**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2019**

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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 | ☒ |  | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ |  | 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 ☒

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
| **Title of each class** |  | **Trading Symbol(s)** |  | **Name of each exchange on which registered** |
| **Common Stock, $5.00 Par Value** |  | **BA** |  | **New York Stock Exchange** |

As of October 16, 2019, there were 562,791,233 shares of common stock, $5.00 par value, issued and outstanding.

**THE BOEING COMPANY**

**FORM 10-Q**

**For the Quarter Ended September 30, 2019**

**INDEX**

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Part I. Financial Information (Unaudited)** | | Page |
|  |  |  |
| Item 1. | [Financial Statements](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s06379DDEB3075207850B4240078FD391) | [1](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s06379DDEB3075207850B4240078FD391) |
|  | [Condensed Consolidated Statements of Operations](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sC0C68D00E25A5997866694F7D495459D) | [1](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sC0C68D00E25A5997866694F7D495459D) |
|  | [Condensed Consolidated Statements of Comprehensive Income](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s68B5648D22D4514883DFEE770CEC19E5) | [2](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s68B5648D22D4514883DFEE770CEC19E5) |
|  | [Condensed Consolidated Statements of Financial Position](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s8C14C3E5CCA15B878DD1E1E58DCA2FBA) | [3](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s8C14C3E5CCA15B878DD1E1E58DCA2FBA) |
|  | [Condensed Consolidated Statements of Cash Flows](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s131FFBBB42CA5F60859B9E2D7AF7462B) | [4](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s131FFBBB42CA5F60859B9E2D7AF7462B) |
|  | [Condensed Consolidated Statements of Equity](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s0B5C947920225750AEA3A3818C5A22C0) | [5](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s0B5C947920225750AEA3A3818C5A22C0) |
|  | [Summary of Business Segment Data](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s214DD84A19CA5A4995B1E207B7271D18) | [7](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s214DD84A19CA5A4995B1E207B7271D18) |
|  | [Note 1 - Basis of Presentation](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s932ECBBA289057E6AE57FE54EBD8B934) | [8](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s932ECBBA289057E6AE57FE54EBD8B934) |
|  | [Note 2 - Acquisitions and Joint Ventures](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s30F4CF7D2D9A5375AB6797A1E4CE9F6F) | [9](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s30F4CF7D2D9A5375AB6797A1E4CE9F6F) |
|  | [Note 3 - Earnings Per Share](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s5B685080877C576882776E63118B3A09) | [9](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s5B685080877C576882776E63118B3A09) |
|  | [Note 4 - Income Taxes](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sB3B9CA08D1DE55C5AF341A2D75574A18) | [10](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sB3B9CA08D1DE55C5AF341A2D75574A18) |
|  | [Note 5 - Inventories](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s9250068671B95A898FECA7C5E93DD74F) | [11](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s9250068671B95A898FECA7C5E93DD74F) |
|  | [Note 6 - Contracts with Customers](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2E4760F8C23E5FE8B39E30F68DC344A5) | [11](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2E4760F8C23E5FE8B39E30F68DC344A5) |
|  | [Note 7 - Customer Financing](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2BDBE6EAE1E5533A9DD51182AA7BCC80) | [12](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2BDBE6EAE1E5533A9DD51182AA7BCC80) |
|  | [Note 8 - Investments](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sD24CAFCE6B2456F2AF8170787C803DCE) | [14](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sBA8DAC631EE95DD1853D02578B568A69) |
|  | [Note 9 - Other Assets](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sBA8DAC631EE95DD1853D02578B568A69) | [14](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sBA8DAC631EE95DD1853D02578B568A69) |
|  | [Note 10 - Leases](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sE5CD8BFD495C534587550B8DA64A6C93) | [15](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sE5CD8BFD495C534587550B8DA64A6C93) |
|  | [Note 11 - Commitments & Contingencies](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s80BF576D364C5B7AB01290CE80D16755) | [16](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s80BF576D364C5B7AB01290CE80D16755) |
|  | [Note 12 - Arrangements with Off-Balance Sheet Risk](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s40C1C1DDB6C75777B603A1CE5B98A123) | [20](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s40C1C1DDB6C75777B603A1CE5B98A123) |
|  | [Note 13 - Debt](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7EB50E4F5CB954AF97173D83577B28D6) | [21](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7EB50E4F5CB954AF97173D83577B28D6) |
|  | [Note 14 - Postretirement Plans](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sA8960F77DA695A198E4FB404762DC2FC) | [22](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sA8960F77DA695A198E4FB404762DC2FC) |
|  | [Note 15 - Share-Based Compensation and Other Comprehensive Arrangements](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sAA221A121DB25354A86FBAD0A2758ACB) | [23](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sAA221A121DB25354A86FBAD0A2758ACB) |
|  | [Note 16 - Shareholders' Equity](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s0B1D6FD2EEF1587686D3B0D9055F4309) | [24](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s0B1D6FD2EEF1587686D3B0D9055F4309) |
|  | [Note 17 - Derivative Financial Instruments](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s50A4C6888CE159E2816C96EAC5FC6BBD) | [25](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s50A4C6888CE159E2816C96EAC5FC6BBD) |
|  | [Note 18 - Fair Value Measurements](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s69255C199F8C5D26BB5F368BABFDECF3) | [27](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s69255C199F8C5D26BB5F368BABFDECF3) |
|  | [Note 19 - Legal Proceedings](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2093FEAF658251CCBF076D11EB0836B6) | [29](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2093FEAF658251CCBF076D11EB0836B6) |
|  | [Note 20 - Segment and Revenue Information](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sED1607BF195B58FFA9107AA4098470F7) | [29](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sED1607BF195B58FFA9107AA4098470F7) |
|  | [Report of Independent Registered Public Accounting Firm](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7A4CDB0C897550B48997312424E112B0) | [34](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7A4CDB0C897550B48997312424E112B0) |
|  |  |  |
| [Forward-Looking Statements](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s1F5BF557B2495931A81E2230F122B073) | | [35](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s1F5BF557B2495931A81E2230F122B073) |
|  |  |  |
| Item 2. | [Management’s Discussion and Analysis of Financial Condition and Results of Operations](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s60EE86E6100357209E9C5FF876DE5EA2) | [37](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s60EE86E6100357209E9C5FF876DE5EA2) |
|  | [Consolidated Results of Operations and Financial Condition](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sF3B283C122A35BB19882DF80B814BDAD) | [37](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sF3B283C122A35BB19882DF80B814BDAD) |
|  | [Commercial Airplanes](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sD6EFEACE64CC503C9D5843F6C69E6763) | [42](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sD6EFEACE64CC503C9D5843F6C69E6763) |
|  | [Defense, Space & Security](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s5120C976899D501C97E7D7ED374A23DE) | [45](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s5120C976899D501C97E7D7ED374A23DE) |
|  | [Global Services](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7047A8F5E53D524BB722E7AD9C991D48) | [49](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s7047A8F5E53D524BB722E7AD9C991D48) |
|  | [Boeing Capital](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s61177A0AB823514D847AB188C0FAC6A7) | [49](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s61177A0AB823514D847AB188C0FAC6A7) |
|  | [Liquidity and Capital Resources](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sF027CD98BD735DA99C1FD633A214A531) | [50](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sF027CD98BD735DA99C1FD633A214A531) |
|  | [Off-Balance Sheet Arrangements](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sDFEFED5A7428559BB85CF11A34314ABC) | [52](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sDFEFED5A7428559BB85CF11A34314ABC) |
|  | [Contingent Obligations](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s604D081671EB569BBAC40588EBF4BDBE) | [52](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s604D081671EB569BBAC40588EBF4BDBE) |
|  | [Non-GAAP Measures](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sB40C8FF0133E5F25865ECD26BA57EAB2) | [53](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sB40C8FF0133E5F25865ECD26BA57EAB2) |
|  | [Critical Accounting Policies](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s017FE6433876559B82A114B6855A16BE) and Estimates | [54](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s017FE6433876559B82A114B6855A16BE) |
| Item 3. | [Quantitative and Qualitative Disclosures About Market Risk](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s58ED9D99D94B5F8B9C86EEF5FE0A2039) | [55](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s58ED9D99D94B5F8B9C86EEF5FE0A2039) |
|  |  |  |
| Item 4. | [Controls and Procedures](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2EA340FDCFAB5F5DB6483760E55E59B5) | [55](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s2EA340FDCFAB5F5DB6483760E55E59B5) |
|  |  |  |
| **Part II. Other Information** | |  |
|  |  |  |
| Item 1. | [Legal Proceedings](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s4EC9A41F562F53FE9831130928DCF013) | [56](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s4EC9A41F562F53FE9831130928DCF013) |
|  |  |  |
| Item 1A. | [Risk Factors](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s766DA65E4FD75B97820AB312BE4A3753) | [56](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s766DA65E4FD75B97820AB312BE4A3753) |
|  |  |  |
| Item 2. | [Unregistered Sales of Equity Securities and Use of Proceeds](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6B1316359A9F5CF8B67925E31BB8AA65) | [57](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6B1316359A9F5CF8B67925E31BB8AA65) |
|  |  |  |
| Item 3. | [Defaults Upon Senior Securities](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s08D96644809C5645B32DDFFE93CC518D) | [57](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s08D96644809C5645B32DDFFE93CC518D) |
|  |  |  |
| Item 4. | [Mine Safety Disclosures](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sA75584DB434D5089981E234DCA2382A8) | [57](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sA75584DB434D5089981E234DCA2382A8) |
|  |  |  |
| Item 5. | [Other Information](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sFB6B0B4C9FA95BCBBD237ACC30105AB6) | [57](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#sFB6B0B4C9FA95BCBBD237ACC30105AB6) |
|  |  |  |
| Item 6. | [Exhibits](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s81D716D1502159C3863BDB064CD848E7) | [58](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s81D716D1502159C3863BDB064CD848E7) |
|  |  |  |
| [Signature](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C72A18B09605C2AB3691BDAB552E2E6) |  | [59](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C72A18B09605C2AB3691BDAB552E2E6) |

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**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** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Sales of products |  | **$50,514** |  |  |  | $64,848 |  |  |  | **$17,195** |  |  |  | $22,463 |  |
| Sales of services | **8,134** | |  |  | 7,938 | |  |  | **2,785** | |  |  | 2,683 | |  |
| **Total revenues** | **58,648** | |  |  | 72,786 | |  |  | **19,980** | |  |  | 25,146 | |  |
|  |  | | |  |  | |  |  |  | |  |  |  | |  |
| Cost of products | **(46,584** | | **)** |  | (53,134 | | ) |  | **(14,674** | | **)** |  | (18,882 | | ) |
| Cost of services | **(6,752** | | **)** |  | (6,215 | | ) |  | **(2,241** | | **)** |  | (2,140 | | ) |
| Boeing Capital interest expense | **(49** | | **)** |  | (51 | | ) |  | **(15** | | **)** |  | (18 | | ) |
| **Total costs and expenses** | **(53,385** | | **)** |  | (59,400 | | ) |  | **(16,930** | | **)** |  | (21,040 | | ) |
|  | **5,263** | |  |  | 13,386 | |  |  | **3,050** | |  |  | 4,106 | |  |
| (Loss)/income from operating investments, net | **(3** | | **)** |  | 112 | |  |  | **(8** | | **)** |  | 32 | |  |
| General and administrative expense | **(2,857** | | **)** |  | (3,345 | | ) |  | **(1,001** | | **)** |  | (1,154 | | ) |
| Research and development expense, net | **(2,470** | | **)** |  | (2,417 | | ) |  | **(778** | | **)** |  | (826 | | ) |
| Gain/(loss) on dispositions, net | **296** | |  |  | 76 | |  |  | **(4** | | **)** |  | 69 | |  |
| **Earnings from operations** | **229** | |  |  | 7,812 | |  |  | **1,259** | |  |  | 2,227 | |  |
| Other income | **334** | |  |  | 63 | |  |  | **121** | |  |  | 12 | |  |
| Interest and debt expense | **(480** | | **)** |  | (317 | | ) |  | **(203** | | **)** |  | (106 | | ) |
| **Earnings before income taxes** | **83** | |  |  | 7,558 | |  |  | **1,177** | |  |  | 2,133 | |  |
| Income tax benefit/(expense) | **291** | |  |  | (522 | | ) |  | **(10** | | **)** |  | 230 | |  |
| **Net earnings** |  | **$374** |  |  |  | $7,036 |  |  |  | **$1,167** |  |  |  | $2,363 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Basic earnings per share** |  | **$0.66** |  |  |  | $12.08 |  |  |  | **$2.07** |  |  |  | $4.11 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Diluted earnings per share** |  | **$0.66** |  |  |  | $11.95 |  |  |  | **$2.05** |  |  |  | $4.07 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Weighted average diluted shares (millions)** | **570.4** | |  |  | 588.9 | |  |  | **569.2** | |  |  | 580.8 | |  |

See Notes to the Condensed Consolidated Financial Statements.

1

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**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** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Net earnings |  | **$374** |  |  |  | $7,036 |  |  |  | **$1,167** |  |  |  | $2,363 |  |
| Other comprehensive income/(loss), net of tax: |  | | |  |  | | |  |  | | |  |  | | |
| Currency translation adjustments | **(61** | | **)** |  | (55 | | ) |  | **(59** | | **)** |  | 2 | |  |
| Unrealized gain on certain investments, net of tax of $0, ($1), $0 and $0 | **1** | |  |  | 3 | |  |  |  | | |  |  | | |
| Unrealized (loss)/gain on derivative instruments: |  | | |  |  | | |  |  | | |  |  | | |
| Unrealized loss arising during period, net of tax of $30, $27, $25 and $1 | **(106** | | **)** |  | (97 | | ) |  | **(89** | | **)** |  | (4 | | ) |
| Reclassification adjustment for (gains)/losses included in net earnings, net of tax of ($6), ($5), ($7) and ($3) | **22** | |  |  | 19 | |  |  | **25** | |  |  | 9 | |  |
| Total unrealized (loss)/gain on derivative instruments, net of tax | **(84** | | **)** |  | (78 | | ) |  | **(64** | | **)** |  | 5 | |  |
| Defined benefit pension plans and other postretirement benefits: |  | | |  |  | | |  |  | | |  |  | | |
| Amortization of prior service credits included in net periodic pension cost, net of tax of $18, $30, $5 and $10 | **(67** | | **)** |  | (106 | | ) |  | **(22** | | **)** |  | (35 | | ) |
| Net actuarial gain arising during the period, net of tax of $0, $0, $0 and $0 |  | | |  | 1 | |  |  |  | | |  |  | | |
| Amortization of actuarial losses included in net periodic pension cost, net of tax of ($97), ($182), ($32) and ($60) | **350** | |  |  | 657 | |  |  | **117** | |  |  | 219 | |  |
| Settlements and curtailments included in net income, net of tax of $0, ($3), $0 and $0 |  | | |  | 6 | |  |  |  | | |  |  | | |
| Pension and postretirement cost related to our equity method investments, net of tax of ($5), $1, ($3) and $0 | **17** | |  |  | (4 | | ) |  | **9** | |  |  | (1 | | ) |
| Total defined benefit pension plans and other postretirement benefits, net of tax | **300** | |  |  | 554 | |  |  | **104** | |  |  | 183 | |  |
| **Other comprehensive income/(loss), net of tax** | **156** | |  |  | 424 | |  |  | **(19** | | **)** |  | 190 | |  |
| **Comprehensive loss related to noncontrolling interests** | **(22** | | **)** |  | (12 | | ) |  | **(15** | | **)** |  | (2 | | ) |
| **Comprehensive income, net of tax** |  | **$508** |  |  |  | $7,448 |  |  |  | **$1,133** |  |  |  | $2,551 |  |

See Notes to the Condensed Consolidated Financial Statements.

2

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Financial Position**

(Unaudited)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | **September 30 2019** | |  |  | December 31 2018 | |  |
| **Assets** |  | | |  |  | | |
| Cash and cash equivalents |  | **$9,763** |  |  |  | $7,637 |  |
| Short-term and other investments | **1,150** | |  |  | 927 | |  |
| Accounts receivable, net | **3,564** | |  |  | 3,879 | |  |
| Unbilled receivables, net | **11,078** | |  |  | 10,025 | |  |
| Current portion of customer financing, net | **166** | |  |  | 460 | |  |
| Inventories | **73,279** | |  |  | 62,567 | |  |
| Other current assets | **2,656** | |  |  | 2,335 | |  |
| **Total current assets** | **101,656** | |  |  | 87,830 | |  |
| Customer financing, net | **2,077** | |  |  | 2,418 | |  |
| Property, plant and equipment, net of accumulated depreciation of $19,125 and $18,568 | **12,527** | |  |  | 12,645 | |  |
| Goodwill | **8,063** | |  |  | 7,840 | |  |
| Acquired intangible assets, net | **3,587** | |  |  | 3,429 | |  |
| Deferred income taxes | **296** | |  |  | 284 | |  |
| Investments | **1,117** | |  |  | 1,087 | |  |
| Other assets, net of accumulated amortization of $561 and $503 | **3,275** | |  |  | 1,826 | |  |
| **Total assets** |  | **$132,598** |  |  |  | $117,359 |  |
| **Liabilities and equity** |  | | |  |  | | |
| Accounts payable |  | **$15,101** |  |  |  | $12,916 |  |
| Accrued liabilities | **19,224** | |  |  | 14,808 | |  |
| Advances and progress billings | **53,167** | |  |  | 50,676 | |  |
| Short-term debt and current portion of long-term debt | **4,354** | |  |  | 3,190 | |  |
| **Total current liabilities** | **91,846** | |  |  | 81,590 | |  |
| Deferred income taxes | **1,615** | |  |  | 1,736 | |  |
| Accrued retiree health care | **4,437** | |  |  | 4,584 | |  |
| Accrued pension plan liability, net | **14,590** | |  |  | 15,323 | |  |
| Other long-term liabilities | **3,621** | |  |  | 3,059 | |  |
| Long-term debt | **20,298** | |  |  | 10,657 | |  |
| 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 | **6,688** | |  |  | 6,768 | |  |
| Treasury stock, at cost - 449,472,403 and 444,619,970 shares | **(54,924** | | **)** |  | (52,348 | | ) |
| Retained earnings | **53,986** | |  |  | 55,941 | |  |
| Accumulated other comprehensive loss | **(14,927** | | **)** |  | (15,083 | | ) |
| Total shareholders’ equity | **(4,116** | | **)** |  | 339 | |  |
| Noncontrolling interests | **307** | |  |  | 71 | |  |
| **Total equity** | **(3,809** | | **)** |  | 410 | |  |
| **Total liabilities and equity** |  | **$132,598** |  |  |  | $117,359 |  |

See Notes to the Condensed Consolidated Financial Statements.

3

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |
| **Cash flows – operating activities:** |  | | |  |  | | |
| Net earnings |  | **$374** |  |  |  | $7,036 |  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |  | | |  |  | | |
| Non-cash items – |  | | |  |  | | |
| Share-based plans expense | **160** | |  |  | 150 | |  |
| Depreciation and amortization | **1,643** | |  |  | 1,531 | |  |
| Investment/asset impairment charges, net | **106** | |  |  | 63 | |  |
| Customer financing valuation adjustments | **249** | |  |  | (3 | | ) |
| Gain on dispositions, net | **(296** | | **)** |  | (76 | | ) |
| Other charges and credits, net | **190** | |  |  | 158 | |  |
| Changes in assets and liabilities – |  | | |  |  | | |
| Accounts receivable | **315** | |  |  | 10 | |  |
| Unbilled receivables | **(1,053** | | **)** |  | (1,732 | | ) |
| Advances and progress billings | **2,355** | |  |  | 3,457 | |  |
| Inventories | **(9,565** | | **)** |  | (173 | | ) |
| Other current assets | **(224** | | **)** |  | (5 | | ) |
| Accounts payable | **1,626** | |  |  | 1,181 | |  |
| Accrued liabilities | **5,495** | |  |  | 890 | |  |
| Income taxes receivable, payable and deferred | **(989** | | **)** |  | (252 | | ) |
| Other long-term liabilities | **(577** | | **)** |  | 1 | |  |
| Pension and other postretirement plans | **(570** | | **)** |  | (89 | | ) |
| Customer financing, net | **391** | |  |  | (175 | | ) |
| Other | **144** | |  |  | 403 | |  |
| **Net cash (used)/provided by operating activities** | **(226** | | **)** |  | 12,375 | |  |
| **Cash flows – investing activities:** |  | | |  |  | | |
| Property, plant and equipment additions | **(1,387** | | **)** |  | (1,227 | | ) |
| Property, plant and equipment reductions | **334** | |  |  | 117 | |  |
| Acquisitions, net of cash acquired | **(492** | | **)** |  | (250 | | ) |
| Contributions to investments | **(1,439** | | **)** |  | (2,145 | | ) |
| Proceeds from investments | **967** | |  |  | 1,369 | |  |
| Purchase of distribution rights | **(20** | | **)** |  | (56 | | ) |
| Other | **(10** | | **)** |  | (5 | | ) |
| **Net cash used by investing activities** | **(2,047** | | **)** |  | (2,197 | | ) |
| **Cash flows – financing activities:** |  | | |  |  | | |
| New borrowings | **19,621** | |  |  | 4,696 | |  |
| Debt repayments | **(8,978** | | **)** |  | (4,029 | | ) |
| Contributions from noncontrolling interests | **7** | |  |  | 35 | |  |
| Stock options exercised | **51** | |  |  | 70 | |  |
| Employee taxes on certain share-based payment arrangements | **(241** | | **)** |  | (247 | | ) |
| Common shares repurchased | **(2,651** | | **)** |  | (8,415 | | ) |
| Dividends paid | **(3,473** | | **)** |  | (2,976 | | ) |
| **Net cash provided/(used) by financing activities** | **4,336** | |  |  | (10,866 | | ) |
| Effect of exchange rate changes on cash and cash equivalents, including restricted | **(27** | | **)** |  | (37 | | ) |
| **Net increase/(decrease) in cash & cash equivalents, including restricted** | **2,036** | |  |  | (725 | | ) |
| Cash & cash equivalents, including restricted, at beginning of year | **7,813** | |  |  | 8,887 | |  |
| **Cash & cash equivalents, including restricted, at end of period** | **9,849** | |  |  | 8,162 | |  |
| Less restricted cash & cash equivalents, included in Investments | **86** | |  |  | 128 | |  |
| **Cash and cash equivalents at end of period** |  | **$9,763** |  |  |  | $8,034 |  |

See Notes to the Condensed Consolidated Financial Statements.

4

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Equity**

**For the nine months ended September 30, 2019 and 2018**

(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, 2018 |  | $5,061 |  |  | $6,804 |  |  | ($43,454 | ) |  | $49,618 |  |  | ($16,373 | ) |  | $57 |  |  | $1,713 |  |
| Net earnings |  | | |  | | |  | | | 7,036 | |  |  | | | (12 | | ) | 7,024 | |  |
| Other comprehensive income, net of tax of ($133) |  | | |  | | |  | | |  | | | 424 | |  |  | | | 424 | |  |
| Share-based compensation and related dividend equivalents |  | | | 167 | |  |  | | | (17 | | ) |  | | |  | | | 150 | |  |
| Treasury shares issued for stock options exercised, net |  | | | (37 | | ) | 107 | |  |  | | |  | | |  | | | 70 | |  |
| Treasury shares issued for other share-based plans, net |  | | | (220 | | ) | (19 | | ) |  | | |  | | |  | | | (239 | | ) |
| Common shares repurchased |  | | |  | | | (8,415 | | ) |  | | |  | | |  | | | (8,415 | | ) |
| Cash dividends declared ($3.42 per share) |  | | |  | | |  | | | (1,971 | | ) |  | | |  | | | (1,971 | | ) |
| Changes in noncontrolling interests |  | | |  | | |  | | |  | | |  | | | 35 | |  | 35 | |  |
| Balance at September 30, 2018 |  | $5,061 |  |  | $6,714 |  |  | ($51,781 | ) |  | $54,666 |  |  | ($15,949 | ) |  | $80 |  |  | ($1,209 | ) |
|  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2019** |  | **$5,061** |  |  | **$6,768** |  |  | **($52,348** | **)** |  | **$55,941** |  |  | **($15,083** | **)** |  | **$71** |  |  | **$410** |  |
| **Net earnings** |  | | |  | | |  | | | **374** | |  |  | | | **(22** | | **)** | **352** | |  |
| **Other comprehensive income, net of tax of ($60)** |  | | |  | | |  | | |  | | | **156** | |  |  | | | **156** | |  |
| **Share-based compensation and related dividend equivalents** |  | | | **176** | |  |  | | | **(16** | | **)** |  | | |  | | | **160** | |  |
| **Treasury shares issued for stock options exercised, net** |  | | | **(42** | | **)** | **82** | |  |  | | |  | | |  | | | **40** | |  |
| **Treasury shares issued for other share-based plans, net** |  | | | **(214** | | **)** | **(7** | | **)** |  | | |  | | |  | | | **(221** | | **)** |
| **Common shares repurchased** |  | | |  | | | **(2,651** | | **)** |  | | |  | | |  | | | **(2,651** | | **)** |
| **Cash dividends declared ($4.11 per share)** |  | | |  | | |  | | | **(2,313** | | **)** |  | | |  | | | **(2,313** | | **)** |
| **Changes in noncontrolling interests** |  | | |  | | |  | | |  | | |  | | | **258** | |  | **258** | |  |
| **Balance at September 30, 2019** |  | **$5,061** |  |  | **$6,688** |  |  | **($54,924** | **)** |  | **$53,986** |  |  | **($14,927** | **)** |  | **$307** |  |  | **($3,809** | **)** |

See Notes to the Condensed Consolidated Financial Statements.

5

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**The Boeing Company and Subsidiaries**

**Condensed Consolidated Statements of Equity**

**For the three months ended September 30, 2019 and 2018**

(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 July 1, 2018 |  | $5,061 |  |  | $6,676 |  |  | ($49,342 | ) |  | $52,303 |  |  | ($16,139 | ) |  | $67 |  |  | ($1,374 | ) |
| Net earnings |  | | |  | | |  | | | 2,363 | |  |  | | | (2 | | ) | 2,361 | |  |
| Other comprehensive income, net of tax of ($52) |  | | |  | | |  | | |  | | | 190 | |  |  | | | 190 | |  |
| Share-based compensation and related dividend equivalents |  | | | 52 | |  |  | | |  | |  |  | | |  | | | 52 | |  |
| Treasury shares issued for stock options exercised, net |  | | | (5 | | ) | 12 | |  |  | | |  | | |  | | | 7 | |  |
| Treasury shares issued for other share-based plans, net |  | | | (9 | | ) | (1 | | ) |  | | |  | | |  | | | (10 | | ) |
| Common shares repurchased |  | | |  | | | (2,450 | | ) |  | | |  | | |  | | | (2,450 | | ) |
| Changes in noncontrolling interests |  | | |  | | |  | | |  | | |  | | | 15 | |  | 15 | |  |
| Balance at September 30, 2018 |  | $5,061 |  |  | $6,714 |  |  | ($51,781 | ) |  | $54,666 |  |  | ($15,949 | ) |  | $80 |  |  | ($1,209 | ) |
|  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at July 1, 2019** |  | **$5,061** |  |  | **$6,638** |  |  | **($54,932** | **)** |  | **$52,819** |  |  | **($14,908** | **)** |  | **$379** |  |  | **($4,943** | **)** |
| **Net earnings** |  | | |  | | |  | | | **1,167** | |  |  | | | **(15** | | **)** | **1,152** | |  |
| **Other comprehensive (loss)/income, net of tax of ($12)** |  | | |  | | |  | | |  | | | **(19** | | **)** |  | | | **(19** | | **)** |
| **Share-based compensation and related dividend equivalents** |  | | | **56** | |  |  | | |  | |  |  | | |  | | | **56** | |  |
| **Treasury shares issued for stock options exercised, net** |  | | | **(3** | | **)** |  | |  |  | | |  | | |  | | | **(3** | | **)** |
| **Treasury shares issued for other share-based plans, net** |  | | | **(3** | | **)** | **8** | |  |  | | |  | | |  | | | **5** | |  |
| **Changes in noncontrolling interests** |  | | |  | | |  | | |  | | |  | | | **(57** | | **)** | **(57** | | **)** |
| **Balance at September 30, 2019** |  | **$5,061** |  |  | **$6,688** |  |  | **($54,924** | **)** |  | **$53,986** |  |  | **($14,927** | **)** |  | **$307** |  |  | **($3,809** | **)** |

See Notes to the Condensed -Consolidated Financial Statements.

6

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**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** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Revenues: |  | | |  |  | | |  | | |  |  | | |
| Commercial Airplanes |  | **$24,793** |  |  |  | $40,968 |  |  | **$8,249** |  |  |  | $14,071 |  |
| Defense, Space & Security | **20,265** | |  |  | 19,518 | |  | **7,042** | |  |  | 6,937 | |  |
| Global Services | **13,820** | |  |  | 12,148 | |  | **4,658** | |  |  | 4,101 | |  |
| Boeing Capital | **207** | |  |  | 214 | |  | **66** | |  |  | 77 | |  |
| Unallocated items, eliminations and other | **(437** | | **)** |  | (62 | | ) | **(35** | | **)** |  | (40 | | ) |
| **Total revenues** |  | **$58,648** |  |  |  | $72,786 |  |  | **$19,980** |  |  |  | $25,146 |  |
| (Loss)/earnings from operations: |  | | |  |  | | |  | | |  |  | | |
| Commercial Airplanes |  | **($3,813** | **)** |  |  | $5,230 |  |  | **($40** | **)** |  |  | $2,033 |  |
| Defense, Space & Security | **2,577** | |  |  | 886 | |  | **755** | |  |  | (247 | | ) |
| Global Services | **2,013** | |  |  | 1,799 | |  | **673** | |  |  | 548 | |  |
| Boeing Capital | **86** | |  |  | 71 | |  | **29** | |  |  | 27 | |  |
| **Segment operating profit** | **863** | |  |  | 7,986 | |  | **1,417** | |  |  | 2,361 | |  |
| Unallocated items, eliminations and other | **(1,727** | | **)** |  | (1,193 | | ) | **(522** | | **)** |  | (471 | | ) |
| FAS/CAS service cost adjustment | **1,093** | |  |  | 1,019 | |  | **364** | |  |  | 337 | |  |
| **Earnings from operations** | **229** | |  |  | 7,812 | |  | **1,259** | |  |  | 2,227 | |  |
| Other income | **334** | |  |  | 63 | |  | **121** | |  |  | 12 | |  |
| Interest and debt expense | **(480** | | **)** |  | (317 | | ) | **(203** | | **)** |  | (106 | | ) |
| **Earnings before income taxes** | **83** | |  |  | 7,558 | |  | **1,177** | |  |  | 2,133 | |  |
| Income tax benefit/(expense) | **291** | |  |  | (522 | | ) | **(10** | | **)** |  | 230 | |  |
| **Net earnings** |  | **$374** |  |  |  | $7,036 |  |  | **$1,167** |  |  |  | $2,363 |  |

This information is an integral part of the Notes to the Condensed Consolidated Financial Statements. See Note 20 for further segment results.

7

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**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, all 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, 2019 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 2018 Annual Report on Form 10-K. Certain amounts in prior periods have been adjusted to conform with the current year presentation.

**Standards Issued and Implemented**

In the first quarter of 2019, we adopted Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) and recognized on our Condensed Consolidated Statement of Financial Position $1,064 of lease liabilities with corresponding right-of-use assets for operating leases. Our accounting for finance leases and lessor contracts remains substantially unchanged. The standard has no impact to cash provided or used by operating, investing, or financing activities on our Condensed Consolidated Statements of Cash Flows. As permitted under the standard, we elected prospective application of the new guidance and prior periods continue to be presented in accordance with Topic 840. Refer to our 2018 Annual Report on Form 10-K for disclosures required by Topic 840. We also elected the package of practical expedients, which among other things, does not require reassessment of lease classification.

In the first quarter of 2019, we adopted ASU 2017-12, Derivatives and Hedging (Topic 815), using the modified retrospective method. The standard refines and simplifies hedge accounting requirements for both financial and commodity risks. The impact of the adoption was not material. See Note 17 for additional disclosures.

**Significant Accounting Policies - Update**

Our significant accounting policies are described in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2018. Our updated significant accounting policies described below reflect the impact of adopting Topic 842.

**Leases**We determine if an arrangement is, or contains, a lease at the inception date. Operating leases are included in Other assets, with the related liabilities included in Accrued liabilities and Other long-term liabilities. Assets under finance leases are included in Property, plant and equipment, net, with the related liabilities included in Short-term debt and current portion of long-term debt and Long-term debt on the Condensed Consolidated Statements of Financial Position.

Operating lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. We use our estimated incremental borrowing rate in determining the present value of lease payments. Variable components of the lease payments such as fair market value adjustments, utilities, and maintenance costs are expensed as incurred and not included in determining the present value. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components which are accounted for as a single lease component.

8

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 long-term contract’s percentage-of-completion. When the current estimates of total sales and costs for a long-term contract indicate a loss, a provision for the entire reach-forward loss on the long-term contract is recognized.

Net cumulative catch-up adjustments to prior years' revenue and earnings, including certain reach-forward losses, across all long-term contracts were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(In millions - except per share amounts)* | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Increase/(decrease) to Revenue |  | **$166** |  |  |  | ($14 | ) |  |  | **($63** | **)** |  |  | ($59 | ) |
| Increase/(decrease) to Earnings from Operations |  | **$152** |  |  |  | ($314 | ) |  |  | **($23** | **)** |  |  | ($155 | ) |
| Increase/(decrease) to Diluted EPS |  | **$1.20** |  |  |  | ($0.50 | ) |  |  | **($0.04** | **)** |  |  | ($0.30 | ) |

**Note 2 – Acquisitions and Joint Ventures**

**Strategic Partnership with Embraer**

During the first quarter of 2019, we entered into definitive transaction documents with respect to a strategic partnership with Embraer S.A. (Embraer). The partnership contemplates that the parties enter into a joint venture comprising the commercial aircraft and services operations of Embraer, in which Boeing will acquire an 80 percent ownership stake for $4,200, as well as a joint venture to promote and develop new markets for the multi-mission medium airlift KC-390, in which Boeing will hold a 49 percent ownership stake. Embraer shareholders approved the transaction, which remains subject to regulatory approvals and other customary closing conditions. We are actively engaged with authorities in relevant jurisdictions and have obtained a number of regulatory approvals, including clearance to close in the United States. In October 2019, the European Commission commenced a Phase II investigation in connection with its regulatory review of the transaction, and the transaction is now expected to close in early 2020. If the transaction is not completed due to failure to obtain antitrust approvals, we would be required to pay a termination fee of $100.

**Note 3 – 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.

9

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

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** | | | | | | |
|  | | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Net earnings | |  | **$374** |  |  |  | $7,036 |  |  |  | **$1,167** |  |  |  | $2,363 |  |
| Less: earnings available to participating securities | |  | |  |  | 5 | |  |  | **1** | |  |  | 2 | |  |
| Net earnings available to common shareholders | |  | **$374** |  |  |  | $7,031 |  |  |  | **$1,166** |  |  |  | $2,361 |  |
| Basic | |  | | |  |  | | |  |  | | |  |  | | |
| Basic weighted average shares outstanding | | **566.2** | |  |  | 582.7 | |  |  | **565.2** | |  |  | 574.8 | |  |
| Less: participating securities | | **0.6** | |  |  | 0.7 | |  |  | **0.6** | |  |  | 0.6 | |  |
| Basic weighted average common shares outstanding | | **565.6** | |  |  | 582.0 | |  |  | **564.6** | |  |  | 574.2 | |  |
| Diluted | |  | | |  |  | | |  |  | | |  |  | | |
| Basic weighted average shares outstanding | | **566.2** | |  |  | 582.7 | |  |  | **565.2** | |  |  | 574.8 | |  |
| Dilutive potential common shares(1) | | **4.2** | |  |  | 6.2 | |  |  | **4.0** | |  |  | 6.0 | |  |
| Diluted weighted average shares outstanding | | **570.4** | |  |  | 588.9 | |  |  | **569.2** | |  |  | 580.8 | |  |
| Less: participating securities | | **0.6** | |  |  | 0.7 | |  |  | **0.6** | |  |  | 0.6 | |  |
| Diluted weighted average common shares outstanding | | **569.8** | |  |  | 588.2 | |  |  | **568.6** | |  |  | 580.2 | |  |
| Net earnings per share: | |  | | |  |  | | |  |  | | |  |  | | |
| Basic | |  | **$0.66** |  |  |  | $12.08 |  |  |  | **$2.07** |  |  |  | $4.11 |  |
| Diluted | | **0.66** | |  |  | 11.95 | |  |  | **2.05** | |  |  | 4.07 | |  |
|  |  |
| (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/(loss) 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** | | | | |
|  | **2019** |  |  | 2018 |  |  | **2019** |  |  | 2018 |  |
| Performance awards | **2.6** |  |  | 2.6 |  |  | **2.6** |  |  | 2.2 |  |
| Performance-based restricted stock units | **0.6** |  |  | 0.3 |  |  | **0.6** |  |  | 0.2 |  |

**Note 4 – Income Taxes**

Our effective income tax rates were (350.6)% and 0.8% for the nine and three months ended September 30, 2019 and 6.9% and (10.8)% for the same periods in the prior year. The tax rates in 2019 and 2018 reflect the U.S. federal tax rate of 21% reduced by tax benefits associated with intangible income derived from serving non-U.S. markets, research and development tax credits and excess tax benefits related to share-based payments. Additionally, in the third quarter of 2018, $412 of discrete tax benefits were recorded related to the settlement of the 2013-2014 federal tax audit. The year to date tax rate variance is primarily due to lower pre-tax income in 2019, resulting in larger 2019 discrete tax rate benefits.

Federal income tax audits have been settled for all years prior to 2015. The Internal Revenue Service (IRS) began the 2015-2017 federal tax audit in the first quarter of 2019. We are also subject to examination in major state and international jurisdictions for the 2001-2017 tax years. We believe appropriate provisions for all outstanding tax issues have been made for all jurisdictions and all open years.

10

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next 12 months unrecognized tax benefits related to state matters under audit may decrease by up to $480 based on current estimates.

**Note 5 – Inventories**

Inventories consisted of the following:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30 2019** | |  |  | December 31 2018 | |  |
| Long-term contracts in progress |  | **$966** |  |  |  | $2,129 |  |
| Commercial aircraft programs | **63,518** | |  |  | 52,753 | |  |
| Commercial spare parts, used aircraft, general stock materials and other | **8,795** | |  |  | 7,685 | |  |
| Total |  | **$73,279** |  |  |  | $62,567 |  |

**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 $176 and $227 at September 30, 2019 and December 31, 2018. See indemnifications to ULA in Note 12.

Included in inventories are capitalized precontract costs of $679 at September 30, 2019 primarily related to the KC-46A Tanker and Commercial Crew and $644 at December 31, 2018 primarily related to the KC-46A Tanker. See Note 11.

**Commercial Aircraft Programs**

At September 30, 2019 and December 31, 2018, commercial aircraft programs inventory included the following amounts related to the 787 program: $26,593 and $27,852 of work in process (including deferred production costs of $19,825 and $22,967), $2,273 and $2,453 of supplier advances, and $2,215 and $2,638 of unamortized tooling and other non-recurring costs. At September 30, 2019, $14,454 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 $7,586 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

At September 30, 2019 and December 31, 2018, commercial aircraft programs inventory included $1,481 and $463 of deferred production costs and $522 and $471 of unamortized tooling and other non-recurring costs related to the 737 program. At September 30, 2019, $1,999 of 737 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 $4 is expected to be recovered from units included in the program accounting quantity that represent expected future orders.

Commercial aircraft programs inventory included amounts credited in cash or other consideration (early issue sales consideration) to airline customers totaling $2,767 and $2,844 at September 30, 2019 and December 31, 2018.

**Note 6 – Contracts with Customers**

Unbilled receivables increased from $10,025 at December 31, 2018 to $11,078 at September 30, 2019, primarily driven by revenue recognized at BDS and BGS in excess of billings.

Advances and progress billings increased from $50,676 at December 31, 2018 to $53,167 at September 30, 2019, primarily driven by advances on orders received in excess of revenue recognized at BCA, BDS and BGS.

11

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Revenues recognized during the nine months ended September 30, 2019 and 2018 from amounts recorded as Advances and progress billings at the beginning of each year were $13,216 and $19,006. Revenues recognized during the three months ended September 30, 2019 and 2018 from amounts recorded as Advances and progress billings at the beginning of each year were $3,100 and $6,249.

Certain commercial airplane customers are experiencing liquidity issues and seeking additional capital. Should these customers fail to address their liquidity issues, accounts receivable, unbilled receivables and certain inventory could become impaired. In addition we would have to remove contracts related to these customers from backlog and remarket any undelivered aircraft.

**Note 7 – Customer Financing**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30 2019** | |  |  | December 31 2018 | |  |
| Financing receivables: |  | | |  |  | | |
| Investment in sales-type/finance leases |  | **$1,016** |  |  |  | $1,125 |  |
| Notes | **446** | |  |  | 730 | |  |
| Total financing receivables | **1,462** | |  |  | 1,855 | |  |
| Operating lease equipment, at cost, less accumulated depreciation of $245 and $203 | **789** | |  |  | 782 | |  |
| Operative lease incentive |  | |  |  | 250 | |  |
| Gross customer financing | **2,251** | |  |  | 2,887 | |  |
| Less allowance for losses on receivables | **(8** | | **)** |  | (9 | | ) |
| Total |  | **$2,243** |  |  |  | $2,878 |  |

We acquire aircraft to be leased to customers through trades, lease returns, purchases in the secondary market, and new aircraft transferred from our Commercial Airplanes segment. Leasing arrangements typically range in terms from 1 to 12 years and may include options to extend or terminate the lease. Certain leases include provisions to allow the lessee to purchase the underlying aircraft at a specified price. A minority of leases contain variable lease payments based on actual aircraft usage and are paid in arrears.

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, 2019 and December 31, 2018, we individually evaluated for impairment customer financing receivables of $401 and $409, of which $388 and $398 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.

12

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| Rating categories | **September 30 2019** | |  |  | December 31 2018 | |  |
| BBB |  | **$594** |  |  |  | $883 |  |
| BB | **348** | |  |  | 430 | |  |
| B | **125** | |  |  | 135 | |  |
| CCC | **395** | |  |  | 407 | |  |
| Total carrying value of financing receivables |  | **$1,462** |  |  |  | $1,855 |  |

At September 30, 2019, our allowance related to receivables with ratings of B, BB and BBB. We applied default rates that averaged 22.1%, 5.8% and 0.6%, 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 out-of-production aircraft and 747-8 aircraft. Generally, out-of-production aircraft have experienced greater collateral value declines than in-production aircraft.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30 2019** | |  |  | December 31 2018 | |  |
| 717 Aircraft ($184 and $204 accounted for as operating leases) |  | **$778** |  |  |  | $918 |  |
| 747-8 Aircraft ($130 and $132 accounted for as operating leases) | **474** | |  |  | 477 | |  |
| 737 Aircraft ($243 and $263 accounted for as operating leases) | **266** | |  |  | 290 | |  |
| 757 Aircraft ($22 and $24 accounted for as operating leases) | **186** | |  |  | 200 | |  |
| MD-80 Aircraft (accounted for as sales-type finance leases) | **184** | |  |  | 204 | |  |
| 777 Aircraft ($126 and $60 accounted for as operating leases) | **131** | |  |  | 68 | |  |
| 747-400 Aircraft ($33 and $45 accounted for as operating leases) | **95** | |  |  | 116 | |  |

As part of selected lease transactions, Boeing may provide incentives to commercial customers. At December 31, 2018, Customer Financing included $250 of lease incentives with one customer experiencing liquidity issues. In the first quarter of 2019, we concluded that these lease incentives were impaired and recorded a charge of $250.

13

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Lease income recorded in Revenue on the Condensed Consolidated Statements of Operations for the nine and three months ended September 30, 2019 included $47 and $15 from sales-type/finance leases and $105 and $34 from operating leases, of which $14 and $6 related to variable operating lease payments.

As of September 30, 2019, undiscounted cash flows for sales-type/finance and operating leases over the next five years and thereafter are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | Sales-type/finance leases | |  |  | Operating leases | |  |
| Year 1 |  | **$179** |  |  |  | **$118** |  |
| Year 2 | **134** | |  |  | **93** | |  |
| Year 3 | **97** | |  |  | **83** | |  |
| Year 4 | **109** | |  |  | **61** | |  |
| Year 5 | **121** | |  |  | **46** | |  |
| Thereafter | **140** | |  |  | **57** | |  |
| Total lease receipts | **780** | |  |  | **458** | |  |
| Less imputed interest | **(167** | | **)** |  |  | |  |
| Estimated unguaranteed residual values | **403** | |  |  |  | | |
| Total |  | **$1,016** |  |  |  | **$458** |  |

At September 30, 2019 and December 31, 2018 unguaranteed residual values were $403 and $425. Guaranteed residual values at September 30, 2019 were not significant.

**Note 8 – Investments**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30 2019** | |  |  | December 31 2018 | |  |
| Equity method investments (1) |  | **$1,079** |  |  |  | $1,048 |  |
| Time deposits | **529** | |  |  | 255 | |  |
| Available for sale debt instruments | **530** | |  |  | 491 | |  |
| Equity and other investments | **43** | |  |  | 44 | |  |
| Restricted cash & cash equivalents(2) | **86** | |  |  | 176 | |  |
| Total |  | **$2,267** |  |  |  | $2,014 |  |

|  |  |
| --- | --- |
|  |  |
| (1) | Dividends received were $153 and $60 for the nine and three months ended September 30, 2019 and $222 and $79 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 9 – Other Assets**

**Sea Launch**

At September 30, 2019 and December 31, 2018, Other assets included $244 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. At September 30, 2019, the net amounts owed to Boeing by each of the partners were as follows: S.P. Koroley Rocket and Space Corporation Energia of Russia (RSC Energia) – $111, PO Yuzhnoye Mashinostroitelny Zavod of Ukraine – $89 and KB Yuzhnoye of Ukraine – $44.

14

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

In 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. In 2016, the United States District Court for the Central District of California issued a judgment in favor of Boeing. Later that year, we reached an agreement which we believe will enable us to recover the outstanding receivable balance from RSC Energia over the next several years. We continue to pursue collection efforts against the former Ukrainian partners in connection with the court judgment. We 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 RSC Energia and the Ukrainian Sea Launch partners, we could incur additional charges.

**Note 10 – Leases**

Our operating lease assets primarily represent manufacturing and research and development facilities, warehouses, and offices. Our finance leases primarily represent computer equipment and are not significant. Total operating lease expense was $241 and $82 for nine and three months ended September 30, 2019, of which $40 and $15 was attributable to variable lease expenses.

For the nine and three months ended September 30, 2019 cash payments against operating lease liabilities totaled $205 and $70 and non-cash transactions totaled $315 and $177 to recognize operating assets and liabilities for new leases.

Supplemental Condensed Consolidated Statement of Financial Position information related to leases was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **September 30 2019** | |  |
| Operating leases: |  | | |
| Operating lease right-of-use assets |  | **$1,178** |  |
|  |  | | |
| Current portion of lease liabilities | **260** | |  |
| Non-current portion of lease liabilities | **969** | |  |
| Total operating lease liabilities |  | **$1,229** |  |
|  |  | | |
| Weighted average remaining lease term *(years)* | **9** | |  |
| Weighted average discount rate | **3.07** | | **%** |

Maturities of lease liabilities were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
|  |  | Operating leases | |  |
| Year 1 |  |  | **$292** |  |
| Year 2 |  | **238** | |  |
| Year 3 |  | **190** | |  |
| Year 4 |  | **153** | |  |
| Year 5 |  | **93** | |  |
| Thereafter |  | **598** | |  |
| Total lease payments |  | **1,564** | |  |
| Less imputed interest |  | **(335** | | **)** |
| Total |  |  | **$1,229** |  |

As of September 30, 2019, we have entered into an operating lease that has not yet commenced of $160, primarily related to research and development and manufacturing facilities. This lease will commence in 2020 with a lease term of 15 years.

15

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Note 11 – Commitments and Contingencies**

**737 MAX Grounding**

On March 13, 2019, the Federal Aviation Administration (FAA) issued an order to suspend operations of all 737 MAX aircraft in the U.S. and by U.S. aircraft operators following two fatal 737 MAX accidents. Non-U.S. civil aviation authorities have issued directives to the same effect. We are working closely with the relevant government authorities to support both accident investigations. We are also fully cooperating with other U.S. government investigations related to the accidents. While production continues on the 737 MAX, deliveries have been suspended until clearance is granted by the appropriate regulatory authorities.

We have developed software and training updates for the 737 MAX and continue to work with the FAA and non-U.S. civil aviation authorities to complete remaining steps toward certification and readiness for return to service including addressing their questions on the software changes and how pilots will interact with the airplane controls and displays in different flight scenarios. The FAA and other civil aviation authorities worldwide will determine the timing and conditions of return to service in each relevant jurisdiction. Charges recognized during 2019 associated with the software updates and related pilot training were not material.

Prior to the grounding, Boeing had delivered 387 737 MAX aircraft of which 57 were delivered in the first quarter of 2019. On April 5, 2019, we announced plans to reduce the 737 production rate from 52 aircraft per month to 42 per month effective April 15, 2019. The resulting impacts, which were reflected in the first quarter, increased costs to produce aircraft included in the current accounting quantity by $1,016. Estimated costs to produce aircraft included in the current accounting quantity increased by $1,748 during the second quarter of 2019 and $872 during the third quarter of 2019, primarily to reflect updates to assumptions regarding timing of return to service and timing of planned production rate increases. These increases in the costs to produce aircraft in the current accounting quantity will reduce 737 program and overall BCA segment operating margins in future quarters after deliveries resume. Prior to the grounding, we expected 737 MAX deliveries to approximate 90 percent of total 737 deliveries in 2019 and we had planned to increase the production rate to 57 per month in 2019. In addition to the grounding, the timing of 737 MAX deliveries during the first quarter was adversely affected by delays in the supply chain. We may face additional costs, delays in return to service, and/or further reductions in the production rate. We are continuing to produce at 42 aircraft per month and we will continue to evaluate potential future reductions in the production rate, including a temporary shutdown in 737 production. For example, significant additional regulatory requirements and/or delays in return to service beyond our current assumption could cause customers to cancel or defer orders, which could also cause us to reduce or temporarily cease 737 MAX production.

The grounding has reduced revenues, operating earnings and cash flows in 2019 and will continue to adversely affect our results until deliveries resume and production rates increase. We are also working with our customers to minimize the impact to their operations. In the second quarter, we recorded an earnings charge of $5,610, net of insurance recoveries of $500, in connection with estimated potential concessions and other considerations to customers for disruptions related to the 737 MAX grounding and associated delivery delays. This charge is reflected in the financial statements as a reduction in revenue, an increase in Other current assets and an increase in Accrued liabilities. During the third quarter of 2019, we collected the anticipated $500 from our insurance carriers and reduced the liability of $6,110 by $252 for payments, concessions and other in-kind considerations agreed to with customers. In addition, we reassessed the liability for estimated potential concessions and other considerations to customers. This reassessment included updating estimates to reflect revised return to service and production rate assumptions, as well as latest information based on engagements with 737 MAX customers. Based on this reassessment, we concluded that no significant adjustments to the recorded liability were required in the third quarter. The liability represents our best estimate of future concessions and other considerations to customers, and is necessarily based on a series of assumptions. While the FAA and other non-U.S. civil aviation authorities will determine the timing and conditions of return to service, we have assumed that regulatory approval of 737 MAX return to service begins in the fourth quarter of 2019. This assumption reflects our best estimate at this time, but actual timing and conditions of return to service could differ from this estimate, the effect of which could be material. In addition, we have assumed that we will gradually increase the 737 production rate from 42 per month to 57 per month by late 2020. Following return to service we expect the 737 MAX

16

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

airplanes produced during the grounding and included within inventory will be delivered over several quarters with the majority of them delivering in the first year. We are unable at this time to reasonably estimate potential future additional financial impacts or a range of loss, if any, due to continued uncertainties related to the timing and conditions of return to service, future changes to the production rate, supply chain impacts or the results of negotiations with particular customers. Any such impacts, including any changes in our estimates, could have a material adverse effect on our financial position, results of operations, and/or cash flows. For example, we expect that, in the event that we are unable to resume aircraft deliveries consistent with our assumptions, the continued absence of revenue, earnings, and cash flows associated with 737 MAX deliveries would continue to have the most material impact on our operating results. In the event that we decide to further reduce the 737 production rate or temporarily cease production, we expect that the growth in inventory and other cash flow impacts associated with production would decrease. However, while any such reduction or cessation of production could mitigate the impact of continued production on our liquidity it could significantly increase the overall expected costs to produce aircraft included in the accounting quantity, which would reduce 737 program margins in the future.

**737NG Structure (Pickle Fork)**

During the third quarter of 2019, we detected cracks in the "pickle forks," a component of the structure connecting the wings to the fuselages, of three 737-800NGs we were converting into freighters. We notified the FAA, which issued a directive requiring that 737NG airplanes with over 30,000 flight cycles be inspected for this condition by October 10, 2019, and that airplanes with over 22,600 flight cycles be inspected over the next 1,000 flight cycles. To date, all airplanes with over 30,000 flight cycles and approximately one third of planes with over 22,600 flights cycles have been inspected and this condition has been found on a small percentage of aircraft, and those aircraft will be repaired. Additional assessments are underway to determine the cause and potential implications of this condition for airplanes with fewer than 22,600 flight cycles. Depending on the results of these assessments, additional inspections or repairs may be required. Charges recognized in the third quarter in connection with estimated repair costs for aircraft with over 22,600 flight cycles were not material. However, we cannot reasonably estimate potential future financial impacts, if any, due to the ongoing nature of the inspections and repairs and pending the completion of investigations into the cause of the condition.

**Environmental**

The following table summarizes environmental remediation activity during the nine months ended September 30, 2019 and 2018.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **2019** | |  |  | 2018 | |  |
| Beginning balance – January 1 |  | **$555** |  |  |  | $524 |  |
| Reductions for payments made | **(34** | | **)** |  | (17 | | ) |
| Changes in estimates | **61** | |  |  | 61 | |  |
| Ending balance – September 30 |  | **$582** |  |  |  | $568 |  |

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, 2019 and December 31, 2018, the high end of the estimated range of reasonably possible remediation costs exceeded our recorded liabilities by $1,064 and $796.

17

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Product Warranties**

The following table summarizes product warranty activity recorded during the nine months ended September 30, 2019 and 2018.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **2019** | |  |  | 2018 | |  |
| Beginning balance – January 1 |  | **$1,127** |  |  |  | $1,211 |  |
| Additions for current year deliveries | **128** | |  |  | 176 | |  |
| Reductions for payments made | **(166** | | **)** |  | (135 | | ) |
| Changes in estimates | **(7** | | **)** |  | (151 | | ) |
| Ending balance – September 30 |  | **$1,082** |  |  |  | $1,101 |  |

**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 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, 2019 have expiration dates from 2019 through 2026. At September 30, 2019, and December 31, 2018 total contractual trade-in commitments were $1,421 and $1,519. As of September 30, 2019 and December 31, 2018, we estimated that it was probable we would be obligated to perform on certain of these commitments with net amounts payable to customers totaling $723 and $522 and the fair value of the related trade-in aircraft was $690 and $485.

**Financing Commitments**

Financing commitments related to aircraft on order, including options and those proposed in sales campaigns, and refinancing of delivered aircraft, totaled $15,607 and $19,462 as of September 30, 2019 and December 31, 2018. The estimated earliest potential funding dates for these commitments as of September 30, 2019 are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | Total | |  |
| October through December 2019 |  | $560 |  |
| 2020 | 3,104 | |  |
| 2021 | 2,989 | |  |
| 2022 | 1,348 | |  |
| 2023 | 2,169 | |  |
| Thereafter | 5,437 | |  |
|  |  | $15,607 |  |

As of September 30, 2019, $15,452 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.

**Funding Commitments**

We have commitments to make additional capital contributions of $246 to joint ventures over the next eight years.

18

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**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 $3,598 and $3,761 as of September 30, 2019 and December 31, 2018.

**United States Government Defense Environment Overview**

The Bipartisan Budget Act (BBA) of 2019 raised the Budget Control Act limits on federal discretionary defense and non-defense spending for fiscal years 2020 and 2021 (FY20 and FY21), reducing budget uncertainty and the risk of sequestration. Although overall funding levels have been agreed to, the timeliness of FY20 funding for government departments and agencies, including the Department of Defense (DoD), the National Aeronautics and Space Administration (NASA) and the Federal Aviation Administration (FAA), remains a risk. The Continuing Resolution (CR), enacted on September 27, 2019, continues federal funding at FY19 appropriations levels through November 21, 2019. Congress and the President must enact either full-year FY20 appropriations bills or an additional CR to fund government departments and agencies beyond November 21, 2019 in order to prevent a future government shutdown.

A government shutdown may impact the Company's operations. 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. Congress may fund FY20 by passing one or more CRs; however, this could restrict the execution of certain program activities and delay new programs or competitions.

There continues to be uncertainty with respect to future program-level appropriations for the U.S. DoD and other government agencies, including NASA. 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 our results of 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, USAF KC-46A Tanker, T-7A Red Hawk (formerly T-X Trainer), VC-25B Presidential Aircraft, MQ-25, 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, we have recorded reach-forward losses on the KC-46A Tanker and we continue to have risk for further losses if we experience further production, technical or quality issues. In addition, in 2018, in connection with winning the T-7A Red Hawk and MQ-25 competitions, we recorded a loss of $400 associated with options for 346 T-7A Red Hawk aircraft and a loss of $291 related to the MQ-25 Engineering, Manufacturing and Development (EMD) contract. Moreover, our fixed-price development programs remain subject to additional reach-forward losses if we experience further technical or quality issues, schedule delays, or increased costs.

19

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**KC-46A Tanker**

In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. This 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 two 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. On September 10, 2018, the USAF authorized an additional 18 aircraft valued at $2.9 billion. On September 27, 2019, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.6 billion.

At September 30, 2019, we had approximately $304 of capitalized precontract costs and $150 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.

**Note 12 – 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 2019** | |  | December 31 2018 | |  |  | **September 30 2019** | |  | December 31 2018 | |  |  | **September 30 2019** |  | December 31 2018 |  |
| Contingent repurchase commitments |  | **$1,599** |  |  | $1,685 |  |  |  | **$1,599** |  |  | $1,685 |  |  |  |  |  |  |
| Indemnifications to ULA: |  | | |  | | |  |  | | |  | | |  |  | |  | |
| Contributed Delta program launch inventory | **30** | |  | 52 | |  |  |  | | |  | | |  |  | |  | |
| Other Delta contracts | **176** | |  | 176 | |  |  |  | | |  | | |  |  |  |  |  |
| Credit guarantees | **92** | |  | 106 | |  |  | **33** | |  | 51 | |  |  | **16** |  | 16 |  |

**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. See Note 5. ULA has yet to consume $30 of contributed inventory.

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.

20

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

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. In 2012, Boeing and ULA, through its subsidiary United Launch Services, filed a suit in the Court of Federal Claims seeking recovery of the deferred support and production costs from the U.S. government, which subsequently 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. The discovery phase of the litigation completed in 2017. The parties have since agreed to engage in alternative dispute resolution, and the court has stayed the litigation pending that process. 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 11.

**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 13 – Debt**

In the first quarter of 2019, we issued $1,500 of fixed rate senior notes consisting of $400 due March 1, 2024 that bear an annual interest rate of 2.8%, $400 due March 1, 2029 that bear an annual interest rate of 3.2%, $400 due March 1, 2039 that bear an annual interest rate of 3.5%, and $300 due March 1, 2059 that bear an annual interest rate of 3.825%. 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 $1,451, after deducting underwriting discounts, commissions and offering expenses.

In the second quarter of 2019, we issued $3,500 of fixed rate senior notes consisting of $600 due May 1, 2022 that bear an annual interest rate of 2.7%, $650 due May 1, 2026 that bear an annual interest rate of 3.1%, $600 due March 1, 2029 that bear an annual interest rate of 3.2%, $850 due May 1, 2034 that bear an annual interest rate of 3.6%, and $800 due May 1, 2049 that bear an annual interest rate of 3.9%. 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 $3,454, after deducting underwriting discounts, commissions and offering expenses.

In the second quarter of 2019, we entered into a $1,500 short-term credit agreement, which is scheduled to terminate on October 30, 2019. At September 30, 2019, we had $6,620 of unused borrowing capacity on revolving credit line agreements.

21

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

In the third quarter of 2019, we issued $5,500 of fixed rate senior notes consisting of $750 due August 1, 2021 that bear an annual interest rate of 2.3%, $1,000 due February 1, 2027 that bear an annual interest rate of 2.7%, $750 due February 1, 2030 that bear an annual interest rate of 2.95%, $750 due February 1, 2035 that bear an annual interest rate of 3.25%, $1,250 due February 1, 2050 that bear an annual interest rate of 3.75%, and $1,000 due August 1, 2059 that bear an annual interest rate of 3.95%. 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 $5,442, after deducting underwriting discounts, commissions and offering expenses.

**Note 14 – Postretirement Plans**

The components of net periodic benefit (income)/cost were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
| Pension Plans | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Service cost |  | **$2** |  |  |  | $322 |  |  |  | |  |  |  | $107 |  |
| Interest cost | **2,193** | |  |  | 2,086 | |  |  |  | **$731** |  |  | 696 | |  |
| Expected return on plan assets | **(2,896** | | **)** |  | (3,007 | | ) |  | **(966** | | **)** |  | (1,002 | | ) |
| Amortization of prior service credits | **(59** | | **)** |  | (42 | | ) |  | **(19** | | **)** |  | (14 | | ) |
| Recognized net actuarial loss | **482** | |  |  | 847 | |  |  | **161** | |  |  | 282 | |  |
| Settlement/curtailment/other losses |  | |  |  | 43 | |  |  |  | |  |  |  | |  |
| Net periodic benefit (income)/cost |  | **($278** | **)** |  |  | $249 |  |  |  | **($93** | **)** |  |  | $69 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Net periodic benefit cost included in Earnings from operations |  | **$234** |  |  |  | $237 |  |  |  | **$76** |  |  |  | $79 |  |
| Net periodic benefit income included in Other income | **(280** | | **)** |  | (98 | | ) |  | **(93** | | **)** |  | (50 | | ) |
| Net periodic benefit (income)/cost included in Earnings before income taxes |  | **($46** | **)** |  |  | $139 |  |  |  | **($17** | **)** |  |  | $29 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
| Other Postretirement Plans | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Service cost |  | **$58** |  |  |  | $71 |  |  |  | **$19** |  |  |  | $24 |  |
| Interest cost | **147** | |  |  | 145 | |  |  | **49** | |  |  | 48 | |  |
| Expected return on plan assets | **(6** | | **)** |  | (6 | | ) |  | **(2** | | **)** |  | (2 | | ) |
| Amortization of prior service credits | **(26** | | **)** |  | (94 | | ) |  | **(8** | | **)** |  | (31 | | ) |
| Recognized net actuarial gain | **(35** | | **)** |  | (8 | | ) |  | **(12** | | **)** |  | (3 | | ) |
| Net periodic benefit cost |  | **$138** |  |  |  | $108 |  |  |  | **$46** |  |  |  | $36 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Net periodic benefit cost included in Earnings from operations |  | **$66** |  |  |  | $63 |  |  |  | **$21** |  |  |  | $21 |  |
| Net periodic benefit cost included in Other income | **80** | |  |  | 77 | |  |  | **27** | |  |  | 29 | |  |
| Net periodic benefit cost included in Earnings before income taxes |  | **$146** |  |  |  | $140 |  |  |  | **$48** |  |  |  | $50 |  |

22

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Note 15 – Share-Based Compensation and Other Compensation Arrangements**

**Restricted Stock Units**

On February 25, 2019, we granted to our executives 233,582 restricted stock units (RSUs) as part of our long-term incentive program with a grant date fair value of $428.22 per unit. The RSUs granted under this program will vest and settle in common stock (on a one-for-one basis) on the third anniversary of the grant date.

**Performance-Based Restricted Stock Units**

On February 25, 2019, we granted to our executives 214,651 performance-based restricted stock units (PBRSUs) as part of our long-term incentive program with a grant date fair value of $466.04 per unit. Compensation expense for the award is recognized over the three-year performance period based upon the grant date fair value estimated using a Monte-Carlo simulation model. The model used the following assumptions: expected volatility of 23.88% based upon historical stock volatility, a risk-free interest rate of 2.46%, and no expected dividend yield because the units earn dividend equivalents.

**Performance Awards**

On February 25, 2019, we granted to our executives performance awards as part of our long-term incentive program with a payout based on the achievement of financial goals for the three-year period ending December 31, 2021. At September 30, 2019, the minimum payout amount is $0 and the maximum amount we could be required to pay out is $393.

23

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Note 16 – Shareholders' Equity**

**Accumulated Other Comprehensive Loss**

Changes in Accumulated other comprehensive loss (AOCI) by component for the nine and three months ended September 30, 2019 and 2018 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Currency Translation Adjustments | |  |  | Unrealized Gains and Losses on Certain Investments | |  |  | Unrealized Gains and Losses on Derivative Instruments | |  |  | Defined Benefit Pension Plans & Other Postretirement Benefits | |  |  | Total(1) | |  |
| Balance at January 1, 2018 |  | ($15 | ) |  |  | ($2 | ) |  |  | $54 |  |  |  | ($16,410 | ) |  |  | ($16,373 | ) |
| Other comprehensive (loss)/income before reclassifications | (55 | | ) |  | 3 | |  |  | (97 | | ) |  | (3 | | ) |  | (152 | | ) |
| Amounts reclassified from AOCI |  | | |  |  | | |  | 19 | |  |  | 557 | |  | (2) | 576 | |  |
| Net current period Other comprehensive (loss)/income | (55 | | ) |  | 3 | |  |  | (78 | | ) |  | 554 | |  |  | 424 | |  |
| Balance at September 30, 2018 |  | ($70 | ) |  |  | $1 |  |  |  | ($24 | ) |  |  | ($15,856 | ) |  |  | ($15,949 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Balance at January 1, 2019** |  | **($101** | **)** |  |  | | |  |  | **($62** | **)** |  |  | **($14,920** | **)** |  |  | **($15,083** | **)** |
| **Other comprehensive (loss)/income before reclassifications** | **(61** | | **)** |  | **1** | |  |  | **(106** | | **)** |  | **17** | |  |  | **(149** | | **)** |
| **Amounts reclassified from AOCI** |  | | |  |  | | |  | **22** | |  |  | **283** | |  | **(2)** | **305** | |  |
| **Net current period Other comprehensive (loss)/income** | **(61** | | **)** |  | **1** | |  |  | **(84** | | **)** |  | **300** | |  |  | **156** | |  |
| **Balance at September 30, 2019** |  | **($162** | **)** |  |  | **$1** |  |  |  | **($146** | **)** |  |  | **($14,620** | **)** |  |  | **($14,927** | **)** |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Balance at June 30, 2018 |  | ($72 | ) |  | $1 | |  |  |  | ($29 | ) |  |  | ($16,039 | ) |  |  | ($16,139 | ) |
| Other comprehensive (loss)/income before reclassifications | 2 | |  |  |  | | |  | (4 | | ) |  | (1 | | ) |  | (3 | | ) |
| Amounts reclassified from AOCI |  | | |  |  | | |  | 9 | |  |  | 184 | |  | (2) | 193 | |  |
| Net current period Other comprehensive (loss)/income | 2 | |  |  |  | | |  | 5 | |  |  | 183 | |  |  | 190 | |  |
| Balance at September 30, 2018 |  | ($70 | ) |  |  | $1 |  |  |  | ($24 | ) |  |  | ($15,856 | ) |  |  | ($15,949 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Balance at June 30, 2019** |  | **($103** | **)** |  |  | **$1** |  |  |  | **($82** | **)** |  |  | **($14,724** | **)** |  |  | **($14,908** | **)** |
| **Other comprehensive (loss)/income before reclassifications** | **(59** | | **)** |  |  | | |  | **(89** | | **)** |  | **9** | |  |  | **(139** | | **)** |
| **Amounts reclassified from AOCI** |  | | |  |  | | |  | **25** | |  |  | **95** | |  | **(2)** | **120** | |  |
| **Net current period Other comprehensive (loss)/income** | **(59** | | **)** |  |  | | |  | **(64** | | **)** |  | **104** | |  |  | **(19** | | **)** |
| **Balance at September 30, 2019** |  | **($162** | **)** |  |  | **$1** |  |  |  | **($146** | **)** |  |  | **($14,620** | **)** |  |  | **($14,927** | **)** |

(1)Net of tax.

(2)Primarily relates to amortization of actuarial losses for the nine and three months ended September 30, 2018 totaling $657 and $219 (net of tax of ($182) and ($60)) and for the nine and three months ended September 30, 2019 totaling $350 and $117 (net of tax of ($97) and ($32)). These are included in the net periodic pension cost.

24

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Note 17 – Derivative Financial Instruments**

Disclosures reflect the adoption of ASU 2017-12, *Derivatives and Hedging (Topic 815)*, in the first quarter of 2019. Prior period amounts have not been restated.

**Cash Flow Hedges**

Our cash flow hedges include foreign currency forward contracts, commodity swaps and commodity purchase contracts. We use foreign currency forward contracts to manage currency risk associated with certain transactions, specifically forecasted sales and purchases made in foreign currencies. Our foreign currency contracts hedge forecasted transactions through 2025. We use commodity derivatives, such as fixed-price purchase commitments and swaps to hedge against potentially unfavorable price changes for items used in production. Our commodity contracts hedge forecasted transactions through 2023.

**Fair Value Hedges**

Interest rate swaps under which we agree to pay variable rates of interest are designated as fair value hedges of fixed-rate debt. The net change in fair value of the derivatives and the hedged items is reported in Boeing Capital interest expense.

**Derivative Instruments Not Receiving Hedge Accounting Treatment**

We have entered into agreements to purchase and sell aluminum to address long-term strategic sourcing objectives and non-U.S. business requirements. These agreements are derivative instruments for accounting purposes. The quantities of aluminum in these agreements offset and are priced at prevailing market prices. We also hold certain foreign currency forward contracts which do not qualify for hedge accounting treatment.

**Notional Amounts and Fair Values**

The notional amounts and fair values of derivative instruments in the Condensed Consolidated Statements of Financial Position were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | Notional amounts(1) | | | | | | | Other assets | | | | | | Accrued liabilities | | | | | |
|  | | **September 30 2019** | |  | December 31 2018 | | |  | **September 30 2019** | |  | December 31 2018 | |  | **September 30 2019** | |  | December 31 2018 | |  |
| Derivatives designated as hedging instruments: | |  | | |  | | | |  | | |  | | |  | | |  | | |
| Foreign exchange contracts | |  | **$2,733** |  |  | $3,407 | |  |  | **$17** |  |  | $32 |  |  | **($105** | **)** |  | ($132 | ) |
| Interest rate contracts | | **125** | |  | 125 | | |  |  | |  |  | |  |  | |  |  | | |
| Commodity contracts | | **669** | |  | 57 | | |  | **4** | |  | 9 | |  | **(93** | | **)** | (2 | | ) |
| Derivatives not receiving hedge accounting treatment: | |  | | |  | | | |  | | |  | | |  | | |  | | |
| Foreign exchange contracts | | **824** | |  | 414 | | |  | **6** | |  | 11 | |  | **(18** | | **)** | (2 | | ) |
| Commodity contracts | | **1,713** | |  | 478 | | |  |  | |  |  | |  |  | | |  | | |
| Total derivatives | |  | **$6,064** |  |  | $4,481 | |  |  | **$27** |  |  | $52 |  |  | **($216** | **)** |  | ($136 | ) |
| Netting arrangements | |  | | |  | | | | **(20** | | **)** | (24 | | ) | **20** | |  | 24 | |  |
| Net recorded balance | |  | | |  | | | |  | **$7** |  |  | $28 |  |  | **($196** | **)** |  | ($112 | ) |
|  |  | | | | | |
| (1) | Notional amounts represent the gross contract/notional amount of the derivatives outstanding. | | | | | |

25

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Gains/(losses) associated with our hedging transactions and forward points recognized in Other comprehensive income are presented in the following table:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Recognized in Other comprehensive income, net of taxes: |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts |  | **($6** | **)** |  |  | ($80 | ) |  |  | **($34** | **)** |  |  | $4 |  |
| Commodity contracts | **(78** | | **)** |  | 2 | |  |  | **(30** | | **)** |  | 1 | |  |

Gains/(losses) associated with our hedging transactions and forward points reclassified from AOCI to earnings are presented in the following table:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Foreign exchange contracts |  | | |  |  | | |  |  | | |  |  | | |
| Revenues |  | |  |  |  | | |  |  | **($6** | **)** |  |  | |  |
| Costs and expenses |  | **($21** | **)** |  |  | ($17 | ) |  | **(9** | | **)** |  |  | ($9 | ) |
| General and administrative | **(9** | | **)** |  | (8 | | ) |  | **(18** | | **)** |  | (5 | | ) |
| Commodity contracts |  | | |  |  | | |  |  | | |  |  | | |
| Revenues |  | | |  |  | | |  |  | | |  |  | | |
| Costs and expenses | **1** | |  |  | 1 | |  |  |  | | |  | 1 | |  |
| General and administrative expense | **1** | |  |  |  | | |  | **1** | |  |  | 1 | |  |

Gains/(losses) related to undesignated derivatives on foreign exchange cash flow hedging transactions recognized in Other income were gains of $1 and losses of $1 for the nine and three months ended September 30, 2019 and losses of $2 and $1 for the nine and three months ended September 30, 2018. Forward points related to foreign exchange cash flow hedging transactions recognized in Other income were gains of $5 and $0 for the nine and three months ended September 30, 2018.

Based on our portfolio of cash flow hedges, we expect to reclassify losses of $15 (pre-tax) out of Accumulated other comprehensive loss into earnings during the next 12 months.

We have derivative instruments with credit-risk-related contingent features. For foreign exchange contracts with original maturities of at least five years, our derivative counterparties could require settlement if we default on our five-year credit facility. For certain commodity contracts, our counterparties could require collateral posted in an amount determined by our credit ratings. The fair value of foreign exchange and commodity contracts that have credit-risk-related contingent features that are in a net liability position at September 30, 2019 was $42. At September 30, 2019, there was no collateral posted related to our derivatives.

26

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Note 18 – Fair Value Measurements**

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs. The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | | | | | | | | | |  | December 31, 2018 | | | | | | | | | | |
|  | **Total** | |  |  | **Level 1** | |  |  | **Level 2** | |  |  | Total | |  |  | Level 1 | |  |  | Level 2 | |  |
| **Assets** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Money market funds |  | **$1,371** |  |  |  | **$1,371** |  |  |  | | |  |  | $1,737 |  |  |  | $1,737 |  |  |  | | |
| Available-for-sale debt investments: |  | |  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Commercial paper | **146** | |  |  |  | | |  |  | **$146** |  |  | 78 | |  |  |  | | |  |  | $78 |  |
| Corporate notes | **352** | |  |  |  | | |  | **352** | |  |  | 420 | |  |  |  | | |  | 420 | |  |
| U.S. government agencies | **109** | |  |  | **109** | |  |  |  | | |  |  | |  |  |  | |  |  |  | | |
| Other equity investments | **10** | |  |  | **10** | |  |  |  | | |  | 12 | |  |  | 12 | |  |  |  | | |
| Derivatives | **7** | |  |  |  | | |  | **7** | |  |  | 28 | |  |  |  | | |  | 28 | |  |
| Total assets |  | **$1,995** |  |  |  | **$1,490** |  |  |  | **$505** |  |  |  | $2,275 |  |  |  | $1,749 |  |  |  | $526 |  |
| **Liabilities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivatives |  | **($196** | **)** |  |  | | |  |  | **($196** | **)** |  |  | ($112 | ) |  |  | | |  |  | ($112 | ) |
| Total liabilities |  | **($196** | **)** |  |  | | |  |  | **($196** | **)** |  |  | ($112 | ) |  |  | | |  |  | ($112 | ) |

Money market funds, available-for-sale debt investments and equity securities are valued using a market approach based on the quoted market prices or broker/dealer quotes of identical or comparable instruments.

Derivatives include foreign currency, commodity and interest rate contracts. Our foreign currency forward contracts are valued using an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount. Commodity derivatives are valued using an income approach based on the present value of the commodity index prices less the contract rate multiplied by the notional amount. The fair value of our interest rate swaps is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve.

Certain assets have been measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). The following table presents the nonrecurring losses recognized for the nine months ended September 30 due to long-lived asset impairment and the fair value and asset classification of the related assets as of the impairment date:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **2019** | | | | | | |  | 2018 | | | | | | |
|  | **Fair**  **Value** | |  |  | **Total**  **Losses** | |  |  | Fair  Value | |  |  | Total  Losses | |  |
| Operating lease equipment |  | **$10** |  |  |  | **($1** | **)** |  |  | $45 |  |  |  | ($16 | ) |
| Investments | **51** | |  |  | **(84** | | **)** |  |  | | |  | (47 | | ) |
| Property, plant and equipment | **41** | |  |  | **(4** | | **)** |  |  | |  |  |  | |  |
| Acquired intangible assets | **3** | |  |  | **(17** | | **)** |  |  | | |  |  | | |
| Total |  | **$105** |  |  |  | **($106** | **)** |  |  | $45 |  |  |  | ($63 | ) |

Investments, Property, plant and equipment and Acquired intangible assets were primarily valued using an income approach based on the discounted cash flows associated with the underlying assets. The fair value of the impaired operating lease equipment is derived by calculating a median collateral value from a consistent group of third party aircraft value publications. The values provided by the third party aircraft publications are derived from their knowledge of market trades and other market factors. Management reviews the

27

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

publications quarterly to assess the continued appropriateness and consistency with market trends. Under certain circumstances, we adjust values based on the attributes and condition of the specific aircraft or equipment, usually when the features or use of the aircraft vary significantly from the more generic aircraft attributes covered by third party publications, or on the expected net sales price for the aircraft.

For Level 3 assets that were measured at fair value on a nonrecurring basis during the nine months ended September 30, the following table presents the fair value of those assets as of the measurement date, valuation techniques and related unobservable inputs of those assets.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  | |  |  | |  |  |  |  |  |
|  | | Fair  Value |  | | Valuation  Technique(s) |  | Unobservable Input |  | Range  Median or Average |
| Operating lease equipment | | $10 |  | | Market approach |  | Aircraft value publications |  | $12- $20(1)  Median $16 |
|  | |  | Aircraft condition adjustments |  | ($6) - $0(2)  Net ($6) |
|  |  | | |
| (1) | The range represents the sum of the highest and lowest values for all aircraft subject to fair value measurement, according to the third party aircraft valuation publications that we use in our valuation process. | | |

|  |  |
| --- | --- |
|  |  |
| (2) | The negative amount represents the sum for all aircraft subject to fair value measurement, of all downward adjustments based on consideration of individual aircraft attributes and condition. The positive amount represents the sum of all such upward adjustments. |

**Fair Value Disclosures**

The fair values and related carrying values of financial instruments that are not required to be remeasured at fair value on the Condensed Consolidated Statements of Financial Position were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |
|  | **September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Carrying**  **Amount** | | | |  | | **Total Fair**  **Value** | | | |  | | **Level 1** | | **Level 2** | | | |  | | **Level 3** | | | |  | |
| **Assets** |  | | | | | |  | | | | | |  | |  | | | | | |  | | | | | |
| Notes receivable, net |  | | **$446** | |  | |  | | **$451** | |  | |  | |  | | **$451** | |  | |  | | | | | |
| **Liabilities** |  | | | | | |  | | | | | |  | |  | | | | | |  | | | | | |
| Debt, excluding capital lease obligations and commercial paper | **(21,432** | | | | **)** | | **(24,518** | | | | **)** | |  | | **(24,480** | | | | **)** | |  | | **($38** | | **)** | |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |
|  | | December 31, 2018 | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | Carrying  Amount | | | |  | | Total Fair  Value | | | |  | | Level 1 | | Level 2 | | | |  | | Level 3 | | | |  | |
| **Assets** | |  | | | | | |  | | | | | |  | |  | | | | | |  | | | | | |
| Notes receivable, net | |  | | $730 | |  | |  | | $735 | |  | |  | |  | | $735 | |  | |  | | | | | |
| **Liabilities** | |  | | | | | |  | | | | | |  | |  | | | | | |  | | | | | |
| Debt, excluding capital lease obligations and commercial paper | | (11,796 | | | | ) | | (12,746 | | | | ) | |  | | (12,682 | | | | ) | |  | | ($64 | | ) | |

The fair values of notes receivable are estimated with discounted cash flow analysis using interest rates currently offered on loans with similar terms to borrowers of similar credit quality. The fair value of our debt that is traded in the secondary market is classified as Level 2 and is based on current market yields. For our debt that is not traded in the secondary market, the fair value is classified as Level 2 and is based on our indicative borrowing cost derived from dealer quotes or discounted cash flows. The fair values of our debt classified as Level 3 are based on discounted cash flow models using the implied yield from similar securities. With regard to other financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of our indemnifications and financing commitments because the amount and timing of those

28

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

arrangements are uncertain. Items not included in the above disclosures include cash, restricted cash, time deposits and other deposits, commercial paper, money market funds, Accounts receivable, Unbilled receivables, Accounts payable and long-term payables. The carrying values of those items, as reflected in the Condensed Consolidated Statements of Financial Position, approximate their fair value at September 30, 2019 and December 31, 2018. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

**Note 19 – Legal Proceedings**

Various legal proceedings, claims and investigations related to products, contracts, employment and other matters are pending against us.

In addition, we are subject to various U.S. government inquiries and investigations from which civil, criminal or administrative proceedings could result or have resulted in the past. Such proceedings involve or could involve claims by the government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. We believe, based upon current information, that the outcome of any such legal proceeding, claim, or government dispute and investigation will not have a material effect on our financial position, results of operations, or cash flows. Where it is reasonably possible that we will incur losses in excess of recorded amounts in connection with any of the matters set forth below, we will disclose either the amount or range of reasonably possible losses in excess of such amounts or, where no such amount or range can be reasonably estimated, the reasons why no such estimate can be made.

Multiple legal actions have been filed against us as a result of the October 29, 2018 accident of Lion Air Flight 610 and the March 10, 2019 accident of Ethiopian Airlines Flight 302. Further, we are fully cooperating with all ongoing governmental and regulatory investigations and inquiries relating to the accidents and the 737 MAX. We cannot reasonably estimate a range of loss, if any, not covered by available insurance that may result given the ongoing status of these lawsuits, investigations, and inquiries.

**Note 20 – Segment and Revenue Information**

Effective at the beginning of 2019, all revenues and costs associated with military derivative aircraft production are reported in the BDS segment. Revenues and costs associated with military derivative aircraft production were previously reported in the BCA and BDS segments. Business segment data for 2018 reflects the realignment for military derivative aircraft, as well as the realignment of certain programs from BDS to BGS.

Our primary profitability measurements to review a segment’s operating results are Earnings from operations and operating margins. We operate in four reportable segments: BCA, BDS, BGS, and BCC. All other activities fall within Unallocated items, eliminations and other. See page 7 for the Summary of Business Segment Data, which is an integral part of this note.

BCA develops, produces and markets commercial jet aircraft principally to the commercial airline industry worldwide. Revenue on commercial aircraft contracts is recognized at the point in time when an aircraft is completed and accepted by the customer.

BDS engages in the research, development, production and modification of the following products and related services: manned and unmanned military aircraft and weapons systems, surveillance and engagement, strategic defense and intelligence systems, satellite systems and space exploration. BDS revenue is generally recognized over the contract term (over time) as costs are incurred.

BGS provides parts, maintenance, modifications, logistics support, training, data analytics and information-based services to commercial and government customers worldwide. BGS segment revenue and costs include certain services provided to other segments. Revenue on commercial spare parts contracts is recognized at the point in time when a spare part is delivered to the customer. Revenue on other contracts is generally recognized over the contract term (over time) as costs are incurred.

29

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

BCC facilitates, arranges, structures and provides selective financing solutions for our Boeing customers.

The following tables present BCA, BDS and BGS revenues from contracts with customers disaggregated in a number of ways, such as geographic location, contract type and the method of revenue recognition. We believe these best depict how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

BCA revenues by customer location consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
| Revenue from contracts with customers: |  | | |  |  | | |  |  | | |  |  | | |
| Europe |  | **$3,944** |  |  |  | $7,189 |  |  |  | **$1,260** |  |  |  | $1,882 |  |
| China | **4,393** | |  |  | 9,433 | |  |  | **1,237** | |  |  | 4,677 | |  |
| Asia, other than China | **5,832** | |  |  | 5,966 | |  |  | **1,454** | |  |  | 1,886 | |  |
| Middle East | **2,926** | |  |  | 3,931 | |  |  | **1,121** | |  |  | 1,598 | |  |
| Other | **2,533** | |  |  | 3,598 | |  |  | **166** | |  |  | 1,098 | |  |
| Total non-U.S. revenues | **19,628** | |  |  | 30,117 | |  |  | **5,238** | |  |  | 11,141 | |  |
| United States | **10,591** | |  |  | 10,824 | |  |  | **3,004** | |  |  | 2,922 | |  |
| Estimated potential concessions and other considerations to 737 MAX customers, net(1) | **(5,610** | | **)** |  |  | |  |  |  | |  |  |  | |  |
| Total revenues from contracts with customers | **24,609** | |  |  | 40,941 | |  |  | **8,242** | |  |  | 14,063 | |  |
| Intersegment revenues eliminated on consolidation | **184** | |  |  | 27 | |  |  | **7** | |  |  | 8 | |  |
| Total segment revenues |  | **$24,793** |  |  |  | $40,968 |  |  |  | **$8,249** |  |  |  | $14,071 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized on fixed-price contracts | **100** | | **%** |  | 100 | | % |  | **100** | | **%** |  | 100 | | % |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized at a point in time | **100** | | **%** |  | 100 | | % |  | **100** | | **%** |  | 99 | | % |

|  |  |
| --- | --- |
|  |  |
| (1) | Net of insurance recoveries |

BDS revenues on contracts with customers, based on the customer's location, consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
| Revenue from contracts with customers: | |  | | |  |  | | |  |  | | |  |  | | |
| U.S. customers | |  | **$15,234** |  |  |  | $14,586 |  |  |  | **$5,459** |  |  |  | $5,381 |  |
| Non U.S. customers(1) | | **5,031** | |  |  | 4,932 | |  |  | **1,583** | |  |  | 1,556 | |  |
| Total segment revenue from contracts with customers | |  | **$20,265** |  |  |  | $19,518 |  |  |  | **$7,042** |  |  |  | $6,937 |  |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized over time | | **98** | | **%** |  | 98 | | % |  | **97** | | **%** |  | 98 | | % |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized on fixed-price contracts | | **69** | | **%** |  | 69 | | % |  | **70** | | **%** |  | 70 | | % |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue from the U.S. government(1) | | **89** | | **%** |  | 88 | | % |  | **90** | | **%** |  | 88 | | % |
|  |  |
| (1) | Includes revenues earned from foreign military sales through the U.S. government. |

30

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

BGS revenues consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | | **2019** | | |  | 2018 | | |  | **2019** | | |  | 2018 | | |
| Revenue from contracts with customers: | |  | | |  |  | | |  |  | | |  |  | | |
| Commercial | |  | **$7,621** |  |  |  | $6,419 |  |  |  | **$2,510** |  |  |  | $2,167 |  |
| Government | | **6,075** | |  |  | 5,584 | |  |  | **2,101** | |  |  | 1,882 | |  |
| Total revenues from contracts with customers | | **13,696** | |  |  | 12,003 | |  |  | **4,611** | |  |  | 4,049 | |  |
| Intersegment revenues eliminated on consolidation | | **124** | |  |  | 145 | |  |  | **47** | |  |  | 52 | |  |
| Total segment revenues | |  | **$13,820** |  |  |  | $12,148 |  |  |  | **$4,658** |  |  |  | $4,101 |  |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized at a point in time | | **56** | | **%** |  | 52 | | % |  | **54** | | **%** |  | 52 | | % |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue recognized on fixed-price contracts | | **89** | | **%** |  | 88 | | % |  | **90** | | **%** |  | 85 | | % |
|  | |  | | |  |  | | |  |  | | |  |  | | |
| Revenue from the U.S. government(1) | | **33** | | **%** |  | 32 | | % |  | **35** | | **%** |  | 32 | | % |
|  |  |
| (1) | Includes revenues earned from foreign military sales through the U.S. government. |

**Backlog**

Our total backlog represents the estimated transaction prices on performance obligations to our customers for which work remains to be performed. Backlog is converted into revenue in future periods as work is performed, primarily based on the cost incurred or at delivery and acceptance of products, depending on the applicable accounting method.

Our backlog at September 30, 2019 was $470,225. We expect approximately 26% to be converted to revenue through 2020 and approximately 72% through 2023, with the remainder thereafter.

31

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Unallocated Items, Eliminations and other**

Unallocated items, eliminations and other include common internal services that support Boeing’s global business operations, intercompany guarantees provided to BCC and eliminations of certain sales between segments. Such sales include airplanes accounted for as operating leases and considered transferred to the BCC segment. We generally allocate costs to business segments based on the U.S. federal cost accounting standards. Components of Unallocated items, eliminations and other are shown in the following table.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Share-based plans |  | **($57** | **)** |  |  | ($60 | ) |  |  | **($21** | **)** |  |  | ($24 | ) |
| Deferred compensation | **(154** | | **)** |  | (112 | | ) |  | **(25** | | **)** |  | (56 | | ) |
| Amortization of previously capitalized interest | **(68** | | **)** |  | (67 | | ) |  | **(23** | | **)** |  | (19 | | ) |
| Research and development expense, net | **(270** | | **)** |  | (69 | | ) |  | **(97** | | **)** |  | (50 | | ) |
| Customer financing impairment | **(250** | | **)** |  |  | |  |  |  | |  |  |  | |  |
| Litigation | **(109** | | **)** |  | (148 | | ) |  |  | |  |  |  | |  |
| Eliminations and other unallocated items | **(819** | | **)** |  | (737 | | ) |  | **(356** | | **)** |  | (322 | | ) |
| Unallocated items, eliminations and other |  | **($1,727** | **)** |  |  | ($1,193 | ) |  |  | **($522** | **)** |  |  | ($471 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Pension FAS/CAS service cost adjustment |  | **$823** |  |  |  | $780 |  |  |  | **$274** |  |  |  | $260 |  |
| Postretirement FAS/CAS service cost adjustment | **270** | |  |  | 239 | |  |  | **90** | |  |  | 77 | |  |
| FAS/CAS service cost adjustment |  | **$1,093** |  |  |  | $1,019 |  |  |  | **$364** |  |  |  | $337 |  |

**Pension and Other Postretirement Benefit Expense**

Pension costs, comprising GAAP service and prior service costs, are allocated to BCA and the commercial operations at BGS. Pension costs are allocated to BDS and BGS businesses supporting government customers using U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. These costs are allocable to government contracts. Other postretirement benefit costs are allocated to business segments based on CAS, which is generally based on benefits paid. FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. These expenses are included in Other income.

32

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Assets**

Segment assets are summarized in the table below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30 2019** | |  |  | December 31 2018 | |  |
| Commercial Airplanes |  | **$74,994** |  |  |  | $64,788 |  |
| Defense, Space & Security | **19,431** | |  |  | 19,594 | |  |
| Global Services | **18,696** | |  |  | 17,921 | |  |
| Boeing Capital | **2,246** | |  |  | 2,809 | |  |
| Unallocated items, eliminations and other | **17,231** | |  |  | 12,247 | |  |
| Total |  | **$132,598** |  |  |  | $117,359 |  |

Assets included in Unallocated items, eliminations and other primarily consist of Cash and cash equivalents, Short-term and other investments, Deferred tax assets, capitalized interest and assets held centrally as well as intercompany eliminations.

33

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

The Boeing Company

Chicago, Illinois

**Results of Review of Interim Financial Information**

We have reviewed the accompanying condensed consolidated statement of financial position of The Boeing Company and subsidiaries (the “Company”) as of September 30, 2019, the related condensed consolidated statements of operations, comprehensive income, and equity for the three-month and nine-month periods ended September 30, 2019 and 2018, and of cash flows for the nine months ended September 30, 2019 and 2018, and the related notes (collectively referred to as the "condensed consolidated interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2018, and the related consolidated statements of operations, comprehensive income, cash flows, and equity for the year then ended (not presented herein); and in our report dated February 8, 2019, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph related to the Company’s change in method of accounting for revenue from contracts with customers. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

**Basis for Review Results**

This condensed consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Deloitte & Touche LLP

Chicago, Illinois

October 23, 2019

34

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

|  |  |
| --- | --- |
|  | |
|  |  |
| **FORWARD-LOOKING STATEMENTS** | |
| This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates” and similar expressions generally identify these forward-looking statements. Examples of forward-looking statements include statements relating to our future financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact. | |
|  |  |
| Forward-looking statements are based on expectations and assumptions that we believe to be reasonable when made, but that may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict. Many factors could cause actual results to differ materially and adversely from these forward-looking statements. Among these factors are risks related to: | |
|  |  |
| (1) | the timing and conditions surrounding return to service of the 737 MAX fleet; |
|  |  |
| (2) | general conditions in the economy and our industry, including those due to regulatory changes; |
|  |  |
| (3) | our reliance on our commercial airline customers; |
|  |  |
| (4) | the overall health of our aircraft production system, planned commercial aircraft production rate changes, our commercial development and derivative aircraft programs, and our aircraft being subject to stringent performance and reliability standards; |
|  |  |
| (5) | changing budget and appropriation levels and acquisition priorities of the U.S. government; |
|  |  |
| (6) | our dependence on U.S. government contracts; |
|  |  |
| (7) | our reliance on fixed-price contracts; |
|  |  |
| (8) | our reliance on cost-type contracts; |
|  |  |
| (9) | uncertainties concerning contracts that include in-orbit incentive payments; |
|  |  |
| (10) | our dependence on our subcontractors and suppliers as well as the availability of raw materials; |
|  |  |
| (11) | changes in accounting estimates; |
|  |  |
| (12) | changes in the competitive landscape in our markets; |
|  |  |
| (13) | our non-U.S. operations, including sales to non-U.S. customers; |
|  |  |
| (14) | threats to the security of our or our customers' information; |
|  |  |
| (15) | potential adverse developments in new or pending litigation and/or government investigations; |
|  |  |
| (16) | customer and aircraft concentration in our customer financing portfolio; |
|  |  |
| (17) | changes in our ability to obtain debt on commercially reasonable terms and at competitive rates; |
|  |  |
| (18) | realizing the anticipated benefits of mergers, acquisitions, joint ventures, strategic alliances or divestitures; |

35

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

|  |  |
| --- | --- |
|  | |
|  |  |
| (19) | the adequacy of our insurance coverage to cover significant risk exposures; |
|  |  |
| (20) | potential business disruptions, including those related to physical security threats, information technology or cyber attacks, epidemics, sanctions or natural disasters; |
|  |  |
| (21) | work stoppages or other labor disruptions; |
|  |  |
| (22) | substantial pension and other postretirement benefit obligations; and |
|  |  |
| (23) | potential environmental liabilities. |
|  |  |
| Additional information concerning these and other factors can be found in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any forward-looking information speaks only as of the date on which it is made, and we assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law. | |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

36

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

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

**Consolidated Results of Operations and Financial Condition**

**Earnings From Operations and Core Operating Earnings (Non-GAAP)** The following table summarizes key indicators of consolidated results of operations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Revenues | |  | **$58,648** |  |  |  | $72,786 |  |  | **$19,980** |  |  |  | $25,146 |  |
|  | |  | | |  |  | | |  | | |  |  | | |
| **GAAP** | |  | | |  |  | | |  | | |  |  | | |
| Earnings from operations | |  | **$229** |  |  |  | $7,812 |  |  | **$1,259** |  |  |  | $2,227 |  |
| Operating margins | | **0.4** | | **%** |  | 10.7 | | % | **6.3** | | **%** |  | 8.9 | | % |
| Effective income tax rate | | **(350.6** | | **)%** |  | 6.9 | | % | **0.8** | | **%** |  | (10.8 | | )% |
| Net earnings | |  | **$374** |  |  |  | $7,036 |  |  | **$1,167** |  |  |  | $2,363 |  |
| Diluted earnings per share | |  | **$0.66** |  |  |  | $11.95 |  |  | **$2.05** |  |  |  | $4.07 |  |
|  | |  | | |  |  | | |  | | |  |  | | |
| **Non-GAAP (1)** | |  | | |  |  | | |  | | |  |  | | |
| Core operating (loss)/earnings | |  | **($864** | **)** |  |  | $6,793 |  |  | **$895** |  |  |  | $1,890 |  |
| Core operating margins | | **(1.5** | | **%)** |  | 9.3 | | % | **4.5** | | **%** |  | 7.5 | | % |
| Core (loss)/earnings per share | |  | **($1.13** | **)** |  |  | $10.55 |  |  | **$1.45** |  |  |  | $3.58 |  |
|  |  |
| (1) | These measures exclude certain components of pension and other postretirement benefit expense. See page 53 for important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures. |

**Revenues**

The following table summarizes Revenues:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Commercial Airplanes |  | **$24,793** |  |  |  | $40,968 |  |  | **$8,249** |  |  |  | $14,071 |  |
| Defense, Space & Security | **20,265** | |  |  | 19,518 | |  | **7,042** | |  |  | 6,937 | |  |
| Global Services | **13,820** | |  |  | 12,148 | |  | **4,658** | |  |  | 4,101 | |  |
| Boeing Capital | **207** | |  |  | 214 | |  | **66** | |  |  | 77 | |  |
| Unallocated items, eliminations and other | **(437** | | **)** |  | (62 | | ) | **(35** | | **)** |  | (40 | | ) |
| Total |  | **$58,648** |  |  |  | $72,786 |  |  | **$19,980** |  |  |  | $25,146 |  |

Revenues for the nine months ended September 30, 2019 decreased by $14,138 million compared with the same period in 2018. Commercial Airplanes (BCA) revenues decreased by $16,175 million driven by lower deliveries and a revenue reduction of $5,610 million that was recorded in the second quarter of 2019 related to estimated potential concessions and other considerations to customers for disruptions and associated delivery delays related to the 737 MAX grounding. Defense, Space & Security (BDS) revenues increased by $747 million primarily due to higher revenues from satellites, weapons, derivative aircraft, and early warning aircraft, partially offset by lower revenue for fighters and C-17. Global Services (BGS) revenues increased by $1,672 million primarily due to the acquisition of KLX, Inc. in the fourth quarter of 2018 and international government services revenue. The changes in Unallocated items, eliminations and other primarily reflect the timing of eliminations for intercompany aircraft deliveries.

37

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Revenues for the three months ended September 30, 2019 decreased by $5,166 million compared with the same period in 2018. BCA revenues decreased by $5,822 million primarily due to lower deliveries resulting from the 737 MAX grounding. BDS revenues increased by $105 million primarily due to higher revenues from satellites, weapons, and T-7A Red Hawk, partially offset by lower revenues for the F-15 program. BGS revenues increased by $557 million, primarily due to the acquisition of KLX, Inc. in the fourth quarter of 2018 and international government services revenue.

**Earnings From Operations**

The following table summarizes Earnings from operations:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Commercial Airplanes | |  | **($3,813** | **)** |  |  | $5,230 |  |  |  | **($40** | **)** |  |  | $2,033 |  |
| Defense, Space & Security | | **2,577** | |  |  | 886 | |  |  | **755** | |  |  | (247 | | ) |
| Global Services | | **2,013** | |  |  | 1,799 | |  |  | **673** | |  |  | 548 | |  |
| Boeing Capital | | **86** | |  |  | 71 | |  |  | **29** | |  |  | 27 | |  |
| Segment operating profit | | **863** | |  |  | 7,986 | |  |  | **1,417** | |  |  | 2,361 | |  |
| Pension FAS/CAS service cost adjustment | | **823** | |  |  | 780 | |  |  | **274** | |  |  | 260 | |  |
| Postretirement FAS/CAS service cost adjustment | | **270** | |  |  | 239 | |  |  | **90** | |  |  | 77 | |  |
| Unallocated Items, Eliminations and Other | | **(1,727** | | **)** |  | (1,193 | | ) |  | **(522** | | **)** |  | (471 | | ) |
| Earnings from operations (GAAP) | |  | **$229** |  |  |  | $7,812 |  |  |  | **$1,259** |  |  |  | $2,227 |  |
| FAS/CAS service cost adjustment \* | | **(1,093** | | **)** |  | (1,019 | | ) |  | **(364** | | **)** |  | (337 | | ) |
| Core operating (loss)/earnings (Non-GAAP) \*\* | |  | **($864** | **)** |  |  | $6,793 |  |  |  | **$895** |  |  |  | $1,890 |  |
|  |  |
| \* | The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. |

|  |  |
| --- | --- |
|  |  |
| \*\* | Core operating (loss)/earnings is a Non-GAAP measure that excludes the FAS/CAS service cost adjustment. See page 53. |

Earnings from operations for the nine months ended September 30, 2019 decreased by $7,583 million compared with the same period in 2018, primarily due to lower earnings at BCA and a customer financing impairment of $250 million that was recorded in Unallocated Items, Eliminations and Other. The decrease was partially offset by higher earnings at BDS and BGS. BCA earnings from operations decreased by $9,043 million primarily due to the earnings charge for the 737 MAX grounding of $5,610 million and lower 737 deliveries, partially offset by higher 787 margins. BDS earnings from operations increased by $1,691 million, primarily due to lower charges on development programs. During the third quarter of 2018, upon contract award, we recorded charges of $400 million associated with anticipated losses on the T-7A Red Hawk and $291 million on the MQ-25. During the nine months ended September 30, 2018, BDS recorded reach-forward losses of $674 million related to the KC-46A Tanker program. BGS earnings from operations increased by $214 million primarily due to higher revenues.

Earnings from operations for the three months ended September 30, 2019 decreased by $968 million compared with the same period in 2018, primarily due to lower earnings at BCA, partially offset by higher earnings at BDS and BGS. BCA's earnings from operations decreased $2,073 million primarily due to lower 737 deliveries, partially offset by higher 787 margins. BDS earnings from operations increased by $1,002 million, compared with the same period in 2018 primarily due to charges on the T-7A Red Hawk, MQ-25, and KC-46A Tanker programs recorded in the third quarter of 2018. BGS earnings from operations increased by $125 million primarily due to higher revenues and improved performance and mix.

Core operating earnings for the nine and three months ended September 30, 2019 decreased by $7,657 million and $995 million compared with the same periods in 2018 primarily due to lower earnings at BCA, partially offset by higher earnings at BDS and BGS.

38

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Unallocated Items, Eliminations and Other**The most significant items included in Unallocated items, eliminations and other are shown in the following table:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Share-based plans |  | **($57** | **)** |  |  | ($60 | ) |  |  | **($21** | **)** |  |  | ($24 | ) |
| Deferred compensation | **(154** | | **)** |  | (112 | | ) |  | **(25** | | **)** |  | (56 | | ) |
| Amortization of previously capitalized interest | **(68** | | **)** |  | (67 | | ) |  | **(23** | | **)** |  | (19 | | ) |
| Research and development expense, net | **(270** | | **)** |  | (69 | | ) |  | **(97** | | **)** |  | (50 | | ) |
| Customer financing impairment | **(250** | | **)** |  |  | |  |  |  | |  |  |  | |  |
| Litigation | **(109** | | **)** |  | (148 | | ) |  |  | |  |  |  | |  |
| Eliminations and other unallocated items | **(819** | | **)** |  | (737 | | ) |  | **(356** | | **)** |  | (322 | | ) |
| Unallocated items, eliminations and other |  | **($1,727** | **)** |  |  | ($1,193 | ) |  |  | **($522** | **)** |  |  | ($471 | ) |

The deferred compensation expense increased by $42 million for the nine months ended September 30, 2019 compared with the same period in 2018 primarily driven by changes in broad market conditions.

Research and development expense increased by $201 million and $47 million for the nine and three months ended September 30, 2019 compared with the same periods in 2018 primarily due to enterprise investments in new products and technologies.

During the first quarter of 2019, we recorded a $250 million charge related to the impairment of lease incentives with one customer that is currently experiencing liquidity issues.

During the second quarter of 2019, we recorded a charge of $109 million related to ongoing litigation associated with recoverable costs on U.S. government contracts. In the second quarter of 2018, we recorded a charge of $148 million related to the outcome of the Spirit litigation.

A portion of service cost is recognized in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods.

Net periodic pension benefit costs included in Earnings from operations were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
| **Pension Plans** | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Allocated to business segments |  | **($1,057** | **)** |  |  | ($1,017 | ) |  |  | **($350** | **)** |  |  | ($339 | ) |
| Pension FAS/CAS service cost adjustment | **823** | |  |  | 780 | |  |  | **274** | |  |  | 260 | |  |
| Net periodic benefit cost included in Earnings from operations |  | **($234** | **)** |  |  | ($237 | ) |  |  | **($76** | **)** |  |  | ($79 | ) |

The pension FAS/CAS service cost adjustment recognized in earnings in 2019 is largely consistent with the same periods in the prior year. The net periodic benefit costs included in Earnings from operations in 2019 is largely consistent with the same periods in the prior year.

For discussion related to Postretirement Plans, see Note 14 to our Condensed Consolidated Financial Statements.

39

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Other Earnings Items**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| **Earnings from operations** |  | **$229** |  |  |  | $7,812 |  |  | **$1,259** |  |  |  | $2,227 |  |
| Other income | **334** | |  |  | 63 | |  | **121** | |  |  | 12 | |  |
| Interest and debt expense | **(480** | | **)** |  | (317 | | ) | **(203** | | **)** |  | (106 | | ) |
| **Earnings from operations** | **83** | |  |  | 7,558 | |  | **1,177** | |  |  | 2,133 | |  |
| Income tax benefit/(expense) | **291** | |  |  | (522 | | ) | **(10** | | **)** |  | 230 | |  |
| **Net earnings from continuing operations** |  | **$374** |  |  |  | $7,036 |  |  | **$1,167** |  |  |  | $2,363 |  |

Other income increased by $271 million and $109 million during the nine and three months ended September 30, 2019, primarily due to non-operating pension expense. Non-operating pension expense was a benefit of $280 million and $93 million during the nine and three months ended September 30, 2019 compared with $98 million and $50 million during the same periods in 2018. The benefits in 2019 reflect lower amortization of actuarial losses driven by higher discount rates. This is partially offset by higher interest costs and lower expected returns, as a result of the lower value of plan assets at December 31, 2018 compared to 2017.

Higher interest and debt expense for the nine and three months ended September 30, 2019 is a result of higher debt balances.

For discussion related to Income Taxes, see Note 4 to our Condensed Consolidated Financial Statements.

**Total Costs and Expenses (“Cost of Sales”)**

Cost of sales, for both products and services, consists primarily of raw materials, parts, sub-assemblies, labor, overhead and subcontracting costs. Our BCA segment predominantly uses program accounting to account for cost of sales. Under program accounting, cost of sales for each commercial airplane program equals the product of (i) revenue recognized in connection with customer deliveries and (ii) the estimated cost of sales percentage applicable to the total remaining program. For long-term contracts, the amount reported as cost of sales is recognized as incurred. Substantially all contracts at our BDS segment and certain contracts at our BGS segment are long-term contracts with the U.S. government and other customers that generally extend over several years. Costs on these contracts are recorded as incurred. Cost of sales for commercial spare parts is recorded at average cost.

The following table summarizes cost of sales:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | | | | **Three months ended September 30** | | | | | | | | | |
|  | **2019** | |  |  | 2018 | |  | Change | |  | **2019** | |  |  | 2018 | |  | Change | |  |
| Cost of sales |  | **$53,385** |  |  |  | $59,400 |  |  | ($6,015 | ) |  | **$16,930** |  |  |  | $21,040 |  |  | ($4,110 | ) |
| Cost of sales as a % of Revenues | **91.0** | | **%** |  | 81.6 | | % | 9.4 | | % | **84.7** | | **%** |  | 83.7 | | % | 1.0 | | % |

Cost of sales for the nine and three months ended September 30, 2019 decreased by $6,015 million, or 10% and by $4,110 million, or 20% compared with the same periods in 2018, primarily due to lower revenue and lower reach-forward losses. Cost of sales as a percentage of Revenues increased in 2019 resulting from the reduction in revenue due to the 737 MAX grounding.

40

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Research and Development**The following table summarizes our Research and development expense:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Commercial Airplanes |  | **$1,529** |  |  |  | $1,616 |  |  | **$467** |  |  |  | $517 |  |
| Defense, Space & Security | **569** | |  |  | 613 | |  | **185** | |  |  | 211 | |  |
| Global Services | **102** | |  |  | 119 | |  | **29** | |  |  | 48 | |  |
| Other | **270** | |  |  | 69 | |  | **97** | |  |  | 50 | |  |
| Total |  | **$2,470** |  |  |  | $2,417 |  |  | **$778** |  |  |  | $826 |  |

Research and development expense increased by $53 million during the nine months ended September 30, 2019 compared to the prior period in 2018, primarily due to enterprise and BCA investments in product development, partially offset by lower 777X and 737 MAX spending. Research and development expense decreased by $48 million during the three months ended September 30, 2019 compared to the prior period in 2018, primarily due to lower spending on 777X and 737 MAX, partially offset by higher enterprise and BCA investments in product development.

**Backlog**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **September 30 2019** | |  |  | December 31 2018 | |  |
| Commercial Airplanes |  | **$387,397** |  |  |  | $408,140 |  |
| Defense, Space & Security | **61,740** | |  |  | 61,277 | |  |
| Global Services | **21,088** | |  |  | 21,064 | |  |
| **Total Backlog** |  | **$470,225** |  |  |  | $490,481 |  |
|  |  | | |  |  | | |
| Contractual backlog |  | **$444,711** |  |  |  | $462,070 |  |
| Unobligated backlog | **25,514** | |  |  | 28,411 | |  |
| **Total Backlog** |  | **$470,225** |  |  |  | $490,481 |  |

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The decrease during the nine months ended September 30, 2019 was primarily due to BCA deliveries in excess of new orders and a reduction in backlog related to orders from a customer experiencing liquidity issues, partially offset by BDS current year contract awards in excess of revenue recognized on contracts awarded in prior years.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The decrease during the nine months ended September 30, 2019 was primarily due to reclassifications to contractual backlog related to BGS and BDS contracts.

**Export-Import Bank of the United States**Many of our non-U.S. customers finance purchases through the Export-Import Bank of the United States. Following the expiration of the bank’s charter on June 30, 2015, the bank’s charter was reauthorized in December 2015. However, from the time of that reauthorization until May 8, 2019, when the U.S. Senate confirmed members sufficient to constitute a quorum of the bank’s board of directors, the bank was not able to approve any transaction totaling more than $10 million. The bank is authorized through November 21, 2019.

If the bank's charter is not reauthorized on a timely basis, or if the bank’s future funding authority is insufficient to meet our customers’ needs, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay purchases if they cannot obtain financing at reasonable costs, and there may be further impacts with respect to future sales campaigns involving non-U.S. customers.

41

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Global Trade** In June 2018, the U.S. Government began imposing tariffs on steel and aluminum imports. In response to these tariffs, several major U.S. trading partners have imposed, or announced their intention to impose, tariffs on U.S. goods. In May 2019, the U.S. Government, Mexico and Canada reached an agreement to end the steel and aluminum tariffs between these countries. We continue to monitor this agreement and the potential for any extra costs that may result from the remaining global tariffs.

In July 2018, the U.S. and China began imposing tariffs on approximately $34 billion of each other's exports. Certain aircraft parts and components that Boeing procures are subject to these tariffs. Subsequently, the U.S. imposed tariffs on an additional $216 billion in Chinese goods, and China imposed tariffs on an additional $76 billion worth of U.S goods. Negotiations to resolve the trade dispute are currently ongoing.

The continued global trade tension has resulted in market uncertainties and fewer orders than anticipated for our commercial aircraft. In the third quarter of 2019, we decided to reduce the production rate on the 787 program for approximately two years beginning in late 2020. We continue to monitor the potential for additional disruption and adverse revenue and/or cost impacts that may result from global trade tension including, the potential imposition of further tariffs, or other future geopolitical economic developments.

The U.S. Government continues to impose and/or consider imposing sanctions on certain businesses and individuals in Russia. Although our operations or sales in Russia have not been impacted to date, we continue to monitor additional sanctions that may be imposed by the U.S. Government and any responses from Russia that could affect our supply chain, business partners or customers.

**Segment Results of Operations and Financial Condition**

**Commercial Airplanes**

**Business Environment and Trends**

**Airline Industry Environment**

Our updated 20-year forecast, published in June 2019, projects a long-term average growth rate of 4.6% per year for passenger traffic and 4.2% for cargo traffic. Based on long-term global economic growth projections of 2.7% average annual GDP growth, we project a $6.8 trillion market for 44,040 new airplanes over the next 20 years.

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | | |  | 2018 | | | **2019** | | |  | 2018 | | |
| Revenues |  | **$24,793** |  |  |  | $40,968 |  |  | **$8,249** |  |  |  | $14,071 |  |
| (Loss)/Earnings from operations |  | **($3,813** | **)** |  |  | $5,230 |  |  | **($40** | **)** |  |  | $2,033 |  |
| Operating margins | **(15.4** | | **)%** |  | 12.8 | | % | **(0.5** | | **)%** |  | 14.4 | | % |

**Revenues**

Revenues for the nine months ended September 30, 2019 decreased by $16,175 million compared with the same period in 2018 driven by lower deliveries and a revenue reduction of $5,610 million that was recorded in the second quarter of 2019 related to estimated potential concessions and other considerations to customers for disruptions and associated delivery delays related to the 737 MAX grounding.

Revenues for the three months ended September 30, 2019 decreased by $5,822 million compared with the same period in 2018 driven by lower deliveries due to the 737 MAX grounding. The 737 MAX grounding will continue to have a significant impact on revenues until deliveries resume.

42

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

Commercial airplane deliveries, including intercompany deliveries, were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **737** |  | \* | **747** |  |  | **767** |  | \* | **777** |  | † | **787** |  |  | **Total** |  |
| Deliveries during the first nine months of 2019 | 118 |  | (15) | 5 |  |  | 32 |  | (18) | 33 |  | (1) | 113 |  |  | 301 |  |
| Deliveries during the first nine months of 2018 | 407 |  | (14) | 5 |  |  | 13 |  |  | 37 |  |  | 106 |  |  | 568 |  |
| Deliveries during the third quarter of 2019 | 5 |  | (5) | 1 |  |  | 10 |  | (4) | 11 |  |  | 35 |  |  | 62 |  |
| Deliveries during the third quarter of 2018 | 138 |  | (4) | 2 |  |  | 4 |  |  | 12 |  |  | 34 |  |  | 190 |  |
| Cumulative deliveries as of 9/30/2019 | 7,430 |  |  | 1,553 |  |  | 1,165 |  |  | 1,615 |  |  | 894 |  |  |  | |
| Cumulative deliveries as of 12/31/2018 | 7,312 |  |  | 1,548 |  |  | 1,133 |  |  | 1,582 |  |  | 781 |  |  |  | |

\* Intercompany deliveries identified by parentheses

† Aircraft accounted for as revenues by BCA and as operating leases in consolidation identified by parentheses.

**Loss/Earnings From Operations**

Loss from operations for the nine months ended September 30, 2019 was $3,813 million compared with earnings from operations of $5,230 million in the same period in 2018. This decrease of $9,043 million is primarily due to the earnings charge for the 737 MAX grounding of $5,610 million and lower 737 deliveries, partially offset by higher 787 margins.

Loss from operations for the three months ended September 30, 2019 was $40 million compared with earnings from operations of $2,033 million in the same period in 2018. This decrease of $2,073 million is primarily due to lower 737 deliveries, partially offset by higher 787 margins. The 737 MAX grounding will continue to adversely impact margins until deliveries resume.

**Backlog**

Our total backlog represents the estimated transaction prices on unsatisfied and partially satisfied performance obligations to our customers where we believe it is probable that we will collect the consideration due and where no contingencies remain before we and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the customer receiving approval from its board of directors, shareholders or government or completing financing arrangements. All such contingencies must be satisfied or have expired prior to recording a new firm order even if satisfying such conditions is highly certain. Backlog excludes options and BCC orders. A number of our customers may have contractual remedies that may be implicated by program delays. We address customer claims and requests for other contractual relief as they arise. The value of orders in backlog is adjusted as changes to price and schedule are agreed to with customers and is reported in accordance with the requirements of Topic 606.

BCA total backlog decreased from $408,140 million as of December 31, 2018 to $387,397 million at September 30, 2019 primarily due to deliveries in excess of new orders and a reduction in backlog related to orders from a customer experiencing liquidity issues. While the 737 MAX grounding has not resulted in significant order cancellations, we are experiencing fewer new 737 MAX orders than we were receiving prior to the grounding.

43

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Accounting Quantity**

The following table provides details of the accounting quantities and firm orders by program. Cumulative firm orders represent the cumulative number of commercial jet aircraft deliveries plus undelivered firm orders.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **Program** | | | | | | | | | | | | | | | | |  |
| **As of 9/30/2019** | | **737** |  |  | **747\*** |  |  | **767** |  |  | **777** |  | † | **777X** |  |  | **787** |  | † |
| Program accounting quantities | | **10,400** |  |  | **1,574** |  |  | **1,195** |  |  | **1,690** |  |  | **\*\*** |  |  | **1,600** |  |  |
| Undelivered units under firm orders | | **4,406** |  |  | **19** |  |  | **105** |  |  | **85** |  | (1) | **344** |  |  | **529** |  | (31) |
| Cumulative firm orders | | **11,836** |  |  | **1,572** |  |  | **1,270** |  |  | **1,700** |  |  | **344** |  |  | **1,423** |  |  |
|  | |  | |  |  | |  |  | |  |  | |  |  | |  |  | |  |
| As of 12/31/2018 | | 737 |  | † | 747 |  |  | 767 |  |  | 777 |  | † | 777X |  |  | 787 |  | † |
| Program accounting quantities | | 10,400 |  |  | 1,574 |  |  | 1,195 |  |  | 1,680 |  |  | \*\* |  |  | 1,600 |  |  |
| Undelivered units under firm orders | | 4,708 |  | (75) | 24 |  |  | 111 |  |  | 100 |  | (2) | 326 |  |  | 604 |  | (30) |
| Cumulative firm orders | | 12,020 |  |  | 1,572 |  |  | 1,244 |  |  | 1,682 |  |  | 326 |  |  | 1,385 |  |  |
|  |  |
| † | Aircraft ordered by BCC are identified in parentheses |

|  |  |
| --- | --- |
|  |  |
| \* | At September 30, 2019, the 747 accounting quantity includes one already completed aircraft that has not been sold and is being remarketed. |

|  |  |
| --- | --- |
|  |  |
| \*\* | The accounting quantity for the 777X will be determined in the year of first airplane delivery. |

**Program Highlights**

**737 Program**See the discussion of the 737 MAX Grounding and 737NG Structure (Pickle Fork) in Note 11 and 19 to our Condensed Consolidated Financial Statements*.*

**747 Program**We are currently producing at a rate of 0.5 aircraft per month. We continue to evaluate the viability of the 747 program. We believe that a decision to end production of the 747 at the end of the current accounting quantity would not have a material impact on our financial position, results of operations or cash flows.

**767 Program**The 767 assembly line includes a 767 derivative to support the tanker program. We are currently producing at a rate of 2.5 per month and plan to increase to 3 per month in 2020.

**777 Program**The accounting quantity for the 777 program increased by 10 units during the three months ended June 30, 2019 due to the program’s normal progress of obtaining additional orders and delivering airplanes. In 2013, we launched the 777X, which features a new composite wing, new engines and folding wing-tips. We have experienced issues in engine design and development on the 777X and have delayed first flight to early 2020, with first delivery now targeted for early 2021. The 777 and 777X programs have a combined production rate of 5 per month. We plan to produce more 777 models and fewer 777X models in the near term than previously planned. We expect to deliver at an average rate of 3 per month in 2020. The 777X will have a separate program accounting quantity, which will be determined in the year of first airplane delivery.

**787 Program**At the end of the first quarter of 2019, we increased the production rate from 12 per month to 14 per month. We delivered the first 787-10 in March 2018. Continued global trade tension has resulted in market uncertainties and fewer orders than anticipated. During the third quarter of 2019, we decided to reduce the 787 production rate to 12 per month for approximately two years beginning in late 2020.

44

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Additional Considerations**

The development and ongoing production of commercial aircraft is extremely complex, involving extensive coordination and integration with suppliers and highly-skilled labor from employees and other partners. Meeting or exceeding our performance and reliability standards, as well as those of customers and regulators, can be costly and technologically challenging. In addition, the introduction of new aircraft and derivatives, such as the 777X, involves increased risks associated with meeting development, production and certification schedules. As a result, our ability to deliver aircraft on time, satisfy performance and reliability standards and achieve or maintain, as applicable, program profitability is subject to significant risks. Factors that could result in lower margins (or a material charge if an airplane program has or is determined to have reach-forward losses) include the following: changes to the program accounting quantity, customer and model mix, production costs and rates, changes to price escalation factors due to changes in the inflation rate or other economic indicators, performance or reliability issues involving completed aircraft, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, additional change incorporation, achieving anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for new airplanes and derivatives and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the consolidated financial statements are appropriate, the technical complexity of our airplane programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.

**Defense, Space & Security**

**Business Environment and Trends**

**United States Government Defense Environment Overview**

The Bipartisan Budget Act (BBA) of 2019 raised the Budget Control Act limits on federal discretionary defense and non-defense spending for fiscal years 2020 and 2021 (FY20 and FY21), reducing budget uncertainty and the risk of sequestration. Although overall funding levels have been agreed to, the timeliness of FY20 funding for government departments and agencies, including the Department of Defense (DoD), the National Aeronautics and Space Administration (NASA) and the Federal Aviation Administration (FAA), remains a risk. The Continuing Resolution (CR), enacted on September 27, 2019, continues federal funding at FY19 appropriations levels through November 21, 2019. Congress and the President must enact either full-year FY20 appropriations bills or an additional CR to fund government departments and agencies beyond November 21, 2019 in order to prevent a future government shutdown.

A government shutdown may impact the Company's operations. 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. Congress may fund FY20 by passing one or more CRs; however, this could restrict the execution of certain program activities and delay new programs or competitions.

There continues to be uncertainty with respect to future program-level appropriations for the U.S. DoD and other government agencies, including NASA. 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 our results of operations, financial position and/or cash flows.

45

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |  | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |  | **2019** | |  |  | 2018 | |  |
| Revenues |  | **$20,265** |  |  |  | $19,518 |  |  |  | **$7,042** |  |  |  | $6,937 |  |
| Earnings from operations |  | **$2,577** |  |  |  | $886 |  |  |  | **$755** |  |  |  | ($247 | ) |
| Operating margins | **12.7** | | **%** |  | 4.5 | | % |  | **10.7** | | **%** |  | (3.6 | | )% |

Since our operating cycle is long-term and involves many different types of development and production contracts with varying delivery and milestone schedules, the operating results of a particular period may not be indicative of future operating results. In addition, depending on the customer and their funding sources, our orders might be structured as annual follow on contracts, or as one large multi-year order or long-term award. As a result, period-to-period comparisons of backlog are not necessarily indicative of future workloads. The following discussions of comparative results among periods should be viewed in this context.

Deliveries of units for new-build production aircraft, including remanufactures and modifications, were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Nine months ended September 30** | | |  | **Three months ended September 30** | | |
|  | **2019** |  | 2018 |  | **2019** |  | 2018 |
| F/A-18 Models | **16** |  | 10 |  | **6** |  | 5 |
| F-15 Models | **7** |  | 8 |  | **2** |  | 3 |
| C-17 Globemaster III | **1** |  |  |  | **1** |  |  |
| CH-47 Chinook (New) | **13** |  | 11 |  | **6** |  | 2 |
| CH-47 Chinook (Renewed) | **16** |  | 14 |  | **7** |  | 6 |
| AH-64 Apache (New) | **27** |  |  |  | **17** |  |  |
| AH-64 Apache (Remanufactured) | **56** |  | 12 |  | **21** |  | 6 |
| P-8 Models | **14** |  | 10 |  | **6** |  | 2 |
| KC-46 Tanker | **21** |  |  |  | **9** |  |  |
| C-40A | **2** |  |  |  | **2** |  |  |
| Total | **173** |  | 65 |  | **77** |  | 24 |

**Revenues**

BDS revenues for the nine months ended September 30, 2019 increased by $747 million compared with the same period in 2018, primarily due to higher revenues from satellites, weapons, derivative aircraft, and early warning aircraft, partially offset by lower revenue for fighters and C-17. The favorable impact of cumulative contract catch-up adjustments to revenue for the nine months ended September 30, 2019 was $230 million higher than the comparable period in the prior year, reflecting decreased unfavorable adjustments on the KC-46A Tanker.

BDS revenues for the three months ended September 30, 2019 increased by $105 million compared with the same period in 2018, primarily due to higher revenues from satellites, weapons, and T-7A Red Hawk, partially offset by lower revenues for the F-15 program. Net unfavorable cumulative contract catch-up adjustments to revenue for the three months ended September 30, 2019 was $70 million lower compared with the same period in 2018, reflecting decreased unfavorable adjustments on the KC-46A Tanker.

46

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Earnings From Operations**

BDS earnings from operations for the nine and three months ended September 30, 2019 increased by $1,691 million and $1,002 million compared with the same periods in 2018, primarily due to lower charges on development programs. During the third quarter of 2018, upon contract award, we recorded charges of $400 million associated with anticipated losses on the T-7A Red Hawk and $291 million on the MQ-25. During the nine and three months ended September 30, 2018, BDS recorded reach-forward losses of $674 million and $176 million related to the KC-46A Tanker program.

The favorable impact of cumulative contract catch-up adjustments for the nine months ended September 30, 2019 was $495 million higher than the comparable period in the prior year, reflecting decreased unfavorable adjustments on the KC-46A Tanker. Net unfavorable cumulative contract catch-up adjustments were lower by $160 million for the three months ended September 30, 2019 compared with the same period in 2018, reflecting decreased unfavorable adjustments on the KC-46A Tanker.

BDS earnings from operations include equity earnings of $125 million and $60 million for the nine and three months ended September 30, 2019 compared to $139 million and $48 million for the same periods in 2018 primarily reflecting earnings on our ULA joint venture.

**Backlog**

Total backlog increased from $61,277 million at December 31, 2018 to $61,740 million at September 30, 2019 primarily due to current year contract awards including F/A-18 fighters, P-8A Poseidon, KC-46A Tanker, and E-7 Airborne Early Warning & Control, partially offset by revenue recognized on contracts awarded in prior years.

**Additional Considerations**

Our BDS business includes a variety of development programs which have complex design and technical challenges. Many of these programs have cost-type contracting arrangements. In these cases, the associated financial risks are primarily in reduced fees, lower profit rates or program cancellation if cost, schedule or technical performance issues arise. Examples of these programs include Ground-based Midcourse Defense, Proprietary and Space Launch System programs.

Some of our development programs are contracted on a fixed-price basis and BDS customers are increasingly seeking fixed priced proposals for new programs. Examples of significant fixed-price development programs include Commercial Crew, USAF KC-46A Tanker, T-7A Red Hawk (formerly T-X Trainer), VC-25B Presidential Aircraft, MQ-25, and commercial and military satellites. New programs could also have risk for reach-forward loss upon contract award and during the period of contract performance. In the third quarter of 2018, we were awarded contracts to develop the T-7A Red Hawk aircraft with complementary devices and the MQ-25. We recorded orders of $1,618 million and recognized losses of $691 million associated with these contracts. Many development programs have highly complex designs. As technical or quality issues arise during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues.

**KC-46A Tanker**In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. The KC-46A Tanker is a derivative of our 767 commercial aircraft. 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 2015, we began work on low rate initial production (LRIP) aircraft for the USAF. In 2016, following our achievement of key flight testing milestones, the USAF authorized two LRIP lots for 7 and 12 aircraft valued

47

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

at $2.8 billion and in 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. On September 10, 2018, the USAF authorized an additional LRIP lot for 18 aircraft valued at $2.9 billion. On September 27, 2019, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.6 billion. The contract contains production options for both LRIP aircraft and full rate production aircraft. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately $30 billion.

During 2018, we recorded additional reach-forward losses of $736 million primarily reflecting higher estimated costs associated with certification, flight testing and change incorporation on aircraft, as well as higher than expected effort to meet customer requirements in order to support delivery of the initial aircraft.

As with any development program, this program remains subject to additional reach-forward losses if we experience further production, technical or quality issues.

**United Launch Alliance** See the discussion of Indemnifications to ULA and Financing Commitments in Notes 5, 11 and 12 of our Condensed Consolidated Financial Statements.

**Sea Launch** See the discussion of the Sea Launch receivables in Note 9 to our Condensed Consolidated Financial Statements.

**Commercial Crew** See the discussion of Fixed-Price Development Contracts in Note 11 to our Condensed Consolidated Financial Statements.

**T-7A Red Hawk**In September 2018, we were selected by the U.S. Air Force to build the next generation training capability, known as T-7A Red Hawk (formerly T-X Trainer). The program includes aircraft and simulators as well as support and ground equipment. The contract is structured as an indefinite delivery/indefinite quantity (IDIQ) fixed-price contract with a minimum of 206 aircraft and a maximum of 475 aircraft. The EMD contract is a fixed-price contract valued at $813 million and includes five aircraft and seven simulators, with a period of performance that runs through 2022. The production and support contracts are structured as options that begin with authorization from fiscal year 2022 to 2034. In connection with winning this competition, we recorded a reach-forward loss of $400 million associated with anticipated losses on the options for 346 aircraft that we believe are probable of being exercised. We believe that our investment in this contract positions us for additional market opportunities for both trainer and light attack aircraft.

**MQ-25**In August 2018, we were awarded an EMD contract to build the MQ-25 for the U.S. Navy. The EMD contract is a fixed-price contract that includes development and delivery of four aircraft and test articles at a contract price of $805 million. In connection with winning this competition, we recognized a reach-forward loss of $291 million. The period of performance runs from 2018 through 2024. The MQ-25 is the U.S. Navy’s first operational carrier-based unmanned aircraft, and we believe that our investment in this contract positions us for long-term leadership in autonomy and artificial intelligence technologies along with additional market opportunities.

48

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Global Services**

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Revenues |  | **$13,820** |  |  |  | $12,148 |  |  | **$4,658** |  |  |  | $4,101 |  |
| Earnings from operations |  | **$2,013** |  |  |  | $1,799 |  |  | **$673** |  |  |  | $548 |  |
| Operating margins | **14.6** | | **%** |  | 14.8 | | % | **14.4** | | **%** |  | 13.4 | | % |

**Revenues**

BGS revenues for the nine and three months ended September 30, 2019 increased by $1,672 million and $557 million compared with the same periods in 2018 primarily due to the acquisition of KLX, Inc. in the fourth quarter of 2018 and international government services revenue. Net favorable cumulative contract catch-up adjustments to revenue were lower by $50 million for the nine months ended September 30, 2019 compared with the same period in 2018. The unfavorable impact of cumulative contract catch-up adjustments to revenue was higher by $74 million for the three months ended September 30, 2019 compared with the same period in 2018.

**Earnings From Operations**

BGS earnings from operations for the nine months ended September 30, 2019 increased by $214 million compared with the same period in 2018 primarily due to higher revenues. BGS earnings from operations for the three months ended September 30, 2019 increased by $125 million primarily due to higher revenues and improved performance and mix. Net favorable cumulative contract catch-up adjustments were lower by $27 million and lower by $31 million for the nine and three months ended September 30, 2019 compared with the same periods in 2018.

**Backlog**

BGS total backlog increased from $21,064 million as of December 31, 2018 to $21,088 million at September 30, 2019.

**Boeing Capital**

**Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Revenues |  | **$207** |  |  |  | $214 |  |  | **$66** |  |  |  | $77 |  |
| Earnings from operations |  | **$86** |  |  |  | $71 |  |  | **$29** |  |  |  | $27 |  |
| Operating margins | **42** | | **%** |  | 33 | | % | **44** | | **%** |  | 35 | | % |

**Revenues**

Boeing Capital (BCC) segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC’s revenues for the nine and three months ended September 30, 2019 decreased compared with the same periods in 2018 primarily due to lower gains on the sale of assets.

**Earnings From Operations**

BCC’s earnings from operations are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from

49

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

operations for the nine and three months ended September 30, 2019 increased compared with the same periods in 2018 primarily due to lower operating expenses.

**Financial Position**

The following table presents selected financial data for BCC:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **September 30 2019** | |  |  | December 31 2018 | |  |
| Customer financing and investment portfolio, net |  | **$2,226** |  |  |  | $2,790 |  |
| Other assets, primarily cash and short-term investments | **523** | |  |  | 717 | |  |
| Total assets |  | **$2,749** |  |  |  | $3,507 |  |
|  |  | | |  |  | | |
| Other liabilities, primarily deferred income taxes |  | **$448** |  |  |  | $523 |  |
| Debt, including intercompany loans | **1,891** | |  |  | 2,487 | |  |
| Equity | **410** | |  |  | 497 | |  |
| Total liabilities and equity |  | **$2,749** |  |  |  | $3,507 |  |
|  |  | | |  |  | | |
| Debt-to-equity ratio | **4.6-to-1** | |  |  | 5.0-to-1 | |  |

BCC’s customer financing and investment portfolio at September 30, 2019 decreased from December 31, 2018 primarily due to $585 million of note payoffs and portfolio run-off and $250 million related to the impairment of lease incentives, partially offset by new volume.

BCC enters into certain transactions with Boeing, reflected in Unallocated items, eliminations and other, in the form of intercompany guarantees and other subsidies that mitigate the effects of certain credit quality or asset impairment issues on the BCC segment. The $250 million impairment of lease incentives did not result in an earnings charge in the BCC segment because of an intercompany guarantee.

Aircraft subject to leases with a carrying value of approximately $101 million are scheduled to be returned off lease in the next 12 months. We are seeking to remarket these aircraft or have the leases extended.

**Liquidity and Capital Resources**

**Cash Flow Summary**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(Dollars in millions)* | **Nine months ended September 30** | | | | | | |
|  | **2019** | |  |  | 2018 | |  |
| Net earnings |  | **$374** |  |  |  | $7,036 |  |
| Non-cash items | **2,052** | |  |  | 1,823 | |  |
| Changes in working capital | **(2,652** | | **)** |  | 3,516 | |  |
| Net cash (used)/provided by operating activities | **(226** | | **)** |  | 12,375 | |  |
| Net cash used by investing activities | **(2,047** | | **)** |  | (2,197 | | ) |
| Net cash provided/(used) by financing activities | **4,336** | |  |  | (10,866 | | ) |
| Effect of exchange rate changes on cash and cash equivalents | **(27** | | **)** |  | (37 | | ) |
| Net increase/(decrease) in cash & cash equivalents, including restricted | **2,036** | |  |  | (725 | | ) |
| Cash & cash equivalents, including restricted, at beginning of year | **7,813** | |  |  | 8,887 | |  |
| Cash & cash equivalents, including restricted, at end of period |  | **$9,849** |  |  |  | $8,162 |  |

**Operating Activities** Net cash used by operating activities was $0.2 billion during the nine months ended September 30, 2019, compared with cash provided of $12.4 billion during the same period in 2018. The decrease in operating cash flows compared with the same period in 2018 primarily reflects the impacts of

50

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

the 737 MAX grounding that is resulting in higher inventory, the lack of delivery payments and lower advances and progress payments. The reduction in net earnings from operations for the nine months ended September 30, 2019 compared with the same period in 2018, is primarily due to the $5.6 billion charge in the second quarter of 2019 for estimated potential concessions and other considerations to 737 MAX customers, which did not affect cash flows, and lower 737 deliveries. Cash used by Inventory was $9.6 billion during the nine months ended September 30, 2019, primarily due to the suspension of 737 MAX deliveries, which resulted in higher commercial airplane program inventory as we continue to produce 737 MAX aircraft at a rate of 42 per month. Cash provided by Advances and progress billings was $2.4 billion and $3.5 billion during the nine months ended September 30, 2019 and 2018 reflecting the suspension of 737 MAX deliveries and lower 737 MAX orders. Net cash provided by operating activities in future quarters is expected to be adversely impacted by the 737 MAX grounding.

**Investing Activities** Cash used by investing activities was $2.0 billion during the nine months ended September 30, 2019, compared with $2.2 billion during the same period in 2018, primarily due to lower net contributions to investments and higher proceeds from property sales in 2019, partially offset by higher cash paid for acquisitions and capital expenditures in 2019. In the nine months ended September 30, 2019 and 2018, capital expenditures totaled $1.4 billion and $1.2 billion. We expect capital expenditures in 2019 to be consistent with 2018.

**Financing Activities** Cash provided by financing activities was $4.3 billion during the nine months ended September 30, 2019 compared with cash used of $10.9 billion during the same period in 2018, primarily reflecting higher net borrowings and lower share repurchases, partially offset by higher dividend payments in 2019. During the nine months ended September 30, 2019, new borrowings net of repayments increased by $10.6 billion compared with an increase of $0.7 billion in the same period in 2018.

At September 30, 2019, the recorded balance of debt was $24.7 billion, of which $4.4 billion was classified as short-term. Debt, including intercompany loans, attributable to BCC totaled $1.9 billion, of which $0.7 billion was classified as short-term.

During the nine months ended September 30, 2019 we repurchased 6.9 million shares totaling $2.7 billion through our open market share repurchase program. In addition, 0.6 million shares were transferred to us from employees for tax withholdings. Share repurchases during the nine months ended September 30, 2018 totaled $8.4 billion. At September 30, 2019, the amount available under the share repurchase plan, announced on December 17, 2018, totaled $17.3 billion. Share repurchases under this plan are currently suspended.

**Capital Resources** We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We have a commercial paper program that serves as a source of short-term liquidity. At September 30, 2019 and December 31, 2018 commercial paper borrowings totaled $2,990 million and $1,895 million. Currently, we have $6.6 billion of unused borrowing capacity on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support our general corporate borrowing needs.

Financing commitments totaled $15.6 billion and $19.5 billion at September 30, 2019 and December 31, 2018. The decrease primarily relates to financing commitment expirations. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. In addition, many of our non-U.S. customers have financed purchases through the Export-Import Bank of the United States. Following the expiration of the bank’s charter on June 30, 2015, the bank’s charter was reauthorized in December 2015. However, from the time of that reauthorization until May 8, 2019, when the U.S. Senate confirmed members sufficient to constitute a quorum of the bank’s board of directors, the bank was not able to approve any transaction totaling more than $10 million. The bank is authorized through November 21, 2019. If the bank's charter is not reauthorized on a timely basis, or if the bank’s future funding authority is insufficient to meet our customers’ needs, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay purchases if they cannot obtain financing at

51

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

reasonable costs, and there may be further impacts with respect to future sales campaigns involving non-U.S. customers.

In the event we require additional funding to support strategic business opportunities, our commercial aircraft financing commitments, unfavorable resolution of litigation or other loss contingencies, or other business requirements, including impacts related to the 737 MAX grounding, we expect to meet increased funding requirements by issuing commercial paper or term debt. We believe our ability to access external capital resources should be sufficient to satisfy existing short-term and long-term commitments and plans, and also to provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise within the next year. However, there can be no assurance of the cost or availability of future borrowings, if any, under our commercial paper program or in the debt markets.

At September 30, 2019, we were in compliance with the covenants for our debt and credit facilities. The most restrictive covenants include a limitation on mortgage debt and sale and leaseback transactions as a percentage of consolidated net tangible assets (as defined in the credit agreements), and a limitation on consolidated debt as a percentage of total capital (as defined). When considering debt covenants, we continue to have substantial borrowing capacity.

**Off-Balance Sheet Arrangements**

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 12 to our Condensed Consolidated Financial Statements.

**Contingent Obligations**

We have significant contingent obligations that arise in the ordinary course of business, which include the following:

**Legal** Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 19 to our Condensed Consolidated Financial Statements.

**Environmental Remediation** We are involved with various environmental remediation activities and have recorded a liability of $582 million at September 30, 2019. For additional information, see Note 11 to our Condensed Consolidated Financial Statements.

52

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Non-GAAP Measures**

**Core Operating Earnings, Core Operating Margin and Core Earnings Per Share**

Our unaudited condensed consolidated interim financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Core operating earnings, and core operating margin and core earnings per share exclude the FAS/CAS service cost adjustment. The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. Core earnings per share excludes both the FAS/CAS service cost adjustment and non-operating pension and postretirement expenses. Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. Pension costs, comprising service and prior service costs computed in accordance with GAAP are allocated to BCA and certain BGS businesses supporting commercial customers. Pension costs allocated to BDS and BGS businesses supporting government customers are computed in accordance with U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. CAS costs are allocable to government contracts. Other postretirement benefit costs are allocated to all business segments based on CAS, which is generally based on benefits paid.

The Pension FAS/CAS service cost adjustment recognized in earnings was a benefit of $823 million and $274 million for the nine and three months ended September 30, 2019, compared with a benefit of $780 million and $260 million during the same periods in 2018. The non-operating pension expense included in Other income was a benefit of $280 million and $93 million for the nine and three months ended September 30, 2019 compared with $98 million and $50 million for the same periods in 2018. The benefits in 2019 reflect lower amortization of actuarial losses driven by higher discount rates. This is partially offset by higher interest costs and lower expected returns, as a result of the lower value of plan assets at December 31, 2018 compared to 2017.

For further discussion of pension and other postretirement costs see the Management’s Discussion and Analysis on page 39 of this Form 10-Q and on page 45 of our 2018 Annual Report on Form 10-K. Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost, primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

53

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Reconciliation of GAAP Measures to Non-GAAP Measures**

The table below reconciles the non-GAAP financial measures of core operating earnings, core operating margin and core earnings per share with the most directly comparable GAAP financial measures of earnings from operations, operating margins and diluted earnings per share.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | | **Nine months ended September 30** | | | | | | | **Three months ended September 30** | | | | | | |
|  | | **2019** | |  |  | 2018 | |  | **2019** | |  |  | 2018 | |  |
| Revenues | |  | **$58,648** |  |  |  | $72,786 |  |  | **$19,980** |  |  |  | $25,146 |  |
| Earnings from operations, as reported | |  | **$229** |  |  |  | $7,812 |  |  | **$1,259** |  |  |  | $2,227 |  |
| Operating margins | | **0.4** | | **%** |  | 10.7 | | % | **6.3** | | **%** |  | 8.9 | | % |
|  | |  | | |  |  | | |  | | |  |  | | |
| Pension FAS/CAS service cost adjustment(1) | |  | **($823** | **)** |  |  | ($780 | ) |  | **($274** | **)** |  |  | ($260 | ) |
| Postretirement FAS/CAS service cost adjustment(1) | |  | **($270** | **)** |  |  | ($239 | ) |  | **($90** | **)** |  |  | ($77 | ) |
| FAS/CAS service cost adjustment(1) | |  | **($1,093** | **)** |  |  | ($1,019 | ) |  | **($364** | **)** |  |  | ($337 | ) |
| Core operating (loss)/earnings (non-GAAP) | |  | **($864** | **)** |  |  | $6,793 |  |  | **$895** |  |  |  | $1,890 |  |
| Core operating margins (non-GAAP) | | **(1.5** | | **)%** |  | 9.3 | | % | **4.5** | | **%** |  | 7.5 | | % |
|  | |  | | |  |  | | |  | | |  |  | | |
| Diluted earnings per share, as reported | |  | **$0.66** |  |  |  | $11.95 |  |  | **$2.05** |  |  |  | $4.07 |  |
| Pension FAS/CAS service cost adjustment(1) | | **(1.45** | | **)** |  | (1.32 | | ) | **(0.48** | | **)** |  | (0.45 | | ) |
| Postretirement FAS/CAS service cost adjustment(1) | | **(0.47** | | **)** |  | (0.41 | | ) | **(0.16** | | **)** |  | (0.13 | | ) |
| Non-operating pension expense(2) | | **(0.49** | | **)** |  | (0.17 | | ) | **(0.17** | | **)** |  | (0.09 | | ) |
| Non-operating postretirement expense (2) | | **0.14** | |  |  | 0.13 | |  | **0.05** | |  |  | 0.05 | |  |
| Provision for deferred income taxes on adjustments (3) | | **0.48** | |  |  | 0.37 | |  | **0.16** | |  |  | 0.13 | |  |
| Core (loss)/earnings per share (non-GAAP) | |  | **($1.13** | **)** |  |  | $10.55 |  |  | **$1.45** |  |  |  | $3.58 |  |
|  | |  | | |  |  | | |  | | |  |  | | |
| Weighted average diluted shares (in millions) | | **570.4** | |  |  | 588.9 | |  | **569.2** | |  |  | 580.8 | |  |
|  |  |
| (1) | FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. This adjustment is excluded from Core operating earnings (non-GAAP). |

|  |  |
| --- | --- |
|  |  |
| (2) | Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. These expenses are included in Other income, net and are excluded from Core earnings per share (non-GAAP). |

(3)     The income tax impact is calculated using the U.S. corporate statutory tax rate.

**Critical Accounting Policies and Estimates**

**737 MAX Grounding**

On March 13, 2019, the Federal Aviation Administration (FAA) issued an order to suspend operations of all 737 MAX aircraft in the U.S. and by U.S. aircraft operators following two fatal 737 MAX accidents. Non-U.S. civil aviation authorities have issued directives to the same effect. The grounding is having a significant adverse impact on our operations and creates significant uncertainty.

Multiple legal actions have been filed against us as a result of the October 29, 2018 accident of Lion Air Flight 610 and the March 10, 2019 accident of Ethiopian Airlines Flight 302. Further, we are fully cooperating with all ongoing governmental and regulatory investigations and inquiries relating to the accidents and the 737 MAX. We cannot reasonably estimate a range of loss, if any, not covered by available insurance that may result given the ongoing status of these lawsuits, investigations, and inquiries. We have also experienced claims and/or assertions from customers in connection with the grounding.

54

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

In the preparation of our financial statements, we have made assumptions regarding outcomes of accident investigations, timing and conditions of return to service, timing of future 737 production rate increases, supplier readiness to support production rate changes, timing and sequence of future customer deliveries as well as outcomes of negotiations with customers impacted by the grounding. While these assumptions reflect our best estimate at this time, they are highly uncertain and significantly affect the estimates inherent in our financial statements.

The 737 MAX grounding also affects projected revenues and costs associated with the 737 program accounting quantity. As a result of the grounding, we have reduced the 737 production rate from 52 per month to 42 per month and continue to evaluate further reductions in production rate, including a temporary shutdown in 737 production. Prior to the grounding, we had planned to increase the production rate to 57 per month in 2019. The FAA and other non-U.S. civil aviation authorities will determine the timing and conditions of the 737 MAX’s return to service. At September 30, 2019, we have assumed that regulatory approval of 737 MAX return to service begins in the fourth quarter of 2019. We have further assumed a gradual increase in the production rate from 42 per month to 57 per month by late 2020, and that deliveries of 737 MAX airplanes produced during the grounding and included within inventory will be delivered over several quarters with the majority of them delivering in the first year. The resulting impacts increased estimated costs to produce aircraft included in the current accounting quantity by $3,636 million and $872 million in the nine and three months ended September 30, 2019. These increases in the costs to produce aircraft in the current accounting quantity will reduce 737 program and overall BCA segment operating margins in future quarters after deliveries resume. If the timing and conditions surrounding a return to service differ from our assumptions, it could have a material effect on our financial statements.

We recorded an earnings charge of $5,610 million, net of insurance recoveries of $500 million, in the second quarter in connection with an estimate of potential concessions and other considerations to customers for disruptions related to the 737 MAX grounding and associated delivery delays. This charge represents our current best estimate of future concessions and other considerations we expect to provide to customers. This estimate relies on the exercise of judgment by management and is significantly impacted by the assumptions described above, as well as the status of negotiations with our customers. Any delays in return to service, further disruptions to our production system, supplier claims or assertions, or changes to estimated concessions and other considerations we expect to provide to customers could have a material adverse effect on our financial position, results of operations, and/or cash flows.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes to our market risk since December 31, 2018.

**Item 4. Controls and Procedures**

(a)Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of September 30, 2019 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b)Changes in Internal Control Over Financial Reporting.

There were no changes that occurred during the third quarter of 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

55

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Part II. Other Information**

**Item 1. Legal Proceedings**

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 19 to our Condensed Consolidated Financial Statements, which is hereby incorporated by reference.

**Item 1A. Risk Factors**

Certain risks described below update the risk factors in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

***The 737 MAX fleet is currently grounded, and we are subject to a number of risks and uncertainties related to the timing and conditions surrounding the aircraft’s return to service, including potential future reductions to the production rate and/or additional delivery delays, as well as risks associated with assumptions and estimates made in our financial statements regarding the 737 program.***

On March 13, 2019, the Federal Aviation Administration (FAA) issued an order to suspend operations of all 737 MAX aircraft in the U.S. and by U.S. aircraft operators following two fatal 737 MAX accidents. Non-U.S. civil aviation authorities have issued directives to the same effect. We are working closely with the relevant government authorities to support both accident investigations and are fully cooperating with other U.S. government investigations related to the accidents. Multiple legal actions have also been filed against us as a result of the accidents. While production continues on the 737 MAX, deliveries have been suspended until clearance is granted by the appropriate regulatory authorities. The grounding has reduced revenues, operating margins, and cash flows, and will continue to do so until deliveries resume and production rates increase. In connection with the effort to return the 737 MAX to service, we have developed software updates for the 737 MAX, together with an associated pilot training and supplementary education program. We continue to work with the FAA and non-U.S. civil aviation authorities to complete remaining steps toward certification and readiness for return to service, including addressing their questions on the software updates and how pilots will interact with the airplane controls and displays in different flight scenarios. The FAA and other civil aviation authorities worldwide will determine the timing and conditions of return to service in each relevant jurisdiction. Any unanticipated delays in certification and/or return to service or other liabilities associated with the accidents or grounding could have a material adverse effect on our financial position, results of operations, and/or cash flows.

On April 5, 2019, we announced plans to reduce the 737 production rate from 52 aircraft per month to 42 per month effective April 15, 2019. In addition to being unable to deliver completed aircraft until the required certifications are obtained, impacts related to the reduced production rate have increased costs to produce aircraft included in the current accounting quantity and will result in reduced 737 program and overall BCA segment operating margins when deliveries resume. If we are unable to return the 737 MAX aircraft to service in one or more jurisdictions or begin deliveries to customers in a timely manner, we would incur additional costs and/or further reduce the 737 production rate. In addition, unanticipated delays in certification and/or return to service of the 737 MAX in one or more jurisdictions could result in significant additional disruption to the 737 production system, including further reductions in the production rate and/or a temporary shutdown in 737 production, delaying efforts to restore and/or implement previously planned increases in the 737 production rate. Cash flows could also be negatively impacted through a combination of delayed payments from customers and higher costs and inventory levels. In addition, we have experienced claims and assertions from customers in connection with the grounding, and we recorded an earnings charge of $5,610, net of insurance recoveries of $500, in the second quarter in connection with an estimate of potential concessions and other considerations to customers for disruptions related to the grounding and associated delivery delays. Any such delays in return to service, further disruptions to our production system, supplier claims or assertions, or changes to estimated concessions or other considerations we expect to provide to customers could have a material adverse effect on our financial position, results of operations, and/or cash flows. The FAA and other civil aviation authorities worldwide will determine the timing and conditions of return to service in each relevant jurisdiction. However, we have assumed that regulatory approval of 737 MAX return to service

56

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

begins in the fourth quarter of 2019. This assumption reflects our best estimate at this time based on factors such as the estimated duration of the certification process. In the event of unanticipated additional training requirements in one or more jurisdictions, delays in the certification process, and/or delays in return to service, we may be required to take actions with longer-term impact, such as further production rate changes, employment reductions and/or the expenditure of significant resources to support our supply chain and/or customers.

As with our other commercial aircraft programs, we have made significant estimates with respect to the 737 program regarding the number of units to be produced, the period during which those units are likely to be produced, and the units’ expected sales prices, production costs, program tooling and other non-recurring costs, and routine warranty costs. In addition to the estimated timing of return to service, we have made assumptions regarding outcomes of accident investigations, timing of future 737 production rate increases, timing and sequence of future deliveries, as well as outcomes of negotiations with customers. Any changes in these estimates and/or assumptions with respect to the 737 program could have a material impact on our financial position, results of operations, and/or cash flows. For additional information, see our discussion under “Management’s Discussion and Analysis-Critical Accounting Policies and Estimates-737 MAX Grounding” on page 54.

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

**Issuer Purchases of Equity Securities**

The following table provides information about purchases we made during the quarter ended September 30, 2019 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  | |  | |  |  |  |  |  |  |  |  |  |  |  |
| *(Dollars in millions, except per share data)* | | | | | | | | | | | | | | |
|  | | (a) | | |  | (b) | | |  | (c) |  | (d) | | |
|  | | Total Number  of Shares  Purchased(1) | |  |  | Average  Price  Paid per  Share | |  |  | Total Number of  Shares Purchased  as Part of Publicly  Announced Plans  or Programs |  | Approximate Dollar  Value of Shares That  May Yet be Purchased  Under the Plans or  Programs(2) | |  |
| 7/1/2019 thru 7/31/2019 | | 2,431 | |  |  |  | $342.59 |  |  |  |  |  | $17,349 |  |
| 8/1/2019 thru 8/31/2019 | | 5,814 | |  |  | 348.78 | |  |  |  |  | 17,349 | |  |
| 9/1/2019 thru 9/30/2019 | | 1,288 | |  |  | 357.89 | |  |  |  |  | 17,349 | |  |
| Total | | 9,533 | |  |  |  | $348.43 |  |  |  |  |  | | |
|  |  | |
| (1) | We purchased 9,533 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We did not purchase any shares of our common stock in the open market pursuant to our repurchase program or in swap transactions. | |

|  |  |
| --- | --- |
|  |  |
| (2) | On December 17, 2018, we announced a new repurchase plan for up to $20 billion of common stock, replacing the plan previously authorized in 2017. Share repurchases under this plan are currently suspended. |

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

57

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Item 6. Exhibits**

|  |  |
| --- | --- |
|  | |
|  |  |
| 10 | [Summary of Nonemployee Director Compensation](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit10.htm) |
|  |  |
| 15 | [Letter from Independent Registered Public Accounting Firm regarding unaudited interim financial information](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit15.htm) |
|  |  |
| 31.1 | [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit311.htm) |
|  |  |
| 31.2 | [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit312.htm) |
|  |  |
| 32.1 | [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit321.htm) |
|  |  |
| 32.2 | [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\BOEING\a201909sep3010qexhibit322.htm) |
|  |  |
| 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 |

\* Management contract or compensatory plan

58

[Table of Contents](file:///D:\TMP\finance-docx\BOEING\BOEING-19.09.30-10-Q.html#s6C2D2410DBAB518285BB616F66F5560A)

**Signature**

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.

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
|  |  | THE BOEING COMPANY |
|  |  | (Registrant) |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| October 23, 2019 |  | /s/ Robert E. Verbeck |
| (Date) |  | Robert E. Verbeck – Senior Vice President, Finance and Corporate Controller |

59