BOEING CO
Form 10-Q
October 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 1-442
THE BOEING COMPANY
(Exact name of registrant as specified in its charter)

Delaware	91-0425694
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 N. Riverside Plaza, Chicago, IL	60606-1596
(Address of principal executive offices)	(Zip Code)

(312) 544-2000
(Registrant’s telephone number, including area code)
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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 18, 2017, there were 595,578,523 shares of common stock, $5.00 par value, issued and outstanding.

1

THE BOEING COMPANY
FORM 10-Q
For the Quarter Ended September 30, 2017
INDEX

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Dollars in millions, except per share data)	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Sales of products	$60,484	$63,563	$21,825	$21,494
Sales of services	7,540	7,722	2,484	2,404
Total revenues	68,024	71,285	24,309	23,898
Cost of products	(49,856)	(55,117)	(18,050)	(17,907)
Cost of services	(5,730)	(6,163)	(1,910)	(1,983)
Boeing Capital interest expense	(53)	(46)	(27)	(14)
Total costs and expenses	(55,639)	(61,326)	(19,987)	(19,904)
	12,385	9,959	4,322	3,994
Income from operating investments, net	169	220	49	69
General and administrative expense	(2,888)	(2,617)	(915)	(923)
Research and development expense, net	(2,418)	(3,901)	(767)	(857)
Loss on dispositions, net		(10)		(1)
Earnings from operations	7,248	3,651	2,689	2,282
Other income, net	94	41	45	2
Interest and debt expense	(267)	(227)	(87)	(81)
Earnings before income taxes	7,075	3,465	2,647	2,203
Income tax (expense)/benefit	(2,010)	(201)	(794)	76
Net earnings	$5,065	$3,264	$1,853	$2,279
Basic earnings per share	$8.37	$5.09	$3.10	$3.64
Diluted earnings per share	$8.27	$5.04	$3.06	$3.60
Cash dividends paid per share	$4.26	$3.27	$1.42	$1.09
Weighted average diluted shares (millions)	612.8	647.9	606.3	632.7

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(Dollars in millions)	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Net earnings	$5,065	$3,264	$1,853	$2,279
Other comprehensive income, net of tax:				
Currency translation adjustments	121	(3)	44	(10)
Unrealized gain on certain investments, net of tax of $0, ($1), $0, and ($2)		1		2
Unrealized gain on derivative instruments:				
Unrealized gain arising during period, net of tax of ($61), ($30), ($22), and ($7)	111	54	40	13
Reclassification adjustment for losses included in net earnings, net of tax of ($24), ($32), ($5), and ($8)	44	58	10	15
Total unrealized gain on derivative instruments, net of tax	155	112	50	28
Defined benefit pension plans and other postretirement benefits:				
Amortization of prior service credits included in net periodic pension cost, net of tax of $47, $23, $16, and $8	(84)	(42)	(27)	(15)
Net actuarial gain/(loss) arising during the period, net of tax of ($1), $215, $0, and $0	3	(388)		(1)
Amortization of actuarial losses included in net periodic pension cost, net of tax of ($217), ($217), ($72), and ($72)	394	392	131	131
Settlements and curtailments included in net income, net of tax of $0, ($7), $0, and $0		14		
Pension and postretirement (cost)/benefit related to our equity method investments, net of tax of $1, ($2), $0, and ($1)	(2)	4		2
Total defined benefit pension plans and other postretirement benefits, net of tax	311	(20)	104	117
Other comprehensive income, net of tax	587	90	198	137
Comprehensive loss related to noncontrolling interests	(1)	(1)		(1)
Comprehensive income, net of tax	$5,651	$3,353	$2,051	$2,415

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Financial Position
(Unaudited)

(Dollars in millions, except per share data)	September 30 2017	December 31 2016
Assets		
Cash and cash equivalents	$8,569	$8,801
Short-term and other investments	1,463	1,228
Accounts receivable, net	10,644	8,832
Current portion of customer financing, net	435	428
Inventories, net of advances and progress billings	43,031	43,199
Total current assets	64,142	62,488
Customer financing, net	3,039	3,773
Property, plant and equipment, net of accumulated depreciation of $17,401 and $16,883	12,712	12,807
Goodwill	5,344	5,324
Acquired intangible assets, net	2,523	2,540
Deferred income taxes	298	332
Investments	1,270	1,317
Other assets, net of accumulated amortization of $509 and $497	1,679	1,416
Total assets	$91,007	$89,997
Liabilities and equity		
Accounts payable	$12,718	$11,190
Accrued liabilities	14,008	14,691
Advances and billings in excess of related costs	26,695	23,869
Short-term debt and current portion of long-term debt	988	384
Total current liabilities	54,409	50,134
Deferred income taxes	2,884	1,338
Accrued retiree health care	5,826	5,916
Accrued pension plan liability, net	15,514	19,943
Other long-term liabilities	1,449	2,221
Long-term debt	9,780	9,568
Shareholders' equity:		
Common stock, par value $5.00 – 1,200,000,000 shares authorized; 1,012,261,159 shares issued	5,061	5,061
Additional paid-in capital	6,754	4,762
Treasury stock, at cost - 414,910,219 and 395,109,568 shares	(41,745)	(36,097)
Retained earnings	44,052	40,714
Accumulated other comprehensive loss	(13,036)	(13,623)
Total shareholders' equity	1,086	817
Noncontrolling interests	59	60
Total equity	1,145	877
Total liabilities and equity	$91,007	$89,997

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in millions)	Nine months ended September 30	
	2017	2016
Cash flows – operating activities:		
Net earnings	$5,065	$3,264
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash items –		
Share-based plans expense	151	144
Depreciation and amortization	1,487	1,364
Investment/asset impairment charges, net	75	61
Customer financing valuation expense/(benefit)	4	(5)
Loss on dispositions, net		10
Other charges and credits, net	190	219
Changes in assets and liabilities –		
Accounts receivable	(1,983)	(517)
Inventories, net of advances and progress billings	254	4,334
Accounts payable	778	1,366
Accrued liabilities	112	82
Advances and billings in excess of related costs	2,828	(1,717)
Income taxes receivable, payable and deferred	1,465	(725)
Other long-term liabilities	25	(67)
Pension and other postretirement plans	(550)	144
Customer financing, net	635	(195)
Other	(96)	(95)
Net cash provided by operating activities	10,440	7,667
Cash flows – investing activities:		
Property, plant and equipment additions	(1,304)	(2,014)
Property, plant and equipment reductions	30	14
Contributions to investments	(2,847)	(928)
Proceeds from investments	2,612	956
Purchase of distribution rights	(131)	
Other	4	8
Net cash used by investing activities	(1,636)	(1,964)
Cash flows – financing activities:		
New borrowings	876	1,323
Debt repayments	(83)	(836)
Repayments of distribution rights and other asset financing		(24)
Stock options exercised	291	192
Employee taxes on certain share-based payment arrangements	(118)	(83)
Common shares repurchased	(7,500)	(6,501)
Dividends paid	(2,575)	(2,084)
Net cash used by financing activities	(9,109)	(8,013)
Effect of exchange rate changes on cash and cash equivalents	73	(6)
Net decrease in cash and cash equivalents	(232)	(2,316)
Cash and cash equivalents at beginning of year	8,801	11,302

Cash and cash equivalents at end of period	$8,569	$8,986

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Equity
(Unaudited)

	Boeing shareholders						
(Dollars in millions, except per share data)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance at January 1, 2016	$5,061	$4,834	($29,568)	$38,756	($12,748)	$62	$6,397
Net earnings				3,264		(1)	3,263
Other comprehensive income, net of tax of ($51)					90		90
Share-based compensation and related dividend equivalents		158		(15)			143
Treasury shares issued for stock options exercised, net		(30)	222				192
Treasury shares issued for other share-based plans, net		(154)	84				(70)
Common shares repurchased			(6,501)				(6,501)
Cash dividends declared ($2.18 per share)				(1,364)			(1,364)
Balance at September 30, 2016	$5,061	$4,808	($35,763)	$40,641	($12,658)	$61	$2,150
Balance at January 1, 2017	$5,061	$4,762	($36,097)	$40,714	($13,623)	$60	$877
Net earnings				5,065		(1)	5,064
Other comprehensive loss, net of tax of ($255)					587		587
Share-based compensation and related dividend equivalents		168		(18)			150
Treasury shares issued for stock options exercised, net		(80)	370				290
Treasury shares issued for other share-based plans, net		(178)	64				(114)
Treasury shares contributed to pension plans		2,082	1,418				3,500
Common shares repurchased			(7,500)				(7,500)
Cash dividends declared ($2.84 per share)				(1,709)			(1,709)
Balance at September 30, 2017	$5,061	$6,754	($41,745)	$44,052	($13,036)	$59	$1,145

See Notes to the Condensed Consolidated Financial Statements.

Table of Contents

The Boeing Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Summary of Business Segment Data
(Unaudited)

(Dollars in millions)	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Revenues:				
Commercial Airplanes	$41,263	$43,630	$14,982	$15,200
Defense, Space & Security	15,520	17,281	5,470	5,751
Global Services	10,638	10,508	3,568	3,506
Boeing Capital	234	211	70	63
Unallocated items, eliminations and other	369	(345)	219	(622)
Total revenues	$68,024	$71,285	$24,309	$23,898
Earnings from operations:				
Commercial Airplanes	$3,648	$804	$1,483	$1,293
Defense, Space & Security	1,670	1,443	559	564
Global Services	1,639	1,609	506	524
Boeing Capital	87	36	23	13
Segment operating profit	7,044	3,892	2,571	2,394
Unallocated items, eliminations and other	204	(241)	118	(112)
Earnings from operations	7,248	3,651	2,689	2,282
Other income, net	94	41	45	2
Interest and debt expense	(267)	(227)	(87)	(81)
Earnings before income taxes	7,075	3,465	2,647	2,203
Income tax (expense)/benefit	(2,010)	(201)	(794)	76
Net earnings	$5,065	$3,264	$1,853	$2,279

This information is an integral part of the Notes to the Condensed Consolidated Financial Statements. See Note 17 for further segment results.

Table of Contents

The Boeing Company and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Dollars in millions, except per share data)
(Unaudited)

Note 1 – Basis of Presentation

The condensed consolidated interim financial statements included in this report have been prepared by management of The Boeing Company (herein referred to as "Boeing", the "Company", "we", "us", or "our"). In the opinion of management, al adjustments (consisting of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The results of operations for the period ended September 30, 2017 are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto, included in our 2016 Annual Report on Form 10-K. As described in Note 17, effective July 1, 2017, we now operate in four reportable segments: Commercial Airplanes (BCA); Defense, Space & Security (BDS), Global Services (BGS) and Boeing Capital (BCC). Amounts in prior periods have been reclassified to conform to the current period's presentation.

Standards Issued and Not Yet Implemented

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We do not expect the new lease standard to have a material effect on our financial position, results of operations or cash flows.

We plan to adopt ASU No. 2014-09, Revenue from Contracts with Customers effective January 1, 2018 and apply it retrospectively to all periods presented. This comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The standard also requires expanded disclosures regarding revenue and contracts with customers.

We expect adoption of the new standard will have a material impact on our income statement and balance sheet. We currently expect that most of our defense contracts at BDS and BGS that currently recognize revenue as deliveries are made or based on the attainment of performance milestones will recognize revenue under the new standard as costs are incurred. Certain military derivative aircraft contracts in our BCA business will also recognize revenue as costs are incurred. The new standard will not change the total amount of revenue recognized on these contracts, only accelerate the timing of when the revenue is recognized. We expect a corresponding acceleration in timing of cost of sales recognition for these contracts resulting in a decrease in Inventories from long-term contracts in progress upon adoption of the new standard.

We do not expect the new standard to affect revenue recognition or the use of program accounting for commercial airplane contracts in our BCA business. We will continue to recognize revenue for these contracts at the point in time when the customer accepts delivery of the airplane.

We have completed a preliminary assessment of the impact of adopting the new standard on previously reported 2016 and prior period results. Because revenue will be recognized under the new standard as costs are incurred for most of our defense and military derivative airplane contracts, approximately $10,000 of revenues and $1,000 of associated earnings will be accelerated into years ending prior to the January 1, 2016 effective date. Therefore, as of January 1, 2016, we expect to record a cumulative adjustment to increase retained earnings by approximately $1,000. We expect consolidated revenues previously reported in 2016 to decrease by approximately $1,000, primarily reflecting $2,000 of lower revenues on several defense contracts that currently recognize revenues as deliveries are made, partially offset by higher KC-46A Tanker revenues. These revenue changes are expected to reduce previously reported segment operating

Table of Contents

earnings by approximately $400. We expect the reduction in 2016 segment operating earnings to be offset by increases in unallocated pension income. We expect adoption will increase total assets and total liabilities by approximately $20,000 primarily due to classifying certain advances from customers as liabilities under the new standard, whereas these advances were netted against inventory under existing Generally Accepted Accounting Principles (GAAP). We expect the new standard to have no impact on cash flows reported in 2016. The impact of the new standard on our 2016 financial results may not be representative of the impact on our financial position and operating results in subsequent years.

We are continuing to analyze the impact of the new standard on the Company’s revenue contracts, comparing our current accounting policies and practices to the requirements of the new standard. The new standard requires additional detailed disclosures regarding the company’s contracts with customers, including disclosure of remaining unsatisfied performance obligations, in the first quarter 2018 which we are continuing to assess. We are also identifying and implementing changes to the Company’s business processes, systems and controls to support adoption of the new standard in 2018 and recasting prior periods’ financial information.

Use of Estimates

Management makes assumptions and estimates to prepare financial statements in conformity with GAAP. Those assumptions and estimates directly affect the amounts reported in the Condensed Consolidated Financial Statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are disclosed in these Notes to the Condensed Consolidated Financial Statements.

Contract accounting is used for development and production activities predominantly by BDS and for defense contracts at BGS. Contract accounting involves a judgmental process of estimating total sales and costs for each contract resulting in the development of estimated cost of sales percentages. Changes in estimated revenues, cost of sales and the related effect on operating income are recognized using a cumulative catch-up adjustment which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract’s percent complete. Net cumulative catch-up adjustments to prior years' earnings, including reach-forward losses, across all contracts were as follows:

	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Decrease to Earnings from Operations	($39)	($656)	($302)	($69)
Decrease to Diluted EPS	($0.05)	($0.95)	($0.35)	($0.11)

Note 2 – Earnings Per Share

Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation method that determines earnings per share for common shares and participating securities. The undistributed earnings are allocated between common shares and participating securities as if all earnings had been distributed during the period. Participating securities and common shares have equal rights to undistributed earnings.

Basic earnings per share is calculated by taking net earnings, less earnings available to participating securities, divided by the basic weighted average common shares outstanding.

Diluted earnings per share is calculated by taking net earnings, less earnings available to participating securities, divided by the diluted weighted average common shares outstanding.

Table of Contents

The elements used in the computation of basic and diluted earnings per share were as follows:

(In millions - except per share amounts)	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Net earnings	$5,065	$3,264	$1,853	$2,279
Less: earnings available to participating securities	4	3	2	3
Net earnings available to common shareholders	$5,061	$3,261	$1,851	$2,276
Basic				
Basic weighted average shares outstanding	605.6	641.2	598.3	625.5
Less: participating securities	0.8	1.0	0.7	0.9
Basic weighted average common shares outstanding	604.8	640.2	597.6	624.6
Diluted				
Basic weighted average shares outstanding	605.6	641.2	598.3	625.5
Dilutive potential common shares[(1)]	7.2	6.7	8.0	7.2
Diluted weighted average shares outstanding	612.8	647.9	606.3	632.7
Less: participating securities	0.8	1.0	0.7	0.9
Diluted weighted average common shares outstanding	612.0	646.9	605.6	631.8
Net earnings per share:				
Basic	$8.37	$5.09	$3.10	$3.64
Diluted	8.27	5.04	3.06	3.60

(1) Diluted earnings per share includes any dilutive impact of stock options, restricted stock units, performance-based restricted stock units and performance awards.

The following table includes the number of shares that may be dilutive potential common shares in the future. These shares were not included in the computation of diluted earnings per share because the effect was either antidilutive or the performance condition was not met.

(Shares in millions)	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
Performance awards	4.6	7.0	3.4	6.2
Performance-based restricted stock units	0.6	2.8	0.1	3.1

Note 3 – Income Taxes

Our effective income tax rates were 28.4% and 30.0% for the nine and three months ended September 30, 2017 and 5.8% and (3.4)% for the same periods in the prior year. The effective tax rate of 30.0% for the third quarter of 2017 is higher than the nine-month rate primarily due to lower discrete tax benefits in the third quarter compared with the first and second quarters of 2017. The 2017 effective tax rates are higher than the prior year primarily due to discrete tax benefits recorded in the third quarter of 2016 related to tax basis adjustments of $440 and the settlement of the 2011-2012 federal tax audit of $177. Additionally, 2017 year-to-date and projected pre-tax earnings are higher compared to prior year. Furthermore, higher share-based compensation tax benefits were recognized for the nine and three month periods of 2017 compared with the prior year.

Table of Contents

Federal income tax audits have been settled for all years prior to 2013. The Internal Revenue Service (IRS) is currently examining the 2013-2014 tax years. We are also subject to examination in major state and international jurisdictions for the 2001-2016 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

Note 4 – Inventories

Inventories consisted of the following:

	September 30 2017	December 31 2016
Long-term contracts in progress	$13,608	$12,801
Commercial aircraft programs	52,871	52,048
Commercial spare parts, used aircraft, general stock materials and other	6,068	5,446
Inventory before advances and progress billings	72,547	70,295
Less advances and progress billings	(29,516)	(27,096)
Total	$43,031	$43,199

Long-Term Contracts in Progress

Long-term contracts in progress includes Delta launch program inventory that is being sold at cost to United Launch Alliance (ULA) under an inventory supply agreement that terminates on March 31, 2021. The inventory balance was $120 (net of advances of $187 and $220) at September 30, 2017 and December 31, 2016. See indemnifications to ULA in Note 9.

Included in inventories are capitalized precontract costs of $847 and $729 primarily related to KC-46A Tanker and C-17 at September 30, 2017 and December 31, 2016.

Commercial Aircraft Programs

At September 30, 2017 and December 31, 2016, commercial aircraft programs inventory included the following amounts related to the 787 program: $31,664 and $32,501 of work in process (including deferred production costs of $25,948 and $27,308), $2,745 and $2,398 of supplier advances, and $3,334 and $3,625 of unamortized tooling and other non-recurring costs. At September 30, 2017, $22,584 of 787 deferred production costs, unamortized tooling and other non-recurring costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $6,698 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At September 30, 2017 and December 31, 2016, commercial aircraft programs inventory included $173 and $284 of unamortized tooling costs related to the 747 program. At September 30, 2017, $163 of unamortized tooling costs are expected to be recovered from units included in the program accounting quantity that have firm orders and $10 is expected to be recovered from units included in the program accounting quantity that represent expected future orders. At September 30, 2017, the program accounting quantity has 18 undelivered aircraft, including one already completed aircraft that has not been sold and is being remarketed.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $2,951 and $3,117 at September 30, 2017 and December 31, 2016.

Table of Contents

Note 5 – Customer Financing

Customer financing primarily relates to the Boeing Capital (BCC) segment and consisted of the following:

	September 30 2017	December 31 2016
Financing receivables:		
Investment in sales-type/finance leases	$1,400	$1,482
Notes	762	807
Total financing receivables	2,162	2,289
Operating lease equipment, at cost, less accumulated depreciation of $361 and $359	1,327	1,922
Gross customer financing	3,489	4,211
Less allowance for losses on receivables	(14)	(10)
Total	$3,475	$4,201

We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms. At September 30, 2017 and December 31, 2016, we individually evaluated for impairment customer financing receivables of $50 and $55, of which $39 and $44 were determined to be impaired. We recorded no allowance for losses on these impaired receivables as the collateral values exceeded the carrying values of the receivables.

The adequacy of the allowance for losses is assessed quarterly. Three primary factors influencing the level of our allowance for losses on customer financing receivables are customer credit ratings, default rates and collateral values. We assign internal credit ratings for all customers and determine the creditworthiness of each customer based upon publicly available information and information obtained directly from our customers. Our rating categories are comparable to those used by the major credit rating agencies.

Our financing receivable balances by internal credit rating category are shown below:

Rating categories	September 30 2017	December 31 2016
BBB	$1,200	$1,324
BB	508	538
B	405	383
CCC	49	44
Total carrying value of financing receivables	$2,162	$2,289

At September 30, 2017, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 16.8%, 8.1% and 1.0%, respectively, to the exposure associated with those receivables.

Customer Financing Exposure

Customer financing is collateralized by security in the related asset. The value of the collateral is closely tied to commercial airline performance and overall market conditions and may be subject to reduced valuation with market decline. Declines in collateral values could result in asset impairments, reduced finance lease income, and an increase in the allowance for losses. Our customer financing collateral is concentrated in 747-8 and out-of-production aircraft. Generally, out-of-production aircraft have experienced greater collateral value declines than in-production aircraft.

Table of Contents

The majority of customer financing carrying values are concentrated in the following aircraft models:

	September 30 2017	December 31 2016
717 Aircraft ($274 and $301 accounted for as operating leases)	$1,114	$1,282
747-8 Aircraft ($769 and $1,086 accounted for as operating leases)	769	1,111
MD-80 Aircraft (accounted for as sales-type finance leases)	236	259
757 Aircraft ($39 and $43 accounted for as operating leases)	233	246
747-400 Aircraft ($94 and $149 accounted for as operating leases)	178	149
777 Aircraft ($13 and $0 accounted for as operating leases)	166	165
767 Aircraft ($27 and $85 accounted for as operating leases)	103	170
737 Aircraft ($94 and $103 accounted for as operating leases)	99	103

Note 6 – Investments

Our investments, which are recorded in Short-term and other investments or Investments, consisted of the following:

	September 30 2017	December 31 2016
Equity method investments (1)	$1,226	$1,242
Time deposits	858	665
Available-for-sale investments	513	537
Restricted cash & cash equivalents(2)	106	68
Other investments	30	33
Total	$2,733	$2,545

(1) Dividends received were $195 and $47 for the nine and three months ended September 30, 2017 and $249 and $83 during the same periods in the prior year.

(2) Reflects amounts restricted in support of our workers' compensation programs, employee benefit programs, and insurance premiums.

Note 7 – Other Assets

Sea Launch

At September 30, 2017 and December 31, 2016, Other assets included $356 of receivables related to our former investment in the Sea Launch venture which became payable by certain Sea Launch partners following Sea Launch's bankruptcy filing in June 2009. The net amounts owed to Boeing by each of the partners are as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia (RSC Energia) – $223, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

On February 1, 2013, we filed an action in the United States District Court for the Central District of California seeking reimbursement from the other Sea Launch partners. On May 12, 2016, the court issued a judgment in favor of Boeing.

In December 2016, we reached an agreement which we believe will enable us to recover the outstanding receivable balance from RSC Energia over the next several years. The agreement was subject to certain contingencies which were resolved during the first quarter of 2017. We continue to pursue collection efforts against the former Ukrainian partners in connection with the court judgment and continue to believe the partners have the financial wherewithal to pay and intend to pursue vigorously all of our rights and remedies. In the event we are unable to secure reimbursement from the Sea Launch partners, we could incur additional charges. Our current assessment as to the collectability of these receivables takes into account the current economic conditions in Russia and Ukraine, although we will continue to monitor the situation.

Table of Contents

Spirit AeroSystems

As of September 30, 2017 and December 31, 2016, Other assets included $143 of receivables related to indemnifications from Spirit AeroSystems, Inc. (Spirit) for costs incurred related to pension and retiree medical obligations of former Boeing employees who were subsequently employed by Spirit. During the fourth quarter of 2014, Boeing filed a complaint against Spirit in the Delaware Superior Court seeking to enforce our rights to indemnification and to recover from Spirit amounts incurred by Boeing for pension and retiree medical obligations. In the second quarter of 2017, the court ruled against Boeing and denied our claim. After a court ruling on legal fees, Boeing plans to appeal to the Delaware Supreme Court and we believe we have substantial arguments on appeal. We expect to fully recover from Spirit.

Note 8 – Commitments and Contingencies

Environmental

The following table summarizes environmental remediation activity during the nine months ended September 30, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$562	$566
Reductions for payments made	(25)	(33)
Changes in estimates	6	43
Ending balance – September 30	$543	$576

The liabilities recorded represent our best estimate or the low end of a range of reasonably possible costs expected to be incurred to remediate sites, including operation and maintenance over periods of up to 30 years. It is reasonably possible that we may incur charges that exceed these recorded amounts because of regulatory agency orders and directives, changes in laws and/or regulations, higher than expected costs and/or the discovery of new or additional contamination. As part of our estimating process, we develop a range of reasonably possible alternate scenarios that includes the high end of a range of reasonably possible cost estimates for all remediation sites for which we have sufficient information based on our experience and existing laws and regulations. There are some potential remediation obligations where the costs of remediation cannot be reasonably estimated. At September 30, 2017 and December 31, 2016, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $873 and $857.

Product Warranties

The following table summarizes product warranty activity recorded during the nine months ended September 30, 2017 and 2016.

	2017	2016
Beginning balance – January 1	$1,414	$1,485
Additions for current year deliveries	183	293
Reductions for payments made	(193)	(258)
Changes in estimates	(213)	(103)
Ending balance – September 30	$1,191	$1,417

Commercial Aircraft Commitments

In conjunction with signing definitive agreements for the sale of new aircraft (Sale Aircraft), we have entered into trade-in commitments with certain customers that give them the right to trade in used aircraft at a specified price upon the purchase of Sale Aircraft. The probability that trade-in commitments will be exercised is determined by using both quantitative information from valuation sources and qualitative information from

Table of Contents

other sources. The probability of exercise is assessed quarterly, or as events trigger a change, and takes into consideration the current economic and airline industry environments. Trade-in commitments, which can be terminated by mutual consent with the customer, may be exercised only during the period specified in the agreement, and require advance notice by the customer.

Trade-in commitment agreements at September 30, 2017 have expiration dates from 2017 through 2026. At September 30, 2017, and December 31, 2016 total contractual trade-in commitments were $1,676 and $1,485. As of September 30, 2017 and December 31, 2016, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $94 and $126 and the fair value of the related trade-in aircraft was $94 and $126.

Financing Commitments

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $13,106 and $14,847 as of September 30, 2017 and December 31, 2016. The estimated earliest potential funding dates for these commitments as of September 30, 2017 are as follows:

	Total
October through December 2017	$305
2018	3,439
2019	3,437
2020	1,862
2021	1,585
Thereafter	2,478
	$13,106

As of September 30, 2017, all of these financing commitments related to customers we believe have less than investment-grade credit. We have concluded that no reserve for future potential losses is required for these financing commitments based upon the terms, such as collateralization and interest rates, under which funding would be provided.

Standby Letters of Credit and Surety Bonds

We have entered into standby letters of credit and surety bonds with financial institutions primarily relating to the guarantee of our future performance on certain contracts. Contingent liabilities on outstanding letters of credit agreements and surety bonds aggregated approximately $3,656 and $4,701 as of September 30, 2017 and December 31, 2016.

Commitments to ULA

We and Lockheed Martin Corporation have each committed to provide ULA with additional capital contributions in the event ULA does not have sufficient funds to make a required payment to us under an inventory supply agreement. As of September 30, 2017, ULA’s total remaining obligation to Boeing under the inventory supply agreement was $120. See Note 4.

F/A-18

At September 30, 2017, our backlog included 31 F/A-18 aircraft under contract with the U.S. Navy. We have begun work or authorized suppliers to begin working on aircraft beyond those already in backlog in anticipation of future orders. At September 30, 2017, we had $94 of capitalized precontract costs and $733 of potential termination liabilities to suppliers associated with F/A-18 aircraft not yet on order.

Table of Contents

United States Government Defense Environment Overview

In May 2017, the U.S. administration submitted its fiscal year 2018 budget request, which calls for funding the U.S. Department of Defense (U.S. DoD) base budget at a level that is $52 billion or 10% above the spending caps in the Budget Control Act of 2011 (The Act). In addition, three of the four congressional defense oversight committees have endorsed a U.S. DoD budget topline that is higher than the administration's fiscal year 2018 request. However, The Act, which mandates limits on U.S. government discretionary spending, remains in effect through fiscal year 2021. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless The Act is repealed or significantly modified by Congress.

Funding timeliness also remains a risk. In September 2017, a Continuing Resolution was enacted that extends U.S. government funding at fiscal year 2017 rates through December 8, 2017. If Congress is unable to pass appropriations bills before the expiration of the current Continuing Resolution, a government shutdown could result which may have impacts above and beyond those resulting from budget cuts, sequestration impacts or program-level appropriations. For example, requirements to furlough employees in the U.S. DoD, the Department of Transportation, or other government agencies could result in payment delays, impair our ability to perform work on existing contracts, and/or negatively impact future orders. Alternatively, Congress may fund the remainder of fiscal year 2018 by passing one or more Continuing Resolutions; however, this could restrict the execution of certain program activities and delay new programs or competitions.

In addition, there continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA), within the overall budgetary framework described above. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows.

BDS Fixed-Price Development Contracts

Fixed-price development work is inherently uncertain and subject to significant variability in estimates of the cost and time required to complete the work. BDS fixed-price contracts with significant development work include Commercial Crew, U.S. Air Force (USAF) KC-46A Tanker, and commercial and military satellites. The operational and technical complexities of these contracts create financial risk, which could trigger termination provisions, order cancellations or other financially significant exposure. Changes to cost and revenue estimates could result in lower margins or material charges for reach-forward losses. For example, during the first and third quarters of 2017, we recorded additional reach-forward losses totalling $471 on the KC-46A Tanker program. Moreover, this and our other fixed-price development programs remain subject to additional reach-forward losses if we experience further technical or quality issues, schedule delays, or increased costs.

KC-46A Tanker

In 2011, we were awarded a contract from the USAF to design, develop, manufacture and deliver four next generation aerial refueling tankers. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. In 2016, the USAF authorized low rate initial production (LRIP) lots for 7 and 12 aircraft valued at $2.8 billion. In January 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. At September 30, 2017, we had approximately $320 of capitalized precontract costs and $735 of potential termination liabilities to suppliers.

Recoverable Costs on Government Contracts

Our final incurred costs for each year are subject to audit and review for allowability by the U.S. government, which can result in payment demands related to costs they believe should be disallowed. We work with the U.S. government to assess the merits of claims and where appropriate reserve for amounts disputed. If we are unable to satisfactorily resolve disputed costs, we could be required to record an earnings charge and/or provide refunds to the U.S. government.

Table of Contents

Russia/Ukraine

We continue to monitor political unrest involving Russia and Ukraine, where we and some of our suppliers source titanium products and/or have operations. A number of our commercial customers also have operations in Russia and Ukraine. To date, we have not experienced any significant disruptions to production or deliveries. Should suppliers or customers experience disruption, our production and/or deliveries could be materially impacted.

747 Program

Lower-than-expected demand for large commercial passenger and freighter aircraft have continued to drive market uncertainties, pricing pressures and fewer orders than anticipated. We are currently producing at a rate of 0.5 aircraft per month. The program accounting quantity includes aircraft scheduled to be produced through 2019. We remain focused on obtaining additional orders and implementing cost-reduction efforts. We are currently evaluating several scenarios, including sales campaigns that may determine how long we continue the 747 program. If we are unable to obtain sufficient orders and/or market, production and other risks cannot be mitigated, we could record additional losses that may be material. Depending on market conditions, it is reasonably possible that we could decide to end production of the 747.

Note 9 – Arrangements with Off-Balance Sheet Risk

We enter into arrangements with off-balance sheet risk in the normal course of business, primarily in the form of guarantees.

The following table provides quantitative data regarding our third party guarantees. The maximum potential payments represent a "worst-case scenario," and do not necessarily reflect amounts that we expect to pay. Estimated proceeds from collateral and recourse represent the anticipated values of assets we could liquidate or receive from other parties to offset our payments under guarantees. The carrying amount of liabilities represents the amount included in Accrued liabilities.

	Maximum Potential Payments		Estimated Proceeds from Collateral/Recourse		Carrying Amount of Liabilities	
	September 30 2017	December 31 2016	September 30 2017	December 31 2016	September 30 2017	December 31 2016
Contingent repurchase commitments	$1,393	$1,306	$1,393	$1,306	$11	$9
Indemnifications to ULA:						
Contributed Delta program launch inventory	72	77				
Contract pricing	261	261			7	7
Other Delta contracts	191	216				5
Credit guarantees	111	29	64	27	7	2

Contingent Repurchase Commitments The repurchase price specified in contingent repurchase commitments is generally lower than the expected fair value at the specified repurchase date. Estimated proceeds from collateral/recourse in the table above represent the lower of the contracted repurchase price or the expected fair value of each aircraft at the specified repurchase date.

Indemnifications to ULA In 2006, we agreed to indemnify ULA through December 31, 2020 against potential non-recoverability and non-allowability of $1,360 of Boeing Delta launch program inventory included in contributed assets plus $1,860 of inventory subject to an inventory supply agreement which ends on March 31, 2021. Since inception, ULA has consumed $1,288 of the $1,360 of inventory that was contributed by us and has yet to consume $72. Under the inventory supply agreement, we have recorded revenues and cost of sales of $1,505 through September 30, 2017. ULA has made payments of $1,740 to us under the inventory supply agreement and we have made $48 of net indemnification payments to ULA.

Table of Contents

We agreed to indemnify ULA against potential losses that ULA may incur in the event ULA is unable to obtain certain additional contract pricing from the USAF for four satellite missions. In 2009, ULA filed a complaint before the Armed Services Board of Contract Appeals (ASBCA) for a contract adjustment for the price of two of these missions, followed in 2011 by a subsequent notice of appeal with respect to a third mission. The USAF did not exercise an option for a fourth mission prior to the expiration of the contract. During the second quarter of 2016, the ASBCA ruled that ULA is entitled to additional contract pricing for each of the three missions and remanded to the parties to negotiate appropriate pricing. During the fourth quarter of 2016, the USAF appealed the ASBCA's ruling. In April 2017, the USAF withdrew its appeal. If ULA is ultimately unsuccessful in obtaining additional pricing, we may be responsible for an indemnification payment up to $261 and may record up to $277 in pre-tax losses associated with the three missions.

Potential payments for Other Delta contracts include $85 related to deferred support costs and $91 related to deferred production costs. In June 2011, the Defense Contract Management Agency (DCMA) notified ULA that it had determined that $271 of deferred support costs are not recoverable under government contracts. In December 2011, the DCMA notified ULA of the potential non-recoverability of an additional $114 of deferred production costs. ULA and Boeing believe that all costs are recoverable and in November 2011, ULA filed a certified claim with the USAF for collection of deferred support and production costs. The USAF issued a final decision denying ULA’s certified claim in May 2012. On June 14, 2012, Boeing and ULA filed a suit in the Court of Federal Claims seeking recovery of the deferred support and production costs from the U.S. government. On November 9, 2012, the U.S. government filed an answer to our claim and asserted a counterclaim for credits that it alleges were offset by deferred support cost invoices. We believe that the U.S. government’s counterclaim is without merit, and have filed an answer challenging it on multiple grounds. The litigation is in the discovery phase, and the Court has not yet set a trial date. If, contrary to our belief, it is determined that some or all of the deferred support or production costs are not recoverable, we could be required to record pre-tax losses and make indemnification payments to ULA for up to $317 of the costs questioned by the DCMA.

Other Indemnifications In conjunction with our sales of Electron Dynamic Devices, Inc. and Rocketdyne Propulsion and Power businesses and our BCA facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma, we agreed to indemnify, for an indefinite period, the buyers for costs relating to pre-closing environmental conditions and certain other items. We are unable to assess the potential number of future claims that may be asserted under these indemnifications, nor the amounts thereof (if any). As a result, we cannot estimate the maximum potential amount of future payments under these indemnities and therefore, no liability has been recorded. To the extent that claims have been made under these indemnities and/or are probable and reasonably estimable, liabilities associated with these indemnities are included in the environmental liability disclosure in Note 8.

Credit Guarantees We have issued credit guarantees where we are obligated to make payments to a guaranteed party in the event that the original lessee or debtor does not make payments or perform certain specified services. Generally, these guarantees have been extended on behalf of guaranteed parties with less than investment-grade credit and are collateralized by certain assets. Current outstanding credit guarantees expire through 2036.

Note 10 – Debt

On February 16, 2017, we issued $900 of fixed rate senior notes consisting of $300 due March 1, 2022 that bear an annual interest rate of 2.125%, $300 due March 1, 2027 that bear an annual interest rate of 2.8%, and $300 due March 1, 2047 that bear an annual interest rate of 3.65%. The notes are unsecured senior obligations and rank equally in right of payment with our existing and future unsecured and unsubordinated indebtedness. The net proceeds of the issuance totaled $871, after deducting underwriting discounts, commissions and offering expenses.

Table of Contents

Note 11 – Postretirement Plans

The components of net periodic benefit cost were as follows:

	Nine months ended September 30		Three months ended September 30	
Pension Plans	2017	2016	2017	2016
Service cost	$301	$488	$100	$162
Interest cost	2,243	2,287	747	761
Expected return on plan assets	(2,883)	(2,998)	(961)	(1,000)
Amortization of prior service (credits)/costs	(29)	29	(9)	9
Recognized net actuarial loss	603	592	201	198
Settlement/curtailment/other losses	1	39		6
Net periodic benefit cost	$236	$437	$78	$136
Net periodic benefit cost included in Earnings from operations	$534	$1,545	$100	$453

	Nine months ended September 30		Three months ended September 30	
Other Postretirement Benefits	2017	2016	2017	2016
Service cost	$80	$96	$27	$32
Interest cost	171	196	57	66
Expected return on plan assets	(5)	(6)	(1)	(2)
Amortization of prior service credits	(102)	(94)	(34)	(32)
Recognized net actuarial loss	8	17	2	5
Net periodic benefit cost	$152	$209	$51	$69
Net periodic benefit cost included in Earnings from operations	$201			