our agreements with Boeing;

our ability to enter into profitable supply arrangements with additional customers;

the ability of all parties to satisfy their performance requirements under existing supply contracts with 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;

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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 ability to borrow additional funds or refinance debt;

our ability to sell all or any portion of our Oklahoma sites for a price and on terms acceptable to us;

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competition from commercial aerospace original equipment manufacturers and other aerostructures suppliers;

the effect of governmental laws, such as U.S. export control laws and U.S. and foreign anti-bribery laws such as the Foreign Corrupt Practices Act and the United Kingdom Bribery Act, and environmental laws and agency regulations, both in the U.S. and abroad;

the cost and availability of raw materials and purchased components;

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 rate and foreign currency hedging programs;

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

our exposure to potential product liability and warranty claims;

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

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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 Airbus Group NV. References to "OEM" refer to commercial aerospace original equipment manufacturer.

We are one of the largest independent non-OEM 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, 2013, we generated net revenues of \$5,961.0 million, and had net loss of \$621.4 million.

Spirit Holdings was incorporated in the state of Delaware on February 7, 2005, and commenced operations on June 17, 2005 through the acquisition of Boeing's operations in Wichita, Kansas; Tulsa, Oklahoma and McAlester, Oklahoma (the "Boeing Acquisition") by an investor group led by Onex Partners LP and Onex Corporation (together with its affiliates, "Onex"). Boeing's commercial aerostructures manufacturing operations in Wichita, Kansas and Tulsa and McAlester, Oklahoma, are referred to in this Report as "Boeing Wichita." 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 94% of Spirit Holdings' class B common shares, which represents approximately 62% 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 in this Report 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, we are a significant supplier for the Airbus A380, and we will be a significant supplier for the new Airbus A350 XWB (Xtra Wide-Body) 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 99% of our net revenues for the twelve-month period ended December 31, 2013.

We derive our revenues primarily through long-term supply agreements with Boeing and Airbus. For the twelve months ended December 31, 2013, approximately 84% and 10% of our net revenues were generated from sales to Boeing and Airbus, respectively. We are currently the sole-source supplier of 97% 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

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than the A350 XWB and A380), including commercial derivative models. For the A350 XWB and A380, we have long-term requirements contracts with Airbus.

Since Spirit's incorporation, the Company has expanded its customer base to include Sikorsky, Rolls-Royce, Gulfstream, Israel Aerospace Industries, Bombardier, Mitsubishi Aircraft Corporation, Bell Helicopter, Southwest Airlines, United Airlines and American Airlines. The Company has its headquarters in Wichita, Kansas, with manufacturing facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Wichita and Chanute, Kansas; Kinston, North Carolina; Saint-Nazaire, France; and Subang, Malaysia.

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 expired in May 2013 and interim pricing provisions under the supply agreement are currently in effect. We are currently negotiating future pricing terms with Boeing. The future pricing will be effective for a period to be agreed upon by the parties. The interim pricing terms are determined according to the existing prices as of May 2013 using a quantity-based price adjustment formula and specified annual escalation until such time as future pricing is agreed. Interim pricing will be retroactively adjusted in the period in which we agree on future pricing terms.

We also entered into a long-term supply agreement with Boeing for the 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. The B787 Supply Agreement provides that initial prices for the B787-9 and B787-10 are to be determined by a procedure set out in the B787 Supply Agreement, and to be documented by amendment once that amendment has been agreed to by the parties. The parties have engaged in discussions concerning how to determine initial B787-9 and B787-10 pricing and have not yet reached agreement. 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 for each B787 model.

On April 1, 2006, we acquired BAE Aerostructures, which was subsequently renamed Spirit AeroSystems (Europe) Limited ("Spirit Europe"). Spirit Europe manufactures leading and trailing wing edges and other wing components for commercial aircraft programs for Airbus and Boeing. The BAE Acquisition provided 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 to the public of \$26.00

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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 to the public of \$33.50 per share in a secondary offering of our class A common stock. In April 2011, certain selling stockholders sold 10,307,375 shares of our class A common stock at a price to the underwriters of \$24.49 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. 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 Supply Agreement. Although Boeing is not required to maintain a minimum production rate, Boeing is subject to a maximum production rate above which it must negotiate with us regarding responsibility for non-recurring expenditures related to a capacity increase.

Pricing. The pricing terms for recurring products under the Supply Agreement expired in May 2013. Under these terms, prices were 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.

As the expiration of the established pricing terms has passed, Boeing and Spirit are currently negotiating future pricing, to be applicable for a 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 prevailing U.S. market conditions for forward fuselages, B737 fuselages and B737/B777 struts and nacelles and based on prevailing global market conditions for all other products. Until the parties are able to agree upon future pricing, pricing will be determined according to the price as of the expiration of the initial eight-year period, adjusted using the existing quantity-based price adjustment formula and annual escalation and such interim pricing will be retroactively adjusted in the period in which we agree on future pricing terms.

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 Supply Agreement. 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

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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.

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

Termination for Convenience. Subject to the restrictions prohibiting Boeing from manufacturing certain products supplied by Spirit or purchasing such products from any other supplier, Boeing may, at any time, terminate all or part of any order under the 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 therefor, by written notice to Spirit. In the event of such a termination, Boeing will be liable to Spirit for any orders issued prior to the date of the termination notice and may also be liable for certain termination costs.

Events of Default and Remedies. It is an "event of default" under the 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

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(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.

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."

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 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 is responsible for capitalization to support a rate of ten per month. If Boeing decides to increase production above ten ship sets per month, and if a certain percentage of the profit margin of the additional revenue due to the increase is not projected to recover expenditures required to increase the production rate beyond that level, Spirit will negotiate with Boeing regarding an equitable price adjustment. Pursuant to the B787 Amendment described below, Spirit has agreed to proceed with all necessary capital and equipment investments required to support a rate of ten ship sets per month. Under the B787 Supply Agreement, Spirit also provides certain support, development and redesign engineering services to Boeing at an agreed hourly rate.

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Pricing. Pricing for the initial configuration of the B787-8 model is generally established through 2021, with prices decreasing as cumulative volume levels are met over the life of the program. The B787 Supply Agreement provides that initial prices for the B787-9 and B787-10 are to be determined by a procedure set out in the B787 Supply Agreement, and to be documented by amendment once that amendment has been agreed to by the parties. The parties have engaged in discussions concerning how to determine the initial B787-9 and B787-10 prices and have not yet reached agreement. 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 for each B787 model. As outlined in the amendment to the B787 Supply Agreement dated May 12, 2011 (the "B787 Amendment"), both parties will participate in an annual price adjustment process for each B787 model, which will involve an evaluation of the cost impact to Spirit as a result of Boeing directed changes. The price adjustments are calculated using a methodology set out in the B787 Supply Agreement. The evaluations take place and conclude in the first quarter of each calendar year and apply retroactively to certain of the prior year's prices to the extent set out in the B787 Supply Agreement. In June 2013, Spirit and Boeing completed the first annual price adjustment for the B787-8.

Advance Payments/Deferred Revenue. In December 2010, Spirit and Boeing entered into a memorandum of agreement ("MOA") and a settlement agreement regarding certain claims associated with the development and production of the B787 airplane. As part of these agreements, Spirit received a payment for \$236.2 million which was recorded as deferred revenue (short-term) within the December 31, 2010 consolidated balance sheet pending finalization of a contract amendment, which would contain the final settlement terms. On May 12, 2011, Spirit and Boeing entered into the B787 Amendment, which finalized and implemented substantially all of the provisions of the December 2010 MOA. Among other things, the B787 Amendment spread out repayment of a \$700.0 million cash advance made by Boeing to Spirit in 2007 to be offset against the purchase price of the first 1,000 B787 ship sets delivered to Boeing, instead of the first 500 ship sets. In the event Boeing does not take delivery of 1,000 ship sets prior to the termination of the B787 program or the B787 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of \$42.0 million due on December 15th of each year until the advance payments have been fully recovered by Boeing. The B787 Amendment also changed the treatment of advances paid by Boeing for certain non-recurring work into a nonrefundable payment in full for such work.

Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our consolidated balance sheet. As of December 31, 2013, the amount of advance payments and deferred revenue received by us from Boeing under the B787 Supply Agreement and not yet repaid or recognized as revenue was \$600.2 million.

Termination of Airplane Program. If Boeing decides not to 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;

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- (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;
- (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

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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, 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. Spirit pays Boeing royalties for the use of these licenses.

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, with an assembly plant for the A350 XWB in Saint-Nazaire, France. The Propulsion Systems segment manufactures products at our facilities in Wichita and Chanute, Kansas, and the Wing Systems segment manufactures products at our facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Subang, Malaysia and Kinston, North Carolina. Fuselage Systems, Propulsion Systems and Wing Systems represented approximately 48%, 27%,

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and 25%, of our net revenues for the twelve months ended December 31, 2013, respectively. All other activities fall within the All Other segment, representing less than 1% of our net revenues for the twelve months ended December 31, 2013, 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.

As the programs we are involved in move through their life cycles, we classify them based on where they fall in the life cycle. The following table summarizes the program phases and programs in each category:

Program Phases	Life Cycle	Aircraft Platform
New	Generally early in development phase with possible low rate production Significant design evolution Typically has not achieved certifications	A350 XWB, Sikorsky CH53-K, Mitsubishi Regional Jet, Bombardier CSeries
Maturing	Generally in early production phase Typically certification is achieved in this phase Less design evolution than in new program phase	B787, Rolls-Royce BR725, G280, G650, KC-46
Mature	Generally at full-rate production Typically certification has been achieved Relatively stable design with less engineering change	B737, B747, B767, B777, A320 Family, A330, A380, P8-A

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 99% of our net revenues for the year ended December 31, 2013.

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 97% 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.

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The following table summarizes the major commercial 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
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 G280

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 B737 P-8A, B737 C40 and B767 KC-46 Tanker. The B737 P-8A, B737 C40 and B767 KC-46 Tanker are commercial aircraft modified for military use. Other military programs for which we provide products include the development of the Sikorsky CH-53K and Bell Helicopter V-280 tilt-rotor, and various other programs.

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
	Fuselage	Bell Helicopter V-280 Development Program
Other Military	Fabrication, bonding, assembly, testing, tooling, processing, engineering analysis, and training	Various

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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, we operate 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 and EASA 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 G280 and G650, 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 and G650 nacelles, and G650 and G280 wing components
Rotable Assets	Maintain a pool of rotatable assets for exchange and/or lease	B737, B747, B757, B767, B777

Our Competitive Strengths

We believe our key competitive strengths include:

Leading Position in the Growing Commercial Aerostructures Market. We are one of the largest independent non-OEM commercial aerostructures manufacturers with an estimated 17% market share of the global market. Based on their published aircraft backlog figures, Boeing and Airbus had a combined backlog of 10,639 commercial aircraft as of December 31, 2013, and 9,055 commercial aircraft as of December 31, 2012. We are under contract to provide aerostructure products for approximately 98% of the aircraft that comprise this commercial aircraft backlog. We are currently the sole-source supplier of 97% of the products we sell to Boeing and Airbus, as measured by dollar value of the products sold. The significant Boeing and Airbus aircraft order backlog for scheduled deliveries in this decade, and our strong relationships with Boeing and Airbus, should enable us to continue to profitably grow our core commercial aerostructures business.

Participation on High-Volume and Major Growth Platforms. We derive a high proportion of our Boeing revenues from the high-volume B737 program and a high proportion of our Airbus revenues from the high-volume A320 program. Boeing's backlog consists of approximately 3,680 B737s (more than eight years of backlog at current build rates) and Airbus' backlog consists of approximately 4,298 aircraft in the A320 family (more than eight years of backlog at current build rates). The B737 and A320 families are Boeing's and Airbus' best-selling commercial airplanes, respectively. We have also been awarded a significant amount of work on major twin-aisle programs, the B777, B787 and A350 XWB.

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Stable Base Business. We have entered into long-term supply agreements with Boeing and Airbus, our two largest customers, making us the exclusive supplier for most of the products covered by these contracts. Our supply agreements with Boeing provide that we will continue to supply essentially all of the products we currently supply to Boeing for the life of the current aircraft programs, including commercial derivative models. The principal supply agreements we have entered into with Boeing make us Boeing's exclusive source for substantially all of the products covered by the agreements.

Under our supply agreements with Airbus, we supply most of our products for the life of the aircraft program, including commercial derivative models. For the A380 and A350 XWB, we have long-term requirements contracts with Airbus that cover a fixed number of units. We are currently the sole-source supplier for approximately 50% of the products, as measured by dollar volume, that we sell directly to Airbus.

Strong Incumbent and Competitive Position. We have a strong incumbent position on the products we currently supply to Boeing and Airbus, forged by long-standing relationships and long-term supply agreements. Several members of our management team have a long history of working in the aerospace industry, at Boeing Wichita and BAE Aerostructures. We believe our management team possesses inherent knowledge of and relationships with Boeing and Airbus that may not be matched to a corresponding degree between other suppliers and these two OEMs.

We believe that OEMs incur significant costs to change aerostructures suppliers once contracts are awarded. Such changes after contract award require additional testing and certification, which may create production delays and significant costs for both the OEM and the new supplier. We also believe it would be cost prohibitive for other suppliers to duplicate our facilities and the over 20,000 major pieces of equipment that we own or operate. The combined insurable replacement value of all the buildings and equipment we own or operate is approximately \$6.6 billion, including approximately \$2.6 billion for buildings, approximately \$2.4 billion for equipment that we own and approximately \$1.6 billion for other equipment used in the operation of our business. The insurable values represent the estimated replacement cost of buildings and equipment used in our operations and covered by property insurance, and exceed the fair value of assets acquired as determined for financial reporting purposes. As a result, we believe that as long as we continue to meet our customers' requirements, the probability that they change suppliers on our current statement of work is quite low. Our incumbent position also provides us with a competitive advantage with respect to new business from our customers.

Industry-Leading Technology, Design Capabilities and Manufacturing Expertise. Spirit AeroSystems, independently, and previously as Boeing Wichita, has over 80 years of experience designing and manufacturing large-scale, complex aerostructures. We possess industry-leading engineering capabilities that include significant expertise in structural design, technology development, test, and regulatory certification (FAA and international civil aviation authorities). We specialize in the use of metallic and composite materials, conducting stress analyses to ensure structural integrity, systems engineering to ensure customer and regulatory requirements are clearly identified and managed, and acoustics technology.

With approximately 1,500 degreed engineering and technical employees (including over 40 degreed contract engineers) and access to approximately 800 engineers from other engineering firms, we possess knowledge and manufacturing know-how that customers depend on and that would be difficult for other suppliers to replicate. In addition to our engineering expertise, we have strong manufacturing and technological capabilities. Our manufacturing processes are highly automated, delivering efficiency and quality, and we have expertise in manufacturing aerostructures using both metallic and composite materials. We have strong technical expertise in bonding and metals fabrication, assembly, tooling and composite manufacturing, including the handling of all composite material grades and fabricating large-scale complex contour composites. We provide aftermarket support for the products we design and build.

We believe our technological, engineering and manufacturing capabilities separate us from many of our competitors and give us a significant competitive advantage to grow our business and increase our

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market share. The fact that we are one of the major external suppliers of forward fuselages for large commercial aircraft demonstrates our industry leadership. The forward fuselage is one of the most complex and technologically advanced aerostructures on a commercial aircraft because it must satisfy the aircraft's contour requirements; balance strength, aerodynamics and weight; and house the cockpit and avionics.

Competitive and Predictable Labor Cost Structure. Following the Boeing Acquisition, we entered into new labor contracts with our unions that established wage levels that are aligned with the local market. We also changed work rules and significantly reduced the number of job categories, resulting in greater flexibility in work assignment programs and increased productivity. Over the past four years, we successfully negotiated long-term labor agreements with each of the five unions representing factory and office workers in our U.S. locations. As a result, we expect our labor costs to be stable and predictable through 2019.

Experienced Management Team. We have an experienced and proven management team with significant aerospace and defense industry experience. We continue to add new talent to our management team and realign our existing talent pool. Our management team has successfully expanded our business and established the stand-alone operations of our business, and is actively working to reduce costs. Many of our executives and senior managers have lengthy experience working with our primary customers, including Boeing and Airbus, which provides us with detailed insight into how we can better serve our customers.

Operating Segments

We operate in three principal segments: Fuselage Systems, Propulsion Systems and Wing Systems. Substantially all revenues in the three principal segments are from Boeing, with the exception of Wing Systems, which includes revenues from Airbus and other customers. 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.

The Fuselage Systems segment includes development, production and marketing of forward, mid and rear fuselage sections and systems, primarily to aircraft OEMs, as well as related spares and MRO. The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas; Kinston, North Carolina; and Saint-Nazaire, France.

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 and Chanute, Kansas.

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

We are evaluating the potential realignment of our reportable segments as part of our 2014 business strategy. The reportable segment amounts and discussions reflected in this Annual Report reflect the management reporting that existed through the end of our 2013 fiscal year.

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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 aerospace 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 aerospace 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 aerospace and advanced manufacturing capabilities with both composites and traditional metals processes.

Customers

Our primary customers are aircraft OEMs. Boeing and Airbus are our two largest customers. We are the largest independent aerospace supplier to Boeing and one of the largest independent suppliers to Airbus. We entered into long-term supply agreements with our customers to provide aerospace products to aircraft programs. As of December 31, 2013, virtually all of the products we sell are under long-term contracts and 97% 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, 2013, approximately 84% 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. 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 aerospace structures.

Airbus. For the twelve months ended December 31, 2013, approximately 10% of our revenues were from sales to Airbus. As a result of the BAE Acquisition, we became one of the largest independent aerospace 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.

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We are a significant supplier of the composite fuselage structure for the new Airbus A350 XWB. To accommodate this and other work, we expanded our operations in 2011 with the opening of a manufacturing facility in Kinston, North Carolina and an assembly plant in Saint-Nazaire, France, which will assemble the center fuselage sections it receives from the Kinston, North Carolina facility before transporting the completed assembled unit to Airbus. In addition, we have a contract with Airbus to design and manufacture a major wing structure for the A350 XWB program. Spirit Europe designs and assembles the wing leading edge structure primarily at its facility in Prestwick, Scotland. The composite front spar is built at the 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 \$806.1 million, \$785.7 million, and \$653.1 million in sales to international customers for the twelve months ended December 31, 2013, December 31, 2012, and December 31, 2011, respectively, primarily to Airbus.

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

Revenue Source ⁽¹⁾	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Net Revenues	Percent of Total Net Revenues	Net Revenues	Percent of Total Net Revenues	Net Revenues	Percent of Total Net Revenues
United States	\$ 5,154.9	87%	\$ 4,612.0	85%	\$ 4,210.7	87%
International						
United Kingdom	559.7	9%	470.4	9%	422.6	8%
Other	246.4	4%	315.3	6%	230.5	5%
Total International	806.1	13%	785.7	15%	653.1	13%
Total Revenues	\$ 5,961.0	100%	\$ 5,397.7	100%	\$ 4,863.8	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 6% of our long-lived assets based on book value are located in the United Kingdom as part of Spirit Europe with approximately another 5% of our long-lived assets located in countries outside the United States and the United Kingdom.

Expected Backlog

As of December 31, 2013, our expected backlog associated with large commercial aircraft, business and regional jet, and military equipment deliveries through 2019, calculated based on contractual product prices and expected delivery volumes, was approximately \$41.1 billion. This is an increase of \$5.8 billion from our corresponding estimate as of the end of 2012 reflecting the fact that Airbus and Boeing new orders exceeded deliveries in 2013. 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, 2013 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 eight state-of-the-art manufacturing facilities in Wichita, Kansas; Chanute, Kansas; Tulsa,

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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 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 which 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

Spirit employs approximately 1,500 engineers and technical employees, including over 40 contract engineers. In addition, we currently contract the work of approximately 800 engineers from engineering services firms worldwide.

Spirit employs 28 technical fellows who are experts in engineering and who keep the Company current with new technology by producing technical solutions for new and existing products and processes. We also employ 13 FAA designees and an additional 13 engineers who are in the process of becoming designees. The designees are experienced engineers appointed by the FAA to approve engineering data and witness compliance testing used for certification. In addition, we have an additional seven FAA designees available via contract to assist on an as-needed basis.

The primary purpose of the engineering organization is to provide continuous support for new and ongoing designs, technology innovation and development for customer advancements, and production-related process improvements. We possess a broad base of engineering skills for design, analysis, test, certification, tooling and support of major fuselage, wing and propulsion assemblies using both metallic and composite materials. In addition, our regulatory certification expertise helps ensure associated designs and design changes are compliant with applicable regulations.

Our engineering organization is composed of four primary groups, including: (1) Structures Design and Drafting, which focuses on production support, design-for-manufacturing and major product derivatives, and new customer introductions; (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, which is 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.

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Our industry-leading engineering capabilities are key strategic factors differentiating us from 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 \$34.7 million during the year ended December 31, 2013, approximately \$34.1 million during the year ended December 31, 2012, and approximately \$35.7 million during the year ended December 31, 2011. Through our research, we strive to develop unique intellectual property and technologies that will improve our OEM customers' products and, at the same time, position us to win work on new products. Our development effort primarily focuses on preparing for the initial production of new products and improving manufacturing processes on our current work. It also serves as an ongoing process that helps develop ways to reduce production costs and streamline manufacturing processes.

Our research and development is geared toward the architectural design of our principal products: fuselage systems, propulsion systems and wing systems. We are currently focused on research in areas such as advanced metallic joining, low-cost composites, acoustic attenuation, efficient structures, systems integration, advanced design and analysis methods, and new material systems. Other items that are expensed relate to research and development that is not funded by the customer. We collaborate with universities, research facilities and technology partners in our research and development.

Suppliers and Materials

The principal raw materials used in our manufacturing operations are aluminum, titanium, steel and carbon fiber. We also purchase metallic parts, non-metallic parts, and machined components. In addition, we procure subassemblies from various manufacturers which are used in the final aerostructure assembly.

Currently we have approximately 1,400 active manufacturing suppliers. No one supplier represents more than 3% of our total cost of sales. Our strategy is to enter into long-term contracts with suppliers to secure competitive pricing. Our exposure to rising costs of raw material is limited to some extent through leveraging relationships with our OEM's high-volume contracts.

We continue to seek and develop sourcing opportunities from North America to Europe and Asia to achieve a competitive global cost structure. Over 25 countries are represented in our international network of suppliers.

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.

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

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of laws to reduce emissions of carbon dioxide and other so-called greenhouse gases ("GHG"). In particular, the U.S. Environmental Protection Agency (the "EPA") has promulgated new regulations that require certain of our facilities to report annual GHG emissions and may 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.

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, the local authority, in its planning role, 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.

Other International Sites

Our 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 17% share of the global non-OEM aerostructures market, this market remains highly competitive and fragmented. Our primary competition currently comes from either work performed by internal divisions of OEMs or other first-tier suppliers, but direct competition continues to grow.

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Our principal competitors among OEMs include Airbus (including their wholly-owned subsidiaries Aerolia SAS, and Premium Aerotec GmbH), Boeing, Dassault Aviation, Embraer Brazilian Aviation Co., Alenia Aermacchi, Gulfstream Aerospace Co., United Technologies Corporation, 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 produce parts in-house or to outsource them. Offset requirements from customers of OEMs may also drive some decisions relative to their business model for production.

Our principal competitors among non-OEM aerostructures suppliers are Aircelle S.A., Fuji Heavy Industries, Ltd., GKN Aerospace, Kawasaki Heavy Industries, Inc., Mitsubishi Heavy Industries, Sonaca, Triumph Group, Inc., Latecoere S.A., 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. Some of our competitors have greater resources than we do and, therefore, may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the promotion and sale of their products than we can. Providers of aerostructures have traditionally competed on the basis of cost, technology, quality and service. We believe that developing and maintaining a competitive advantage will require continued investment in product development, engineering, supply-chain management and sales and marketing, and we may not have enough resources to make such investments.

Employees

As of December 31, 2013, we had approximately 13,948 employees and approximately 229 contract labor personnel, located in our six U.S. facilities. Approximately 85% of our U.S. employees are represented by five unions. Our largest union is the International Association of Machinists and Aerospace Workers ("IAM"), which represents approximately 7,270 employees, or 52%, of the U.S. workforce. We successfully negotiated a new long-term ten-year contract with the IAM in 2010, which is in effect through June 25, 2020. For IAM-represented employees at our Kinston, North Carolina facility, we successfully negotiated a new long-term contract in December 2012, which is in effect through December 2024. The Society of Professional Engineering Employees in Aerospace Wichita Technical and Professional Unit ("SPEEA WTPU") represents approximately 1,696 employees, or 12%, of the U.S. workforce. In December of 2011, we successfully negotiated a new 9½ year contract with SPEEA-WTPU, which is in effect through January 31, 2021. The International Union, Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") represents approximately 1,978 employees, or 14%, of the U.S. workforce. The UAW contract is in effect through November 30, 2020. The Society of Professional Engineering Employees in Aerospace Wichita Engineering Unit ("SPEEA WEU") represents approximately 704 employees, or 5%, of the U.S. workforce. We successfully negotiated a new contract with this union in 2012, which is in effect through December 1, 2018. The International Brotherhood of Electrical Workers ("IBEW") represents approximately 193 employees, or 1%, of the U.S. workforce. The IBEW contract is in effect through September 18, 2020.

As of December 31, 2013, we had approximately 953 employees and approximately 75 contract labor personnel located in our two U.K. facilities. Approximately 679, or 71%, of our U.K. employees are represented by one union, Unite (Amicus Section). In 2013, the Company negotiated two separate ten-year pay agreements, with the Manual Staff bargaining and the Monthly Staff bargaining groups of the Unite union. These agreements fundamentally cover basic pay and variable at risk pay, while other employee terms and conditions generally remain the same from year to year until both parties agree to change them. The current pay agreements expire December 31, 2022.

As of December 31, 2013, we had approximately 562 employees and approximately 14 contract labor personnel in our Malaysia facility. None of our Malaysia employees are currently represented by a union.

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As of December 31, 2013, we had approximately 109 employees and approximately 41 contract labor personnel in our French facilities. None of our France employees are currently 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.

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 the Federal Aviation Authority, or 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.

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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 such materials with the Securities and Exchange Commission ("SEC"). Copies of our key corporate governance documents, including our Corporate Governance Guidelines, Code of Ethics and Business Conduct, Finance Code of 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.

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.

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The commercial airline industry is impacted by the strength of the global economy and the geopolitical events around the world. Possible exogenous shocks such as expanding conflicts or political unrest in the Middle East or Asia, renewed terrorist attacks against the industry, or pandemic health crises have the potential to cause precipitous declines in air traffic. Any protracted economic slump, adverse credit market conditions, future terrorist attacks, war or health concerns could cause airlines to cancel or delay the purchase of additional new aircraft which could result in a deterioration of commercial airplane backlogs. If demand for new aircraft decreases, there would likely be a decrease in demand for our commercial aircraft products, and our business, financial condition and results of operations could be materially adversely affected.

Our business jet programs are sensitive to consumer preferences in the business jet market.

Our business jet program success is tied to demand for products from the manufacturers with whom we contract. The business jet market is impacted by consumer preference for different business jet models. If demand for new aircraft from our customers decreases, there would likely be a corresponding decrease in demand for our business jet 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 coverage is sufficient to protect us in the event of 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.

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, 2013, approximately 84% and 10% 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

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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 and other foreign manufacturers of commercial single-aisle aircraft, 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, 2013, approximately 46% 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. If we were unable to obtain significant aerostructures supply business for any B737 replacement program, our business, financial condition and results of operations could be materially adversely affected.

Our business depends, in part, on securing work for replacement programs.

While we have entered into long-term supply agreements with Boeing to provide components for the B737, B747, B767 and B777 and their commercial derivatives for the life of these aircraft programs, Boeing does not have any obligation to purchase components from us for any subsequent variant of these aircraft that is not a commercial derivative as defined by the Supply Agreement. Boeing has publicly announced its intention to update the B777 with a next-generation twin-engine aircraft program currently named the Boeing 777X. If the changes to the aircraft are later deemed significant enough to disqualify it as a commercial derivative for the B777 under the Supply Agreement, or Boeing successfully establishes it is not capable of being FAA certificated by an amendment to an existing Type Certificate through addition of a minor model or by a Supplemental Type Certificate, there is a risk that we may not be engaged by Boeing on the B777X to generally the same extent of Spirit's involvement in the B777, or at all. If we are unable to obtain significant aerostructures supply business for any update or replacement program for the B777 or any other aircraft program for which we provide significant content, our business, financial condition and results of operations could be materially adversely affected.

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We may be required to repay Boeing up to approximately \$600.2 million of advance payments related to the B787 Supply Agreement. The advances must 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.

In December 2010, Spirit and Boeing entered into a memorandum of agreement and a settlement agreement regarding certain claims associated with the development and production of the B787 airplane. As part of these agreements, Spirit received a payment in December 2010, which was recorded as *deferred revenue (short-term)* within the consolidated balance sheet pending finalization of a contract amendment which would contain the final settlement terms.

On May 12, 2011, Boeing and Spirit entered into the B787 Amendment, which finalized the provisions of the memorandum of agreement. Based on the terms of the B787 Amendment, the payment received by Spirit in December 2010 was reclassified from deferred revenue to revenue, and certain advance payments received by Spirit were also reclassified to revenue. The B787 Amendment also spread out repayment of a \$700.0 million cash advance made by Boeing to Spirit in 2007 to be offset against the purchase price of the first 1,000 B787 ship sets delivered to Boeing, instead of the first 500 ship sets. In the event Boeing does not take delivery of 1,000 ship sets prior to the termination of the B787 program or the B787 Supply Agreement, any advances not then repaid will be applied against any outstanding payments then due by Boeing to us, and any remaining balance will be repaid in annual installments of \$42.0 million on December 15th of each year until the advance payments have been fully recovered by Boeing.

Accordingly, portions of the advance repayment liability are included as current and long-term liabilities in our consolidated balance sheet. As of December 31, 2013, the amount of advance payments and deferred revenue received by us from Boeing under the B787 Supply Agreement and not yet repaid or recognized as revenue was approximately \$600.2 million.

We may be required to repay Airbus up to approximately \$243.9 million of advance payments. The advances must be repaid in the event that Airbus does not take delivery of a sufficient number of ship sets prior to the date set out in the advance agreement.

In February 2012, Spirit and Airbus entered into an agreement whereby Spirit received a series of payments totaling \$250.0 million, which were recorded as *advance payments* within our consolidated balance sheet.

The agreement provides for repayment of the \$250.0 million in cash advances made by Airbus to be offset against the purchase price of the first 200 Section 15 A350 XWB ship sets delivered to Airbus prior to December 31, 2017. If in the course of 2015, Airbus, in its reasonable opinion, anticipates 200 units will not be ordered and paid for by the end of 2017, both Airbus and Spirit will agree in the first quarter of 2016 on a revised repayment amount to ensure the entire advance is repaid prior to December 31, 2017. In no circumstance would the repayment amount exceed the recurring price of each ship set.

Portions of the advance repayment liability are included as current and long-term liabilities in our consolidated balance sheet. As of December 31, 2013, the amount of advance payments received by us from Airbus under the advance agreement and not yet repaid or recognized as revenue was approximately \$243.9 million.

The profitability of certain of our new and maturing programs depends significantly on the assumptions surrounding satisfactory settlement of claims and assertions.

For certain of our new and maturing programs, we regularly commence work or incorporate customer requested changes prior to negotiating pricing terms for engineering work or the product which has been modified. We typically have the legal right to negotiate pricing for customer directed changes. In those cases, we assert to our customers our contractual rights to obtain the additional revenue or cost reimbursement we expect to receive upon finalizing pricing terms. An expected recovery value of these assertions is incorporated into our contract profitability estimates when applying contract accounting. Our

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inability to recover these expected values, among other factors, could result in the recognition of a forward loss on these programs and could have a material adverse effect on our results of operations.

For the G650 program, we currently have \$135.1 million of accounts receivable that are related to Gulfstream short-paid invoices for deliveries from 2010 through the end of the third quarter of 2013, the period through which these incomplete payments continued. In August, 2013, we instituted a demand for arbitration against Gulfstream, seeking damages from Gulfstream for the incomplete payments, as well as other damages and relief. Gulfstream counterclaimed against Spirit in the arbitration, seeking liquidated damages for delayed deliveries of wings, as well as other damages and relief. While we believe that the short-paid amount is collectible, if we are unable to collect this amount or if it becomes part of an overall settlement or arbitration award, recognition of additional forward losses on the G650 program could be required and the future cash flows of the Company could be significantly impacted.

We face risks as we work to successfully execute on new or maturing programs.

New or maturing programs with new technologies typically carry risks associated with design responsibility, development of new production tools, hiring and training of qualified personnel, increased capital and funding commitments, ability to meet customer specifications, delivery schedules and unique contractual requirements, supplier performance, ability of the customer to meet its contractual obligations to us, and our ability to accurately estimate costs associated with such programs. In addition, any new or maturing aircraft program may not generate sufficient demand or may experience technological problems or significant delays in the regulatory certification or manufacturing and delivery schedule. If we were unable to perform our obligations under new or maturing programs to the customer's satisfaction or manufacture products at our estimated costs, if we were to experience unexpected fluctuations in raw material prices or supplier problems leading to cost overruns, if we were unable to successfully perform under revised design and manufacturing plans or successfully resolve claims and assertions, or if a new or maturing program in which we had made a significant investment was terminated or experienced weak demand, delays or technological problems, our business, financial condition and results of operations could be materially adversely affected. Some of these risks have affected our maturing programs to the extent that we have recorded significant forward losses and maintain certain of our maturing programs at zero or low margins due to our inability to overcome the effects of these risks. We continue to face similar risks as well as the potential for default, quality problems, or inability to meet weight requirements and these could result in continued zero or low margins or additional forward losses, and the risk of having to write-off additional inventory if it were deemed to be unrecoverable over the life of the program. In addition, beginning new work on existing programs also carries risks associated with the transfer of technology, knowledge and tooling.

In order to perform on new or maturing programs we may be required to construct or acquire new facilities requiring additional up-front investment costs. In the case of significant program delays and/or program cancellations, we could be required to bear certain unrecoverable construction and maintenance costs and incur potential impairment charges for the new facilities. Also, we may need to expend additional resources to determine an alternate revenue-generating use for the facilities. Likewise, significant delays in the construction or acquisition of a plant site could impact production schedules.

We use estimates in accounting for revenue and cost for our contract blocks. Changes in our estimates could adversely affect our future financial performance.

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

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discussion under "Management's Discussion and Analysis – Critical Accounting Policies" in this Form 10-K.

Additionally, variability of future period estimated revenue and cost may result in recording additional valuation allowances against future deferred tax assets, which could adversely affect our future financial performance.

Our operations depend on our ability to maintain continuing, uninterrupted production at our manufacturing facilities. Our production facilities are subject to physical and other risks that could disrupt production.

Our manufacturing facilities could be damaged or disrupted by a natural disaster, war, terrorist activity or sustained mechanical failure. Although we have obtained property damage and business interruption insurance, a major catastrophe, such as a fire, flood, tornado or other natural disaster at any of our sites, war or terrorist activities in any of the areas where we conduct operations or the sustained mechanical failure of a key piece of equipment could result in a prolonged interruption of all or a substantial portion of our business. Any disruption resulting from these events could cause significant delays in shipments of products and the loss of sales and customers and we may not have insurance to adequately compensate us for any of these events. A large portion of our operations takes place at one facility in Wichita, Kansas and any significant damage or disruption to this facility in particular would materially adversely affect our ability to service our customers.

We have announced the initiation of a process to divest our Oklahoma sites, which could disrupt our business, involve increased expenses and present risks not contemplated at the time of the divestiture.

There can be no assurance that any sale of all or any portion of our Oklahoma sites will be completed in a timely manner, on a cost-effective basis, on terms favorable to us, or at all. A significant divestiture such as this typically entails numerous potential risks, including:

diversion of resources and management's attention from the operation of the business;

loss of key employees following such a transaction;

insufficient proceeds to offset transaction related expenses;

negative effects on our reported results of operations from disposition-related charges, amortization expenses related to intangibles, charges for impairment of long-term assets;

difficulties in the separation of operations, services, products and personnel;

the need to agree to retain or assume certain or future liabilities in order to complete the divestiture; and

damage to our existing customer, supplier and other business relationships.

Furthermore, the pursuit of any such transaction may require the expenditure of substantial legal and other fees, which may be incurred whether or not a transaction is consummated. As a result of the aforementioned risks, among others, the pursuit of the divestiture may not lead to increased stockholder value.

We actively consider other divestitures from time to time. If we decide to pursue any other divestiture, it may involve numerous potential risks, including those described above.

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

Boeing and Airbus, our two largest customers, have both announced planned production rate increases for several of their major programs. In some cases, in order to meet these increases in production rates, we will need to make significant capital expenditures to expand our capacity

and improve our performance. While some of these expenditures will be reimbursed by our customers, we could be required to bear a significant portion of the costs. In addition, the increases in production rates could cause

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disruptions in our manufacturing lines, which could materially adversely impact our ability to meet our commitments to our customers, and have a resulting adverse effect on our financial condition and results of operations.

We operate in a very competitive business environment.

Competition in the aerostructures segment of the aerospace industry is intense. Although we have entered into supply agreements with Boeing and Airbus under which we are their exclusive supplier for certain aircraft parts, we will face substantial competition from both OEMs and non-OEM aerostructures suppliers in trying to expand our customer base and the types of parts we make.

OEMs may choose not to outsource production of aerostructures due to, among other things, their own direct labor and other overhead considerations and capacity utilization at their own facilities. Consequently, traditional factors affecting competition, such as price and quality of service, may not be significant determinants when OEMs decide whether to produce a part in-house or to outsource.

Our principal competitors among non-OEM aerostructures suppliers are Aircelle S.A., Fuji Heavy Industries, Ltd., GKN Aerospace, Kawasaki Heavy Industries, Inc., Mitsubishi Heavy Industries, Sonaca, Triumph Group, Inc., Latecoere S.A., and Nexcelle. Some of our competitors have greater resources than we do and, therefore, may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the promotion and sale of their products than we can. Providers of aerostructures have traditionally competed on the basis of cost, technology, quality and service. We believe that developing and maintaining a competitive advantage will require continued investment in product development, engineering, supply-chain management and sales and marketing, and we may not have enough resources to make such investments. For these reasons, we may not be able to compete successfully in this market or against our competitors, which could have a material adverse effect on our business, financial condition and results of operations.

High switching costs may substantially limit our ability to obtain business that is currently under contract with other suppliers.

Once a contract is awarded by an OEM to an aerostructures supplier, the OEM and the supplier are typically required to spend significant amounts of time and capital on design, manufacture, testing and certification of tooling and other equipment. For an OEM to change suppliers during the life of an aircraft program, further testing and certification would be necessary, and the OEM would be required either to move the tooling and equipment used by the existing supplier for performance under the existing contract, which may be expensive and difficult (or impossible), or to manufacture new tooling and equipment. Accordingly, any change of suppliers would likely result in production delays and additional costs to both the OEM and the new supplier. These high switching costs may make it more difficult for us to bid competitively against existing suppliers and less likely that an OEM will be willing to switch suppliers during the life of an aircraft program, which could materially adversely affect our ability to obtain new work on existing aircraft programs.

Increases in labor costs, potential labor disputes and work stoppages at our facilities or the facilities of our suppliers or customers could materially adversely affect our financial performance.

Our financial performance is affected by the availability of qualified personnel and the cost of labor. A majority of our workforce is represented by unions. If our workers were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations, which could cause us to be unable to deliver products to our customers on a timely basis and could result in a breach of our supply agreements. This could result in a loss of business and an increase in our operating expenses, which could have a material adverse effect on our business, financial condition and results of operations. In addition, our non-unionized labor force may become subject to labor union organizing efforts, which could cause us to incur additional labor costs and increase the related risks that we now face.

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We have agreed with Boeing to continue to operate substantial manufacturing operations in Wichita, Kansas until at least June 16, 2015 and we have other commitments to keep major programs in Wichita until 2020 in certain circumstances. This may prevent us from being able to offer our products at prices that are competitive in the marketplace and could have a material adverse effect on our ability to generate new business.

In addition, many aircraft manufacturers, airlines and aerospace suppliers have unionized work forces. Any strikes, work stoppages or slowdowns experienced by aircraft manufacturers, airlines or aerospace suppliers could reduce our customers' demand for additional aircraft structures or prevent us from completing production of our aircraft structures.

Our business may be materially adversely affected if we lose our government, regulatory or industry approvals, if more stringent government regulations are enacted, or if industry oversight is increased.

The FAA prescribes standards and qualification requirements for aerostructures, including virtually all commercial airline and general aviation products, and licenses component repair stations within the United States. Comparable agencies, such as the JAA in Europe, regulate these matters in other countries. If we fail to qualify for or obtain a required license for one of our products or services or lose a qualification or license previously granted, the sale of the subject product or service would be prohibited by law until such license is obtained or renewed and our business, financial condition and results of operations could be materially adversely affected. In addition, designing new products to meet existing regulatory requirements and retrofitting installed products to comply with new regulatory requirements can be expensive and time consuming.

From time to time, the FAA, the JAA or comparable agencies propose new regulations or changes to existing regulations. These changes or new regulations generally increase the costs of compliance. To the extent the FAA, the JAA or comparable agencies implement regulatory changes, we may incur significant additional costs to achieve compliance.

In addition, certain aircraft repair activities we intend to engage in may require the approval of the aircraft's OEM. Our inability to obtain OEM approval could materially restrict our ability to perform such aircraft repair activities.

Our business is subject to regulation in the United States and internationally.

The manufacturing of our products is subject to numerous federal, state and foreign governmental regulations. The number of laws and regulations that are being enacted or proposed by state, federal and international governments and authorities are increasing. Compliance with these regulations is difficult and expensive. If we fail to adhere, or are alleged to have failed to adhere, to any applicable federal, state or foreign laws or regulations, or if such laws or regulations negatively affect sales of our products, our business, prospects, results of operations, financial condition or cash flows may be adversely affected. In addition, our future results could be adversely affected by changes in applicable federal, state and foreign laws and regulations, or the interpretation or enforcement thereof, including those relating to manufacturing processes, product liability, trade rules and customs regulations, intellectual property, consumer laws, privacy laws, as well as accounting standards and taxation requirements (including tax-rate changes, new tax laws and revised tax law interpretations).

We are subject to regulation of our technical data and goods under U.S. export control laws.

As a manufacturer and exporter of defense and dual-use technical data and commodities, we are subject to U.S. laws and regulations governing international trade and exports, including, but not limited to, the International Traffic in Arms Regulations, administered by the U.S. Department of State, and the Export Administration Regulations, administered by the U.S. Department of Commerce. Collaborative agreements that we may have with foreign persons, including manufacturers and suppliers, are also subject to U.S. export control laws. In addition, we are subject to trade sanctions against embargoed countries, administered by the Office of Foreign Assets Control within the U.S. Department of the Treasury.

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A determination that we have failed to comply with one or more of these export controls or trade sanctions could result in civil or criminal penalties, including the imposition of fines upon us as well as the denial of export privileges and debarment from participation in U.S. government contracts. Additionally, restrictions may be placed on the export of technical data and goods in the future as a result of changing geopolitical conditions. Any one or more of such sanctions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to environmental, health and safety regulations and our ongoing operations may expose us to related liabilities.

Our operations are subject to extensive regulation under environmental, health and safety laws and regulations in the United States and other countries in which we operate. We may be subject to potentially significant fines or penalties, including criminal sanctions, if we fail to comply with these requirements. We have made, and will continue to make, significant capital and other expenditures to comply with these laws and regulations. We cannot predict with certainty what environmental legislation will be enacted in the future or how existing laws will be administered or interpreted. Our operations involve the use of large amounts of hazardous substances and regulated materials and generate many types of wastes, including emissions of hexavalent chromium and volatile organic compounds, and so-called greenhouse gases such as carbon dioxide. Spills and releases of these materials may subject us to clean-up liability for remediation and claims of alleged personal injury, property damage and damage to natural resources, and we may become obligated to reduce our emissions of hexavalent chromium, volatile organic compounds and/or greenhouse gases. We cannot give any assurance that the aggregate amount of future remediation costs and other environmental liabilities will not be material.

Boeing, our predecessor at the Wichita facility, is under an administrative consent order issued by the Kansas Department of Health and Environment to contain and remediate contaminated groundwater, which underlies a majority of our Wichita facility. Pursuant to this order and its agreements with us, Boeing has a long-term remediation plan in place, and treatment, containment and remediation efforts are underway. If Boeing does not comply with its obligations under the order and these agreements, we may be required to undertake such efforts and make material expenditures.

In connection with the BAE Acquisition, we acquired a manufacturing facility in Prestwick, Scotland that is adjacent to contaminated property retained by BAE Systems. The contaminated property may be subject to a regulatory action requiring remediation of the land. It is also possible that the contamination may spread into the property we acquired. BAE Systems has agreed to indemnify us, subject to certain contractual limitations and conditions, for certain clean up costs and other losses, liabilities, expenses and claims related to existing pollution on the acquired property, existing pollution that migrates from the acquired property to a third party's property and any pollution that migrates to our property from property retained by BAE Systems. If BAE Systems does not comply with its obligations under the BAE Acquisition agreement, we may be required to undertake such efforts and make material expenditures.

In the future, contamination may be discovered at or emanating from our facilities or at off-site locations where we send waste. The remediation of such newly discovered contamination, related claims for personal injury or damages, or the enactment of new laws or a stricter interpretation of existing laws, may require us to make additional expenditures, some of which could be material. See "Business Environmental Matters".

New regulations related to conflict minerals have and will continue to force us to incur additional expenses, may make our supply chain more complex, and could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 contains provisions to improve transparency and accountability concerning the supply of certain minerals and metals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012, the SEC adopted annual investigation, disclosure and reporting requirements for

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those companies that manufacture or contract to manufacture products that contain conflict minerals that originated from the DRC and adjoining countries. As initial disclosure requirements commence in May 2014 (with respect to 2013), we have and will continue to incur compliance costs, including costs related to determining the sources of conflict minerals used in our products and other potential changes to processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in certain of our products. As there may be only a limited number of suppliers offering "conflict free" minerals, we cannot be sure that we will be able to obtain necessary conflict-free minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free.

Significant consolidation in the aerospace industry could make it difficult for us to obtain new business.

Suppliers in the aerospace industry have consolidated and formed alliances to broaden their product and integrated system offerings and achieve critical mass. This supplier consolidation is in part attributable to aircraft manufacturers more frequently awarding long-term sole-source or preferred supplier contracts to the most capable suppliers, thus reducing the total number of suppliers. If this consolidation were to continue, it may become more difficult for us to be successful in obtaining new customers.

We may be materially adversely affected by high fuel prices.

Due to the competitive nature of the airline industry, airlines are often unable to pass on increased fuel prices to customers by increasing fares. Fluctuations in the global supply of crude oil and the possibility of changes in government policy on jet fuel production, transportation and marketing make it difficult to predict the future availability of jet fuel. In the event there is an outbreak or escalation of hostilities or other conflicts, or significant disruptions in oil production or delivery in oil-producing areas or elsewhere, there could be reductions in the production or importation of crude oil and significant increases in the cost of fuel. If there were major reductions in the availability of jet fuel or significant increases in its cost, the airline industry and, as a result, our business, could be materially adversely affected.

Interruptions in deliveries of components or raw materials, or increased prices for components or raw materials used in our products could delay production and/or materially adversely affect our financial performance, profitability, margins and revenues.

We are highly dependent on the availability of essential materials and purchased components from our suppliers, some of which are available only from a sole source or limited sources. Our dependency upon regular deliveries from particular suppliers of components and raw materials means that interruptions or stoppages in such deliveries could materially adversely affect our operations until arrangements with alternate suppliers, to the extent alternate suppliers exist, could be made. If any of our suppliers were unable or were to refuse to deliver materials to us for an extended period of time, or if we were unable to negotiate acceptable terms for the supply of materials with these or alternative suppliers, our business could suffer.

Moreover, we are dependent upon the ability of our suppliers to provide materials and components that meet specifications, quality standards and delivery schedules. Our suppliers' failure to provide expected raw materials or component parts that meet our technical specifications could adversely affect production schedules and contract profitability. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs for us and possible forward losses on certain contracts. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to our business and might lead to termination of our supply agreements with our customers.

Our continued supply of materials is subject to a number of risks including:

the destruction of or damage to our suppliers' facilities or their distribution infrastructure;

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a work stoppage or strike by our suppliers' employees;

the failure of our suppliers to provide materials of the requisite quality or in compliance with specifications;

the failure of essential equipment at our suppliers' plants;

the failure of our suppliers to satisfy U.S. and international import and export control laws for goods that we purchase from such suppliers;

the failure of our suppliers to meet regulatory standards;

the failure, shortage or delay in the delivery of raw materials to our suppliers;

contractual amendments and disputes with our suppliers; and

inability of our suppliers to perform as a result of the weakened global economy or otherwise.

In addition, our profitability is affected by the prices of the components and raw materials, such as titanium, aluminum and carbon fiber, used in the manufacturing of our products. These prices may fluctuate based on a number of factors beyond our control, including world oil prices, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and, in some cases, government regulation. Although our supply agreements with Boeing and Airbus allow us to pass on to our customers certain unusual increases in component and raw material costs in limited situations, we may not be fully compensated by the customers for the entirety of any such increased costs.

In order to be successful, we must attract, retain, train, motivate, develop and transition key employees, and failure to do so could harm our business.

In order to be successful, we must attract, retain, train, motivate, develop and transition qualified executives and other key employees, including those in managerial, manufacturing and engineering positions. Identifying, developing internally or hiring externally, training and retaining qualified executives and engineers are critical to our future, and competition for experienced employees in the aerospace industry and in particular, Wichita, Kansas where the majority of our manufacturing and executive offices are located, can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and share-based compensation. Our share-based incentive awards consist primarily of restricted stock grants, some of which are conditioned on our achievement of certain designated financial performance targets, which makes the size of a particular year's award uncertain. If employees do not receive share-based incentive awards with a value they anticipate, if our share-based compensation otherwise ceases to be viewed as a valuable benefit, if our total compensation package is not viewed as being competitive, or if we do not obtain the shareholder approval needed to continue granting share-based incentive awards in the amounts we believe are necessary, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

We are subject to the requirements of the National Industrial Security Program Operating Manual ("NISPOM") for our Facility Security Clearance ("FCL"), which is a prerequisite for our ability to perform on classified contracts for the U.S. Government.

A Department of Defense ("DOD") FCL is required for a company to be awarded and perform on classified contracts for the DOD and certain other agencies of the U.S. Government. From time to time we have performed and may perform on classified contracts, although we did not generate any revenues from classified contracts for the twelve months ended December 31, 2013. We have obtained an FCL at the

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"Secret" level. 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 our Special Security Agreement ("SSA") with the DOD. If we were to violate the terms and requirements of our SSA, the NISPOM, or any other applicable U.S. Government industrial security regulations, we could lose our FCL. We cannot give any assurance that we will be able to maintain our FCL. If for some reason our FCL is invalidated or terminated, we may not be able to continue to perform under our classified contracts in effect at that time, and we would not be able to enter into new classified contracts, which could adversely affect our revenues.

We derive a significant portion of our net revenues from direct and indirect sales outside the United States and are subject to the risks of doing business in foreign countries.

We derive a significant portion of our revenues from sales by Boeing and Airbus to customers outside the United States. In addition, for the twelve months ended December 31, 2013, direct sales to our non-U.S. customers accounted for approximately 13% of our net revenues. We expect that our and our customers' international sales will continue to account for a significant portion of our net revenues for the foreseeable future. As a result, we are subject to risks of doing business internationally, including:

changes in regulatory requirements;

domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements;

fluctuations in foreign currency exchange rates;

the complexity and necessity of using foreign representatives and consultants;

uncertainties and restrictions concerning the availability of funding credit or guarantees;

imposition of tariffs and embargos, export controls and other trade restrictions;

the difficulty of management and operation of an enterprise spread over various countries;

compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act, the U.K. Bribery Act and other applicable anti-bribery laws; and

economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

While these factors and the effect of these factors are difficult to predict, adverse developments in one or more of these areas could materially adversely affect our business, financial condition and results of operations in the future.

Our fixed-price contracts and requirements to re-negotiate pricing at specified times may commit us to unfavorable terms.

We provide most of our products and services through long-term contracts in which the pricing terms are fixed based on certain production volumes. Accordingly, there is the risk that we will not be able to sustain a cost structure that is consistent with assumptions used in bidding on contracts. Increased or unexpected costs may reduce our profit margins or cause us to sustain losses on these contracts. Other than certain increases in raw material costs which can be passed on to our customers in most instances, we must fully absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to anticipate technical problems, estimate delivery reductions, estimate costs accurately or control costs during performance of a fixed-price contract may reduce the profitability of a contract or cause a loss.

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This risk particularly applies to products such as the Boeing B787, for which we had delivered one hundred sixty-four production articles as of December 31, 2013 since the inception of the program, and in respect of which our performance at the contracted price depends on our being able to achieve production cost reductions as we gain production experience although Spirit can recoup from Boeing half of any overruns within a certain percentage of shipset prices. When we negotiated the B787-8 pricing under the B787 Amendment, we assumed that a contractually mandated joint-effort by Boeing and Spirit to reduce costs and increase production efficiency, as well as favorable trends in volume, learning curve efficiencies and future pricing from suppliers would reduce our production costs over the life of the B787 program, thus maintaining or improving our margin on each B787 we produced. Pricing for the initial configuration of the B787-8 is generally established through 2021, with prices decreasing as cumulative 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 charges. The B787 Supply Agreement provides that initial prices for the B787-9 and B787-10 are to be determined by a procedure set out in the B787 Supply Agreement, and to be documented by amendment once that amendment has been agreed to by the parties. The parties have engaged in discussions concerning how to determine initial B787-9 and B787-10 pricing, and have not yet reached agreement. Our ability to obtain fair and equitable prices for subsequent models could impact the profitability of the overall program. Additionally, we cannot give any assurance that our development of new technologies or capabilities will be successful or that we will be able to reduce our B787 production costs over the life of the program. Our failure to reduce production costs or to obtain pricing as we have anticipated could result in the need to record additional forward losses for this program.

Many of our other production cost estimates also contain pricing terms which anticipate cost reductions over time. In addition, although we have entered into these fixed price contracts with our customers, they may nonetheless seek to re-negotiate pricing with us in the future. Any such higher costs or re-negotiations could materially adversely affect our profitability, margins and revenues.

Certain of our long-term supply agreements provide for re-negotiation of established pricing terms at specified times. In particular, pricing terms under our supply agreement with Boeing for the B737, B747, B767 and B777 platforms, which accounted for 70% of our net revenues in 2013, expired in May 2013, thus activating interim pricing provisions under the Supply Agreement. We are currently negotiating future pricing with Boeing for a period to be agreed upon by the parties. We are required to negotiate the pricing for such additional period in good faith based on prevailing U.S. market conditions for forward fuselages, B737 fuselages and B737/B777 struts and nacelles and based on prevailing global market conditions for all other products. Until we are able to agree upon pricing, pricing will be determined according to the existing prices, adjusted using a quantity-based price adjustment formula and specified annual escalation and such interim pricing will be retroactively adjusted in the period in which we agree on future pricing terms. If we agree on future pricing that provides us with operating margins that are lower than those which we currently experience, or if we are unable to agree on new pricing terms and the default pricing terms remain in effect for a period of time, our business, financial condition and results of operations could be materially adversely affected.

The outcome of litigation and of government inquiries and investigations involving our business is unpredictable and an adverse decision in any such matter could have a material effect on our financial position and results of operations.

We are involved in a number of litigation matters. These claims may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these matters will be favorable to us. An adverse resolution of any of these lawsuits could have a material impact on our financial position and results of operations. In addition, we are sometimes subject to government inquiries and investigations of our business due, among other things, to the heavily regulated nature of our industry and our participation on government programs. Any such inquiry or investigation could potentially result in an adverse ruling against us, which could have a material impact on our financial position and operating results.

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If we are unable to protect our information technology infrastructure against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems to manage and support a variety of business activities, including procurement and supply chain, engineering support, and manufacturing. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. In addition, security breaches could result in unauthorized disclosure of confidential information. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our manufacturing process could be disrupted resulting in late deliveries or even no deliveries if there is a total shutdown.

We are implementing new company-wide software systems, which could cause unexpected production or other delays.

We have recently implemented an Enterprise Resource Planning ("ERP") software system in several of our facilities, and have begun implementation of other system upgrades and infrastructure changes. We plan to complete implementation of ERP software in all of our primary facilities over the next two years. Unexpected problems with these implementations could result in production or other delays.

We do not own most of the intellectual property and tooling used in our business.

Our business depends on using certain intellectual property and tooling that we have rights to use under license grants from Boeing. These licenses contain restrictions on our use of Boeing intellectual property and tooling and may be terminated if we default under certain of these restrictions. Our loss of license rights to use Boeing intellectual property or tooling would materially adversely affect our business. See "Business Our Relationship with Boeing License of Intellectual Property." In addition to the licenses with Boeing, we license some of the intellectual property needed for performance under some of our supply contracts from our customers under those supply agreements. We must honor our contractual commitments to our customers related to intellectual property and comply with infringement laws governing our use of intellectual property. In the event we obtain new business from new or existing customers, we will need to pay particular attention to these contractual commitments and any other restrictions on our use of intellectual property to make sure that we will not be using intellectual property improperly in the performance of such new business. In the event we use any such intellectual property improperly, we could be subject to an infringement claim by the owner or licensee of such intellectual property.

In the future, our entry into new markets may require obtaining additional license grants from Boeing and/or from other third parties. If we are unable to negotiate additional license rights on acceptable terms (or at all) from Boeing and/or other third parties as the need arises, our ability to enter new markets may be materially restricted. In addition, we may be subject to restrictions in future licenses granted to us that may materially restrict our use of third party intellectual property.

Our success depends in part on the success of our research and development initiatives.

We spent approximately \$34.7 million on research and development during the twelve months ended December 31, 2013. Our expenditures on our research and development efforts may not create any new sales opportunities or increases in productivity that are commensurate with the level of resources invested.

We are in the process of developing specific technologies and capabilities in pursuit of new business and in anticipation of customers going forward with new programs. If any such programs do not go forward or are not successful, we may be unable to recover the costs incurred in anticipation of such programs and our profitability and revenues may be materially adversely affected.

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Any future business combinations, acquisitions, mergers, or joint ventures will expose us to risks, including the risk that we may not be able to successfully integrate these businesses or achieve expected operating synergies.

We actively consider strategic transactions from time to time. We evaluate acquisitions, joint ventures, alliances and co-production programs as opportunities arise, and we may be engaged in varying levels of negotiations with potential competitors at any time. We may not be able to effect transactions with strategic alliance, acquisition or co-production program candidates on commercially reasonable terms or at all. If we enter into these transactions, we also may not realize the benefits we anticipate. In addition, we may not be able to obtain additional financing for these transactions. The integration of companies that have previously been operated separately involves a number of risks, including, but not limited to:

demands on management related to the increase in size after the transaction;

the diversion of management's attention from the management of daily operations to the integration of operations;

difficulties in the assimilation and retention of employees;

difficulties in the assimilation of different cultures and practices, as well as in the assimilation of geographically dispersed operations and personnel, who may speak different languages;

difficulties combining operations that use different currencies or operate under different legal structures;

difficulties in the integration of departments, systems (including accounting systems), technologies, books and records and procedures, as well as in maintaining uniform standards, controls (including internal accounting controls), procedures and policies;

compliance with the Foreign Corrupt Practices Act, the U.K. Bribery Act and other applicable anti-bribery laws; and

constraints (contractual or otherwise) limiting our ability to consolidate, rationalize and/or leverage supplier arrangements to achieve integration.

Consummating any acquisitions, joint ventures, alliances or co-production programs could result in the incurrence of additional debt and related interest expense, as well as unforeseen contingent liabilities.

We could be required to make future contributions to our defined benefit pension and post-retirement benefit plans as a result of adverse changes in interest rates and the capital markets.

Our estimates of liabilities and expenses for pensions and other post-retirement benefits incorporate significant assumptions including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). A dramatic decrease in the fair value of our plan assets resulting from movements in the financial markets may cause the status of our plans to go from an over-funded status to an under-funded status and result in cash funding requirements to meet any minimum required funding levels. Our results of operations, liquidity, or shareholders' equity in a particular period could be affected by a decline in the rate of return on plan assets, the rate used to discount the future estimated liability, or changes in employee workforce assumptions.

We identified material weaknesses in our internal control over financial reporting.

A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be

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prevented or detected on a timely basis. As of December 31, 2013, we concluded that we had material weaknesses in our internal control over financial reporting as described below:

We did not maintain effective controls over the completeness, accuracy and valuation of inventory and cost of sales related to the Airbus A350 XWB Section 15 recurring program. Specifically, we did not maintain controls over the completeness and accuracy of the bill of materials used in the contract accounting estimate for this program. These controls were not designed effectively to ensure that the bill of materials used in the accounting estimates were accurate and provided a sound basis for estimating future costs. Although this material weakness did not result in a material misstatement of the Company's consolidated financial statements, the existence of the deficiency in our controls could result in an undetected material misstatement of the Company's consolidated financial statements.

In addition, we did not maintain effective controls over the completeness, accuracy and valuation of inventory and cost of sales for the Gulfstream G280 and G650 programs. Specifically, controls over contract accounting estimates related to these programs were not operating effectively in order to ensure that (1) the bills of materials used in the accounting estimates were complete and provided a sound basis for estimating future costs; (2) the evaluation of current actual trends impacting prior estimates of supply chain and labor costs were identified and incorporated into the accounting estimates on a timely basis; and (3) the estimation of the number of production units used in the accounting estimates was accurate. This control deficiency resulted in audit adjustments to the cost of sales and inventory accounts and related financial disclosures within the Company's consolidated financial statements for the year ended December 31, 2012 and the condensed consolidated financial statements for the quarter ended June 27, 2013.

Because of these material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2013, based on criteria in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Our efforts to remediate the aforementioned deficiencies in internal control over financial reporting are described further in Item 9A. *Controls and Procedures.*

While we believe that we have a plan to remediate these deficiencies, we cannot be certain that additional material weaknesses or significant deficiencies will not develop or be identified. We are in the process of remediating our internal control deficiencies over the cost estimation process for the G280 and G650 programs in Tulsa, Oklahoma and completeness, accuracy and valuation of inventory and cost of sales related to the A350 XWB Section 15 program in Kinston, North Carolina. Any failure to maintain adequate internal control over financial reporting or to implement required, new or improved controls, or difficulties encountered in their implementation could cause us to report additional material weaknesses or other deficiencies in our internal control over financial reporting and could result in a reasonable possibility of errors or misstatements in the consolidated financial statements that would be material.

Risk Factors Related to Our Capital Structure

The interests of our controlling stockholder may conflict with your interests.

Onex Partners LP, Onex Corporation and their respective partners and affiliates that beneficially own our class B common stock, herein referred to collectively as the "Onex entities," own 22,411,638 shares of our class B common stock. Our class A common stock has one vote per share, while our class B common stock has ten votes per share on all matters to be voted on by our stockholders. Consequently, the Onex entities control approximately 62% of the combined voting power of our outstanding common stock. Accordingly, and for so long as the Onex entities continue to hold class B common stock that represents at least 10% of the total number of shares of common stock outstanding, Onex will exercise a controlling influence over our business and affairs and will have the power to determine all matters submitted to a

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vote of our stockholders, including the election of directors and approval of significant corporate transactions such as amendments to our certificate of incorporation, mergers and the sale of all or substantially all of our assets. Onex could cause corporate actions to be taken even if the interests of Onex conflict with the interests of our other stockholders. This concentration of voting power could have the effect of deterring or preventing a change in control of Spirit that might otherwise be beneficial to our stockholders. Gerald W. Schwartz, the Chairman, President and Chief Executive Officer of Onex Corporation, owns shares representing a majority of the voting rights of the shares of Onex Corporation.

Our substantial debt could adversely affect our financial condition and our ability to operate our business. The terms of the indenture governing our long-term bonds and our senior secured credit facility impose significant operating and financial restrictions on our company and our subsidiaries, which could also adversely affect our operating flexibility and put us at a competitive disadvantage by preventing us from capitalizing on business opportunities.

As of December 31, 2013, we had total debt of approximately \$1,167.3 million, including approximately \$538.2 million of borrowings under our senior secured credit facility, \$596.4 million of long-term bonds, a \$10.0 million Malaysian loan, approximately \$15.3 million of capital lease obligations, and \$7.4 million in other debt obligations. In addition to our debt, as of December 31, 2013, we had \$44.7 million of letters of credit and letters of guarantee outstanding.

The terms of the indentures governing our long-term bonds and our senior secured credit facility impose significant operating and financial restrictions on us, which limit our ability, among other things, to:

incur additional debt or issue preferred stock;

pay dividends or make distributions to our stockholders;

repurchase or redeem our capital stock;

make investments;

incur liens;

enter into transactions with our stockholders and affiliates;

sell certain assets;

acquire the assets of, or merge or consolidate with, other companies; and

incur restrictions on the ability of our subsidiaries to make distributions or transfer assets to us.

These restrictions could have consequences, including the following:

making it more difficult for us to satisfy our obligations with respect to our debt;

limiting our ability to obtain additional financing to fund future working capital, capital expenditures, strategic acquisitions or other general corporate requirements;

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requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our financial flexibility in planning for and reacting to changes in the industry in which we compete;

placing us at a disadvantage compared to other, less leveraged competitors;

having a material adverse effect on us if we fail to comply with the covenants in the senior secured credit facility or in the indentures governing our long-term bonds or in the instruments governing our other debt; and

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increasing our cost of borrowing.

Our existing senior secured revolving credit facility, which matures on April 18, 2017, is a significant source of liquidity for our business. The failure to extend or renew this agreement could have a significant effect on our ability to invest sufficiently in our programs, fund day to day operations, or pursue strategic opportunities.

We cannot assure you that we will be able to maintain compliance with the covenants in the agreements governing our indebtedness in the future or, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants.

In addition, despite the restrictions and limitations described above, subject to the limits contained in the agreements governing our indebtedness, we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. The terms of any future indebtedness we may incur could include more restrictive covenants. If we incur additional debt, the risks related to our level of debt could intensify.

In addition, if we are unable to generate sufficient cash flow to service our debt and meet our other commitments, we may need to refinance all or a portion of our debt, sell material assets or operations, or raise additional debt or equity capital. We cannot provide assurance that we could effect any of these actions on a timely basis, on commercially reasonable terms or at all, or that these actions would be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt agreements may restrict us from effecting certain or any of these alternatives.

Global credit markets are still recovering from the 2008 financial crisis, and are subject to numerous risk factors, including but not limited to concerns over sovereign debt in Europe and elsewhere; the impact and effectiveness of new financial legislation and regulation in the United States and Europe; the impact of those reforms on borrowers, financial institutions and credit rating agencies; potential systemic risk resulting from the interrelationship of credit market products and participants; global governmental and central banking policies; and conflict and political instability in the Middle East and Asia. There can be no assurance that access to credit markets will continue to be available to us.

Any reduction in our credit ratings could materially and adversely affect our business or financial condition.

As of December 31, 2013, our corporate credit rating was affirmed at BB and placed on negative outlook by Standard & Poor's and was affirmed at Ba2 and placed on negative outlook by Moody's Investor Services.

On February 6, 2014, Moody's Investors Service placed the credit ratings of Spirit AeroSystems, Inc. under review for possible downgrade.

The ratings reflect the agencies' assessment of our ability to pay interest and principal on our debt securities and credit agreements. A rating is not a recommendation to purchase, sell or hold securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating agency has its own methodology for assigning ratings and, accordingly, each rating should be considered independently of all other ratings. Lower ratings would typically result in higher interest costs of debt securities when they are sold, and could make it more difficult to issue future debt securities. In addition, a downgrade in our fixed or revolving long-term debt rating could result in an increase in borrowing costs under our senior secured credit facility and could trigger a prepayment based on the excess cash flow prepayment provision under our term loan depending on our total leverage ratio. Any downgrade in our credit ratings could thus have a material adverse effect on our business or financial condition.

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We may sell more equity and reduce your ownership in Spirit Holdings.

Our business plan may require the investment of new capital, which we may raise by issuing additional equity (including equity interests which may have a preference over shares of our class A common stock) or additional debt (including debt securities and/or bank loans). However, this capital may not be available at all, or when needed, or upon terms and conditions favorable to us. The issuance of additional equity in Spirit Holdings may result in significant dilution of shares of our class A common stock. We may issue additional equity in connection with or to finance acquisitions. Further, our subsidiaries could issue securities in the future to persons or entities (including our affiliates) other than us or another subsidiary. This could materially adversely affect your investment in us because it would dilute your indirect ownership interest in our subsidiaries.

Spirit Holdings' certificate of incorporation and by-laws and our supply agreements with Boeing contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of Spirit Holdings' certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our current board of directors. These provisions include:

multi-vote shares of common stock, which are owned by the Onex entities and management stockholders;

advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

the authority of the board of directors to issue, without stockholder approval, up to 10 million shares of preferred stock with such terms as the board of directors may determine and an additional 55,738,264 shares of class A common stock (net of shares issued but subject to vesting requirements under our benefit plans and shares reserved for issuance upon conversion of outstanding shares of class B common stock) and an additional 125,409,562 shares of class B common stock (net of shares issued but subject to vesting requirements under our benefit plans).

In addition, our supply agreements with Boeing include provisions giving Boeing the ability to terminate the agreements in the event any of certain disqualified persons acquire a majority of Spirit's direct or indirect voting power or all or substantially all of Spirit's assets. See "Business Our Relationship with Boeing."

Spirit Holdings is a "controlled company" within the meaning of the New York Stock Exchange rules and, as a result, qualifies for, and relies on, exemptions from certain corporate governance requirements.

Because the Onex entities own more than 50% of the combined voting power of the common stock of Spirit Holdings, Spirit Holdings is deemed a "controlled company" under the rules of the New York Stock Exchange, or NYSE. As a result, Spirit Holdings qualifies for, and relies upon, the "controlled company" exception to the board of directors and committee composition requirements under the rules of the NYSE. Pursuant to this exception, Spirit Holdings is exempt from rules that would otherwise require that Spirit Holdings' board of directors be comprised of a majority of "independent directors" (as defined under the rules of the NYSE), and that Spirit Holdings' compensation committee and corporate governance and nominating committee be comprised solely of "independent directors," so long as the Onex entities continue to own more than 50% of the combined voting power of the common stock of Spirit Holdings. Spirit Holdings' board of directors consists of eleven directors, eight of whom qualify as "independent." Spirit Holdings' compensation and corporate governance and nominating committees are not comprised

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solely of "independent directors." Spirit Holdings does not currently rely on the exemption related to board composition, although it may do so in the future. See "Management Executive Officers and Directors" and "Committees of the Board of Directors."

Our stock price may be volatile.

Price fluctuations in our class A common stock could result from general market and economic conditions and a variety of other factors, including:

actual or anticipated fluctuations in our operating results;

changes in aerostructures pricing;

our competitors' and customers' announcements of significant contracts, acquisitions or strategic investments;

changes in our growth rates or our competitors' and customers' growth rates;

the timing or results of regulatory submissions or actions with respect to our business;

our inability to finance or raise additional capital;

conditions of the aerostructure industry, in the financial markets, or economic conditions in general; and

changes in stock market analyst recommendations regarding our class A common stock, other comparable companies or the aerospace industry in general.

Item 1B. *Unresolved Staff Comments*

The Company received a comment letter from the Securities and Exchange Commission (the "SEC") Division of Corporation Finance dated December 10, 2012 regarding its Form 10-K for Fiscal Year Ended December 31, 2011 and Form 10-Q for the Fiscal Quarter Ended September 27, 2012. We have filed responses with the SEC that addressed several of the SEC staff's comments. However, as of February 19, 2014, we have not yet responded to comments regarding updates to our contract estimates which resulted in forward losses recognized in the third quarter of 2012 as we work with the SEC Division of Enforcement on some similar issues. We intend to continue to work with the Division of Corporation Finance to respond to the outstanding comments.

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The location, primary use, approximate square footage and ownership status of our principal properties as of December 31, 2013 are set forth below:

Location	Primary Use	Approximate Square Footage	Owned/Leased
United States			
Wichita, Kansas ⁽¹⁾	Primary Manufacturing Facility/Offices/Warehouse	11.3 million	Owned/Leased
Chanute, Kansas ⁽²⁾	Manufacturing Facility	59,362	Leased
Tulsa, Oklahoma	Manufacturing Facility	1.9 million	Leased
McAlester, Oklahoma	Manufacturing Facility	135,000	Owned
Kinston, North Carolina	Primary Manufacturing/Office/Warehouse	761,600	Leased
Nashville, Tennessee ⁽³⁾	Office	15,000	Leased
United Kingdom			
Prestwick, Scotland	Manufacturing Facility	901,000	Owned
Preston, England	Administrative Offices	28,000	Leased
Malaysia			
Subang, Malaysia	Manufacturing	337,000	Owned/Leased
France			
Saint-Nazaire, France	Primary Manufacturing/Office	58,800	Leased
Toulouse, France	Office	3,400	Leased

(1) 95% of the Wichita facility is owned.

(2) Operations began in Q1 2012.

(3) Operation began in Q2 2012.

Our physical assets consist of 15.5 million square feet of building space located on 1,335 acres in eleven facilities. We produce our fuselage systems and propulsion systems from our primary manufacturing facility located in Wichita, Kansas with some fuselage work done in our Kinston, North Carolina facility. We produce wing systems in our manufacturing facilities in Tulsa, Oklahoma; Kinston, North Carolina; Prestwick, Scotland; Saint-Nazaire, France; and Subang, Malaysia. In addition to these sites, we have a facility located in McAlester, Oklahoma dedicated to supplying machined parts and sub-assemblies to the Wichita and Tulsa facilities. We also have a light sub-assembly manufacturing facility located in Chanute, Kansas which manufactures small parts in support of Wichita propulsion.

The Wichita facility, including Spirit's corporate offices, is comprised of 625 acres, 6.3 million square feet of manufacturing space, 1.3 million square feet of offices and laboratories for the engineering and design group and 3.7 million square feet for support functions and warehouses. A total of 617,429 square feet is currently vacant, with much of it planned for backfill by new programs. The Wichita site has access to transportation by rail, road and air. For air cargo, the Wichita site has access to the runways of McConnell Air Force Base.

The Chanute facility, consists of 59,362 square feet of building space. The Chanute facility manufactures sub-assemblies for the propulsion segment, and is leased from the city of Chanute.

The Tulsa facility consists of 1.9 million square feet of building space set on 153 acres. The Tulsa plant is located five miles from an international shipping port (Port of Catoosa) and is located next to the Tulsa International Airport. The Tulsa facility includes off site leased space, 1.5 miles east in the Green Valley Center. The McAlester site, which manufactures parts and sub-assemblies primarily for the Tulsa facility, consists of 135,000 square feet of building space on 92 acres.

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The Prestwick facility consists of 0.9 million square feet of building space, comprised of 0.7 million square feet of manufacturing space and 0.2 million square feet of office space. This facility is set on 95 acres. The Prestwick plant is located on the west coast of Scotland, approximately 33 miles south of Glasgow, within close proximity to the motorway network that provides access between England and continental Europe. It is also easily accessible by air (at Prestwick International Airport) or by sea. We lease a portion of our Prestwick facility to the Regional Aircraft division of BAE Systems and certain other tenants.

The Malaysian manufacturing plant is located at the Malaysia International Aerospace Center (MIAC) in Subang. The 269,000 square foot leased facility is set on 45 acres and is centrally located with easy access to Kuala Lumpur, Malaysia's capital city, as well as nearby ports and airports. The facility assembles composite panels for wing components. An additional 68,000 square foot warehouse owned by Spirit was constructed in 2012 for shipping/receiving and parts storage to make room for additional manufacturing space in the existing building.

The Wichita and Tulsa manufacturing facilities have significant scale to accommodate the very large structures that are manufactured there, including, in Wichita, entire fuselages. Three of the U.S. facilities are in close proximity, with approximately 175 miles between Wichita and Tulsa and 90 miles between Tulsa and McAlester. Currently, these U.S. facilities utilize approximately 95% of the available building space. The Prestwick manufacturing facility currently utilizes only 72% of the space; of the remaining space, 15% is leased and 13% is vacant. The Preston office space is located in North Lancashire, England, approximately 200 miles south of Prestwick.

The Kinston, North Carolina facility, supports the manufacturing of composite panels and wing components. The primary manufacturing site and off-site leased spaces total 318 acres and 761,600 square feet. In addition to the primary manufacturing facility, this includes three additional buildings leased from the NC Global Transpark Authority: 27,500 square foot warehouse/office supporting receiving needs, a 26,400 square foot warehouse providing tooling storage, and a 120,000 square foot manufacturing facility supporting light manufacturing.

The Saint-Nazaire, France site was built on 6.25 acres and totals 58,800 square feet. This facility receives center fuselage frame sections for the Airbus A350 XWB from the facility in Kinston, North Carolina. Sections designed and manufactured in North Carolina are shipped across the Atlantic, received in Saint-Nazaire, and assembled before being transported to Airbus. Additionally, a 3,400 square foot office area in Toulouse, France is leased for engineering support.

Item 3. *Legal Proceedings*

Information concerning the litigation and other legal proceedings in which the Company is involved, may be found in Note 22 under the sub-heading "Litigation" in this Annual Report and that information is hereby incorporated by reference.

Item 4. *Mine Safety Disclosures*

Not applicable.

Executive Officers of the Registrant

Listed below are the names, ages, positions held, and biographies of all executive officers of Spirit Holdings. Executive officers hold office until their successors are elected or appointed at the next annual meeting of the Board of Directors, or until their death, retirement, resignation, or removal.

Larry Lawson, 55. Mr. Lawson joined Spirit Holdings as President and Chief Executive Officer on April 6, 2013. Prior to joining Spirit Holdings, Mr. Lawson was Executive Vice President of Lockheed Martin's Aeronautics business segment. Mr. Lawson began his career as a flight control engineer working on the F-15 Eagle at McDonnell Douglas. He has since held a broad range of leadership positions in engineering, advanced development, business development, and program management in a career spanning more than 30 years. In his

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work at Lockheed Martin, Mr. Lawson has overseen key aircraft production programs such as the F-35, F-22, F-16, C-130J, and C-5, including highly classified programs in the world-renowned Skunk Works® organization. Mr. Lawson holds a bachelor's degree in Electrical Engineering from Lawrence Technological University, where he also serves on the board of trustees, has a master's degree in Electrical Engineering from the University of Missouri, and is a graduate of the Harvard Business School Advanced Management Program and an MIT Seminar XXI Fellow.

Philip Anderson, 49. Mr. Anderson became the Senior Vice President of Defense and Contracts of Spirit Holdings effective September 23, 2013. Mr. Anderson previously served as Senior Vice President and Chief Financial Officer of Spirit Holdings from February 12, 2010 to September 2013. From October 2009 to February 2010, Mr. Anderson served as Vice President and Interim Chief Financial Officer of Spirit Holdings. Mr. Anderson also served as Treasurer of Spirit Holdings from November 2006 to July 2010. From March 2003 to November 2006, Mr. Anderson was the Director of Corporate Finance and Banking for Boeing. Mr. Anderson began his career at Boeing in 1989 as a defense program analyst and served in a variety of finance and manufacturing operations leadership positions at Boeing Defense Systems and Boeing Commercial Airplanes. Mr. Anderson received his Bachelor of Arts and Masters of Business from Wichita State University and holds a Six Sigma Black Belt certification from the University of Michigan.

David M. Coleal, 46. Mr. Coleal assumed the role of Executive Vice President /General Manager Boeing, Military, Business & Regional Jet Programs & Aftermarket in May 2013 after previously serving as Senior Vice President /General Manager of the Fuselage Segment since July 2011. Prior to joining Spirit AeroSystems, Mr. Coleal was Vice President and General Manager of Bombardier-Learjet. He joined Bombardier Aerospace in March 2008 and was responsible for all engineering and manufacturing operations, program change management, quality and material logistics for the Learjet family of aircraft, including development of the pioneering all-composite Learjet 85 mid-size business jet. From 2001 to 2008, Mr. Coleal worked at Cirrus Design Corporation, where he was initially responsible for operations, and he assumed positions of increasing responsibility until being named President and Chief Operating Officer in 2005. Mr. Coleal earned his Masters of Business Administration in Management Science from California State University Hayward in 1997. He graduated from California State University in Sacramento in 1990 with a Bachelor of Science degree in Mechanical Engineering Technology.

Sanjay Kapoor, 53. Mr. Kapoor joined Spirit Holdings as Senior Vice President and Chief Financial Officer on September 23, 2013. Mr. Kapoor joined Spirit from Raytheon where he most recently served as Vice President of Integrated Air & Missile Defense for Raytheon Integrated Defense Systems (IDS). Prior to this role, Mr. Kapoor was IDS Vice President of Finance and Chief Financial Officer from 2004 to 2008. Mr. Kapoor also served as CFO at United Technologies' Pratt and Whitney Power Systems Division. His tenure at Pratt and Whitney also included roles as Director of Aftermarket Services for the Power Systems Business, controller for the Turbine Module Center and business manager for new commercial programs. Mr. Kapoor received his bachelor's degree in technology from the Indian Institute of Technology and a dual Masters of Business Administration in finance and entrepreneurial management from The Wharton School at the University of Pennsylvania.

Jon D. Lammers, 49. Mr. Lammers was named Senior Vice President Secretary of Spirit Holdings in July 2012, and General Counsel of Spirit Holdings in October 2012. Mr. Lammers brings more than 20 years of legal experience, including 15 years at Cargill, Incorporated, where he served from July 1997 to July 2012. He served as Cargill's Asia Pacific general counsel in Singapore from June 2006 to June 2010 as well as Cargill's deputy North American general counsel in Wayzata, Minnesota from July 2010 to July 2012. Mr. Lammers earned his Bachelor of Science in Business Administration from the University of Southern California and his Juris Doctor degree from the University of Virginia.

Samantha J. Marnick, 43. Ms. Marnick became Senior Vice President Chief Administration Officer in October 2012. From January 2011 to September 2012, Ms. Marnick served as Senior Vice President of Corporate Administration and Human Resources. From March 2008 to December 2010, Ms. Marnick served as Vice President Labor Relations & Workforce Strategy responsible for labor relations, global human resource

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project management office, compensation and benefits, and workforce planning. Ms. Marnick previously served as Director of Communications and Employee Engagement from March 2006 to March 2008. Prior to joining the Company, Ms. Marnick was a senior consultant and Principal for Mercer Human Resource Consulting holding management positions in both the United Kingdom and in the United States. Prior to that Ms. Marnick worked for Watson Wyatt, the UK's Department of Health and Social Security and The British Wool Marketing Board. Ms. Marnick holds a Master's degree from the University of Salford in Corporate Communication Strategy and Management.

John Pilla, 54. Mr. Pilla became the Senior Vice President/General Manager Airbus and A350 XWB Program Management in May 2013. Prior to that, Mr. Pilla served as the Senior Vice President/General Manager, Propulsion Systems Segment of Spirit since July 2009 and added the role of Senior Vice President/General Manager of the Wing segment in September 2012. From July 2011 to May 2013, he was also responsible for the Aftermarket Customer Support Organization. From April 2008 to July 2009, Mr. Pilla was Chief Technology Officer of Spirit Holdings and he served as Vice President/General Manager 787 of Spirit Holdings and/or Spirit, a position he assumed at the date of the Boeing Acquisition in June 2005 and held until March 2008. Mr. Pilla began his career at Boeing Commercial Airplanes in 1981 as a stress engineer and was promoted to Chief Engineer of Structures and Liaison in 1995. In 1997, Mr. Pilla led the Next-Generation 737 engineering programs and ultimately led the Define Team on the 737-900 fuselage and empennage in late 1997 as well as the 777LR airplane in May 2000. In July 2001, Mr. Pilla became the Director of Business Operations, a position he held until July 2003 when he accepted an assignment as 787 Director of Product Definition and Manufacturing. He received his Master's degree in Aerospace Structures Engineering in 1986 and a Masters in Business Administration in 2002 from Wichita State University.

Heidi Wood, 48. Ms. Wood joined Spirit Holdings as Senior Vice President Strategy, Mergers and Acquisitions and Investor Relations in July 2013. Prior to joining the Company, Ms. Wood was Senior Vice President and Co-head of Global Sales at Avjet Corporation. From 1999 to 2013, Ms. Wood served as Managing Director and global head of aerospace/defense analysis at Morgan Stanley. She was responsible for leading North American, Europe, Latin American and Singapore-based teams. Prior to assuming her employment at Morgan Stanley, Ms. Wood was an analyst at Cowen & Company from 1992 to 1999. Ms. Wood holds a Bachelor of Arts degree with honors from Brown University.

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Our class A common stock has been quoted on the NYSE under the symbol "SPR" since November 21, 2006. Prior to that time, there was no public market for our stock. As of February 12, 2014, there were approximately 1,282 holders of record of class A common stock. However, we believe that many additional holders of our class A common stock are unidentified because a substantial number of shares are held of record by brokers or dealers for their customers in street names. The closing price on February 12, 2014 was \$28.86 per share as reported by the NYSE.

As of February 12, 2014, there were approximately 123 holders of record of class B common stock. Our class B common stock is neither listed nor publicly traded.

The following table sets forth for the indicated periods the high and low closing sales price for our class A common stock on the NYSE.

Fiscal Quarter	2013		2012	
	High	Low	High	Low
1st	\$ 19.00	\$ 15.94	\$ 25.66	\$ 21.11
2nd	\$ 21.93	\$ 18.45	\$ 25.72	\$ 22.12
3rd	\$ 25.99	\$ 21.48	\$ 25.85	\$ 21.65
4th	\$ 34.18	\$ 23.54	\$ 22.87	\$ 14.04

Dividend Policy

We did not pay any cash dividends in 2012 or 2013 and we currently do not intend to pay cash dividends. Our future dividend policy will depend on the requirements of financing agreements to which we may be a party. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions.

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents restricted shares outstanding under the Executive Incentive Plan, the Director Stock Plan, and the Short-Term and Long-Term Incentive Plans as of December 31, 2013.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Restricted Stock Awards			
Equity compensation plans approved by security holders ⁽¹⁾⁽²⁾	N/A ⁽³⁾	\$	8,939,862 ⁽⁴⁾
Equity compensation plans not approved by security holders ⁽²⁾		\$	
Total	N/A ⁽³⁾	\$	8,939,862 ⁽⁴⁾

(1) Approved by previous security holders in place before our initial public offering. Amendments were approved by shareholders in 2008 and 2011.

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- (2) Our equity compensation plans provide for the issuance of incentive awards to officers, directors, employees and consultants in the form of stock appreciation rights, restricted stock, restricted stock units and deferred stock, in lieu of cash compensation.
- (3) There are 1,732,535 class A shares and 869,219 class B shares outstanding under the Executive Incentive Plan, the Director Stock Plan, and the Short-Term and Long-Term Incentive Plans as of December 31, 2013.
- (4) As of December 31, 2013, there are 3,380,285; 2,404,323; 1,455,716 and 1,699,538 securities available for future issuance under the Executive Incentive Plan, the Director Stock Plan, and the Short-Term and Long-Term Incentive Plans, respectively.

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Stock Performance

The following graph shows a comparison from December 31, 2008 through December 31, 2013 of cumulative total return of our class A common stock, Standard & Poor's 500 Stock Index, and the Standard & Poor's 500 Aerospace & Defense Index. Such returns are based on historical results and are not intended to suggest future performance. We have never paid dividends on our class A common stock and have no present plans to do so.

Company/Index	INDEXED RETURNS					
	Base Period 12/31/08	Years Ending				
	12/31/08	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Spirit AeroSystems Holdings, Inc.	100	195.28	204.62	204.33	166.86	335.10
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
S&P 500 Aerospace & Defense Index	100	124.64	143.47	151.04	173.04	268.07

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The following table sets forth our selected consolidated financial data for each of the periods indicated. Financial data is derived from the audited consolidated financial statements of Spirit Holdings. The audited consolidated financial statements for the years ended December 31, 2011, December 31, 2012 and December 31, 2013 are included in this Annual Report. You should read the information presented below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our combined and consolidated financial statements and related notes contained elsewhere in the Annual Report.

	Spirit Holdings				
	Twelve Months Ended				
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
	(Dollars in millions, except per share data)				
Statement of Income Data:					
Net revenues	\$ 5,961.0	\$ 5,397.7	\$ 4,863.8	\$ 4,172.4	\$ 4,078.5
Cost of sales ⁽¹⁾	6,059.5	5,245.3	4,312.1	3,607.9	3,581.4
Selling, general and administrative expenses ⁽²⁾	200.8	172.2	159.9	156.0	137.1
Impact from severe weather event	30.3	(146.2)			
Research and development	34.7	34.1	35.7	51.5	56.7
Operating (loss) income	(364.3)	92.3	356.1	357.0	303.3
Interest expense and financing fee amortization	(70.1)	(82.9)	(77.5)	(59.1)	(43.6)
Interest income	0.3	0.2	0.3	0.3	7.0
Other income (loss), net	3.3	1.8	1.4	(0.4)	6.1
(Loss) income before income taxes and equity in net income					
(loss) of affiliates	(430.8)	11.4	280.3	297.8	272.8
Income tax (provision) benefit	(191.1)	24.1	(86.9)	(78.2)	(80.9)
Equity in net income (loss) of affiliates	0.5	(0.7)	(1.0)	(0.7)	(0.2)
Net (loss) income	\$ (621.4)	\$ 34.8	\$ 192.4	\$ 218.9	\$ 191.7
Net (loss) income per share, basic	\$ (4.40)	\$ 0.24	\$ 1.36	\$ 1.56	\$ 1.39
Shares used in per share calculation, basic ⁽³⁾	141.3	140.7	139.2	137.9	137.2
Net (loss) income per share, diluted	\$ (4.40)	\$ 0.24	\$ 1.35	\$ 1.55	\$ 1.37
Shares used in per share calculation, diluted	141.3	142.7	142.3	141.0	139.8

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	Spirit Holdings				
	Twelve Months Ended				
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
	(Dollars in millions)				
Other Financial Data:					
Cash flow provided by (used in) operating activities	\$ 260.6	\$ 544.4	\$ (47.3)	\$ 125.1	\$ (13.9)
Cash flow (used in) investing activities	\$ (268.2)	\$ (248.8)	\$ (249.2)	\$ (288.4)	\$ (112.4)
Cash flow (used in) provided by financing activities	\$ (13.9)	\$ (34.6)	\$ (6.7)	\$ 277.4	\$ 276.1
Capital expenditures	\$ (234.2)	\$ (236.1)	\$ (249.7)	\$ (288.1)	\$ (228.2)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 420.7	\$ 440.7	\$ 177.8	\$ 481.6	\$ 369.0
Accounts receivable, net	\$ 550.8	\$ 420.7	\$ 267.2	\$ 200.2	\$ 160.4
Inventories, net	\$ 1,842.6	\$ 2,410.8	\$ 2,630.9	\$ 2,507.9	\$ 2,206.9
Property, plant & equipment, net	\$ 1,803.3	\$ 1,698.5	\$ 1,615.7	\$ 1,470.0	\$ 1,279.3
Total assets	\$ 5,107.2	\$ 5,415.3	\$ 5,042.4	\$ 5,102.0	\$ 4,473.8
Total debt	\$ 1,167.3	\$ 1,176.2	\$ 1,200.9	\$ 1,196.8	\$ 893.8
Long-term debt	\$ 1,150.5	\$ 1,165.9	\$ 1,152.0	\$ 1,187.3	\$ 884.7
Total equity	\$ 1,481.0	\$ 1,996.9	\$ 1,964.7	\$ 1,810.9	\$ 1,573.8

- (1) Included in 2013 cost of sales are forward loss charges of \$1,133.3 million, which includes \$41.1 million on the B747-8 program, \$16.4 million on the B767 program, \$422.0 million on the B787 program, \$111.3 million on the A350 XWB program, \$240.9 million on the G280 wing program, \$288.3 million on the G650 wing program and \$13.3 million on our Rolls-Royce BR725 program. Included in 2012 cost of sales are forward loss charges of \$636.7 million, which includes \$11.5 million on the B747-8 program, \$184.0 million on the B787 wing program, \$8.9 million on the A350 XWB non-recurring wing contract, \$118.8 million on the G280 wing program, \$162.5 million on the G650 wing program and \$151.0 million on our Rolls-Royce program. Included in 2011 cost of sales are forward loss charges of \$132.1 million, which includes \$81.8 million on the G280 wing program, \$29.0 million on the Sikorsky CH-53K program, \$18.3 million on the B747-8 program and \$3.0 million on the A350 XWB non-recurring wing program. Included in 2010 cost of sales are charges of \$18.9 million 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, \$6.5 million in early retirement incentives for members represented by the IAM who made elections to retire in 2010, and \$3.3 million in 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. Also included in 2010 cost of sales is a \$2.8 million forward loss on the G280 wing program. Included in the 2009 cost of sales are forward loss charges of \$103.9 million, which includes \$93.0 million on the G280 wing program and \$10.9 million on the Cessna Citation Columbus program. Includes cumulative catch-up adjustments of \$95.5 million, \$14.7 million, \$13.8 million, (\$23.2) million and (\$58.5) million for periods prior to the twelve months ended December 31, 2013, December 31, 2012, December 31, 2011, December 31, 2010 and December 31, 2009, respectively.
- (2) Includes non-cash stock compensation expenses of \$19.6 million, \$15.3 million, \$11.1 million, \$7.9 million and \$9.7 million for the respective periods starting with the twelve months ended December 31, 2013.
- (3) Under the Financial Accounting Standards Board ("FASB") guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. See Note 20, "Equity," for more details.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the audited consolidated financial statements, the notes to the audited consolidated financial statements and the "Selected Consolidated Financial Information and Other Data" appearing elsewhere in this Annual Report. This section includes "forward-looking statements." 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. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties, both known and unknown, including, but not limited to, those described in the "Risk Factors" section of this Annual Report. See also "Cautionary Statement Regarding Forward-Looking Statements." 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.

Recent Events

On February 6, 2014, Moody's Investors Service placed the rating of Spirit AeroSystems, Inc. under review for possible downgrade.

On January 16, 2014, Bombardier announced a delay in entry-into-service for the new C Series aircraft, for which Spirit provides content. This delay is not expected to have a material impact on Spirit's results of operations.

On December 19, 2013, Spirit completed the sale of its interest in the Spirit-ProgressTech joint venture, our former joint venture with ProgressTech, LTD.

Overview

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, 2013, we generated net revenues of \$5,961.0 million and net loss of \$621.4 million.

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 wings, wing components, flight control surfaces and other miscellaneous structural parts. All other activities fall within the All Other segment, principally made up of sundry sales of miscellaneous services, tooling contracts, and sales of natural gas through a tenancy-in-common with other companies that have operations in Wichita, Kansas. The Fuselage Systems segment manufactures products at our facilities in Wichita, Kansas and Kinston, North Carolina, with an assembly plant in Saint-Nazaire, France for the A350 XWB program. The Propulsion Systems segment manufactures products at our facilities in Wichita and Chanute, Kansas. The Wing Systems segment manufactures products at our facilities in Tulsa and McAlester, Oklahoma; Prestwick, Scotland; Subang, Malaysia; and Kinston, North Carolina. Fuselage Systems, Propulsion Systems, Wing Systems and All Other represented approximately 48%, 27%, 25% and less than 1%, respectively, of our net revenues for the twelve months ended December 31, 2013.

We are evaluating the potential realignment of our reportable segments as part of our 2014 business strategy. The reportable segment amounts and discussions reflected in this Annual Report reflect the management reporting that existed through the end of our 2013 fiscal year.

Table of Contents**Market Trends**

The financial health of the commercial airline industry has a direct and significant effect on our commercial aircraft programs. The global industry's year-over-year revenue grew from 2010 through 2013, and is forecast to continue growing in 2014 and 2015, after significant contraction in 2008 and 2009. One key driver of the commercial aircraft market is airline passenger and cargo traffic trends. Principal factors influencing traffic are economic growth and political stability. A significant downturn in global or regional economic stability, or exogenous shocks such as terrorism or a pandemic, could suppress traffic and negatively affect demand for our key customers' products.

Demand for commercial aerostructures is highly correlated to demand for new aircraft. Boeing and Airbus have more than doubled their combined backlog since December 2006. The year-end 2013 combined backlog was 10,639 aircraft. High backlog levels are expected to continue to drive increasing production and delivery forecasts in the near to mid-term from both Boeing and Airbus.

The following table sets forth the historical deliveries of Boeing and Airbus for 2008 through 2013 and delivery expectations for 2014.

	2008	2009	2010	2011	2012	2013	2014 ⁽¹⁾
Boeing	375	481	462	477	601	648	715-725
Airbus	483	498	510	534	588	626	626
Total	858	979	972	1,011	1,189	1,274	1,341-1,351

(1)

Boeing has announced that it expects its 2014 deliveries to be approximately 715-725 aircraft. Airbus announced that it expects 2014 deliveries to reach similar levels as 2013.

Program Inventory

Product inventory continues to grow in terms of absolute dollars and remains stable as a percentage of total assets. Inventory as a percentage of total assets was 36%, 45% and 52% at December 31, 2013, 2012 and 2011, respectively. This overall trend in inventory is driven primarily by our contractually required investments in certain programs, which include the Boeing B747-8, B787, Gulfstream G280 and G650, Airbus A350 XWB, Sikorsky CH-53K and Rolls-Royce BR725 programs. The contracts for these programs accounted for a decrease in inventory from 2012 to 2013 of \$682.7 million, which is net of forward loss charges for each year. Excluding the forward loss charges, these programs would have increased inventory by \$329.4 million from 2012 to 2013. The increases in inventory for new and maturing programs in the last few years are a result of the application of the percentage-of-completion method of contract accounting with regard to inventory and revenue recognition. Under this method, investments in new and maturing contracts, including contractual pre-production costs and recurring production costs in excess of the projected average cost to manufacture all units in the contract block, initially accumulate in inventory for the related contract. Once production has reached a point where the cost to produce a ship set falls below such projected average cost, the inventory balance for such program will begin to decrease. Deferred inventory costs are evaluated for recoverability through their inclusion in the total costs used in the calculation of each contract block's estimated profit margin. When the estimated total contract block costs exceed total estimated contract block revenues, a forward loss is recorded and an inventory reserve is established.

Management's Focus

The Company's focus is on ensuring that our strategy and our operational and cost performance are world class. Overall, we are committed to the concept of change and we have undertaken specific actions recently that highlight that commitment. On May 2, 2013, we announced the undertaking of comprehensive strategic and financial reviews of our development programs at our Tulsa, Wichita, Kinston and St. Nazaire sites. These reviews were concluded in the fourth quarter of 2013. Decisions made as a result of these reviews include some of the actions we announced in 2013, the most significant of which was

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our commencement of a process to sell our Oklahoma facilities, which we announced on August 6, 2013. Certain of our maturing programs, including the Gulfstream G280 and G650 wing and the B787 wing programs, are produced at these facilities. This decision aligns with our strategy to focus on the commercial aerospace and defense segments of the marketplace. We may ultimately decide to sell only a portion of, or certain programs produced at, our Oklahoma facilities, to sell separate portions and/or programs to different buyers, or to retain the facilities in their entirety. We are also committed to reducing internal cost and improving operational efficiency through centralization of functions as demonstrated by the reduction in workforce activities completed in the third quarter of 2013. Additionally, we continue to align the business around our customers and programs with strong emphasis on markets, business management, program management, production and supply chain. We also added new executive talent and reassigned existing executive talent in an effort to strengthen performance in certain areas of our business. We anticipate taking additional actions in the near-term as we continue to focus on positioning the Company for future success.

New and Maturing Programs

We are currently performing work on several new and maturing programs, which are in various stages of development. The Boeing B787-8 has received FAA and JAA certifications, as well as EASA certification for entry into service. The Gulfstream G280 and G650 have each received FAA and EASA certifications.

During 2013, several events occurred that led to significant changes in cost estimates for several programs resulting in forward losses being recorded on some of these programs. Due to these changes, for the twelve months ended December 31, 2013, we recorded forward loss charges of \$1,133.3 million, including \$240.9 million on the Gulfstream G280, \$288.3 million on the Gulfstream G650, \$78.6 million on the Airbus A350 XWB fuselage recurring, \$32.7 million on the Airbus A350 XWB fuselage non-recurring, \$41.1 million on the Boeing B747-8 fuselage, \$16.4 million on the Boeing B767 propulsion, \$422.0 million on the Boeing B787 and a net \$13.3 million on the Rolls-Royce BR725. These amounts are recorded within the Company's results of operations as part of cost of goods sold as well as on the consolidated balance sheet as forward loss provisions within inventory.

A350 XWB

We continue to support the development of the A350 XWB program through a wing contract and a fuselage contract, both of which are segmented into a non-recurring design engineering phase and recurring production phase. In the first quarter of 2013, we reduced the margins for the A350 XWB fuselage recurring and A350 XWB wing recurring programs to break-even to reflect an increase in identified risk profile of these programs. In September and October of 2013, we agreed with Airbus on the work scope for the design and tooling related to the -1000 derivative of the A350 XWB fuselage and wing contracts, respectively.

Based on current estimates, the agreement for the non-recurring design engineering phase of the -1000 derivative fuselage resulted in a \$32.7 million forward loss which was recorded in the third quarter of 2013. There is a risk of additional forward loss if we do not successfully execute the design and engineering change process as projected.

Our A350 XWB fuselage recurring program has experienced various production inefficiencies mostly driven by early development discovery and engineering change to the aircraft design, as well as higher test and transportation costs. Airbus is assisting us as we work through these issues and has provided additional resources to work alongside our personnel. In the third quarter of 2013, we recorded a forward loss of \$78.6 million for the A350 XWB fuselage recurring contract due to these production inefficiencies. There continues to be risk of additional forward loss associated with the fuselage recurring contract as we work through production issues.

Although we continue to project the wing recurring production contract to be break-even, there is still a substantial amount of risk similar to what we have experienced on other development programs.

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Particularly, our ability to successfully negotiate favorable terms with our suppliers, manage supplier performance, execute cost reduction strategies, hire and retain skilled production and management personnel, execute quality and manufacturing processes, and manage program schedule delays or adjust to higher rate schedules, among other risks, will determine the ultimate performance of these programs.

B787 Program

As we move into a higher production rate on this program, our performance at the current contracted price depends on our continued ability to achieve cost reductions in manufacturing and support labor as well as supply chain. During the first and second quarters of 2013, we experienced production inefficiencies at our Tulsa facility as we transitioned the B787-9 derivative into production, which drove forward losses of \$37.3 million on the B787 wing program. Additionally in the fourth quarter of 2013, we revised our estimates of the amount of near-term achievable cost reductions for the B787 program based on cost savings ideas generated, the maturity of those ideas, and the expected realization for the program. This change in cost savings estimates drove a forward loss in the fourth quarter of \$384.7 million. Total forward losses for the program were \$422.0 million for the twelve months ended December 31, 2013.

Continuous improvement in our cost structure has been on-going since the beginning of the program as design engineering for both the B787-8 and B787-9 derivatives finalized and manufacturing plans solidified. Near term cost improvement efforts will focus on efficiency gains within our manufacturing process and execution of sourcing strategies.

We have not yet established pricing for the B787-9, B787-10 or any future derivatives. The B787 Supply Agreement provides that initial prices for the B787-9 and B787-10 are to be determined by a procedure set out in the B787 Supply Agreement, and to be documented by amendment once that amendment has been agreed to by the parties. The parties have engaged in discussions concerning how to determine initial B787-9 and B787-10 pricing, and have not yet reached agreement. Our ability to successfully negotiate fair and equitable prices for these models as well as overall B787 delivery volumes and our ability to achieve forecasted cost improvements on all B787 models are key factors in achieving the projected financial performance for this program.

G280 and G650 Programs

The Gulfstream G650 and G280 programs face near term risks that includes our ability to execute our contractual work statement, achieve supply chain cost reductions, and successfully perform to manufacturing plans and delivery schedules. Business jet market fluctuations caused by changing customer preferences for business aircraft, including the effect of global economic conditions on the business aircraft market, also present risk to these programs. The G650 program has significant near term risk as we work with our customer to resolve certain commercial issues related to Gulfstream's contention that delivered units failed to meet schedule and weight requirements.

Supply Chain Cost Reductions G280 and G650

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

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Labor Estimates Tulsa Facility

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

Contractual Items G650

As we worked with Gulfstream to meet its production demand, we negotiated a temporary transfer of a portion of our work scope to Gulfstream for completion. In the second quarter of 2013, due to the effect of continued production challenges on our forecasted ability to achieve scheduled deliveries, we changed our assumptions to extend the duration of the work transfer and updated our estimates regarding this temporarily transferred work scope which is accounted for as a reduction in forecasted revenue. As described in more detail in Note 22, "Commitments, Contingencies and Guarantees," we instituted a demand for arbitration against Gulfstream to resolve certain contractual disputes primarily related to engineering changes made by Gulfstream and the impact of those changes to weight and delivery schedules as well as for incomplete payments to Spirit. We continually assess these contractual items and adjust our estimates as appropriate each quarter. Changes in these particular estimates resulted in additional forward losses recognized on the G650 in the second quarter of 2013.

General Statement Regarding New and Maturing Programs

In order to continue to reduce risk on our new and maturing programs, it will be critical that we successfully perform under revised design and manufacturing plans, achieve forecasted cost reductions as we enter increasing levels of production, meet customer delivery schedules and successfully resolve claims, assertions and pricing negotiations with our customers and suppliers.

Additionally, we face risks related to the announcement on August 6, 2013 of our initiation of a process to divest our Oklahoma facilities, which we may ultimately decide to sell separate portions and/or programs to different buyers, or retain the facilities in their entirety. We have a concentration of maturing programs, including the G650, G280 and B787 wing programs, at these facilities and a divestiture of these facilities may have a material financial impact in the period in which the divestiture becomes probable.

Basis of Presentation

The financial statements include Spirit's financial statements and the financial statements of its majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America. Investments in business entities in which we do not have control, but have the ability to exercise influence over operating and financial policies, are accounted for by the equity method. Kansas Industrial Energy Supply Company ("KIESC"), a tenancy-in-common with other Wichita companies established to purchase natural gas, is fully consolidated as Spirit owns 77.8% of the entity's equity. All intercompany balances and transactions have been eliminated in consolidation. The Company's U.K. subsidiary uses local currency, the British pound, as its functional currency; the Malaysian subsidiary uses the British pound and our Singapore subsidiary uses the Singapore dollar. All other foreign subsidiaries and branches use the U.S. dollar as their functional currency.

As part of the monthly consolidation process, the functional currency is translated to U.S. dollars using the end-of-month currency translation rate for balance sheet accounts and average period currency translation rates for revenue and income accounts as defined by FASB authoritative guidance on foreign currency translation.

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Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventory, income taxes, financing obligations, warranties, pensions and other post-retirement benefits and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management believes that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

The following are our most critical accounting policies, which are those that require management's most subjective and complex judgments, requiring the use of estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Revenues and Profit Recognition

A significant portion of the Company's revenues are recognized under long-term, volume-based pricing contracts, requiring delivery of products over several years. The Company recognizes revenue under the contract method of accounting and records sales and profits on each contract in accordance with the percentage-of-completion

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\$
325,282

Municipal bonds and notes

24,559

31

(8
)

24,582

U.S. government securities

7,377

30

—

7,407

U.S. government agency securities

123,207

40

(160
)

123,087

International government securities

2,568

—

(9
)

2,559

\$
483,607

\$
309

\$
(999
)

\$
482,917

The amortized cost and fair value of fixed maturities at June 30, 2015, by contractual years-to-maturity, are presented below (in thousands):

	Cost or Amortized Cost	Fair Value
One year or less	\$235,514	\$235,527
Over one year	362,131	361,665
	\$597,645	\$597,192

The following table summarizes investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of June 30, 2015 (in thousands):

June 30, 2015	Less Than 12 Months		12 Months or Greater		Total	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
Corporate bonds and notes	\$181,467	\$(494)	\$44,474	\$(68)	\$225,941	\$(562)
Municipal bonds and notes	46,070	(93)	3,177	(11)	49,247	(104)
U.S. government agency securities	57,241	(36)	3,999	(1)	61,240	(37)
International government securities	2,816	(6)	—	—	2,816	(6)
Total	\$287,594	\$(629)	\$51,650	\$(80)	\$339,244	\$(709)

The Company invests in securities that are rated investment grade or better. The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of June 30, 2015, there were no investments in its portfolio that were other-than-temporarily impaired.

4. Inventories

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The Company outsources the manufacturing of its pre-configured hardware platforms to contract manufacturers, who assemble each product to the Company's specifications. As protection against component shortages and to provide replacement parts for its service teams, the Company also stocks limited supplies of certain key product components. The Company reduces inventory to net realizable value based on excess and obsolete inventories determined primarily by historical usage and

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forecasted demand. Inventories consist of hardware and related component parts and are recorded at the lower of cost or market (as determined by the first-in, first-out method).

Inventories consist of the following (in thousands):

	June 30, 2015	September 30, 2014
Finished goods	\$22,501	\$18,046
Raw materials	7,525	6,425
	\$30,026	\$24,471

5. Commitments and Contingencies

Guarantees and Product Warranties

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, resellers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. The Company has entered into indemnification agreements with its officers and directors and certain other employees, and the Company's bylaws contain similar indemnification obligations to the Company's agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

The Company generally offers warranties of one year for hardware for those customers without service contracts, with the option of purchasing additional warranty coverage in yearly increments. The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. Accrued warranty costs as of June 30, 2015 and June 30, 2014 were not considered material.

Commitments

As of June 30, 2015, the Company's principal commitments consisted of obligations outstanding under operating leases. The Company leases its facilities under operating leases that expire at various dates through 2025. There have been no material changes in the Company's principal lease commitments compared to those discussed in Note 8 to its annual consolidated financial statements.

The Company currently has arrangements with contract manufacturers and other suppliers for the manufacturing of its products. The arrangement with the primary contract manufacturer allows them to procure component inventory on the Company's behalf based on a rolling production forecast provided by the Company. The Company is obligated to the purchase of component inventory that the contract manufacturer procures in accordance with the forecast, unless it gives notice of order cancellation in advance of applicable lead times. There have been no material changes in the Company's inventory purchase obligations compared to those discussed in Note 8 to its annual consolidated financial statements.

Legal Proceedings

The Company is not aware of any pending legal proceedings that, individually or in the aggregate, are reasonably possible to have a material adverse effect on the Company's business, operating results, or financial condition. The Company is subject to a variety of other claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on its financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

6. Income Taxes

The effective tax rate was 33.8% and 34.9% for the three and nine months ended June 30, 2015, respectively, compared to 37.6% and 37.5% for the three and nine months ended June 30, 2014, respectively.

At June 30, 2015, the Company had \$8.8 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. It is anticipated that the Company's existing liabilities for unrecognized tax benefits will change

within the

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next twelve months due to audit settlements or the expiration of statutes of limitations. The Company does not expect these changes to be material to the consolidated financial statements. The Company recognizes interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense.

The Company and its subsidiaries are subject to U.S. federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for fiscal years through September 30, 2011. The Company is currently under audit by various states for fiscal years 2009 through 2013. Major jurisdictions where there are wholly owned subsidiaries of F5 Networks, Inc. which require income tax filings include the United Kingdom, Japan, Singapore and Australia. The earliest periods open for review by local taxing authorities are fiscal years 2013 for the United Kingdom, 2008 for Japan, 2009 for Singapore, and 2011 for Australia. Within the next four fiscal quarters, the statute of limitations will begin to close on the fiscal years 2010 and 2011 state income tax returns.

7. Geographic Sales and Significant Customers

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Management has determined that the Company is organized as, and operates in, one reportable operating segment: the development, marketing and sale of application delivery networking products that optimize the security, performance and availability of network applications, servers and storage systems. The Company does business in four main geographic regions: the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). The Company's chief operating decision-making group reviews financial information presented on a consolidated basis accompanied by information about revenues by geographic region. The Company's foreign offices conduct sales, marketing and support activities. Revenues are attributed by geographic location based on the location of the customer. The Company's assets are primarily located in the United States. Therefore, geographic information is presented only for net revenue. The following presents revenues by geographic region (in thousands):

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Americas:				
United States	\$259,916	\$226,811	\$735,620	\$648,204
Other	22,403	22,820	73,707	65,189
Total Americas	282,319	249,631	809,327	713,393
EMEA	118,095	103,224	348,370	300,087
Japan	20,896	21,247	67,494	67,897
Asia Pacific	62,276	66,183	193,331	185,403
	\$483,586	\$440,285	\$1,418,522	\$1,266,780

Three worldwide distributors of the Company's products accounted for 19.2%, 16.7% and 13.5% of total net revenue for the three month period ended June 30, 2015. Four worldwide distributors of the Company's products accounted for 17.8%, 16.3%, 13.6% and 10.6% of total net revenue for the nine month period ended June 30, 2015. Three worldwide distributors of the Company's products accounted for 14.8%, 18.3%, and 13.2% of total net revenue for the three month period ended June 30, 2014. Three worldwide distributors of the Company's products accounted for 13.6%, 17.7%, and 14.0% of total net revenue for the nine month period ended June 30, 2014. Two worldwide distributors accounted for 20.3% and 14.5% of the Company's accounts receivable as of June 30, 2015. Two worldwide distributors accounted for 15.9% and 17.1% of the Company's accounts receivable as of June 30, 2014. No other distributors accounted for more than 10% of total net revenue or receivables.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies,

intentions or other characterizations of future events or circumstances and are generally identified by the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such

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differences include, but are not limited to, those discussed under “Item 1A. Risk Factors” herein and in other documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to revise or update any such forward-looking statements.

Overview

We are a global provider of software-defined application delivery services designed to ensure the fast, secure and reliable delivery of applications and data. Our products include hardware-based software, software-only solutions, cloud-based subscription services and a common management framework that enable customers to accelerate, optimize, secure and manage applications across hybrid computing infrastructures that combine traditional networks and data centers with software-defined networks, virtualized data centers and cloud-based resources. We market and sell our products primarily through multiple indirect sales channels in the Americas (primarily the United States); Europe, the Middle East, and Africa (EMEA); Japan; and the Asia Pacific region (APAC). Enterprise customers (Fortune 1000 or Business Week Global 1000 companies) in the technology, telecommunications, financial services, transportation, education, manufacturing and health care industries, along with government customers, continue to make up the largest percentage of our customer base.

Our management team monitors and analyzes a number of key performance indicators in order to manage our business and evaluate our financial and operating performance on a consolidated basis. Those indicators include: Revenues. The majority of our revenues are derived from sales of our application delivery networking (ADN) products including our BIG-IP appliances and high end VIPRION chassis and related software modules; Local Traffic Manager (LTM), Global Traffic Manager (GTM) and Link Controller; Advanced Firewall Manager (AFM), Carrier Grade Network Address Translation (CGNAT) and Policy Enforcement Manager (PEM), that leverage the unique performance characteristics of our hardware and software architecture; and products that incorporate acquired technology, including Application Security Manager (ASM) and Access Policy Manager (APM); signaling delivery controller products (SDC); and the WebSafe, MobileSafe, Secure Web Gateway and Silverline DDoS and Application security offerings which are sold to customers on a subscription basis. We also derive revenues from the sales of services including annual maintenance contracts, training and consulting services. We carefully monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products and feature enhancements are indicators of future trends. We also consider overall revenue concentration by customer and by geographic region as additional indicators of current and future trends.

Cost of revenues and gross margins. We strive to control our cost of revenues and thereby maintain our gross margins. Significant items impacting cost of revenues are hardware costs paid to our contract manufacturers, third-party software license fees, amortization of developed technology and personnel and overhead expenses. Our margins have remained relatively stable; however, factors such as sales price, product and services mix, inventory obsolescence, returns, component price increases and warranty costs could significantly impact our gross margins from quarter to quarter and represent significant indicators we monitor on a regular basis.

Operating expenses. Operating expenses are substantially driven by personnel and related overhead expenses. Existing headcount and future hiring plans are the predominant factors in analyzing and forecasting future operating expense trends. Other significant operating expenses that we monitor include marketing and promotions, travel, professional fees, computer costs related to the development of new products and provision of services, facilities and depreciation expenses.

Liquidity and cash flows. Our financial condition remains strong with significant cash and investments and no long term debt. The increase in cash and investments for the first nine months of fiscal year 2015 was primarily due to cash provided by operating activities of \$501.2 million, partially offset by \$456.9 million of cash used to repurchase outstanding common stock under our stock repurchase program. Going forward, we believe the primary driver of cash flows will be net income from operations. Capital expenditures of \$41.7 million for the first nine months of fiscal year 2015 were primarily related to the expansion of our facilities to support our operations worldwide. We will continue to evaluate possible acquisitions of, or investments in businesses, products, or technologies that we believe are strategic, which may require the use of cash.

Balance sheet. We view cash, short-term and long-term investments, deferred revenue, accounts receivable balances and days sales outstanding as important indicators of our financial health. Deferred revenues increased in the third

quarter of fiscal year 2015 due to growth in the amount of annual maintenance contracts purchased on new products and maintenance renewal contracts related to our existing product installation base. Our days sales outstanding for the third quarter of fiscal year 2015 was 49.

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Summary of Critical Accounting Policies and Estimates

The preparation of our financial condition and results of operations requires us to make judgments and estimates that may have a significant impact upon our financial results. We believe that, of our significant accounting policies, the following require estimates and assumptions that require complex, subjective judgments by management, which can materially impact reported results: revenue recognition; reserve for doubtful accounts; reserve for product returns; accounting for income taxes; stock-based compensation; goodwill and intangible assets; and investments. None of these accounting policies and estimates have significantly changed since our annual report on Form 10-K for the year ended September 30, 2014 (Form 10-K). Critical accounting policies and estimates are more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Form 10-K. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements, related notes and risk factors included elsewhere in this Quarterly Report on Form 10-Q.

	Three months ended June 30,		Nine months ended June 30,		
	2015	2014	2015	2014	
	(in thousands, except percentages)				
Net Revenues					
Products	\$248,767	\$236,933	\$733,820	\$680,669	
Services	234,819	203,352	684,702	586,111	
Total	\$483,586	\$440,285	\$1,418,522	\$1,266,780	
Percentage of net revenues					
Products	51.4	% 53.8	% 51.7	% 53.7	%
Services	48.6	46.2	48.3	46.3	
Total	100.0	% 100.0	% 100.0	% 100.0	%

Net revenues. Total net revenues increased 9.8% and 12.0% for the three and nine months ended June 30, 2015, respectively, from the same periods in the prior year. Overall revenue growth for the three and nine months ended June 30, 2015 was primarily due to increased service and product revenues as a result of our increased installed base of products and increased demand for our core ADN products. International revenues represented 46.3% and 48.1% of total net revenues for the three and nine months ended June 30, 2015, respectively, compared to 48.5% and 48.8% for the same periods in the prior year, respectively. We expect international sales will continue to represent a significant portion of net revenues, although we cannot provide assurance that international revenues as a percentage of net revenues will remain at current levels.

Net product revenues increased 5.0% and 7.8% for the three and nine months ended June 30, 2015, respectively, from the same periods in the prior year. The increase in net product revenues for the three and nine months ended June 30, 2015 was due to an increase of \$12.3 million and \$56.0 million in sales of our ADN products from the same periods in the prior year, respectively. Sales of our ADN products represented 99.1% and 99.0% of product revenues for the three and nine months ended June 30, 2015, respectively, compared to 98.9% and 98.5% of product revenues for the three and nine months ended June 30, 2014, respectively.

Net service revenues increased 15.5% and 16.8% for the three and nine months ended June 30, 2015, respectively, from the same periods in the prior year. The increase in net service revenues was primarily due to increases in the purchase or renewal of maintenance contracts driven by additions to our installed base of products.

Westcon, Ingram Micro and Avnet Technology Solutions, three of our worldwide distributors, accounted for 19.2%, 16.7% and 13.5% of our total net revenue for the three months ended June 30, 2015, respectively. Westcon, Ingram Micro, Avnet Technology Solutions and Arrow ECS accounted for 17.8%, 16.3%, 13.6% and 10.6% of our total net revenue for the nine months ended June 30, 2015, respectively. Westcon, Ingram Micro and Avnet Technology Solutions accounted for 14.8%, 18.3% and 13.2% of our total net revenue for the three months ended June 30, 2014, respectively. Westcon, Ingram Micro and Avnet Technology Solutions accounted for 13.6%, 17.7% and 14.0% of our

total net revenue for the nine months ended June 30, 2014, respectively. Westcon and Ingram Micro accounted for 20.3% and 14.5% of our accounts receivable as of June 30, 2015, respectively. Westcon and Ingram Micro accounted for 15.9% and 17.1% of our accounts receivable as of June 30, 2014, respectively. No other distributors accounted for more than 10% of total net revenue or receivables.

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	Three months ended		Nine months ended		
	June 30, 2015	2014	June 30, 2015	2014	
(in thousands, except percentages)					
Cost of net revenues and Gross Margin					
Products	\$44,050	\$40,387	\$129,720	\$115,437	
Services	41,609	39,075	117,883	112,570	
Total	85,659	79,462	247,603	228,007	
Gross profit	\$397,927	\$360,823	\$1,170,919	\$1,038,773	
Percentage of net revenues and Gross Margin (as a percentage of related net revenue)					
Products	17.7	% 17.0	% 17.7	% 17.0	%
Services	17.7	19.2	17.2	19.2	
Total	17.7	18.0	17.5	18.0	
Gross profit	82.3	% 82.0	% 82.5	% 82.0	%

Cost of net product revenues. Cost of net product revenues consist of finished products purchased from our contract manufacturers, manufacturing overhead, freight, warranty, provisions for excess and obsolete inventory and amortization expenses in connection with developed technology from acquisitions. Cost of net product revenues increased 9.1% and 12.4% for the three and nine months ended June 30, 2015, respectively, as compared to the same periods in the prior year. The increase in cost of net product revenues is primarily due to a higher volume of units shipped and increased amortization expense related to acquired technology. Cost of net product revenues for the three and nine months ended June 30, 2015 also included expenses related to sales of our Silverline cloud-based application services.

Cost of net service revenues. Cost of net service revenues consist of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. For the three and nine months ended June 30, 2015, cost of net service revenues as a percentage of net service revenues was 17.7% and 17.2%, respectively, compared to 19.2% for both the three and nine months ended June 30, 2014, primarily due to increased efficiencies within our customer support organization and increased revenue from maintenance contracts and professional services. Professional services headcount at the end of June 2015 increased to 1,043 from 910 at the end of June 2014. In addition, cost of net service revenues included stock-based compensation expense of \$3.4 million and \$9.4 million for the three and nine months ended June 30, 2015, respectively, compared to \$3.1 million and \$10.1 million for the same periods in the prior year, respectively.

	Three months ended		Nine months ended		
	June 30, 2015	2014	June 30, 2015	2014	
(in thousands, except percentages)					
Operating expenses					
Sales and marketing	\$150,833	\$139,945	\$450,887	\$415,000	
Research and development	74,337	67,026	218,918	198,391	
General and administrative	32,627	27,773	95,814	79,306	
Total	\$257,797	\$234,744	\$765,619	\$692,697	
Operating expenses (as a percentage of net revenue)					
Sales and marketing	31.2	% 31.8	% 31.8	% 32.7	%
Research and development	15.4	15.2	15.4	15.7	
General and administrative	6.7	6.3	6.8	6.3	
Total	53.3	% 53.3	% 54.0	% 54.7	%

Sales and marketing. Sales and marketing expenses consist of salaries, commissions and related benefits of our sales and marketing staff, the costs of our marketing programs, including public relations, advertising and trade shows, travel, facilities, and depreciation expenses. Sales and marketing expenses increased 7.8% and 8.6% for the three and nine months ended June 30, 2015, from the comparable periods in the prior year. The increase in sales and marketing

expense was primarily due to an increase of \$4.5 million and \$22.4 million in commissions and personnel costs for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year. The increased commissions and personnel costs were driven primarily by growth in sales and marketing employee headcount for the corresponding periods. Sales and marketing headcount at the end of June 2015 increased to 1,529 from 1,427 at the end of June 2014. Sales and marketing expense included stock-based compensation expense of \$14.8 million and \$42.8 million for the three and nine months ended June 30, 2015, respectively, compared to \$12.4 million and \$40.6 million for the same periods in the prior year, respectively. The increase in

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sales and marketing expense was also due to investments in marketing promotions and initiatives aimed at promoting our brand and creating market awareness of our technology and our products.

Research and development. Research and development expenses consist of the salaries and related benefits of our product development personnel, prototype materials and other expenses related to the development of new and improved products, facilities and depreciation expenses. Research and development expenses increased 10.9% and 10.3% for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year. The increase in research and development expense was primarily due to an increase of \$5.0 million and \$15.0 million in personnel costs for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year. In addition, research and development expense included a year over year increase in computer equipment and software costs primarily related to prototyping and planning for future product releases. Research and development headcount at the end of June 2015 increased to 1,124 from 1,033 at the end of June 2014. Research and development expense included stock-based compensation expense of \$11.9 million and \$34.5 million for the three and nine months ended June 30, 2015, respectively, compared to \$11.0 million and \$34.6 million for the same periods in the prior year, respectively. We expect research and development expenses to remain consistent as a percentage of net revenue in the foreseeable future.

General and administrative. General and administrative expenses consist of the salaries, benefits and related costs of our executive, finance, information technology, human resource and legal personnel, third-party professional service fees, bad debt charges, facilities and depreciation expenses. General and administrative expenses increased 17.5% and 20.8% for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year. The increase in general and administrative expense was primarily due to an increase of \$1.4 million and \$5.2 million in personnel costs for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year, and a \$3.0 million tax expense in the first quarter of fiscal 2015. In addition, fees paid to outside consultants for legal, audit and tax services increased \$1.1 million and \$2.4 million for the three and nine months ended June 30, 2015, respectively, from the comparable periods in the prior year. General and administrative headcount at the end of June 2015 increased to 412 from 373 at the end of June 2014. Stock-based compensation expense was \$6.2 million and \$16.2 million for the three and nine months ended June 30, 2015, respectively, compared to \$5.0 million and \$15.4 million for the same periods in the prior year, respectively.

	Three months ended June 30, 2015		Nine months ended June 30, 2015		
	2014	2014	2014	2014	
	(in thousands, except percentages)				
Other income and income taxes					
Income from operations	\$ 140,130	\$ 126,079	\$ 405,300	\$ 346,076	
Other income, net	720	1,193	6,580	1,462	
Income before income taxes	140,850	127,272	411,880	347,538	
Provision for income taxes	47,678	47,799	143,903	130,376	
Net income	\$93,172	\$79,473	\$267,977	\$217,162	
Other income and income taxes (as percentage of net revenue)					
Income from operations	29.0	% 28.7	% 28.5	% 27.3	%
Other income, net	0.1	0.3	0.5	0.1	
Income before income taxes	29.1	29.0	29.0	27.4	
Provision for income taxes	9.8	10.9	10.1	10.3	
Net income	19.3	% 18.1	% 18.9	% 17.1	%

Other income, net. Other income, net consists primarily of interest income and foreign currency transaction gains and losses. Other income, net for the three months ended June 30, 2015 remained relatively consistent compared to the same period in the prior year. The increase in other income, net for the nine months ended June 30, 2015, from the same period in the prior year was primarily due to \$4.4 million in foreign currency gains, respectively, and a non-recurring charge of \$1.0 million related to a legal settlement that occurred in the first quarter of fiscal year 2014.

Provision for income taxes. The effective tax rate was 33.8% and 34.9% for the three and nine months ended June 30, 2015, respectively, compared to 37.6% and 37.5% for the three and nine months ended June 30, 2014, respectively. The decrease in the effective tax rate is primarily due to additional tax benefit recognized during the nine months ended June 30, 2015 as a result of the reinstatement of the United States Federal Credit for Increasing Research Activities retroactive to January 1, 2014 and reduction in non-deductible compensation expense.

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We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In making these determinations we consider historical and projected taxable income, and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. Our net deferred tax assets at June 30, 2015 and June 30, 2014 were \$47.6 million and \$44.1 million, respectively. The net deferred tax assets include valuation allowances of \$9.5 million and \$14.6 million as of June 30, 2015 and June 30, 2014, respectively, which are primarily related to tax net operating losses incurred in certain foreign jurisdictions, and state tax carryforwards.

Our worldwide effective tax rate may fluctuate based on a number of factors, including variations in projected taxable income in the various geographic locations in which we operate, changes in the valuation of our net deferred tax assets, resolution of potential exposures, tax positions taken on tax returns filed in the various geographic locations in which we operate, and the introduction of new accounting standards or changes in tax laws or interpretations thereof in the various geographic locations in which we operate. We have recorded liabilities to address potential tax exposures related to business and income tax positions we have taken that could be challenged by taxing authorities. The ultimate resolution of these potential exposures may be greater or less than the liabilities recorded which could result in an adjustment to our future tax expense.

Liquidity and Capital Resources

Cash and cash equivalents, short-term investments and long-term investments totaled \$1,159.4 million as of June 30, 2015, compared to \$1,128.3 million as of September 30, 2014, representing an increase of \$31.1 million. The increase was primarily due to cash provided by operating activities of \$501.2 million for the nine months ended June 30, 2015, which was partially offset by \$456.9 million of cash used for the repurchase of outstanding common stock under our stock repurchase program for the nine months ended June 30, 2015. Cash provided by operating activities for the first nine months of fiscal year 2015 resulted from net income of \$268.0 million combined with changes in operating assets and liabilities, as adjusted for various non-cash items including stock-based compensation, deferred revenue, depreciation and amortization charges. Based on our current operating and capital expenditure forecasts, we believe that our existing cash and investment balances, together with cash generated from operations should be sufficient to meet our operating requirements for at least the next twelve months.

Cash provided by investing activities was \$194.3 million for the nine months ended June 30, 2015, compared to cash provided by investing activities of \$130.3 million for the same period in the prior year. Investing activities include purchases, sales and maturities of available-for-sale securities, business acquisitions, capital expenditures and changes in restricted cash requirements. The amount of cash provided by investing activities for the nine months ended June 30, 2015 was primarily due to the sales and maturity of investments partially offset by purchases of investments and capital expenditures related to the expansion of our facilities to support our operations worldwide.

Cash used in financing activities was \$409.8 million for the nine months ended June 30, 2015, compared to cash used in financing activities of \$457.1 million for the same period in the prior year. Our financing activities for the nine months ended June 30, 2015 consisted primarily of cash required for the repurchase of outstanding common stock under our stock repurchase program of \$456.9 million, partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of \$40.4 million.

Obligations and Commitments

As of June 30, 2015, our principal commitments consisted of obligations outstanding under operating leases. We lease our facilities under operating leases that expire at various dates through 2025. There have been no material changes in our principal lease commitments compared to those discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

We outsource the manufacturing of our pre-configured hardware platforms to contract manufacturers who assemble each product to our specifications. Our agreement with our largest contract manufacturer allows them to procure component inventory on our behalf based upon a rolling production forecast. We are contractually obligated to purchase the component inventory in accordance with the forecast, unless we give notice of order cancellation in advance of applicable lead times. There have been no material changes in our inventory purchase obligations compared to those discussed in Management's Discussion and Analysis of Financial Condition and Results of

Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Recent Accounting Pronouncements

The anticipated impact of recent accounting pronouncements is discussed in Note 1 to the accompanying Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

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Risk Factors that May Affect Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our business, operating results, financial performance and share price may be materially adversely affected by a number of factors, including but not limited to the following risk factors, any one of which could cause actual results to vary materially from anticipated results or from those expressed in any forward-looking statements made by us in this Quarterly Report on Form 10-Q or in other reports, press releases or other statements issued from time to time. Additional factors that may cause such a difference are set forth elsewhere in this Quarterly Report on Form 10-Q. Our quarterly and annual operating results may fluctuate in future periods, which may cause our stock price to fluctuate

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing and recently volatile U.S. and global economic environment, which may cause our stock price to fluctuate. In particular, we anticipate that the size of customer orders may increase as we continue to focus on larger business accounts. A delay in the recognition of revenue, even from just one account, may have a significant negative impact on our results of operations for a given period. In the past, a majority of our sales have been realized near the end of a quarter. Accordingly, a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that fiscal year. Additionally, we have exposure to the credit risks of some of our customers and sub-tenants. Although we have programs in place that are designed to monitor and mitigate the associated risk, there can be no assurance that such programs will be effective in reducing our credit risks adequately. We monitor individual payment capability in granting credit arrangements, seek to limit the total credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for potential losses. If there is a deterioration of a sub-tenant's or a major customer's creditworthiness or actual defaults are higher than expected, future losses, if incurred, could harm our business and have a material adverse effect on our operating results. Further, our operating results may be below the expectations of securities analysts and investors in future quarters or years. Our failure to meet these expectations will likely harm the market price of our common stock. Such a decline could occur, and has occurred in the past, even when we have met our publicly stated revenue and/or earnings guidance.

Our stock price could be volatile, particularly during times of economic uncertainty and volatility in domestic and international stock markets

Our stock price has been volatile and has fluctuated significantly in the past. The trading price of our stock is likely to continue to be volatile and subject to fluctuations in the future. Some of the factors that could significantly affect the market price of our stock include:

- ▲ Actual or anticipated variations in operating and financial results;
- ▲ Analyst reports or recommendations;
- Rumors, announcements or press articles regarding our competitors' operations, management, organization, financial condition or financial statements; and
- Other events or factors, many of which are beyond our control.

The stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to operating performance. The fluctuations may continue in the future and this could significantly impact the value of our stock and your investment.

Cloud based computing trends present competitive and execution risks

Customers are transitioning to a hybrid computing environment utilizing various cloud-based software and services accessed via various smart client devices. Pricing and delivery models are evolving and our competitors are developing and deploying cloud-based services for customers. We are devoting significant resources to develop and deploy our own competing cloud-based software and services strategies. While we believe our expertise and investments in software and infrastructure for cloud-based services provides us with a strong foundation to compete, it is uncertain whether our strategies will attract the customers or generate the revenue required to be successful. In addition to software development costs, we are incurring costs to build and maintain infrastructure to support

cloud-computing services. These costs may reduce the operating margins we have previously achieved. Whether we are successful in this new business model depends on our execution in a number of areas, including:

- continuing to innovate and bring to market compelling cloud-based services that generate increasing traffic and market share;

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maintaining the utility, compatibility and performance of our software on the growing array of cloud computing platforms; and

- implementing the infrastructure to deliver our own cloud based services.

These new business models may reduce our revenues or operating margins and could have a material adverse effect on our business, results of operations and financial condition.

Our business could be adversely impacted by conditions affecting the information technology market

A substantial portion of our business depends on the demand for information technology by large enterprise customers and service providers. In addition to the challenges presented by new cloud computing models, we are dependent upon the overall economic health of our current and prospective customers and the continued growth and evolution of the Internet. International, national, regional and local economic conditions, such as recessionary economic cycles, protracted economic slowdown or further deterioration of the economy could adversely impact demand for our products. Demand for our products and services depends substantially upon the general demand for application delivery products and associated services, which fluctuates based on numerous factors, including capital spending levels and growth of our current and prospective customers, as well as general economic conditions. Moreover, the purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Future economic projections for the information technology sector are uncertain as companies continue to reassess their spending for technology projects and embrace new models for delivery of IT services, such as cloud computing. As a result, spending priorities for our current and future customers may vary and demand for our products and services may be impacted. In addition, customer buying patterns are changing over time and more customers seek to rent software on a subscription basis. These evolving business models could lead to changes in demand and licensing strategies, which could have a material adverse effect on our business, results of operations and financial condition.

Industry consolidation may result in increased competition

Some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they had previously offered. We have also entered into large, strategic partnerships to enhance our competitive position in the marketplace. As IT companies attempt to strengthen or maintain their market positions in the evolving application delivery, mobility, cloud networking and cloud platform markets, these companies continue to seek to deliver comprehensive IT solutions to end users and combine enterprise-level hardware and software solutions that may compete with our solutions and which could negatively impact our partnerships. These consolidators or potential consolidators may have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary products and services. The companies resulting from these possible combinations may create more compelling product and service offerings and be able to offer greater pricing flexibility or sales and marketing support for such offerings than we can. These heightened competitive pressures could result in a loss of customers or a reduction in our revenues or revenue growth rates, all of which could adversely affect our business, results of operations and financial condition.

In addition to other risks listed in this “Risk Factors” section, factors that may affect our operating results include, but are not limited to:

- fluctuations in demand for our products and services due to changing market conditions, pricing conditions, technology evolution, seasonality, or other changes in the global economic environment;
- changes or fluctuations in sales and implementation cycles for our products and services;
- reduced visibility into our customers’ spending and implementation plans;
- reductions in customers’ budgets for data center and other IT purchases or delays in these purchases;
- fluctuations in our gross margins, including the factors described herein, which may contribute to such fluctuations;
- our ability to control costs, including operating expenses, the costs of hardware and software components, and other manufacturing costs;
- our ability to develop, introduce and gain market acceptance of new products, technologies and services, and our success in new and evolving markets;
-

any significant changes in the competitive environment, including the entry of new competitors or the substantial discounting of products or services;
the timing and execution of product transitions or new product introductions, and related inventory costs;
variations in sales channels, product costs, or mix of products sold;

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our ability to establish and manage our distribution channels, and the effectiveness of any changes we make to our distribution model;

the ability of our contract manufacturers and suppliers to provide component parts, hardware platforms and other products in a timely manner;

benefits anticipated from our investments in sales, marketing, product development, manufacturing or other activities;

changes in tax laws or regulations, or other accounting rules; and

general economic conditions, both domestically and in our foreign markets.

Our success depends on our timely development of new products and features, market acceptance of new product offerings and proper management of the timing of the life cycle of our products

The markets for our products and services are characterized by:

rapid technological change;

evolving industry standards;

fluctuations in customer demand;

changes in customer requirements; and

frequent new product and service introductions and enhancements.

Our continued success depends on our ability to identify and develop new products and new features for our existing products to meet the demands of these changes, and the acceptance of those products and features by our existing and target customers. If we are unable to identify, develop and deploy new products and new product features on a timely basis, our business and results of operations may be harmed.

The current development cycle for our products is on average 12-24 months. The introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction, and may cause customers to defer purchasing our existing products in anticipation of the new products. This could harm our operating results by decreasing sales, increasing our inventory levels of older products and exposing us to greater risk of product obsolescence. We have also experienced, and may in the future experience, delays in developing and releasing new products and product enhancements. This has led to, and may in the future lead to, delayed sales, increased expenses and lower quarterly revenue than anticipated. Also, in the development of our products, we have experienced delays in the prototyping of our products, which in turn has led to delays in product introductions. In addition, complexity and difficulties in managing product transitions at the end-of-life stage of a product can create excess inventory of components associated with the outgoing product that can lead to increased expenses. Any or all of the above problems could materially harm our business and results of operations.

Our success depends on sales and continued innovation of our application delivery networking product lines

For the fiscal year ended September 30, 2014 and the nine months ended June 30, 2015, we derived approximately 98.1% and 99.0% of our net product revenues, respectively, or approximately 53.0% and 51.2% of our total net revenues, respectively, from sales of our application delivery networking (ADN) product lines. We expect to continue to derive a significant portion of our net revenues from sales of our ADN products in the future. Implementation of our strategy depends upon these products being able to solve critical network availability, performance and security problems for our customers. If our ADN products are unable to solve these problems for our customers or if we are unable to sustain the high levels of innovation in our ADN product feature set needed to maintain leadership in what will continue to be a competitive market environment, our business and results of operations will be harmed.

We may not be able to compete effectively in the emerging application delivery networking market

The markets we serve are new, rapidly evolving and highly competitive, and we expect competition to persist and intensify in the future. Our principal competitors in the application delivery networking market include Brocade Communications Systems, Inc., Citrix Systems, Inc., Radware Ltd. and A10 Networks. In related ADC markets, we compete with the following:

Cisco, Juniper Networks and Checkpoint Systems in the network firewall market;

Cisco, Imperva and Citrix in the web application firewall market;

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• Cisco, Juniper and A10 in Carrier Grade NAT;

• Procera, Allot, Sandvine and other DPI vendors with our PEM offerings;

• Riverbed Technology and Silver Peak Systems in the WAN optimization and application acceleration market;

• Oracle via the acquisition of Tekelec and Acme Packet in the Diameter signaling market;

• IBM in end-user protection against malware, phishing and other cyberthreats;

• Akamai Networks in cloud-based DDoS protection; and

• Blue Coat Systems in protecting enterprises from inbound and outbound malware.

We expect to continue to face additional competition as new participants enter our markets. As we continue to expand globally, we may see new competitors in different geographic regions. In addition, larger companies with significant resources, brand recognition, and sales channels may form alliances with or acquire competing application delivery networking solutions from other companies and emerge as significant competitors. Potential competitors may bundle their products or incorporate an Internet traffic management or security component into existing products in a manner that discourages users from purchasing our products. Any of these circumstances may limit our opportunities for growth and negatively impact our financial performance.

The average selling price of our products may decrease and our costs may increase, which may negatively impact gross profits

It is possible that the average selling prices of our products will decrease in the future in response to competitive pricing pressures, increased sales discounts, new product introductions by us or our competitors or other factors.

Therefore, in order to maintain our gross profits, we must develop and introduce new products and product enhancements on a timely basis and continually reduce our product costs. Our failure to do so will cause our net revenue and gross profits to decline, which will harm our business and results of operations. In addition, we may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices.

It is difficult to predict our future operating results because we have an unpredictable sales cycle

Our products have a lengthy sales cycle and the timing of our revenue is difficult to predict. Historically, our sales cycle has ranged from approximately two to three months and has tended to lengthen as our products become increasingly complex. Also, as our distribution strategy is focused on a channel model, utilizing value-added resellers, distributors and systems integrators, the level of variability in the length of sales cycle across transactions has increased and made it more difficult to predict the timing of many of our sales transactions. Sales of our products require us to educate potential customers in their use and benefits. Sales of our products are subject to delays from the lengthy internal budgeting, approval and competitive evaluation processes that large enterprises and governmental entities may require. For example, customers frequently begin by evaluating our products on a limited basis and devote time and resources to testing our products before they decide whether or not to purchase. Customers may also defer orders as a result of anticipated releases of new products or enhancements by our competitors or us. As a result, our products have an unpredictable sales cycle that contributes to the uncertainty of our future operating results.

Our business may be harmed if our contract manufacturers are not able to provide us with adequate supplies of our products or if a single source of hardware assembly is lost or impaired

We outsource the manufacturing of our hardware platforms to third party contract manufacturers who assemble these hardware platforms to our specifications. We have experienced minor delays in shipments from contract manufacturers in the past. However, if we experience major delays in the future or other problems, such as inferior quality and insufficient quantity of product, any one or a combination of these factors may harm our business and results of operations. The inability of our contract manufacturers to provide us with adequate supplies of our products or the loss of one or more of our contract manufacturers may cause a delay in our ability to fulfill orders while we obtain a replacement manufacturer and may harm our business and results of operations. In particular, we currently subcontract manufacturing of our application delivery networking products to a single contract manufacturer with whom we do not have a long-term contract. If our arrangement with this single source of hardware assembly was terminated or otherwise impaired, and we were not able to engage another contract manufacturer in a timely manner, our business, financial condition and results of operation could be adversely affected.

If the demand for our products grows, we will need to increase our raw material and component purchases, contract manufacturing capacity and internal test and quality control functions. Any disruptions in product flow may limit our revenue, may harm our competitive position and may result in additional costs or cancellation of orders by our customers.

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Our business could suffer if there are any interruptions or delays in the supply of hardware components from our third-party sources

We currently purchase several hardware components used in the assembly of our products from a number of single or limited sources. Lead times for these components vary significantly. The unavailability of suitable components, any interruption or delay in the supply of any of these hardware components or the inability to procure a similar component from alternate sources at acceptable prices within a reasonable time, may delay assembly and sales of our products and, hence, our revenues, and may harm our business and results of operations.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets

Our products are subject to U.S. export controls and may be exported outside the U.S. only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, operating results and financial condition. Reliance on shipments at the end of the quarter could cause our revenue for the applicable period to fall below expected levels

As a result of customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each fiscal quarter. In addition, any significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, could result in delayed order fulfillment and decreased revenue for that fiscal quarter. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize, our third party contract manufacturers' inability to manufacture and ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of the fiscal quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations, resulting in a decline in the trading price of our common stock.

We may not be able to adequately protect our intellectual property, and our products may infringe on the intellectual property rights of third parties

We rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure of confidential and proprietary information to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In the ordinary course of our business, we are involved in disputes and licensing discussions with others regarding their claimed proprietary rights and cannot provide assurance that we will always successfully defend ourselves against such claims. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. Also, as we have gained greater visibility, market exposure and competitive success, we face a higher risk of being the subject of

intellectual property infringement claims. If we are found to infringe the proprietary rights of others, or if we otherwise settle such claims, we could be compelled to pay damages or royalties and either obtain a license to those intellectual property rights or alter our products so that they no longer infringe upon such proprietary rights. Any license could be very expensive to obtain or may not be available at all. Similarly, changing our products or processes to avoid infringing upon the rights of others may be costly or impractical. In addition, we have initiated, and may in the future initiate, claims or litigation against third parties for infringement of our proprietary rights, or to

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determine the scope and validity of our proprietary rights or those of our competitors. Any of these claims, whether claims that we are infringing the proprietary rights of others, or vice versa, with or without merit, may be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to cease using infringing technology, develop non-infringing technology or enter into royalty or licensing agreements. Further, our license agreements typically require us to indemnify our customers, distributors and resellers for infringement actions related to our technology, which could cause us to become involved in infringement claims made against our customers, distributors or resellers. Any of the above-described circumstances relating to intellectual property rights disputes could result in our business and results of operations being harmed.

We incorporate open source software into our products. Although we monitor our use of open source closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. We could also be subject to similar conditions or restrictions should there be any changes in the licensing terms of the open source software incorporated into our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely or successful basis, any of which could adversely affect our business, operating results and financial condition.

Many of our products include intellectual property licensed from third parties. In the future, it may be necessary to renew licenses for third party intellectual property or obtain new licenses for other technology. These third party licenses may not be available to us on acceptable terms, if at all. The inability to obtain certain licenses, or litigation regarding the interpretation or enforcement of license rights and related intellectual property issues, could have a material adverse effect on our business, operating results and financial condition. Furthermore, we license some third party intellectual property on a non-exclusive basis and this may limit our ability to protect our intellectual property rights in our products.

We may not be able to sustain or develop new distribution relationships, and a reduction or delay in sales to significant distribution partners could hurt our business

We sell our products and services through multiple distribution channels in the United States and internationally, including leading industry distributors, value-added resellers, systems integrators, service providers and other indirect channel partners. We have a limited number of agreements with companies in these channels, and we may not be able to increase our number of distribution relationships or maintain our existing relationships. Recruiting and retaining qualified channel partners and training them in our technologies requires significant time and resources. These channel partners may also market, sell and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Our indirect sales channel structure could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresent the functionality of our products or services to customers or violate laws or our corporate policies. If we are unable to establish or maintain our indirect sales channels, our business and results of operations will be harmed. In addition, three worldwide distributors of our products accounted for 45.9% of our total net revenue for fiscal year 2014. Three worldwide distributors of our products accounted for 44.1% of our total net revenue for fiscal year 2013. Four worldwide distributors of our products accounted for 58.3% of our total net revenue for the nine months ended June 30, 2015. A substantial reduction or delay in sales of our products to these distribution partners, if not replaced by sales to other indirect channel partners and distributors, could harm our business, operating results and financial condition.

Undetected software or hardware errors or security vulnerabilities may harm our business and results of operations. Our products may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades. As our products and customer IT infrastructures become increasingly complex, customers may experience unforeseen errors in implementing our products into their IT environments. We expect that these errors or defects will be found from time to time in new or enhanced products after commencement of commercial shipments. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. We may also be subject to liability claims for

damages related to product errors or defects. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business and results of operations.

Our products must successfully operate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of software or hardware problems, whether caused by our products or another vendor's products, may result in the delay or loss of market acceptance of our products. The occurrence of any of these problems may harm our business and results of operations.

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Our products are used to manage critical applications and data for customers and third parties may attempt to exploit security vulnerabilities in our products as well as our internal IT systems. As we continue to focus on the development and marketing of security solutions, we become a bigger target for malicious computer hackers who wish to exploit security vulnerabilities in our products or IT systems. These problems may cause us to incur significant remediation costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. Adverse publicity related to security vulnerabilities or damage to a customer's operations due to exploitation of security vulnerability in our products or IT systems may harm our business and results of operations.

Any errors, defects or vulnerabilities in our products or IT systems could result in:

- expenditures of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors and defects or to address and eliminate vulnerabilities;
- loss of existing or potential customers or channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- an increase in warranty claims compared with our historical experience, or an increased cost of servicing warranty claims, either of which would adversely affect our gross margins; and
- litigation, regulatory inquiries, or investigations that may be costly and harm our reputation.

We are dependent on various information technology systems, and failures of or interruptions to those systems could harm our business

Many of our business processes depend upon our IT systems, the systems and processes of third parties, and on interfaces with the systems of third parties. For example, our order entry system provides information to the systems of our contract manufacturers, which enables them to build and ship our products. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This would harm our ability to ship products, and our financial results may be harmed.

In addition, reconfiguring our IT systems or other business processes in response to changing business needs may be time-consuming and costly. To the extent this impacted our ability to react timely to specific market or business opportunities, our financial results may be harmed.

Our operating results are exposed to risks associated with international commerce

As our international sales increase, our operating results become more exposed to international operating risks.

Additionally, our international sales and operations are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of a failure of foreign employees, partners, distributors, and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- management communication and integration problems resulting from cultural and geographic dispersion;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
-

economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe; and

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general economic and political conditions in these foreign markets.

We must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms other than our standard terms in customer contracts. We intend to continue expanding into international markets. Sales outside of the Americas represented 43.1% and 42.5% of our net revenues for the fiscal years ended September 30, 2014 and 2013, respectively, and 42.9% for the nine months ended June 30, 2015.

These factors and other factors could harm our ability to gain future international revenues and, consequently, materially impact our business, operating results, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks

Sales to U.S. and foreign, federal, state, and local governmental agency end-customers account for a significant portion of our revenues and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products like ours may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products and services, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely impact our operating results in a material way. Finally, for purchases by the U.S. government, the government may require certain products to be manufactured in the United States and other relatively high cost manufacturing locations, and we may not manufacture all products in locations that meet the requirements of the U.S. government, affecting our ability to sell these products to the U.S. government.

Our failure to adequately protect personal information could have a material adverse effect on our business

A wide variety of local, state, national, and international laws, directives and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations continue to evolve and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing end-customers and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance, and business. Changing definitions of personal data and personal information, within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data, and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic

partnerships that may involve the sharing of data.

Misuse of our products could harm our reputation

Our products may be misused by end-customers or third parties that obtain access to our products. For example, our products could be used to censor private access to certain information on the Internet. Such use of our products for censorship could result in negative publicity and damage to our reputation. In addition, as many of our products are subject to export control regulations, diversion of our products to restricted third parties by others could result in investigations, penalties, fines,

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trade restrictions and negative publicity that could damage our reputation and materially impact our business, operating results, and financial condition.

Changes in governmental regulations could negatively affect our revenues

Many of our products are subject to various regulations promulgated by the United States and various foreign governments including, but not limited to, environmental regulations and regulations implementing export license requirements and restrictions on the import or export of some technologies, especially encryption technology.

Changes in governmental regulation and our inability or failure to obtain required approvals, permits or registrations could harm our international and domestic sales and adversely affect our revenues, business and operations.

New regulations related to conflict minerals may force us to incur additional expenses and could limit the supply and increase the costs of certain metals and minerals used in the manufacturing of our products

In August 2012, the SEC adopted new requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (or the Dodd-Frank Act) for companies that use certain minerals and derivative metals (referred to as conflict minerals, regardless of their country of origin) in their products, whether or not these products are manufactured by third parties. The Dodd-Frank Act requires companies to perform due diligence and disclose whether or not such minerals originate from the Democratic Republic of Congo or adjoining countries. We filed a report on Form SD with the SEC regarding such matters on May 29, 2015. These new requirements could adversely affect the sourcing, availability and pricing of minerals or metals used in the manufacture of our products and the numerous components that go into our products all of which could adversely affect our business, financial condition, and operating results. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any relevant minerals and metals used in our products. We have a complex supply chain and many components are sourced through our contract manufacturer and we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement. As a result, we may face reputational challenges with our customers and other stakeholders and possible regulatory risk.

Changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New pronouncements and varying interpretations of existing pronouncements have occurred with frequency and may occur in the future. Changes to existing rules, or changes to the interpretations of existing rules, could lead to changes in our accounting practices, and such changes could adversely affect our reported financial results or the way we conduct our business.

We may have exposure to greater than anticipated tax liabilities

Our provision for income taxes is subject to volatility and could be adversely affected by nondeductible stock-based compensation, changes in the research and development tax credit laws, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates, transfer pricing adjustments, not meeting the terms and conditions of tax holidays or incentives, changes in the valuation of our deferred tax assets and liabilities, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, like other companies, we may be subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations.

Acquisitions present many risks and we may not realize the financial and strategic goals that are contemplated at the time of the transaction

With respect to our past acquisitions, as well as any other future acquisitions we may undertake, we may find that the acquired businesses, products or technologies do not further our business strategy as expected, that we paid more than what the assets are later worth or that economic conditions change, all of which may generate future impairment charges. Our acquisitions may be viewed negatively by customers, financial markets or investors. There may be difficulty integrating the operations and personnel of the acquired business, and we may have difficulty retaining the

key personnel of the acquired business. We may have difficulty in integrating the acquired technologies or products with our existing product lines. Our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically and culturally diverse locations. We may have difficulty maintaining uniform

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standards, controls, procedures and policies across locations. We may experience significant problems or liabilities associated with product quality, technology and other matters.

Our inability to successfully operate and integrate newly-acquired businesses appropriately, effectively and in a timely manner, or to retain key personnel of any acquired business, could have a material adverse effect on our ability to take advantage of further growth in demand for integrated traffic management and security solutions and other advances in technology, as well as on our revenues, gross margins and expenses.

Our success depends on our key personnel and our ability to hire, retain and motivate qualified executives, sales and marketing, operations, product development and professional services personnel

Our success depends, in large part, on our ability to attract, engage, retain, and integrate qualified executives and other key employees throughout all areas of our business. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash- and equity-based compensation. If we do not obtain the stockholder approval needed to continue granting equity compensation in a competitive manner, our ability to attract, retain, and motivate executives and key employees could be weakened.

Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. In addition, we recently announced that our CEO intends to retire on July 1, 2015 and that the Company had chosen his successor, Manuel Ravelo, to assume the role of President and CEO effective July 1, 2015. Unanticipated disruption in the succession process could be disruptive to our business and could adversely affect our business and results of operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully integrate key new hires or promoted employees could adversely affect our business and results of operations. The complexity of our application delivery networking products and their integration into existing networks and ongoing support, as well as the sophistication of our sales and marketing effort, requires us to retain highly trained developers, professional services, customer support and sales personnel. Competition for qualified developers, professional services, customer support and sales personnel in our industry is intense because of the limited number of people available with the necessary technical skills and understanding of our products. Our ability to hire and retain these personnel may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted restricted stock units. The loss of services of any of our key personnel, the inability to retain and attract qualified personnel in the future or delays in hiring qualified personnel may harm our business and results of operations.

We face litigation risks

We are a party to lawsuits in the normal course of our business. Litigation in general, and intellectual property and securities litigation in particular, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits has been, and will likely continue to be, expensive and time-consuming for us. An unfavorable resolution of these lawsuits could adversely affect our business, results of operations or financial condition.

Anti-takeover provisions could make it more difficult for a third party to acquire us

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of our company without further action by our shareholders and may adversely affect the voting and other rights of the holders of common stock.

Further, certain provisions of our bylaws, including a provision limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of our company, which could have an adverse effect on the market price of our common stock. Similarly, state anti-takeover laws in the State of Washington related to corporate takeovers may prevent or delay a change of control of our company.

Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made problems such as terrorism

A significant natural disaster, such as an earthquake, a fire, a flood, or a significant power outage could have a material adverse impact on our business, operating results, and financial condition. We have an administrative and product development office and a third party contract manufacturer located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the

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events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, cyber-attacks, acts of terrorism, or other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. Our fixed income investments are held for purposes other than trading. Our fixed income investments were not leveraged as of June 30, 2015. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. As of June 30, 2015, 18.6% of our fixed income securities balance consisted of U.S. government and U.S. government agency securities. We believe the overall credit quality of our portfolio is strong.

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risk during the nine month period ended June 30, 2015, compared to those discussed in our Annual Report on Form 10-K for the year ended September 30, 2014.

Item 4. Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to ensure that required information is properly recorded, processed, summarized and reported within the required timeframe, as specified in the rules set forth by the SEC. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2015.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any pending legal proceedings that, individually or in the aggregate, are reasonably possible to have a material adverse effect on our business, operating results, or financial condition. We are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Item 1A. Risk Factors

Information regarding risk factors appears in Part I — Item 2 of this Quarterly Report on Form 10-Q, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors that May Affect Future Results.” This information includes previously disclosed material changes to the risk factors set forth in Part I — Item 1A of the Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 21, 2015, the Company announced that its Board of Directors authorized an additional \$750 million for its common stock share repurchase program. This new authorization is incremental to the existing \$1.6 billion program, initially approved in October 2010 and expanded in August 2011, October 2011, April 2013, November 2013 and January 2014. Acquisitions for the share repurchase programs will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of July 24, 2015, the Company had repurchased and retired 16,948,931 shares at an average price of \$101.83 per share as part of its current repurchase program and the Company had \$623.9 million remaining authorized to purchase shares.

Shares repurchased and retired as of July 24, 2015 are as follows (in thousands, except shares and per share data):

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased per the Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan
October 1, 2013 — October 31, 2013	57,152	\$84.45	57,152	\$ 176,436
November 1, 2013 — November 30, 2013	1,153,393	\$82.48	1,153,393	\$ 381,264
December 1, 2013 — December 31, 2013	1,218,150	\$82.06	1,218,150	\$ 281,264
January 1, 2014 — January 31, 2014	695,250	\$107.23	695,250	\$ 706,712
February 1, 2014 — February 28, 2014	697,224	\$108.21	697,224	\$ 631,264
March 1, 2014 — March 31, 2014	—	\$—	—	\$ 631,264
April 1, 2014 — April 30, 2014	—	\$—	—	\$ 631,264
May 1, 2014 — May 31, 2014	1,447,544	\$104.00	1,447,544	\$ 480,722
June 1, 2014 — June 30, 2014	—	\$—	—	\$ 480,722
July 1, 2014 — July 31, 2014	205,000	\$112.96	205,000	\$ 457,565
August 1, 2014 — August 31, 2014	1,119,958	\$113.26	1,119,958	\$ 330,722
September 1, 2014 — September 30, 2014	—	\$—	—	\$ 330,722
October 1, 2014 — October 31, 2014	—	\$—	—	\$ 330,722
November 1, 2014 — November 30, 2014	559,344	\$126.19	559,344	\$ 260,141
December 1, 2014 — December 31, 2014	606,000	\$131.02	606,000	\$ 180,743
January 1, 2015 — January 31, 2015	581,205	\$113.91	581,205	\$ 864,540
February 1, 2015 — February 28, 2015	803,570	\$112.85	803,570	\$ 773,860
March 1, 2015 — March 31, 2015	—	\$—	—	\$ 773,860
April 1, 2015 — April 30, 2015	75,000	\$122.71	75,000	\$ 764,657
May 1, 2015 — May 31, 2015	667,240	\$124.83	667,240	\$ 681,367
June 1, 2015 — June 30, 2015	458,486	\$125.43	458,486	\$ 623,861
July 1, 2015 — July 24, 2015	—	\$—	—	\$ 623,861

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Item 6. Exhibits

Exhibit Number	Exhibit Description
10.47	— Retirement Agreement between John McAdam and F5 Networks, Inc.(1)
31.1*	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	— Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	— Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	— XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	— XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	— XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

(1) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 29th day of July, 2015.

F5 NETWORKS, INC.

By: /s/ ANDY REINLAND
Andy Reinland
Executive Vice President,
Chief Financial Officer
(principal financial officer and principal accounting officer)